

Effective risk management as the foundation of business growth

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For Recruit Group to successfully pursue its growth strategy on a global scale, a solid foundation of risk management and compliance is essential. Considering the rapidly changing environment surrounding the Internet business, simultaneously achieving growth and managing risk is a challenge, but with the development of appropriate systems and safeguards, we are positioning the Group to meet this. To anticipate change in both technology and business environments, and quickly expand the business, we are transferring most decision-making authority related to business operations to the three SBUs. At the same time, to mitigate risk and maximize the merits of the SBU system, we have established a Risk Management Committee within each SBU, to enhance risk management effectiveness on the front lines of the business.

We regard security management, including the protection of personal information, as one of the most important risks. In particular, the handling of data in the HR Matching business in which we aim to expand, is highly sensitive. As the laws and regulations of countries and regions constantly change and evolve, we must strengthen our responsiveness and raise the level of our risk management. While this is by no means easy,

it is a challenge that we must meet head-on as we work to become a global leader in the HR Matching business.

The advancements of technologies such as machine learning and the changes brought to labor markets worldwide can present both risks and opportunities—depending on our actions. Amid rapid change, effective and steady risk management is the key to provide opportunities continuously that offer real meaning to both individual users and enterprise clients. To achieve this, we are implementing various measures such as strengthening cybersecurity projects with additional expert engineers. Looking ahead, we will not only focus on recruiting and retaining security specialists, but will also work to further strengthen our risk management systems through all means necessary, including reviews of our governance rules and procedures.

Beyond powering new businesses, we also see that technology provides significant opportunities for efficient and effective risk management and compliance activities. We aim to pursue risk management appropriate for our Group, while looking in depth at swiftly changing global trends.

Recruit Group Code of Ethics

- Fulfilling Legal and Ethical Expectations
- Complying with Laws and Regulations
- Negotiating and Complying with Agreements
- Complying with Fair Competition Laws and Observing Fair Trade Practices
- Interacting Appropriately with Government Persons
- Safeguarding Confidential and Sensitive Information
- Protecting Intellectual Property
- Communicating Effectively and Clarifying Responsibilities
- Fulfilling Our Disclosure Obligations as a Public Company
- Respecting the Rights and Dignity of All People
- Maintaining a Productive Working Environment
- Avoiding Relationships with Organized Crime and Similar Parties
- Protecting the Environment

Risk management structure

To promptly execute the appropriate counter-measures to any of the multiple risks faced by our businesses, Recruit Group has established a risk management structure within each SBU, in addition to an overarching structure within Recruit Holdings. Specifically, each of our three SBUs has Risk Management Committees, focused on the specific risks that their individual SBU faces. These committees are responsible for identifying important risks related to their own businesses and setting out appropriate mitigation measures, before reporting back to the Risk Management Committee of Recruit Holdings.

The Risk Management Committee of the holding company, which meets twice a year, serves as an advisory body to the Board of Directors. In addition to reviewing the reports received from the three SBUs, the committee identifies the important risks that the Group as a whole faces, determines the priority of the

risks, and establishes appropriate responses. These outcomes are then reported to the Board of Directors. The Board of Directors also has a quarterly report on compliance and risk management, in order to appropriately monitor the current status of risk across the Group, and to determine appropriate responses.

Initiatives at SBUs

With each SBU responsible for running its own business operation, we believe that it is essential that each SBU also carries out its own risk management (See p44, 52 and 62 for risk management in each SBU). The Recruit Group Risk Escalation Rules then ensure prompt reporting back to Recruit Holdings and information sharing regarding critical issues within the entire Group. Recruit Holdings then takes necessary actions in accordance with the overarching Recruit Group Risk Management Policy.

Compliance initiatives

Recruit Group views compliance as a fundamental prerequisite for our business activities, and defines it as “Meeting society’s expectations and demands through appropriate action, by both the company and individuals, beyond the framework of legal compliance.” We have therefore established the Recruit Group Code of Ethics (see adjacent), which describes certain fundamental legal and ethical practices that all officers and employees in Recruit Group are required to follow. We also stipulate the “Recruit Group Compliance Policy” as a guideline for our compliance activities.

To instill this mindset and behaviors throughout the Group, we have set up, both at Recruit Holdings and at each of the three SBUs, Compliance Committees (see p71/72) that decide upon and monitor Group-wide policies and then report to the Board of Directors. In FY2019, we are implementing three policies as Group-wide initiatives.

1. “Tone at the Top” compliance messages from management to employees: communicated through speeches and email, the management of each operating company within the Group convey the importance of compliance directly to employees.
2. Employee training: we provide all employees in the Group with ethics and compliance training at least once a year.
3. Setting KPIs for compliance activities: we are boosting the effectiveness of our compliance activities by setting KPIs for compliance activities at each SBU, e.g., aiming for 100% attendance of compliance tests. In addition, at both Recruit Holdings and operating companies in the Group, we are setting up internal whistleblowing contact points and taking steps—such as publicizing the whistleblowing system and protecting whistleblowers—to make it easy for employees to use the system. We submit quarterly reports to the Board of Directors on the number of whistleblowing reports and the action that was taken.

We are subject to a number of risks and uncertainties, including but not limited to those described below. Our business, results of operations and financial condition could be materially and adversely affected by any such risks and uncertainties. The following sets forth certain of the risks and uncertainties affecting us as of August 28 2019.

Our results of operations could be adversely affected by negative economic, social and geopolitical conditions in our main operating markets and globally.

The performance of our businesses is generally sensitive to economic, social and geopolitical conditions in our main operating markets, including Japan, the United States, Europe and Australia, as well as global economic conditions more generally. In times of negative economic conditions, employers may reduce spending on job advertising and other job placement and staffing services or reduce hiring employees or agency workers due to cost cutting initiatives or increased access to qualified job seekers without the use of advertising or other third-party services. In our HR Matching business, which consists of our HR Technology segment, our HR Solutions operations in our Media & Solutions segment and our Staffing segment, the results of our operations are sensitive to negative developments in the labor and employment market resulting from economic downturns or uncertainty. Any reduction in spending or hiring by employers would in turn reduce demand for our HR Matching business. In addition, in our Marketing Solutions operations in our Media & Solutions segment, adverse economic conditions may affect our enterprise clients' demand for our services due to reduction in advertising expenditures and other cost reduction initiatives or changes in consumer spending activity that negatively affect their businesses. The outlook for the economy in our main operating markets remains highly uncertain and could be adversely affected by a range of economic, social and geopolitical developments. For example, with respect to Japan, the economic environment continues to be challenging due to a number of factors, including continued deflation, uncertainty regarding the increase in the consumption tax rate in October 2019 and longer-term challenges surrounding the impact of unfavorable demographic trends such as the declining birthrate and the decline and aging of the overall population. In the United States, there remains significant economic uncertainty surrounding trade tensions between the United States and China and other major trading partners as well as other trade policies being pursued in the United States. In Europe, the potential impact of the planned exit of the United Kingdom from the European Union as well as the volatile political environment in many major European countries remains highly uncertain. Any of these regional factors as well as factors outside of our main operating markets, including a potential economic slowdown in China as well as the potential escalation of geopolitical risks associated with the Middle East and North Korea, could impact the regional economy and the global economy more generally.

Competition in the various industries in which we operate could reduce our profitability or result in a decrease in our market share.

The markets in which we operate are highly competitive, and competition has generally intensified in recent years across our businesses. In particular, certain of our operating markets have relatively low barriers to entry, which enables new competitors, including those operating in different industries, to enter these markets relatively easily. In addition, our ability to keep pace with increasingly rapid advances in technology is also a key competitive factor in many of our businesses.

We may be unable to maintain our competitive position in our operating markets by relying on the strength of our brands, current laws and regulations, financial resources and individual user and enterprise client bases or other competitive advantages. Our current and potential competitors include large global technology companies, and a variety of global and regional companies operating in one or more of our target markets. These companies may have more advanced technological resources, more compelling business models, greater financial resources, more competitive pricing or ability to provide such pricing, greater global or regional brand awareness, larger user bases, stronger relationships with enterprise clients, greater access to potential employees, agency workers and other personnel or superior service, sales, marketing and other resources than we do.

Market shares, particularly in Internet-based services in our HR Technology and Media & Solutions segments, have in the past been subject to significant shifts from time to time due to the relative ease for individual users to switch to other services. As a result, our ability to compete effectively depends on our ability to achieve continued innovation and to improve the functionality of existing services and introduce compelling new services in order to effectively respond to the evolving needs and preferences of individual users and enterprise clients. If we fail to keep providing services that gain market acceptance among individual users and enterprise clients and are differentiated from services provided by our competitors, our competitive position and market share could be materially harmed. In addition, particularly in our Media & Solutions and Staffing segments, if competitors are able to offer comparable or more effective services at lower price points, we may be forced to lower our prices in order to maintain our market share, which may lower our profitability. Certain of our enterprise clients may evolve to depend less on our services if they acquire the capability to maintain their user bases and attract enough potential new users through their own websites and other media without relying on our services. Competitors may also engage in mergers, acquisitions or business alliances to strengthen their market position, which may make it more challenging for us to maintain our competitiveness.

Our Media & Solutions segment has a strong market position and has achieved the top market share in terms of revenue for many of their core businesses in Japan, which may make future growth for these businesses more challenging relative to other businesses. Even if

we are able to maintain and further increase our market share, our margins may decrease if we are forced to undertake additional advertising and marketing expenditures, lower our pricing for existing services or introduce new services with lower profitability to do so.

We may be unable to innovate and adapt with sufficient speed to meet the rapidly changing needs and preferences of our individual users and enterprise clients.

The markets in which we operate are subject to rapid changes in individual user and enterprise client needs and preferences, which require us to continually innovate and adapt quickly in order to maintain our competitive position or we may risk losing market share. Our business model depends on our ability to offer individual users and enterprise clients services that meet their respective needs and preferences. Accordingly, maintaining our competitive position and market share requires that we adapt quickly to changes in such needs and preferences. For example, increased use of the Internet, social network platforms, mobile devices and other new technologies, such as voice activated speakers, has resulted in information being available more rapidly in real time while new technologies have made it relatively easy for new entrants to build user bases relatively quickly without significant investment. In particular, our ability to offer effective mobile applications that provide individual users with an appealing, easy-to-use mobile experience is an increasingly important factor in maintaining and growing our individual user base and direct user traffic for many of our online services. These and other changes in technology and user behavior have in turn resulted in changes in the needs of our enterprise clients.

We must invest significant resources to continually enhance and improve our existing services and to introduce new and innovative features and services that are compelling to individual users and enterprise clients and respond effectively to rapidly evolving technology and the way it is used or implemented by individual users or enterprise clients. If we are unable to accurately identify and understand the changes in the needs of our individual users and enterprise clients, including the appropriate balance between such changes in the needs and interests of our individual users and enterprise clients, or if we fail to improve or develop our products and services to meet the needs of our individual users or enterprise clients and predict or respond to technological changes in a timely and cost effective manner before our competitors, our individual users and enterprise clients may discontinue use of our products and services. Any changes we make to our existing services or new services we introduce may not gain acceptance from individual users or enterprise clients for a number of reasons. New services and features may also have defects or performance issues that adversely affect their adoption by individual users and enterprise clients.

Our businesses are also affected by changes in enterprise client preferences and how and to what extent enterprise clients choose to use our services. A substantial portion of our revenue is generated from enterprise clients advertising on our online platforms in our HR Technology and Media & Solutions segments. For

certain services, we provide more flexible arrangements to meet the needs of enterprise clients, and contracts with such enterprise clients are sometimes in the form of relatively short-term advertising arrangements. These short-term arrangements may expose us to the risk that our enterprise clients may switch their advertising to our competitors' platforms or reduce the amount of their spending on our platforms, or may not continue to do business with us entirely. In addition, our enterprise clients could decide to reduce or eliminate the budgets they are willing to commit to us if we do not provide effective advertising solutions, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. Individual user preferences may change in a manner that increases our costs, such as expenditures required for development of new features or services or increased expectations for user perks or other programs that result in additional costs. In addition, initiatives taken to respond to rapid changes in individual user needs or preferences can reduce the profitability of our existing services and business models, and there is no assurance that we will be able to adjust our business models, including maintaining the appropriate balance between the needs and interests of our individual users and enterprise clients, or develop new business models that allow us to maintain profitability.

We must rapidly advance our technological capabilities.

The markets in which we compete are characterized by rapidly changing technologies, which in turn impact individual user and enterprise client demands and the competitive environment more generally. We accordingly believe it is critical to continuously invest in and improve our technological capabilities, the functionality of our system infrastructure and the reliability of our products and systems in response to technological innovation. In addition, because many of our services are provided over the Internet, we need to continuously modify and enhance our platform to keep pace with changes in Internet-related hardware, software, communications and database technologies and standards. In addition, we may be required to make significant investments in order to advance our technological capabilities, which could in turn impact our profitability.

Developing new technology presents significant technical and business challenges and risks, including the following:

- We may invest in technologies or uses of technology that ultimately fail to deliver the benefits we anticipate or become obsolete by the time they are launched or fully implemented;
- We must attract, train and retain highly skilled engineers and managers in order to build, maintain and expand our information technology services and achieve innovation, and these engineers and managers may be difficult to recruit and expensive to retain;
- The number of different types of mobile devices in use, or the applicable technical standards, could further diversify across our operating markets, substantially increasing our product development and modification costs, and we may be unsuccessful in developing appealing products for these devices;

- We may fail to maintain or update our technological infrastructure, products and systems to rapidly changing industry or technical standards;
- The cost of upgrading our technology or implementing and operating new technology may be substantial and such upgrades or implementations may not be cost effective;
- Any upgrades to our technology and infrastructure may not achieve the desired results or may otherwise prove ineffective;
- We may face competition from businesses that have implemented new technology faster than us or make better use of such technology than we do;
- Products and services incorporating new technology may contain bugs, defects or other design flaws; and
- The continuous development of new devices and technologies makes it difficult to predict future trends in the areas in which we operate.

We may not succeed in executing our business strategy.

In order to achieve further growth of our business, we have adopted a number of medium-term strategies as well as our long-term strategic objectives for each of our operating segments. Our business strategies entail achieving sustainable growth through the development of a broad, geographically diverse portfolio of businesses and calls for the expansion of existing businesses along with entry into and development of new businesses, in part through prudent use of strategic alliances and acquisitions. However, it is difficult to formulate effective strategies for our businesses due to the inherent uncertainties surrounding our future performance and market environment, and our strategies may not be effective, or we may be forced to change our strategies in the future due to any number of factors.

We have established a number of strategies for each of our operating segments that we believe will allow us to achieve long-term revenue and profit growth. However, each of these strategies is subject to a number of risks and uncertainties, including the following:

- In our HR Technology segment, we intend to pursue continued growth in our online job advertising business primarily through Indeed and Glassdoor while expanding our capabilities through continued growth investments including acquisitions. However, there is no assurance that we will be able to achieve growth to the extent we expect or at all, or that our investments will achieve the expected benefits. The online job advertising market may not grow at the pace we currently anticipate for a number of factors, including the transition of offline job advertisements to online job advertisements progressing at a slower pace than we expect, and we may fail to capitalize on such anticipated market opportunities for a variety of reasons, such as our failure to adapt to new technologies and the constantly evolving regulatory and competitive landscape.
- In our Media & Solutions segment, we intend to focus on stable growth of our advertising business while expanding its SaaS offerings targeting SMEs. We may be unable to grow our business in this segment if SMEs do not adopt our SaaS solutions or our

advertising business to the extent we expect, whether due to our failure in effectively acquiring new individual users or SMEs as enterprise clients or our products being less attractive or innovative compared to those of our competitors, and may not succeed in exploring opportunities to monetize our SaaS business.

- In our Staffing segment, we intend to focus on improving profitability across our global operations. However, we may be unable to achieve improvements in profitability, or even experience deteriorating profitability, due to the worsening of the business environment, particularly in Europe, the tightening of regulations in any of our major operating environments, or other factors.
- We also intend to invest in expanding our presence in the market for our HR Matching business. While our HR Matching business currently operates in the online job advertising market through our HR Technology and Media & Solutions segments, we also intend to introduce technology-driven solutions from our HR Technology segment, such as Indeed Hire, an employment placement service which uses a pay per hire model, that create cost efficiencies through automation of traditional human-driven processes in the job placement and search market and temporary staffing market. However, there can be no assurance that we will be able to successfully develop and introduce such solutions or that our solutions will gain market acceptance, and we may be unable to achieve a return on our investments in these new solutions. In addition, even if we are successful, such development may also result in a reduction in the profitability of our existing traditional businesses.

While we believe we have identified specific opportunities that will allow us to achieve our strategies, there is no assurance that such opportunities will in fact translate into future growth. Our strategies are based on a number of assumptions we have made with respect to consumer sentiment, consumer activity trends, demographic trends, enterprise client demand for our products and services, changes in individual user preferences, global economic trends, applicable laws and regulations, technological innovation, employment activity and other factors, each of which is subject to significant uncertainty and may not be consistent with our original assumptions. Our ability to achieve our strategic objectives may be adversely affected if, for example, demand for our products and services in our areas of expansion is not as strong as we anticipate, the competitive landscape for our products and services is less attractive than as we anticipate, our efforts to increase our individual user appeal and enterprise client coverage are not effective, alternative technologies, services or competitors appear or we fail to retain the engineering and other personnel needed to support our growth. In addition, if we encounter difficulties in implementing our business strategies, we may be unable to achieve any numerical targets we have set for our financial performance.

Our strategies and the allocation of business, financial and management resources are based on our estimates of our total addressable market in each of our businesses.

While our estimates are based in part on third-party data and in part on our own market research and assumptions we believe to be reasonable, there can be no assurance that our estimates of our total addressable market are accurate indications of our actual growth opportunities. In particular, we have estimated the total addressable market for our HR Matching business based on a public and non-public internal and external data, estimates and assumptions, and we are not able to fully validate this estimate against third-party sources. As a result, our market opportunity may be less than expected, or our allocation of resources in pursuing such growth may be incorrect. In addition, the key performance indicators we use to track the progress of our businesses could be inadequate or ineffective and result in our overestimating or misjudging our progress in achieving key business goals.

As we expand our existing services or launch new ones, we may face intense competition, greater than expected costs in establishing or expanding services and hiring and training the necessary personnel, difficulties predicting market and individual user and enterprise client trends and the performance of our new businesses, returns from new initiatives that are smaller than expected or slower to materialize, unanticipated costs and difficulties, or other challenges that prevent us from successfully realizing our business goals. On the other hand, it is also possible that we may need to exit from existing businesses or withdraw from planned investments or expansions if we determine that such business would not yield the desired impact or the growth potential of such business could not justify the required investment outlay. In these cases, such exit or withdrawal may cause us to incur substantial costs. In addition, our existing businesses may, in turn, also be negatively affected by the new innovative services that we develop and introduce to our individual users and enterprise clients.

Our present and future acquisitions, joint ventures and strategic alliances could fail to deliver the anticipated benefits or otherwise have an adverse effect on our businesses and results of operations.

As part of our business strategy, we have actively engaged in acquisitions, minority investments, joint ventures and other strategic alliances with third parties primarily to expand our businesses globally, acquiring new users, to expand our product and service offerings and acquiring related technologies. We intend to continue to pursue acquisitions and other strategic investments or alliances in the future as attractive opportunities emerge.

Acquisitions, strategic investments and alliances entail a number of risks, including, among others:

- Expenses incurred and difficulties in integrating or assimilating the operations, technology, personnel and culture of acquired businesses;
- The inability to realize the synergy effects, such as technological development, expansion of individual user traffic and enterprise client base or cost reductions, that were anticipated in connection with the transaction;
- The difficulty in ensuring that acquisitions reach the required regulatory compliance standard of the company;

- The potential disruption of, and the distraction of management from, our regular business operations;
- Difficulties and substantial costs in connection with retaining the individual users, enterprise clients, key management or employees of an acquired company;
- The possibility that strategic alliance partners could later become competitors and utilize the know-how and business relationships they developed or acquired while in partnership with us;
- Failure to ensure that the companies we acquire operate consistently with our regulatory compliance standards;
- With respect to foreign acquisitions and global expansion, uncertainty regarding and changes in foreign laws and regulations, local restrictions on foreign investments and challenges with respect to different employee/employer relationships, labor conditions, existence of workers' councils and labor unions, cultural/language or operational differences and additional risks arising from the local and regional social, political, regulatory and economic environment;
- The possibility of overestimating the value of an acquired company, underestimating its legal or contingent liabilities or receiving insufficient indemnification of liabilities or insufficient escrowed amounts or insurance to secure such indemnities from the seller;
- Recording significant goodwill and intangible assets that could be subject to future impairment; and
- Incurrence of additional debt in connection with financing acquisitions and investments.

As a result of such risks, we may not be able to realize the full extent of the benefits that we anticipate from any given transaction, including increased revenue and profits and other expected strategic benefits, within the expected timeframe or at all. Furthermore, for strategic reasons, we have in the past acquired and may in the future acquire target companies that are unprofitable, and the consolidation of such target companies into our overall results may materially and adversely affect our consolidated financial condition and results of operations.

Although we conduct due diligence reviews of acquisition targets, there can be no assurance that our due diligence process will disclose all relevant risks, legal, compliance or regulatory issues, losses and other liabilities or that our assessment of disclosed risks and liabilities will be accurate. In particular, with respect to acquisitions and investments in the technology sector, we may have difficulty accurately assessing the future viability and growth trajectory of target companies or technologies, especially where the relevant technologies are in the early stages of development or rapidly evolving. We may also face uncertainties when we acquire companies with a limited operating history or a management system that requires improvement, which is often the case in the technology sector, including potential compliance issues or liabilities that were not identified in due diligence.

In addition, in cases where we acquire non-controlling interests in entities, we may not have the capability to effectively monitor or exercise control over the management of the entities in which we invest or the direction that the entity will take. As a result, we may not be able to cause any companies in which we hold

non-controlling interests to implement what we view as optimal management policies or strategies that would achieve the benefits from strategic investments that we expected to achieve. In addition, joint ventures and other strategic alliances could limit our future flexibility to work with other potential partners.

While we intend to continue to explore future opportunities for acquisitions and other strategic investments, there is no assurance that we will be able to correctly identify attractive opportunities. Even if we do correctly identify potential acquisitions and investments that we believe would further our growth strategy, we may be unable to negotiate favorable terms with the target company or otherwise be unable to pursue the opportunity due to our inability to secure the necessary financing or obtain necessary regulatory approvals or other reasons.

Our expansive global operations expose us to various risks and challenges.

We have operations in a number of countries and regions including Japan, the United States, Europe and Australia, and we are working to further expand our businesses globally. However, the performance of our operations in any particular country or region could suffer or might otherwise fail to meet our expectations due to the following factors, among others:

- Poor regional or national economic and political conditions that could adversely impact, among other things, the advertising spend of our enterprise clients;
- Difficulties complying with legal or regulatory requirements and oversight by local regulators;
- Changes in legal or regulatory requirements that could impact our operating strategies, access to global markets, hiring, and profitability;
- Differing individual user and enterprise client expectations and preferences;
- Lower availability of Internet access and adoption of mobile devices;
- Taxation issues;
- Difficulties adapting to local market practice or local culture and customs;
- Labor disputes or strikes;
- Adverse political developments or general political uncertainty;
- Linguistic and communication difficulties;
- A worsening of international relations involving any of the countries in which we operate;
- Seasonal reductions in business activity;
- A higher risk of litigation in certain regions;
- Restrictions on share ownership by foreign entities;
- Difficulties hiring and retaining highly skilled management personnel, engineers and other staff;
- Lower brand name recognition; and
- Difficulties in monitoring business we conduct across a diverse range of countries and regions.

In addition, our exposure to the risks discussed above will increase as our global operations continue to expand.

Our inability to attract and retain qualified employees and maintain a positive work environment for our employees could harm our business and inhibit our ability to operate, grow and achieve innovation successfully.

For our businesses to be successful, we need to attract, develop and retain talented personnel in a number of areas including management, engineering, sales, and other fields and develop a diverse workforce that brings a wide range of unique backgrounds and perspectives to our businesses. We must also continually train our employees to respond to changes in the market for our products and services and evolving technology. In addition, we must also maintain a positive work environment for our employees and agency workers. Any failure to maintain a positive working environment could result in the infringement of the civil rights of such employees or agency workers.

Any failure to hire, train, retain, motivate and manage required employees may limit our growth, damage our reputation, negatively affect our financial performance, impede our ability to achieve innovation and otherwise harm our business. In particular, talented and experienced IT engineers have become increasingly important in our HR Technology and Media & Solutions segments. Due to our increasing dependence on and the scarcity of such engineers, our success going forward depends in part on our ability to continue to recruit, train, develop and retain such personnel. If we lose key personnel, including key members of our management team and engineers, to competitors or at a rate greater than we anticipate, or if we have difficulty attracting new, highly talented employees, our business could be materially and adversely affected.

We may be subject to liability and regulatory action or suffer reputational damage if we are unable to maintain the privacy of our data or maintain effective policies and procedures for the storage, management, usage and protection of personal, confidential or sensitive information.

Due to the nature of our business operations, and the large number of individual users who utilize our services and transmit and store personal information through our systems, we possess a substantial amount of personal, confidential or otherwise sensitive information with respect to current, past or prospective individual users, enterprise clients, and business partners. The requirements under the Act on Protection of Personal Information of Japan that apply to our handling and use of personal information in our Japanese operations are stringent, and we are also subject to laws and regulations regarding personal information in the other countries in which we operate, such as the General Data Protection Regulation, or the GDPR, in the EU. Many individual U.S. states, such as California, are also increasing regulatory compliance standards regarding the handling and use of personal information. The costs of complying with these laws and regulations, the requirements and interpretations of which may differ significantly from country to country and which have become more complex due to the increasing

awareness of management of personal, confidential and sensitive information, can be substantial. In addition, such laws and regulations related to the handling and use of personal, confidential and sensitive information may become stricter in the future, or we may change our policies concerning handling and usage voluntarily or in response to violations of applicable laws and regulations, perceived wrongdoing or for other reasons. As a result, it may become difficult for us to utilize certain information that is critical to our existing products and services or to develop new products and services, which in turn may harm our ability to maintain or grow the number of our individual users or enterprise clients. In addition, as many consumer and data protection laws and regulations have been in force for a relatively short period, the interpretation and application of consumer and data protection laws and regulations are often uncertain and in flux, and it is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our current data practices. If we fail to comply with any such laws and regulations, we could suffer damage to our reputation and our brands, including loss of confidence in our platforms by individual users, enterprise clients or other third parties or in our ability to manage our businesses by current or potential individual users, enterprise clients and business partners, or be subject to liability or regulatory investigations or legal or other actions relating to violations of laws and regulations surrounding data protection and privacy or otherwise. Any new restrictions or limitations relating to data protection and security may result in the deterioration of the quality of our products and services that rely on data and our overall competitive advantage, and possibly result in a loss of individual users or enterprise clients or necessitate a revision or overhaul of our business models and strategies.

The personal and other data we collect in connection with our business as well as the technologies we use to manage this data have become increasingly important parts of our business, and we rely on the integrity of our systems and security procedures to ensure adequate protection of our data. However, there can be no assurance that our efforts to ensure the security and proper management of such information will be fully effective. In particular, we have in the past experienced cyberattacks of varying degrees targeting our services, and there can be no assurance that such attacks will not occur in the future or that we will be able to successfully protect our data from unauthorized access in the event of any future attacks. In such an event, the number of individual users affected, due to the size of our user base, could be extremely large, potentially resulting in correspondingly large liability. In addition to cyberattacks, information could be leaked or improperly accessed, used or handled as a result of a range of factors including third-party security breaches, system failures or errors, software bugs, inadequate policies or procedures, employee error, malfeasance, hacking, theft, faulty password management or other irregularity. Any unauthorized disclosure or use of, or other failures to properly store, manage or protect, personal, confidential or sensitive information, including any failure to obtain valid consent from affected individual users or enterprise clients, could adversely affect our businesses in a number

of ways, including legal liability stemming from claims from individual users, enterprise clients, agency workers or other third parties, or government investigations, actions or sanctions. We may also incur additional expenses associated with updating or strengthening our systems, policies and procedures, either voluntarily or in response to administrative guidance or other regulatory initiatives. In addition, such incidents could create a negative public perception of our operations or harm our reputation and brand, which could in turn decrease our individual users' and our enterprise clients' confidence in us and damage our relationships with them, causing current or potential individual users or enterprise clients to decline to use our services.

From July 2019, in connection with the Rikunabi DMP Follow service for new graduate recruiting offered by our subsidiary Recruit Career Co., Ltd., or Recruit Career, in our HR Solutions operations within our Media & Solutions segment, the Personal Information Protection Commission, or the PPC, and the Tokyo Labor Bureau contacted us to express their concerns regarding our potential lack of appropriate explanation to individual users of the purpose, scope and manner of the sharing of certain "scores" reflecting analysis of such users' likelihood of declining job offers or withdrawing from various stages of the recruitment process with a number of enterprise clients. Recruit Holdings Co., Ltd. also received such user "scores" of potential candidates for its own recruiting. As a result, we became aware of a large number of instances where such user "scores" were shared without obtaining individual user consent, deficiencies in our personal information protection systems as well as the possibility that personal information was shared with third parties without obtaining individual user consent in an appropriate manner, and we discontinued the Rikunabi DMP Follow service on August 4, 2019. In addition, the PPC and the Tokyo Labor Bureau commenced investigations of Recruit Career and its parent company, Recruit Co., Ltd., which serves as the headquarters of our Media & Solutions segment, in connection with this matter. On August 26, 2019, the PPC found violations by Recruit Career of the Act on Protection of Personal Information relating to (i) deficient procedures for identification and review of the legal treatment of personal data, (ii) deficient procedures for obtaining consent for the sharing of personal data with third parties and insufficient systems to prevent, identify and cure such deficiencies and (iii) the sharing of personal data with certain enterprise clients without obtaining necessary consent from 7,983 individual users. In connection with these findings, the PPC issued an administrative admonishment directing Recruit Career to report necessary measures to reform its organizational structure and enhance awareness across its operations in order to appropriately protect individual rights and interests when handling personal data by September 30, 2019, and to implement such measures accordingly. The administrative admonishment issued by the PPC also directed Recruit Career to consider, design and operate any new services to appropriately handle personal data in accordance with applicable laws and regulations. The PPC further issued an administrative directive finding that the privacy policy of Recruit Career did not necessarily provide a clear explanation of sharing of personal

data with third parties in connection with the Rikunabi DMP Follow service, and instructing Recruit Career to clearly provide reasonable and appropriate information necessary for individual users to decide whether to give consent regarding the sharing of personal data with third parties in the future. In addition, on September 6, 2019, the Chief of the Tokyo Labor Bureau found that the operation of the Rikunabi DMP Follow service involved violations of the Employment Security Act and related guidelines and issued an administrative directive to Recruit Career in relation to all of its job advertising and placement businesses including its Rikunabi services. This administrative directive instructed Recruit Career (i) to ensure that it is in compliance with the Employment Security Act and related guidelines, (ii) to promptly take necessary measures including corrective measures and measures to prevent similar occurrences in the future and (iii) to report the status of such matters by September 20, 2019 to the Chief of the Tokyo Labor Bureau. Currently, the PPC and the Tokyo Labor Bureau are continuing to investigate related matters including the systems for the protection of personal information in our Media & Solutions segment. As a result of this matter and past and potential future investigations or actions taken by regulators, as well as our handling thereof, we could suffer reputational damage, including loss of confidence in our services among individual users, enterprise clients or other third parties, which could result in decreased demand for our Rikunabi services or our other services. We could also be subject to liability, further regulatory action or sanctions, which could entail the suspension of certain business operations, whether as a result of the current investigations by Japanese regulatory authorities or otherwise, or lawsuits from a large number of affected individual users. In addition, we could be required to incur additional costs in order to improve our data usage, storage and protection policies and measures, whether in connection with regulatory actions or voluntary enhancements of such policies and measures.

Information technology systems are a critical part of our operations and any cyberattacks, systems failures or other disruptions affecting these systems could have an adverse effect on our business.

The analysis, storage, retrieval, management and security of large amounts of data is an important part of our business. Any impairment in the reliability or availability of, or any security breach in, our information systems due to cyberattacks, systems failures or other factors could:

- Have an adverse effect on our products and services and their continued availability;
- Result in negative publicity about us or our brands or harm our brand strength, reputation and relationships with individual users and enterprise clients;
- Harm the continued adoption of our services by individual users and enterprise clients or negatively impact accessibility, performance and load times of our services, which could cause a loss of individual user or enterprise client traffic on our services;
- Subject us to legal and regulatory risk including litigation, government investigations or other legal actions;

- Result in large monetary judgments or a duty to remediate against us, or result in us voluntarily offering monetary or other compensation to affected parties; and
- Materially and adversely affect our business, financial condition and results of operations.

Although we have implemented policies and procedures to address these risks, system interruptions and malfunctions can occur for a number of reasons, including cyberattacks, hacking, computer viruses, sabotage, human error, natural disasters, power failures, software errors, hardware problems, network failures, terrorism, geopolitical conflict, difficulties with our service providers, overwhelming online traffic and similar factors. In particular, cybersecurity-related attacks, intrusions and disruptions, including through spyware, viruses, phishing, denial of service and similar attacks by criminal organizations, hackers, foreign governments and terrorists, have become increasingly prevalent in our industry. We have in the past experienced cyberattacks of varying degrees targeting our services, and there can be no assurance that such attacks will not occur in the future or that we will be able to successfully defend our systems from any future attacks. Certain of our services have also experienced downtime due to systems disruptions or other outages. As we expand our information technology-based offerings to support enterprise clients' workflows, we may be more likely to experience malfunctions of this kind despite any preventative measures we may take, which may result in legal liability or other costs or in damage to our reputation. For example, as part of our efforts to expand operational and management support services for our enterprise clients including SMEs, we launched the Air BusinessTools, which includes such cloud-based services as accounting and payment systems. If we experience systems failures in connection with such services, we may be held responsible by our individual users and enterprise clients for losses, and the perception of the reliability of our services and our overall reputation could be negatively impacted.

In addition, we depend on third parties to provide and maintain certain of our information systems, and accordingly some system problems and failures may be outside of our control. For example, we rely on third-party cloud infrastructure providers to host all of our cloud-based services. Potential security breaches to the systems of these third-parties, whether resulting from internal or external sources, could significantly harm our business. Furthermore, the cost of developing, maintaining and expanding our information technology infrastructure could also increase substantially in the future.

Our software applications may contain defects.

We provide certain of our services through software applications including mobile and online applications that are highly technical and complex and, in some cases, hardware devices. Our software applications or hardware devices may contain bugs and other defects that interfere with their intended operation that we are unable to detect prior to introducing the relevant service. Any defects we do not detect and fix may prevent us from providing our services in a responsive and reliable

manner and could cause degradations or interruptions of service, negative experiences for individual users and enterprise clients, repair or remediation costs, delays in the release of new products or versions, difficulties in adequately protecting the data of our individual users and enterprise clients or legal liability from various issues such as loss or leakage of confidential or personal information or under applicable regulatory regimes. In particular, as many of our online services have significant user bases, any defects in our software applications could potentially affect a significant user population. In addition, in certain of our businesses, we provide our enterprise clients with platforms through which they operate key business functions, such as online reservations, point-of-sale, or POS, cash registers, payments and attracting and connecting with individual users. If there is any defect in the software used to provide these platform services, our enterprise clients may experience disruptions in their business operations or losses or leakage of sensitive or personal data relating to their business or their users, and we expect our exposure to these risks will increase as we expand our SaaS business through Air BusinessTools, which provides a comprehensive suite of tools aimed at enhancing the efficiency and productivity of enterprise clients including SMEs in our Media & Solutions segment.

Our businesses are subject to various laws and regulations.

The businesses that we currently operate, as well as those that we may operate in the future, span many fields and countries and consequently are subject to a variety of laws and government regulations such as personal information and data protection, electronic communications, consumer reporting, labor, civil rights and social welfare, anti-bribery, taxation and antitrust laws. Furthermore, we are required to obtain government permission or approval or to register for licenses in order to conduct certain of our businesses, and certain of our businesses are subject to supervision and monitoring by regulatory authorities. Being subject to these laws and regulations exposes our businesses to certain risks. As a general matter, the legal and regulatory structures that apply to our various businesses are complex and even an inadvertent failure to comply with them could result in fines, penalties, losing permission to operate some of our businesses, being ordered to suspend operations, litigation and other legal proceedings and have an adverse effect on our reputation. Furthermore, future changes in such laws or regulations or entry into new regulated businesses could necessitate costly compliance expenditures and increase the risk that we could fail to comply with applicable requirements or miss business opportunities as a result of restrictions imposed or delays caused by responding to such changes in laws or regulations. Any new or amended laws and regulations may require us to change our business models or practices, or may prevent us from conducting existing businesses or entering into new businesses, which could adversely impact our business and results of operations and impede us from executing our growth strategy as planned. For example, there have recently been active discussions among Japanese companies regarding civil rights and social welfare issues, and if we are unable to appropriately respond to changes in the laws and

regulations concerning such issues, our brand and reputation may be adversely affected. In addition, any actions by governments that may affect the accessibility of our products or users' technology usage patterns in their countries may cause a decline in our individual users' engagement with our products.

Our HR Technology segment is subject to various laws and regulations. For example, in the United States, our activities may be subject to the Communications Decency Act, the California Consumer Privacy Act (which comes into effect in 2020), the Telephone Consumer Protection Act, the Wiretap Act, the Stored Communications Act and the Fair Credit Reporting Act as well as various state legislation covering the same or similar topics. In addition, our HR Technology segment is also subject to other regulations including the GDPR in the EU and the Act on Protection of Personal Information and the Employment Security Act. If any new laws and regulations are introduced, or if existing laws and regulations are amended in a manner that is unfavorable to us, our HR Technology segment operations may become subject to additional restrictions and costs, and it may require significant time and resources to respond to any new or amended laws or regulations. The applicable laws and regulations in the technology sector are still evolving, particularly in Europe and the United States, and more stringent laws and regulations concerning the technology sector may be implemented in the future. For example, if new requirements or restrictions are imposed on the collection, use and analysis of information regarding user behavior in connection with our services, we may be restricted from using such information as planned and be forced to change our strategy and business practices.

In our Media & Solutions segment, our various services are subject to a number of laws and regulations. For example, we are subject to personal information and data protection laws relating to individual user and enterprise client data stored on our systems. With respect to our payment business of our Marketing Solutions operations, which are offered through AirPay, which is a cloud-based payment service, we are also subject to regulations under the Installment Sales Act of Japan. In addition, our placement service of our HR Solutions operations operate on a fee basis with the permission of the Minister of Health, Labour and Welfare in compliance with the Employment Security Act. Changes to the applicable regulations could affect the pricing of our fees. Noncompliance with applicable laws, rules and regulations could lead to the loss of permission to operate or being directly ordered to suspend operations. In addition, since the recruiting and hiring practices of our enterprise clients in respect of new college graduates may be impacted by the guidelines for new employment established by the Japan Business Federation (the Keidanren) or governmental authorities, our HR Solutions operations within the Media & Solutions segment may be adversely affected as a result of the restrictions and limitations in these guidelines.

Our Staffing segment is also subject to a number of laws and regulations relating to temporary staffing and employment. Our Staffing segment in Japan operates with a license from and under the supervision of the

Minister of Health, Labour and Welfare and is also subject to the Act for Securing the Proper Operation of Worker Dispatching Undertakings and Protection of Dispatched Workers of Japan (Act No. 88 of 1985, as amended), or the Staffing Labor Act and related rules and regulations. Any business that provides staffing services in Japan but does not comply with applicable laws, rules and regulations, including the Staffing Labor Act, is subject to the risk of being issued a business improvement order, losing its permission to operate as a staffing business or being directly ordered to cease its operations.

Our Overseas operations in our Staffing segment are concentrated in the United States, Europe and Australia. Laws and regulations regarding temporary staffing in these regions may be implemented on a state-by-state (or, in the case of the European Union, member state-by-member state) basis, as well on a federal, nationwide or region-wide basis. It is also possible that any failure to comply with local laws, rules or regulations in our Overseas operations in our Staffing segment, whether in the United States, Europe, Australia or elsewhere, could result in us losing permission to operate our businesses in the relevant jurisdiction.

In 2018, the Staffing Labor Act was amended to introduce new protections for temporary staff. In addition, regulations that amend the Staffing Labor Act to require less compensation disparity between permanent and temporary workers, which is often referred to as “Equal Pay For Equal Work,” will come into effect in April 2020. The impact of these new regulations is unclear, and we may incur additional costs as a result, which could negatively impact the financial results of our Staffing segment.

As a general matter, future changes in employment-related laws and regulations in Japan and overseas could necessitate costly compliance expenditures and increase the risk that we could fail to comply with the applicable requirements.

We may be subject to legal and arbitration proceedings and litigation, which could be costly and could materially and adversely affect our brands, reputation, business and results of operations.

We are subject to litigation and other legal and arbitration proceedings in the ordinary course of our business. We may in the future be subject to claims, allegations, lawsuits, minimum statutory penalties and regulatory investigations regarding antitrust or competition law violations, intellectual property, the protection of personal information, data privacy and security, consumer protection, tax, labor and employment, commercial disputes, content generated by our individual users, goods and services offered by advertisers or publishers using our platforms, false or deceptive advertising, delivery of services and alleged actions or other issues relating to the monitoring of our agency workers, among other matters, from individual users, enterprise clients, competitors, regulators and others, including proceedings originally commenced against third parties such as our individual users and enterprise clients. In addition, we cannot be certain that our services,

products and features do not infringe on the intellectual property rights of others, and we may be subject to infringement claims from third parties. Certain of these proceedings could be protracted and costly, regardless of the merit of the claims involved, and the results may be difficult to predict. A determination adverse to us in any of these legal proceedings could result in significant costs, penalties or fines or require us to pay royalty fees and modify our services and products in order to provide non-infringing substitutes or cease the use of certain services, products or features altogether.

Our reputation and those of our brands are important to our success, and any damage to them could materially and adversely affect our business, financial condition and results of operations.

We believe that the brand identity we have developed has significantly contributed to the success of our business and will continue to be a significant competitive factor going forwards. We depend on our brands and reputation to maintain and expand our user base, which in most businesses comprises mainly general consumers who tend to have a relatively high level of sensitivity to and awareness of brand and reputation. Our brand and reputation could be harmed due to a number of factors, including defects or errors in our services, cyberattacks and other cybersecurity breaches, failure to adequately protect individual user and enterprise client data, inadequate investments to maintain and enhance our brand and reputation, our competitors’ achieving greater brand recognition, adverse media coverage or rumors including on the Internet or social network platforms about us or our business, regardless of whether such content is true or not, misconduct by our employees or our agency workers, claims against us by our agency workers or employees relating to our employment practices, unpermitted use of our brands by a third party, unfavorable litigation or other factors, regardless of whether such damage was caused by our fault or the fault of others. Furthermore, as the use of technology and data in our business has become increasingly important, the use of algorithms such as artificial intelligence in our services and our use and management of data on our platforms could lead to negative outcomes or be viewed negatively by some individual users and enterprise clients and adversely affect our reputation and brands.

In addition, in the event that we, or one of our individual users or enterprise clients in any of our businesses, engage in misconduct or inappropriate behavior or acts through our platforms or engage in illegal activity such as infringement of third-party intellectual property, violation of personal privacy rights, libel or any other illegal act or malfeasance, our reputation and that of our brands could be materially damaged directly or by association due to our relationship with such individual user or enterprise client. Our reputation or brands may be negatively affected if our individual users or enterprise clients engage in misconduct, illegal activity or other inappropriate behavior such as web spam, phishing, impersonating other people or organizations or posting false, misleading or inappropriate information.

We are also subject to the risk that third parties could imitate our products or services or use our brands, trademarks, logos or other intellectual property without permission. Although we believe we have in place robust protections for our intellectual property, there can be no assurance that these measures will be successful in preventing others from infringing our intellectual property rights and damaging our and our brands’ reputation. We rely on third-party service providers, such as search engine platforms, data center providers, payment providers, sales agents and Internet service providers in various areas of our business.

We rely on third-party service providers in a number of critical areas of our business. The occurrence of any of the below, including the termination or deterioration of our relationships with such third-party sales agents, could materially and adversely affect our competitiveness and our business, financial condition and results of operations.

Certain of our services in our HR Technology and Media & Solutions segments rely on Internet search engines provided by global technology companies primarily for the purposes of ensuring our individual users access to our online platforms. User traffic on our online platforms can be significantly impacted by changes in the search algorithm of the search engine operators or as a result of actions by our competitors that render online search results through our third-party search providers less favorable to us, which would in turn impact our business and presence among users. Our HR Technology segment also relies on third-party publisher networks to drive traffic to our platforms by adding our content to their websites. Any failure of such publisher networks to effectively promote our services could result in reduced user traffic.

We also offer mobile applications through the platforms of third-party global technology companies to enhance the accessibility of our services and expand our individual user traffic. If we become unable to provide our applications through these platforms, either due to vendor policies, platform updates or otherwise, our ability to expand our mobile user base and increase user traffic on our services would be adversely affected.

Furthermore, we rely on third-party data center providers in our operations, and any disruption or interruption to the data center service or deterioration of the network performance of such service, as well as any increase in server usage fees or other additional costs, could materially and adversely affect our competitiveness and our business, financial condition and results of operations. We also rely on third parties to provide certain payment methods and payment processing services, including the processing of credit cards. Our business could be disrupted if these payment processing providers become unwilling or unable to provide these services to us or if they lose large amounts of our individual users’ and enterprise clients’ data in performing operations for us. We are subject to card association and network rules that could subject us to a variety of fines or penalties that may be levied by or against the card networks for acts or omissions in violation of such rules. As a general matter,

any third party that has access to data on our systems is a potential entry point for unauthorized access, which exposes us to the risk of security breaches of such third-party systems.

We also make use of third-party sales agents or media agencies to manage sales to and other relationships with our enterprise clients to enhance our sales ability. However, our reliance on such sales agents involves certain risks. In particular, because we generally work closely with these sales agents over long periods of time, the loss of a sales agent reduces the strength of our sales network and could result in the loss of enterprise clients and transfer of know-how to a competitor. Additionally, we exert less direct control over third-party sales agents compared to our own employees, and the agents’ actions in the course of their work for us or otherwise may harm our reputation or expose us to litigation.

Our online services also more generally depend on the ability of our individual users and enterprise clients to access our services through the Internet. Internet access providers may take measures that could degrade, disrupt, or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. Our services may also be subject to government-initiated restrictions or blockages in some jurisdictions. Any such interference or disruption of access to our online services through the Internet could result in a loss of existing individual users and enterprise clients and increased costs, and could impair our ability to attract, maintain or increase the number of users, customers and advertisers, thereby harming our revenues and growth. Furthermore, any limitation from our third-party Internet access providers on the use of third-party cookies could reduce our ability to provide targeted information to our individual users and negatively impact various areas of our business.

Our advertising, sales and marketing efforts may be ineffective, may lead to increased costs and may negatively affect our revenue and margins.

As part of our strategy to expand our business, we engage in advertising, sales and marketing activities in order to increase recognition of new or existing services and expand our individual user and enterprise client bases. We are substantially dependent on our advertising, sales and marketing operations to maintain brand recognition and user traffic on our services and acquire new enterprise clients and enhance client satisfaction with our services. In particular, as many Internet users rely on search engines to refer them to products and services, our HR Technology segment and Media & Solutions segment depend in part on various such search engines to generate user traffic on our websites, maintaining a strong search engine ranking is an important factor in our success in those businesses, and we may be required to incur expenses to enhance our search engine rankings as we seek to maintain and expand the market presence of certain businesses. We may also engage in other advertising including online, television and radio advertising to increase awareness of our services on the

Internet and more generally among potential individual users and enterprise clients. In our Staffing segment, we may also rely on advertising to increase registered agency workers, particularly in markets where there are labor shortages. Although we may undertake significant additional advertising, marketing and sales costs in order to expand certain businesses, our efforts may not be effective to the extent we expect or at all.

Our business operations are exposed to natural disasters, terrorism, pandemics, calamities or other factors.

Despite any preparatory measures we take, our business operations, technology infrastructure, employees and physical assets will remain subject to the risk of fire, earthquakes, tsunamis, typhoons, hurricanes and other natural disasters, blackouts, terrorism, power loss, pandemics and other catastrophic events. Any of these events could disrupt our operations, including failure of our information systems or data servers that have not been backed up, and in such circumstances our ability to successfully implement our business continuity plan will be crucial to our recovery. In the event that we experience a system failure or systems delays, particularly if these issues are widespread within our infrastructure, or are unable to fully implement our business continuity plan, we may be unable to offer certain products and services, and even if they are available, our Internet-based products and services may experience increased load times or other disruptions. In such event, our individual users may become dissatisfied and reduce their usage of our products and services or switch to those of our competitors. In addition, disruptions to the business or information systems of our individual users and enterprise clients could damage our brand and reputation and lead to reduced revenues for us, errors in the transactions that we are involved in, or other problems.

Any impairment of our non-current assets, including goodwill and intangible assets, or fluctuations in the value of our securities holdings, could adversely affect our results of operations or financial condition.

We may be required to record a significant charge on our consolidated financial statements during the period in which any impairment of our non-current assets is determined. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, disposals of group assets and a variety of other factors. Any determination of impairment of goodwill or other intangible assets could have a material adverse effect on our results of operations. Moreover, to the extent that we acquire early stage companies that have not achieved profitability, we may be subject to impairment risk relating to any goodwill and intangible assets recorded in connection with the acquisition.] In addition, our other non-current assets, including investments in associates and joint ventures, are also subject to the risk of impairment. Furthermore, we also hold equity securities of certain companies we consider to be necessary business partners in order to maintain and strengthen business relationships with these companies to support our long-term growth. We generally recognize changes in the fair value of these

securities as part of other comprehensive income, which has the effect of increasing or decreasing our retained earnings. Declines in the value of such securities could thus have an adverse effect on our financial condition.

We may have additional tax liabilities.

We are subject to income taxes in Japan and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We regularly are under audit by tax authorities in different jurisdictions. Although we believe our tax calculations are reasonable, the final determination of tax audits, and any related litigation in the jurisdictions where we are subject to taxation could be materially different from our historical tax calculations. The results of an audit or litigation could have a material effect on our consolidated financial statements in the period or periods in which that determination is made. We earn a portion of our operating income from outside Japan, and any repatriation of funds currently held in foreign jurisdictions to Japan may result in higher effective tax rates for us. In addition, there is risk that our tax exposure be adversely affected if, for example, tax related laws and regulations, including the interpretation thereof, change due to political or economic conditions in the jurisdiction in which we operate. Further, because we are subject to tax examinations by relevant tax authorities on a regular or irregular basis, it is difficult to accurately predict their timing and results.

We may also become subject to new taxes applicable to online businesses, such as taxes on digital services, based on changes in tax laws and regulations of the jurisdictions in which we operate our businesses. Any changes to international tax laws could impact the tax treatment of our foreign earnings and adversely impact our effective tax rate. Further, changes to tax laws and additional reporting requirements could increase the complexity, burden and cost of compliance. Due to the large and expanding scale of our international business activities, any changes in taxation of our activities or the combined effect of tax laws in multiple jurisdictions may increase our worldwide effective tax rate, increase the complexity and costs associated with tax compliance.

Fluctuations in currency exchange rates could materially and adversely affect our business, financial condition and results of operations.

We have substantial operations outside Japan and have significantly expanded our global businesses in recent years. We principally conduct our global business transactions in foreign currencies, in particular the U.S. dollar, the Euro and the Australian dollar. Foreign currency-denominated assets and liabilities are reported in the relevant local currencies and then translated to Japanese yen at the period-end applicable exchange rate, while foreign currency-denominated results of operations are reported in local currencies and then translated to Japanese yen using the spot exchange rate at the date of the transaction or a rate that approximates such rate. As a result of these factors, fluctuations

in foreign currencies against the Japanese yen may adversely affect the impact of favorable results or amplify the impact of unfavorable results at our overseas subsidiaries. Although we may enter into derivatives transactions to hedge a portion of our foreign currency exchange rate risk, there is no assurance that our hedging efforts will be effective in protecting us against exchange rate fluctuations. Furthermore, volatility in foreign exchange rates could negatively affect economic conditions in our operating markets, potentially leading to decreased spending by our enterprise clients or harm our ability to execute acquisitions or other strategic transactions abroad, which is an important piece of our strategy for growth globally, at an acceptable price.

We rely on borrowings to finance our operations, and factors such as increases in interest rates under our borrowings could materially and adversely affect us.

We finance our operations in part through loans from financial institutions and issuing bonds in the capital markets and may incur additional indebtedness in the future depending on the overall funding environment. Increases in interest rates could substantially increase our financing costs and may impair our ability to borrow necessary funds on a timely basis. In addition, our creditworthiness may decline in the future due to adverse changes in our financial condition or business. Any additional borrowings in the future may also subject us to covenants or other restrictions that impede our operations. If we fail to comply with such covenants, the repayment of the principal of or accrued interest on our loans could be accelerated or we could be required to post collateral to secure our borrowings. We may also have difficulties in obtaining additional financing on acceptable terms to the extent that our credit ratings decline.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. Our operating results in future periods may fall below market expectations as well as our internal business objectives or financial targets. Each of the risk factors listed in this section in addition to the following factors may affect our operating results:

- Our ability to continue to attract and retain individual users and enterprise clients to our services;
- Our ability to keep pace with rapid changes in technology;
- The amount of revenues and expenses generated and incurred in currencies other than Japanese yen, and our ability to manage the resulting foreign exchange risk;
- The amount and timing of advertising expenses, other operating expenses and capital expenditures related to the maintenance and expansion of our businesses;
- Our focus on long-term goals over short-term results;
- Acquisitions and other strategic investments;
- Introduction of new businesses, products, services and technologies; and
- Changes in economic conditions or the business

environment.

Our stock price may be volatile or difficult to predict due to fluctuations in our operating results or other factors.

The trading price of our common stock has been, and is likely to continue to be, volatile. In particular, our operating results may fluctuate significantly due to a number of factors, including the various risk factors discussed in this section, which could negatively affect our share price. In addition, the trading price of our common stock may fluctuate significantly in response to numerous other factors, many of which are beyond our control, including:

- The financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- Actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- Additional shares of our common stock being sold into the market by us, our existing stockholders, or in connection with acquisitions, or the anticipation of such sales;
- Changes in our dividend policy or planned share repurchases;
- Investor sentiment with respect to our competitors, our business partners, and our industry in general;
- Announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in operating performance and stock market valuations of technology companies in our industry, including our competitors;
- Price and volume fluctuations in the overall stock market, including as a result of trends in global political or economic conditions;
- The inclusion, exclusion, or deletion of our stock from any trading indices;
- Media reports regarding our business and financial performance;
- Lawsuits threatened or filed against us, or developments in pending lawsuits;
- Developments in anticipated or new legislation or regulatory actions; and
- Other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, broad market and industry fluctuations and general economic, political and market conditions, such as recessions, interest rate changes or foreign currency exchange fluctuations, may negatively impact the market price of our common stock regardless of our actual operating performance.