

Risk Factors

(April 20, 2005)

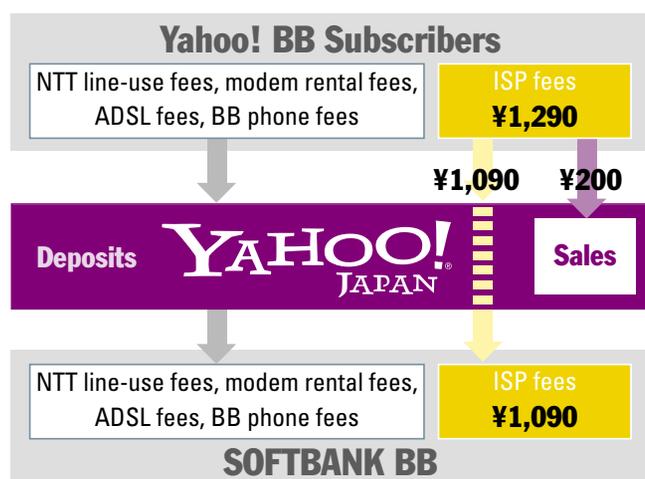
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") have reported their results for the fiscal year ended March 31, 2005, in this document. However, a number of potential factors could substantially impact future performance.

Major factors contributing to the business risks for the Group are discussed below. The Group proactively discloses those items it deems necessary that investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the issues below before assessing the position of the Group and its future performance. However, it should be noted that the risks listed below do not represent complete coverage of risks that should be considered before investing in the shares of Yahoo Japan Corporation (the "Company").

1. Group Operations

(1) Yahoo! BB Business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, ISP services, a broadband portal site and content-provision services, and other services. The Group's role in this joint business includes promoting the service and signing up subscribers, providing customer service, operating a broadband portal site, and providing a fee-collection platform. SBB's responsibilities lie in supplying and maintaining an ADSL infrastructure and connections to the Internet, technological development and providing technical support. The allocation of revenues based on the above separation of roles is as follows:



a. Subscriber Sign-up Promotion Business and Incentive Commission

Beginning with the fiscal year ended March 31, 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to sign up through consumer electronic wholesalers and other means, including the Internet route, and because it has become necessary to actively develop subscriptions from corporations as a result of the start-up of BB Phone service, a broadband telephone service offered by SBB, in April 2002.

The Group strives to attract greater numbers of subscribers through promotion efforts using various campaigns and price competitiveness supported by brand strength. If the Group fails to gather the anticipated number of new subscribers, the Group may be prevented from making anticipated sales or required to bear much higher costs than expected, with a subsequent significant impact on earnings.

In addition, if subscribers sign up only to cancel their subscriptions within a short period there is the possibility that the Group will have to return commissions to SBB, and this could negatively impact Group performance.

Since the Group has stopped selling the Yahoo! BB Starter Kit, it is assumed that, in principle, the Group will be able to

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avoid the risk associated with sales of the kits. However, the Group will continue to bear the liability risk associated with starter kits it has sold in the past.

b. ADSL Infrastructure and Internet Access Service

The Group has begun offering versions of some of its regular services, such as e-mail and Web page creation services, as special services to Yahoo! BB subscribers, and it is possible that the development and operating costs of these services could exceed original estimates.

It is possible that the work contributed by SBB could indirectly but significantly influence the Group's performance. Specifically, there is risk of extended construction periods and related delays in offering services to subscribers who have signed up for them, resulting in delayed accounting of sales as well as lost sales opportunities due to cancellations. Other risks are failure to build infrastructure and problems with service quality, leading to subscriber cancellations, damage to the Group's brand image, and the subsequent negative effect on the Group's business. In addition, service delays and technical upgrade problems could result in demand for compensation from subscribers. The Group works closely with SBB, making efforts to reduce the risk in terms of direct interface with subscribers by utilizing our Web sites and other services, but these efforts do not eliminate all risks regarding the relationship with SBB.

It is SBB's responsibility to build infrastructure for the services. The Group therefore does not bear the risk of equipment investment, construction, or obsolescence of facilities due to technological progress.

c. Broadband Portal Service

The Group offers and plans to offer subscribers broadband content, such as films and music, in cooperation with companies offering various content. It is possible, however, that expected sales will not be made due to insufficient assemblage of content or content costing far more than expected. This may impact sales and profit.

The Group acts as the platform for consigned billing and settlements for said paid content provision and access services

to effect collections. For that reason, the Group intends to improve operating efficiency by hiring specialists and technically skilled staff and undertaking business cooperation with other companies with a proven record in the business. There is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems related to consigned billings and settlements could result in demand for compensation from subscribers.

d. The Competitive Environment

As of March 31, 2005, the major providers in Japan of services similar to those the Group offers were as follows (in no particular order):

Site	Provider	Business description
@nifty	Nifty Corp.	ISP business and comprehensive information site
So-net	Sony Communication Network Corp.	ISP business and comprehensive information site
BIGLOBE	NEC Corp.	ISP business and comprehensive information site
OCN	NTT Communications Corp.	Long-distance telecommunication business and ISP business
FLET'S	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
ACCA	ACCA Networks Co., Ltd.	ADSL business

With competition from these service providers expected to grow, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition to cutting access revenues, competition could increase advertising costs, which would have a negative effect on the Group's operating results. As a result, in the worst case, the Group and SBB could no longer afford to continue providing services and would be forced to withdraw from the business. In this way, competition could have a significant impact on the Group's business.

(2) Auction Business

a. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. Effective September 2003, a revision of the law regarding the sale of used goods to prevent crimes abusing Internet auctions was enforced. In addition to imposing a registration system on Internet auction operators, the reformed law requires operators to make efforts to confirm the identity of participants and maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reformed law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, the Group does not expect that the reformed law will have a significant impact on its auction business. Nevertheless, if a law regulating actual auction transactions on the Internet was to be adopted in the future, depending on its content when passed, it could influence the Group's auction business. Specifically, the Intellectual Property Promotion Plan announced on May 27, 2004 by the government's Intellectual Property Strategy Headquarters (Chairman: Junichiro Koizumi, Prime Minister) includes measures for dealing with improper items listed on Internet auctions. It is possible that further new regulations will be introduced in the future.

The Group has taken multiple measures to improve the security of its systems for the purpose of achieving a safer and sounder auction site. In September 2000, the Group began an escrow service (see note below) for its online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal address of users posting items on the auction site. In addition, the Group has set up a patrol team to remove illegal items from auctions and cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain

that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and a subsequent negative impact on earnings.

The Group has instituted a damage-compensation system, which pays a certain amount to users that have suffered damages due to illegal activities. This could increase expenses by the Group.

Note:

The escrow service consists of a company acting as an intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and payment. Because this service is provided by third parties and not the Company, the service varies according to the company used. However, in general, the escrow company receives payment from the purchaser and transfers it to the seller upon confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that items will not be delivered or payments not made.

b. Damage Compensation

The Group delegates all responsibility to the users and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display, or bidding of goods or services offered or the formation or honoring of contracts agreed to while using this service. Nevertheless, the possibility exists that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image.

c. Yahoo! ezPay Service

Yahoo! ezPay (see note below) is a payment service provided by the Company's subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust, Ltd., acts as the intermediate in the settlement of the auction transaction.

Since Netrust, Ltd., reimburses the seller of the item one to three business days after the purchaser has made settlement by credit card or Internet bank transfer, the subsidiary must

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carry the credit card receivables for the period up to the fixed settlement date of the bank used by the credit card company. The Group is exploring methods of reducing the amount of reimbursement funds by shortening the settlement cycle with the credit card companies' settlement banks as well as seeking methods of diversifying its source of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible the Group will not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a significant negative impact on the Group's business and performance.

In providing this service, the Group has taken all possible precautions to protect itself from such problems as the fraudulent use of credit cards as well as the leakage of personal information of individuals online as outlined in "Information Security Management," beginning on page 56. However, there is no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in the Group being sued for compensation of losses, preventing the recovery of the funds reimbursed and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on Yahoo! Auctions and other Group services.

In addition to the online settlement market being crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and the life cycle of services is short. Therefore, after a service has been launched, it is necessary to establish a service planning and system development organization that can respond quickly to the constantly changing demand in the market. However, there is a possibility that such problems as the service not properly meeting customer requirements, not being suitably compatible with new technologies, and not achieving a high-powered quick start could occur. These problems might result in an unavoidable decline in competitiveness within the market that would be detrimental to the Group's business and performance.

Note:

Yahoo! Payment was renamed Yahoo! ezPay as of August 31, 2004.

d. The Competitive Environment

As of March 31, 2005, the major providers of Japanese-language online mall and auction businesses directed at Internet users in Japan were as follows (in no particular order):

Site	Provider	Business description
BIDDERS	DeNA Co., Ltd.	Online auction site
Rakuten Ichiba	Rakuten, Inc.	Online mall and auction site

With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition, competition could lower commission income by cutting participation as well as increase advertising costs, which would have a negative impact on the Group's operating results.

(3) Internet Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those businesses mentioned above. Therefore, the risks associated with the Internet advertising areas that are thought to be the most important will be discussed below. Other risks that could affect our businesses are explained in "Other Overall Business Risks," beginning on page 58.

a. Use of the Internet as an Advertising Medium

Having emerged almost simultaneously with the establishment of the Group, Internet advertising is still in the development stage. As such, its value as an advertising medium has not been adequately established among advertisers, consumers, and advertising agencies. Up to this point, with limited experience in Internet advertising, most advertisers still consider it a trial medium, and many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering the Group's major advertisers by industry, National Clients that usually advertise more than other companies and on a national basis, such as cosmetics, toiletries, food products, beverages, drugs and health care

goods companies, do not spend as much on Internet advertising as they do on other media at this time. If this condition continues, it may be difficult for the Group to achieve a stable flow of advertising revenue.

To increase the understanding and appreciation of Internet advertising among advertisers and advertising agencies, the Group is taking steps to educate them by regularly holding seminars and by other methods. At the same time, as elaborated on later in this document, in order to reduce the previously stated risks the Group is expanding and firming up the advertiser base by changing its advertising sales structure and building a close, cooperative relationship with advertising agencies.

The Group believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness must be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept roles in this area, none has progressed far enough to be capable of full-scale evaluation. With the progressive spread of broadband, this market is gaining recognition among advertisers and advertising agencies. However, it remains unclear whether Internet advertising will become a business on a par with the traditional newspaper, magazine, television, and other advertising media.

b. Characteristics of Internet Advertising

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses to be reduced by companies. Moreover, Internet advertising has a short history, and changes in more developed markets, such as the United States, could affect the Japanese market.

Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand from advertisers for advertising space tend to be seasonal. These factors produce underlying short-term fluctuations in the Group's advertising revenue. Further, as the Group's cost structure includes a high proportion of fixed costs, such as personnel and leasing expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Group's earnings stream.

In addition, although advertising contract periods and page views ("hits") are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or to devise some other type of compensation, which could negatively impact Group advertising revenues.

c. Advertising Sales Structure

In the future, the Group will need to increase its sales force and to strengthen its sales-management system to suit market expansion. However, these measures alone will not be sufficient to guarantee increased advertising revenues.

d. The Competitive Environment

As of March 31, 2005, the major providers of Japanese-language Internet navigational services or similar services directed at Internet users in Japan earning advertising income through comprehensive information sites for those services were as follows (in no particular order). These companies are considered largely in competition with the Group services in the Listing and Media businesses.

Site	Provider	Business description
MSN	Microsoft Corp.	Comprehensive information site
infoseek	Rakuten, Inc.	Comprehensive information site
goo	NTT-Resonant Inc.	Comprehensive information site
livedoor	livedoor Co., Ltd.	Comprehensive information site
Google	Google Inc.	Search service site
excite	Excite Japan Co., Ltd.	Comprehensive information site

Included among these companies are service providers in the highly competitive U.S. Internet industry and corporations affiliated with competitors of Yahoo! Inc., the Company's major shareholder. With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its position in the industry. In addition to falling advertising rates, competition could increase costs through higher content fees and commissions paid to advertising agencies and information providers, which would have a substantial negative impact on the Group's operating results.

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(4) Yahoo! JAPAN Card Service

To expand its business domain and at the same time give subscribers access to additional service advantages, the Group will begin issuing its own credit card, the Yahoo! JAPAN Card.

The Yahoo! JAPAN Card differs from the joint cards that the Group has offered in the past in that the Group is the credit card issuer and will be providing credit to those who are issued the card. The Group will also be reimbursing payments made by cardholders to the merchants honoring the card. Since payments will be collected from cardholders once a month while reimbursements to merchants will be made about three times a month, it will be necessary to finance those reimbursements. The Group plans to curtail bad debts through strict credit evaluation of cardholders and monitoring of credit card use. However, it is possible that the Group will not be able to collect payments from cardholders to cover advanced payments owing to bad debts arising from a decline in the creditworthiness of cardholders. The Group is considering diversification of its funding sources as the business expands, but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

The Group intends to outsource the major portion of this service to take maximum advantage of available expertise in managing individual information, etc. as well as cost flexibility. However, the Group may not be able to recover its fixed costs of the service if it cannot acquire a large enough number of cardholders. In addition, although the Group has been extremely careful in choosing its business partner for this service, it is possible that the Group may be sued for damages should its business partner leak personal information.

Following the start-up of this credit card service, it will be necessary to establish an organization that can respond quickly to changes in the credit card market. In the event of a change in the credit card market, the settlement commission received from affiliated merchants may decline because of intensified competition, reducing profitability. Among possible additional expenses, a certain level of costs are anticipated

due to the risk of fraudulent actions, such as card copying, theft, and others. However, if fraudulent use of the Group's credit card goes beyond those expectations, damages in excess of the anticipated level could be incurred. Furthermore, in order to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater than anticipated costs.

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of March 31, 2005, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of business fields and geographic regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecom, e-commerce, e-finance, media and marketing, broadcasting media, technology services, and an overseas fund investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

(2) Alliance Contracts and Other Arrangements with SBB

The Company has signed the following contracts with SOFTBANK CORP. affiliate SOFTBANK BB Corp. (SBB) concerning Yahoo! BB business. Yahoo! BB business accounted for 14.3% of Group sales in the fiscal year ended March 31, 2005. Therefore, these contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: June 20, 2001
Contract term: Indefinite from June 20, 2001~(Perpetual contract)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting subscribers of Yahoo! BB services
* Operating the Yahoo! BB portal site
* Providing mail and Web site services
* Providing a fee-collection platform
3) SBB's main responsibilities
* Providing ADSL service between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks
* Handling subscriber inquiries and providing technical support
Usage charges are ¥990 per month for ADSL and ¥1,290 per month for ISP. From the ISP charge, the Company takes ¥200 in exchange for service.

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004 (Automatically renewed every one year)
Contracted party: SOFTBANK BB Corp.
Incentive fees
1) Lump-sum incentive fees (100% upon verification of operational subscriber lines)
* BB Phone services: approx. ¥7,000 per application
* Yahoo! BB services: approx. ¥15,000 per application
* Yahoo! BB services + LAN Pack: approx. ¥20,000 per application
2) Continual incentive fees
* BB Phone services: approx. ¥150 per month per continuing subscriber
* Yahoo! BB services: approx. ¥200 per month per continuing subscriber
* Yahoo! BB services + LAN Pack: approx. ¥250 per month per continuing subscriber

Notes:

1. The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT has become SOFTBANK BB Corp. due to the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All of the merged companies had the same parent company, SOFTBANK CORP.
2. The details of the incentive agreement were changed to those shown above as of April 1, 2004.

(3) Joint Directorships

As of March 31, 2005, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK CORP. part-time director)

Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK CORP. president)

Yahoo Japan Corporation president and CEO Masahiro Inoue has been a part-time director of SOFTBANK CORP. since June 2001. In addition, he sits on the boards of four other companies in the SOFTBANK Group (excluding subsidiaries and affiliates of the Company) as a part-time director. Mr. Inoue has been engaged to sit on these boards to offer advice on the strategic direction of their businesses, not to be involved in the business activities of these companies. Consequently, the influence of his other directorships on the business activities of the Company is limited.

Yahoo Japan Corporation chairman Masayoshi Son was the president and CEO of the Company at its founding and acts in the capacity of offering valuable overall advice from his perspective as a founder of the Company and as a representative of the parent company.

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3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

The Group's operations are based on a licensing agreement with Yahoo! Inc., one of the founding partners of the Company and owner of 33.6% of voting shares as of March 31, 2005. The Yahoo! trademark, software and tools (hereinafter referred to as "the trademark") used in the operation of the Group's Internet directory search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License name: Yahoo Japan Corporation licensing agreement
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified
<i>Note:</i> The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
1) Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! directory search services") * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services
2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company
3) Royalties to be paid by the Company to Yahoo! Inc. (see Note)
<i>Note:</i> Royalty calculation method {(Consolidated net sales) – (Advertising sales commissions on a consolidated basis) – (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

Note:

Yahoo Japan Corporation has held discussions with Yahoo! Inc. regarding the interpretation of the provisions in the licensing agreement that relate to the method of royalty calculation and confirmed the details of the royalty calculation as above. When Yahoo Japan Corporation plans to enter into new businesses that have different gross margin structures than those of existing Yahoo Japan Corporation businesses, both parties will discuss the appropriate calculation method to be applied to such new businesses.

(2) The Yahoo! Brand and Cooperation Overseas

The establishment and proliferation of the Yahoo! brand are considered extremely important to the Group, both for attracting users and advertisers and for expanding its business. The importance of brand recognition is increasing rapidly with the explosive increase in Internet sites and low barriers to entry in the Internet business. Especially given the intensifying competition among Internet companies, expenditures for establishing the Yahoo! brand and boosting brand recognition could increase substantially.

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Group is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Group in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are in force. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations and presence, there is the possibility that Yahoo! Inc. has not registered trademarks necessary to the Group's business in Japan.

It is also possible that third parties may have acquired domain names that the Group finds necessary to its business or may use domain names that resemble Yahoo! or the services offered by the Group to carry out unfair competition with or harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

(3) Other Joint Directorships

Yahoo Japan Corporation part-time director Jerry Yang is also a director of Yahoo! Inc. He has been engaged because Yahoo! Inc. is one of the founding partners of the Company as well as a major business partner in the Group's core business, as stated previously. For these reasons, it has been necessary to have him on the board to support the Company's start-up and expansion.

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995. As the Group is dependent on the Internet indirectly and directly, the most basic requirements for its operations are the continued expansion of communication and commercial activity through the Internet and a stable and secure environment for Internet users.

However, a number of factors contribute to uncertainty in the outlook for Internet usage, including the availability of necessary infrastructure, such as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols for responding to growing Internet traffic and increasingly advanced applications; and the possibility of new regulations or charges related to Internet use.

(2) Dependence on the Environment for Internet Connection

As almost the entire catalog of Group services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Group's own servers and equipment as well as telecommunications equipment owned and operated by third parties.

If for any reason the connecting environment should

deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue.

Operations are vulnerable to impact from such phenomena as fires, power outages and damage to telephone lines. The Group has dispersed its facilities in Tokyo to offset any of these events but does not presently have multiple-site capacity outside Tokyo.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, it is possible for an incident to occur for reasons unforeseen and after which it would be difficult to carry on normal operations or recover fully. Such an incident could impact negatively on the business, performance, and brand image of the Group.

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5. Information Security Management

(1) Group Efforts to Achieve Information Security

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of this technology has broadened the horizons of Internet users and boosted convenience, it has also turned the importance of the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group needs to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. In 2001, the Group appointed a Chief Security Officer (CSO) and implemented groupwide information security efforts based on this position. To protect personal information, the addresses and other information of our customers are encrypted with SSL (Security Sockets Layer), and access to stored data is thoroughly restricted. Moreover, in April 2002 the Company obtained the right to use the TRUSTe mark (see Note 1, below) of the non-profit privacy protection licensing institution TRUSTe. In September 2003, the Group established the Information Security Council to promote information security management, and concurrently the president of the Company himself announced our Information Security Declaration (see Note 2, below), setting out the Group's overall information security policy. In February 2004, to further reinforce our information management organization, the Company established an Information Management Measures Headquarters chaired by the president. The headquarters has been given a broad scope of authority to rapidly and effectively initiate measures companywide to protect personal and other important business information. Specifically, the headquarters regularly holds one meeting a week, checks the current status of information management operations, considers various measures to improve the management system, and confirms and monitors the progress of measures to improve information management. As part of a series of new security measures, in August 2004 the Group acquired Information Security Management Systems

(ISMS) certification, which was developed by BSI British Standards. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3, below). As of March 31, 2005, Yahoo Japan Corporation and 11 of its subsidiaries had acquired ISMS certifications. The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee that the Group's information security systems are perfect. If, under some circumstance, problems such as an information leak were to occur, they not only might impact negatively on performance but also could result in a weakening of the public's confidence in the Group.

Notes:

1. TRUSTe Certification Institution and TRUSTe mark

TRUSTe is an independent, non-profit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Web sites based on an examination of their personal information protection systems, guaranteeing that the site is being monitored on this issue by a third party. As of April 2001, a TRUSTe Certification Institution was established within the Japan Engineers Federation, a non-profit organization established in recognition of the spreading use of the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms with the privacy protection policies of TRUSTe and meets the license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree with and follow the guidelines of TRUSTe for the processing of consumer complaints.

2. Information Security Declaration

The Company declares its commitment to the following policy regarding information security management for society as whole.

The customer and other information held by Yahoo Japan Corporation and its subsidiaries and affiliates, hereinafter referred to as the "Group," is our most important asset. Protecting this information is extremely important not only for our sake, but also for the sake of our customers, vendors, and business partners.

For that reason, we have positioned our information systems, such as the computers that hold the information and our networks, as information assets. We have established information security rules to protect and manage these assets, and our protection and management measures for these information assets are carried out in the form of information security regulations.

The people using or having access to these information assets, such as employees of the parent company and subsidiaries, are fully aware of the importance of information security to protect our assets, the confidence of our customers and vendors, and our brand image. Consequently, they comply with our information security regulations and treat our information assets with great care.

3. BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0

Taking into consideration both technical security methods and overall organization management, this certification system focuses on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle of Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management team revises, improves, and processes) is continuously repeated with the goal of improving information security levels.

(2) Personal Information

In July 1998, the Group added a service enabling users to customize Yahoo! JAPAN categories to match their individual tastes and personalize a variety of information sources by inputting individual information. In addition, with the acquisition of GeoCities in March 2000 the Group began services providing space for registered subscribers to create their own Web sites.

The Group uses information obtained from users internally to better match advertisements to appropriate users. This information is not disclosed to advertisers or to other outside parties.

As a result of the start of personal identification for Yahoo! Auctions, the Yahoo! BB service and the recruiting of Yahoo! Research collaborators, and aggressive efforts to develop e-commerce through subsidiaries and affiliates, the Group now owns much more detailed personal information than ever to help identify individual users.

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. In addition, the Group has set up a Yahoo! Security Center within the Yahoo! JAPAN site that encourages users to be careful by posting information on examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. It also handles information access rights within the Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group,

either deliberately or through negligence by persons related to the Group, to companies with which business alliances have been concluded, or to companies to which the Group outsources work, etc. There is also a possibility that third parties may use passwords, etc., to fraudulently access the system or pretend to be someone else or use some other method such as phishing fraud (see note below) whereby they illicitly obtain personal information of users resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible or not, its policy is to take measures to strengthen the management and monitoring of the security systems of companies with which it has business alliances.

Representatives of the Group are currently participating in the phishing e-mail countermeasures committees of the ministries of Economy, Trade and Industry and Internal Affairs and Communications as well as one set up by the National Police Agency. Sharing information with related ministries and agencies and industry associations, the Group is seeking effective measures against this type of fraud.

Starting in April 2005, the Personal Information Protection Act and the guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. However, the Group had already implemented in advance systems to meet the regulations or requirements of the law and guidelines regarding the methods of handling personal information. The Group, therefore, believes that the enforcement of the law or guidelines will have almost no impact on its operations.

Note:

Phishing fraud

This type of fraud involves obtaining personal information by sending e-mail pretending to be a financial institution or a company that tricks people into accessing a fraudulent Web site where they are asked to input such personal information as credit card numbers, login IDs and passwords or other sensitive information. Damages from money theft using this system are mounting in Europe and the United States, and such cases have become common in Japan as well recently. The National Police Agency has posted warnings about phishing fraud on its Web site.

Risk Factors

(3) Network Security

Although the Group has established appropriate security systems to ensure the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. In particular, there have been several cases recently of specific Web sites or networks being targeted by sending huge volumes of data over a short period of time for the purpose of paralyzing the Web site or network. Although the Group has introduced effective security programs and other measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results and financial condition.

6. Other Overall Business Risks

(1) Diversification and New Business

The Group plans to further diversify and enter new businesses to strengthen its operating base. To realize this goal, it is possible that the Group will have to incur additional expenses to employ new staff, expand and upgrade its facilities, and carry out research and development.

Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group's profitability may decline temporarily.

In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover its investment expenses and that this will significantly impact its performance.

(2) Keeping Up with Technology

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Group's

services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States. With Yahoo! Inc., the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing financial burden from original development, including a rising level of expenditures for localizing operation of the services.

The Group's small-scale capabilities in research and development could also impede competitiveness due to such factors as the need for longer development timeframes. Either of these contingencies could severely impact operating results.

Recently, use of the Internet through mobile phones and other mobile terminals has increased. Although the Group has responded to this increase by adapting its services for use with mobile terminals, it can provide no guarantee that its services will have the same rate of viewers as that of personal computer users. User share could fall as a result and necessitate larger expenditures for services development that could compress the Group's profits.

(3) Dependence on Third Parties

Although the Group works continuously to build the value it supplies its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Group purchases this content from third parties on contract. Failure to consistently provide high-quality content that appeals to users could result in lower traffic and subsequently impact advertising revenue.

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken, or for some other reason these providers were unable to continue handling large volumes of access, the Group's business and

operating results could suffer substantial negative effects. In addition, the Group depends on hardware suppliers for rapid delivery, installation and servicing of servers and other equipment necessary for providing information services. Error or delay on the part of these companies could damage the Group's relationship with users, hurt its brand image or impair its operations.

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party's system. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the relevant sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise where obstructed operation or some other event could cause the system of a third party to which the Group's service is linked to stop. Such events could lead to the loss of sales opportunities and reduce the competitiveness of the Group's system, negatively impacting the Group's performance or in the worst case resulting in the termination of the service.

The Group not only relies on the previously mentioned Internet providers but also many of its services rely on third parties that the Group has consigned operations to or receives information or support from. It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in a negative impact on performance.

To prevent its customers from misunderstanding or being confused about the scope of services provided by third parties through an agreement with the Group and those provided by the Group itself, it takes measures to ensure their understanding and agreement through user rules or clauses posted on the Group's sites. Despite these efforts, there is the

possibility that these measures will fail and customers will demand compensation for damages from the Group that actually are the responsibility of the third party. This could result in additional costs to the Group or hurt its brand image, impacting negatively on performance.

(4) Collection of Sales Credit Claims

In sales of advertising and other products, the Group carefully examines the credit standing of clients, following a set of internal rules. It also undertakes sufficient precautions so the collection of receivables will not be delayed by taking such measures as making sales through advertising agencies or using credit card settlements. Nevertheless, economic fluctuations and deterioration of customer business could increase delays in collections and the occurrence of defaults. With the expansion of business, the Group has seen and expects to continue to see a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

(5) Dependence on Specific Customers

In each of its businesses, the Group has a degree of dependence on sales to specific customers or by specific agencies.

In terms of advertising sales, the revenue of the Group from sales agents, such as certain advertising companies and media reps, provides a high proportion of the advertising sales. Moreover, advertising revenue from Sponsor Sites operated through a business alliance with Overture K.K. are growing steadily and account for a significant proportion of total advertising sales.

As for business services sales, the amount of commissions paid for acquiring new Yahoo! BB members is still large and SBB accounts for a high proportion of overall sales. In other businesses, the Group has major transactions with specific companies, and these transactions account for a growing percentage of the Group's sales revenue.

Risk Factors

If there was a change in our business relationships with or sales to or by these customers or agents, or deterioration in their business conditions, or a problem with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

(6) Doing Business with a Large Pool of Unspecified Customers

Along with the expansion of its Yahoo! BB and Yahoo! Auctions operations and the ramping up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's revenues stemming directly from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team responsible for strengthening management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that compared with its previous focus on corporate customers the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems and the costs of receivables collection. Moreover, it is expected that the funds required for the reimbursement side of the settlement services offered by Yahoo! ezPay and Yahoo! JAPAN Card will increase substantially. If the recovery of these funds is blocked in some way, it could have a serious negative impact on the Group's operating results and financial condition.

It is also possible that the quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of our services, but they may now shift to inquiries about payment, the return or exchange of services and goods and matters related to commissioned third parties, such as distribution or settlement. In order to properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing and computerizing businesses. It is possible that the costs of these measures and improvements could negatively affect the

Group's profits. In addition, these measures do not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

(7) Continued Support from Senior Management

The Group depends on continued support from senior management and key technical personnel. These include the president, directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technical expertise concerning the Group and its business. Consequently, if key personnel were to leave and the Group fail to replace them, this would negatively influence the continuation and development of the business.

In addition, some senior managers participate in one of the Group's personnel incentive measures, the stock option plan. Depending on the fortunes of the stock market, it is possible that these stock options may not motivate the participants in the plan and indeed may reduce their motivation and cause them to leave the Group.

(8) Internal Control System and Human Resources

In addition to the enhancement of personnel and the organization for greater advertising sales and technology development, the Group must increase staff to support the large number of new Web sites created by the recent surge in Internet use, to carry out the operation and management of its community and shopping services, and to control billing and offer customer support concerning fee-based services related to Yahoo! BB.

Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems with users and tenants, and affect the efficiency of operations.

To respond to personnel increases and business diversification, the Group must further improve its administrative control systems. Although the Group will work to minimize the effects of increased staff on operating results,

personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.

To prevent problems resulting from human error in business, such as the inappropriate management of test IDs for Yahoo! Auctions revealed in March 2002, the Group has taken such measures as stricter controls and operation standards so that such problems do not occur due to improper conduct by internal staff. Nevertheless, there remains the possibility of similar problems occurring in the future in terms of business management and control.

(9) Consolidated Group Operations

There are risks because the Group's subsidiaries and affiliates are generally small scale, and accordingly, because their in-house management systems are also small scale. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented in a timely manner, it could negatively affect the Group's performance.

Tie-ups with the Company's services or network or personnel support are essential to the operations of any of the services of its subsidiaries and affiliates. The related sections of the Company work closely with the individual subsidiaries and affiliates to provide that support. However, it is possible that it will become difficult to adequately provide this cooperation or support due to the expansion of the businesses of the Company, its subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several of the subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partners, especially in the areas of sales, supplies, distribution, and systems. At this time, relationships with the joint venture partners are excellent, and the cooperative relationships with these partners contribute strongly to the performance of these Group companies. However, if for some reason a situation occurred that created an obstruction to the business cooperation or the tie-up between the partners, it could be damaging to the performance of each company and, depending on the

company, it may become impossible to continue to operate.

(10) Share Distribution

At March 31, 2005, the major shareholders of Yahoo Japan Corporation held a very high stake in the Company, with over 75% of its equity owned by SOFTBANK CORP. and Yahoo! Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares, but at present it is difficult to imagine any significant change in the short term. As a result, it is highly likely that the proportion of fixed shares will remain high for the time being. It is possible in the worst-case scenario that the Company would violate the listing standards of the stock exchange on which its shares are listed.

The Company has made and intends to continue efforts to increase the liquidity of its shares and the number of shareholders. It has made a number of stock splits in the past and is working to increase recognition of the Company among potential shareholders by conducting vigorous investor relations programs.

(11) International Conflicts, Terrorist Attacks and Natural Disasters

In the event of outbreaks of international conflicts or terrorist attacks or large-scale natural disasters, such as earthquakes and tidal waves, the Group expects that its businesses would also be substantially affected.

Specifically, under the impact of such an event the Group's advertising revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group site, causing a disruption in planned advertising business. Or, for its own reasons, the advertising company might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might also be interrupted or some other circumstance arise where users would not longer be able to use the Group's paid services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support

Risk Factors

structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, the Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and related companies or SBB and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to continue operations.

(12) Legal Restrictions, Lawsuits and Intellectual Property Rights

a. Government Regulations

Distribution of information over the Internet and electronic commerce are under review by the Japanese government. Although no regulations governing the advertising operations of the Group exist, a number of other countries are now considering regulating Internet use and publicizing legal opinions on the subject.

Since May 2002, the Law Regarding Limitations on the Liability of Providers of Specified Electronics Communications Services and Regarding Privacy of User Information (Provider Responsibility Law) has been in force. However, this law only clarifies the scope of liability for illegal behavior previously provided by civil law and does not increase the liability of businesses that act as intermediaries in distributing information over the Internet. Nevertheless, the passing of the new law may start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business may be restricted through the introduction of new laws or the implementation of rules on self-regulation.

Because it operates Yahoo! BB, the Group is required to observe the Telecommunication Business Law and related ordinances issued by related government divisions. Changes in the law or ordinances could influence the Group's business.

b. Potential Litigation

Moves are being made to regulate the flow of information on the Internet, both to ban the distribution of illegal or harmful content and to protect the privacy of individuals.

To avoid conflict with Japanese legal restrictions, the Group established a Banner Advertisement Presentation Standard that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Group also maintains the right to list Web sites and remove Web sites listed on its Internet directory search services at any time. In addition, the Group fully discloses its legal obligations in written contracts with the creators of these Web sites with clauses indicating the full responsibility of creators for the content of their sites. For such services as auctions and bulletin boards, where users can transmit information freely, the Group indicates clearly in its contracts with users that illegal or harmful content is prohibited and that full responsibility lies with the user. The Group maintains the right to remove content and will do so any time it discovers content in violation of its contracts with users.

Through such internal regulations the Group prohibits illegal and slanderous content on its site and protects the privacy of users. In addition, the Group publishes a disclaimer stating clearly that the user takes full responsibility for Web browsing and that the Group accepts no responsibility for damage caused to users during Web browsing. To protect minors from harmful content, the Group is implementing such programs as Yahoo! Kids. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The Group could be subject to claims, damage suits or reprimands from users, related parties or government agencies in regard to the content of advertisements, Web sites accessed through links on its site, contributions to community message boards and trading on its auction business. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Web site content of the many retailers using these services. Nor does the Group

guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss or difficulty in the delivery of said items. However, the possibility exists that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Furthermore, if the current proposed treaty regarding the jurisdiction of international courts is approved it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

c. Patents, Copyrights and other Intellectual Assets of Third Parties

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover not only technology but also business models. As such, the possibility exists that third parties in possession of these patents will make claims or file suits against the Group and that the Group will be prohibited from using such technology or forced to pay large royalties to acquire said patents. In addition, the extent to which patent rights can be applied remains unclear.

As such, to avoid potential conflicts the Group may be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographical boundaries for application of patent rights also remain unclear. Consequently, the Group cannot rule out the possibility of patent issues arising overseas, in addition to in Japan.

The Group has implemented internal regulations and training programs to prevent infringement of intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to say that such a problem could not occur. In such a case, the Group may be sued for

compensation, required to pay substantial royalty fees or be forced to cease providing certain services.

(13) Change in Accounting Standards

Against the backdrop of the recent trend to establish international accounting standards, the Group has taken action appropriately and quickly to change its accounting standards for severance and retirement benefits, financial instruments, and other categories. A significant change in accounting methods for the recognition of stock option expenses or other income or expense recognition could have a material impact on the Group's profits or losses.

(14) Revision of Business Forecasts

The pace of change in technology and the market in the Internet sector in which the Group is categorized is rapid, and the advertising business is highly susceptible to overall economic trends.

The Group determines its forecasts for sales and costs based on the assumption of a certain usage rate of each of its services, etc. However, the business environment surrounding the Group can change drastically, and actual business results may differ considerably from the announced forecast.

When such a difference is recognized, the Group will announce a revision of the forecast on a timely basis.

Risk Factors

7. Risks Concerning Investment, Loan and Capital Investment Programs

(1) Investments and Loans

As of March 31, 2005, the companies or organizations in which the Group has invested as a result of business ties or with an eye to forming business ties in the future are as shown on page 66. The Group cannot guarantee that these investments will be recovered.

Furthermore, although there are companies in which the Group has invested that have already publicly listed and produced an unrealized gain, this unrealized gain could decline in the future.

The Group takes the utmost care to ensure that the performances of the companies it invests in are reflected appropriately in its own performance by operating according to in-house rules in accordance with general accounting standards and by applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies they could have an even greater adverse effect on the Group's fiscal profit or loss in the future.

To pursue business synergies or the expansion of the Group's business, it is anticipated that the Company will further invest or loan funds for capital participation in third-party companies, fund joint ventures and engage in new investments by establishing companies, etc., or by adequately providing for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risk of said investments or loans based on thorough analysis and compliance with in-house procedures. However, if these new investments or loans do not achieve the originally planned level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's financial condition in future.

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and to continue introducing such new services as streaming video and audio, the Group has a capital investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after the other to adequately cope with higher peaks in access volume and larger volumes of data transmission over a short period. Consequently, the Group anticipates a growing necessity for even larger capital investments than in the past in a timely manner to build systems and networks to smoothly control large volumes of communications traffic, strengthen security systems to protect settlement services and the personal information of customers, and expand systems to appropriately respond to the growth and diversification in user inquiries. Furthermore, in response to growth in business scope the Group assumes that it will have to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group will take care to prevent unnecessary cash outflows by closely considering costs and benefits, focusing on keeping the system development and equipment purchase expenses reasonable.

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of disposal of current facilities.

(3) Participation in Finance Scheme for Yahoo! BB

In a meeting of the board of directors held on July 17, 2003, based on the following finance scheme the Group decided to make a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental PLC and is registered in the Cayman Islands. On July 31, 2003, the Group made a loan of ¥5.7 billion that will mature in 42 months after that date.

Finance Scheme Summary

- The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments in a *Tokumei Kumiai (TK)*, an anonymous partnership. This amount is structured as senior and mezzanine loans and a TK investment.
- The SPC acquires modems and a modem rental agreement from SBB and pays SBB for them using the funds raised.
- The SPC operates a modem rental business and pays principal and interest to lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fee revenues).
- In the case that modem rental fees are not paid using the underlying assets, SBB will provide credit compensation under the terms outlined in the guarantee agreement.

The scheme is based on the assumption that the originally estimated rental fees will be paid from the underlying assets and that SBB will provide credit compensation if the rental fees are not paid from the underlying assets. If for some reason a situation arises where SBB cannot adequately perform on its pledge to provide credit compensation, it could prevent the recovery of the principal and interest on the Company's portion of the financing.

In principle, the Group's risk in the above financing scheme is limited to the principal and interest on its loan. The Group does not intend to make any commitment to invest additional capital in the scheme.

If, in future, SBB should decide to raise further funds based on identical or similar finance schemes, the Company will examine the conditions and nature of each finance scheme on a separate basis and make a decision on whether to extend loans based on the merits of each case.

Risk Factors

Main Companies Invested in by Yahoo Japan Corporation

(As of March 31, 2005)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Lines of business	Relationship with the Company
Investment securities							
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	9.9	4,468	Internet technical-support service	
2	Vector Inc.	OSE Hercules	99/03/26	10.7	1,465	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers
3	SOFTBANK Internet Technology Fund No. 1	–	00/02/21	–	1,109		
4	Oricon Inc.	OSE Hercules	00/03/30	1.5	460	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping
5	Weathernews Inc.	TSE 1st Section	99/06/01	3.8	383	Weather observation, data collection and analysis, weather forecast, and related information services	
6	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	342	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping /Auctions tenant
7	CyberMap Japan Corp.	–	98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps
8	Carview Corporation	–	99/10/05	6.5	39	Car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos
9	ARCHINET, Inc.	–	01/01/23	8.9	13	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping /Auctions tenant
10	Cafeglobe.com Inc.	–	01/02/01	11.2	8	Operation of cafeglobe.com, an information site for women	Alliance for Yahoo! Gourmet/Beauty

Shares in affiliated companies

1	All About, Inc.	–	04/09/08	41.3	2,095	General information site based on expert guides; Internet advertising	Comprehensive alliance to solicit customers for both sites
2	CREO. CO., LTD.	Jasdaq	05/01/26	36.9	1,399	System development; planning, development and sale of software packages; and support services	Business alliance for system development
3	AccessPort Inc.	–	05/01/28	33.4	950	Japanese keyword search service ("JWord")	Alliance for Yahoo! JAPAN directory search services
4	YUME NO MACHI SOUZOUINKAI CO., LTD.	–	04/10/20	29.9	377	Internet-based ordering of delivery services	Alliance for regional information services
5	Tavigator, Inc.	–	00/03/07	30.0	142	Sales of travel gear on the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant
6	INTAGE Interactive Inc.	–	02/10/01	49.0	107	Internet-based marketing research services	Alliance for Yahoo! Research

Investments

1	Other investments	–	–	–	40		
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Notes:

- In principle, the date of acquisition is the day that the Company became a shareholder.
- B/S accounting amounts are shown on a consolidated basis in units of millions of yen.
- AccessPort Inc. changed its name to JWord Inc. effective April 1, 2005.
- As a result of a revision in the guidelines for practical application of financial instruments accounting rules, SOFTBANK Internet Technology Fund No. 1, which was included under investments in the previous quarter, is now being accounted for as an investment security.
- The public tender offer for shares of ValueCommerce Co., Ltd. began on March 1, 2005 and ended on April 11, 2005. As a result, at April 12, 2005, Yahoo Japan Corporation had acquired 49.7% of the company's voting rights.