

Risk Factors

(April 20, 2006)

A number of factors could substantially impact future performance. Major factors contributing to business risks for Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (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. Influence of Internet Markets and Competition

1) Influence of Internet markets and infrastructure

a. Dependence on the growth of Internet usage

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995, with particularly notable growth thanks to the recent spread of broadband communications. As the Group is dependent on the Internet indirectly and directly, the most basic requirements for its operations are the continued expansion of communications and commercial activity through the Internet as well as a stable and secure infrastructure for Internet users.

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 capacity; the need for the 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.

b. Dependence on the infrastructure for Internet connection

As almost the entire catalog of Group services is dependent on the Internet, business operations require a stable infrastructure for Internet connection, which includes 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 infrastructure should deteriorate and prevent easy use of the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

2) Internet advertising market

a. Potential of the Internet advertising market

Since it began operations in 1996, the Group has offered search engine and information-related services through its portal site, with advertising as its main source of income. It has grown to become the leading Internet service operator in Japan, with overwhelmingly dominant viewer rates.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations. Since that time, the Internet advertising market has grown significantly, accounting for 4.7% of the total advertising market in calendar year 2005, according to a recent DENTSU INC. report. For the second consecutive year, Internet advertising expenditures exceeded radio advertising expenditures. The Internet market, however, is still far smaller than the advertising markets for traditional media, including television, newspapers, and magazines. In the future, growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated Group income, which could negatively affect Group performance.

Although the Internet advertising market is attracting increasing advertising expenditures from firms in various

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industries, the Internet's value as an advertising medium has not been adequately established among advertisers, advertising agencies, and consumers. Corporate use of Internet advertising, which has a relatively short history, is often done on a test-case basis with limited budgets. To promote greater understanding and appreciation of Internet advertising within the advertising industry, including both advertisers and advertising agencies, the Group regularly hosts seminars and other informational events. In addition, the Group is enhancing its advertising sales system and strengthening ties with advertising agencies with the goal of expanding and stabilizing the advertiser base. It is uncertain, however, whether the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, leading companies that conduct nationwide sales campaigns on relatively large budgets, will decide to use Internet advertising on a continual, large-volume basis, similar to their use of advertising in traditional media. If they do not, the Group might have difficulties in achieving stable advertising income.

The Group projects that advertising through Internet-enabled mobile terminals such as mobile phones will grow at a quickening pace and is therefore working to make its services available through such mobile terminals in addition to personal computers. If the bulk of Internet access shifts from computers to mobile phones, however, the Group may see a fall in viewer rates and a corresponding reduction in its market share, which would slow down growth in advertising revenue and negatively impact earnings.

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 that companies reduce. 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.

c. Greater variation in advertising products

The Group develops and sells a variety of advertising products suited to advertiser needs, including products with guaranteed exposure times and page views. In addition, we offer Sponsor Site (paid search advertising), operated jointly with Overture.

Recently, advertising products that employ unconventional advertising methods have appeared, such as affiliate ad program (results-based advertising). The Group intends to remain abreast of current advertising trends through cooperative relations with new business partners, such as ValueCommerce. If the Group fails to properly respond to changes in advertising methods, its advertising income could decrease even as the costs of developing new products and forming new partnerships with companies possessing expertise in new advertising methods grow. As a result, Group performance could be negatively affected.

d. Trends among competitors

Competitors for the Group's advertising business are companies working to earn advertising income by operating portal sites offering Japanese-language search engine and information-related services.

Japanese-language search engine and information-related services are currently offered through the portal sites of Google (Google Inc.), MSN (Microsoft Corporation), infoseek (Rakuten, Inc.), goo (NTT Resonant Inc.), livedoor (livedoor Co., Ltd.), and excite (Excite Japan Co., Ltd.). In addition, many other Web sites offer more specialized information-related services. All of these sites compete with the Group in the markets for its various services.

Operators of these sites include those affiliated with U.S.



companies that compete in the U.S. Internet market with Yahoo! Inc., a major shareholder of the Company. In this competitive environment, it is uncertain whether the Group can maintain its dominant position in the industry. Competition could lead to price competition in the form of lower unit prices for the Group's advertising products. In addition to paying content provider fees and sales commissions to information providers and advertising agencies, the Group may have to increase advertising expenditures to attract advertisers, thereby negatively impacting Group performance.

3) Personal services

a. Market shifts due to increasing individual Internet use

The Group's primary income sources from businesses targeting individual customers include system-use fees for Yahoo! Auctions; membership fees for Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions; Internet services provider fees for Yahoo! BB service; and sales of individually priced contents. With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for business designed for individuals is likely to continue to expand. Sooner or later, broadband proliferation in Japan will reach a saturation point and growth in the number of users will plateau. To prepare for that time, the Group is implementing various measures to boost customer satisfaction and promote greater use of the full range of its services. Growth in the numbers of Yahoo! Auctions participants, Yahoo! Premium members, and Yahoo! BB subscribers, however, might lose its early momentum, which will have a significant negative influence on Group earnings.

Yahoo! Auctions transaction volume has expanded in line with increases in the number of participants. With that growth, however, have come reports of incidents that were not considered at the time the service was created, including fraud and illegal listings. To create a safe auction site, the Group will continue implementing measures to comply with legal restrictions and social norms. If these measures fail to have the intended effects and instead discourage participation in Internet auctions, Group income from system-use fees for

Yahoo! Auctions and the number of Yahoo! Premium members could decrease, significantly influencing Group performance.

The spread of broadband communications has enabled the Group to deliver a variety of content to meet Internet users' needs, including high-volume services such as video and music. Demand for such content via the Internet is likely to expand as Internet users increase. If such content fails to become a regular part of the lives of users, or if access to content via terminals other than personal computers becomes the norm, and if the Group fails to break into the non-PC market, the achievement of expected earnings could be difficult.

b. Trends among competitors

Competitors for the Group's personal services business targeting individual users are companies offering Japanese-language electronic commerce services such as auctions, ISP services, and content delivery.

These competitors include the previously mentioned portal site operators; auction sites such as Rakuten Ichiba (Rakuten) and bidders (DeNA Co., Ltd.); and ISP business sites such as @nifty (NIFTY Corporation), So-net (Sony Communication Network Corporation), BIGLOBE (NEC BIGLOBE, Ltd.), and OCN (NTT Communications Corporation). Many other companies deliver content in competition with the Group.

In this competitive environment, it is uncertain that the Group will be able to maintain its dominant position in the industry. If participation in the Company's auction site decreases as a result of competition, and if Yahoo! Premium members and Yahoo! BB subscribers also decrease as a result of competition, the Group's revenues from system-use fees and commissions could decline. In addition, the potential exists for commission reductions and major revisions to the pricing structure as a result of price competition. As well, the Group might have to increase advertising expenditures to compete for customers. All these factors could negatively impact Group performance.

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4) Business services

a. Trends in corporate Internet use and market change

In business services other than advertising, Group income is derived mainly from listing services, such as Yahoo! Rikunabi, Yahoo! Autos, and Yahoo! Real Estate, as well as from e-commerce services, such as Yahoo! Auctions and Yahoo! Shopping.

To expand the market for listing services, particularly Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT, the Group is leveraging the convenience of its Web sites and its dominant brand strength to attract new customers. Using an enhanced sales infrastructure, the Group also continually works to solicit registration by retailers on the Yahoo! Auctions and Yahoo! Shopping sites with the aim of expanding e-commerce income. Despite such efforts, the market might fail to expand for various reasons. Corporate use of the Internet might not expand as anticipated. The shift of listing services to the Internet from traditional media, particularly paper-based media such as newspapers, magazines, and flyer inserts, might not advance further. Use of the Group's auction and shopping sites might not increase as expected, and the number of tenants registered on these sites might be insufficient, with the result that transaction volumes might not increase as anticipated. These factors could negatively affect Group performance.

b. Influence of changes in the broadband market

Incentive fees received from BB TECHNOLOGY Corp. (BBT) (see note, below) for each new Yahoo! BB account provide important income for the Group's business services.

The entire Group promotes the Yahoo! BB service, a comprehensive broadband service provided jointly by the Company and BBT.

The commencement of the Group's Yahoo! BB service was a major stride for broadband communications in Japan. According to the Ministry of Internal Affairs and Communications' most recent White Paper on Telecommunication, Japan is No. 2 in the world in terms of number of broadband accounts, with the fastest and most

economical broadband services in the world. The Group's Yahoo! BB service, mainly its ADSL service, holds the top customer share in the domestic market.

Owing to rapid progress in telecoms technology, however, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which enables faster data transfer via optical fiber. In line with this shift, the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By emphasizing sales promotions, leveraging the advantages of its strengths in brand dominance and price-competitiveness, and undertaking various campaigns, the Group is working to attract new subscribers. Despite these efforts, it is possible that the Group will attract fewer new accounts than expected and lose customers to competing services, resulting in a failure to achieve its sales goals. At the same time, the Group might incur heavier costs than projected. As a result, Group performance could be negatively affected.

Note:

SOFTBANK BB Corp. (SBB) undertook a reorganization of its businesses to further strengthen its broadband operations. As part of this process, SBB spun off its modem rental business on November 1, 2005, establishing BB Modem Rental Yugen Kaisha as a modem rental specialist. (BB Modem Rental was subsequently sold to Yugen Kaisha Gemini BB.) In addition, on December 1, 2005, SBB transferred its ADSL operations to BBT (surviving company), which will specialize in ADSL operations while SBB specializes in FTTH, retail business, and other non-ADSL operations.

c. Trends among competitors

Competitors for Group business services are companies offering Japanese-languages services in the areas of ADSL business, e-commerce services such as auction and shopping sites, or listing services via the Internet.

Listing services are an important arena for competition among the previously mentioned operators of portal sites and specialized information sites. In e-commerce services, competitors include Rakuten Ichiba (Rakuten, Inc.) and bidders (DeNA Co., Ltd.). Competing ADSL services include FLET'S (NTT East Corp. and NTT West Corp.), eAccess (eAccess Ltd.), and ACCA (ACCA Networks Co., Ltd.).

In this competitive environment, it is uncertain that the



Group will be able to maintain its dominant position in the industry. Competition might result in a decline in listing business or a decrease in retailer participation in the Group's auction and shopping sites. In addition, increased costs associated with attracting new customers might negatively affect Group performance.

5) Revision of business forecasts

Change is rapid in the technologies and markets of the Internet sector, with which the Group is closely associated. The advertising business, meanwhile, is highly susceptible to overall economic trends.

The Group bases its forecasts for sales and costs largely on assumptions regarding usage rates for each of its services. If these assumptions prove to be inaccurate owing to unforeseen drastic changes in the business environment surrounding the Group, then actual business results might differ considerably from announced forecasts.

When the likelihood of considerable differences between forecast and actual results is recognized, the Group will announce revisions to its forecasts in a timely manner.

2. Influence of Legal and Institutional Changes

1) Potential legal restrictions

a. Legal restrictions related to the Internet

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 publishing 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 intermediates in distributing information over the Internet. Nevertheless, passage of a new law could start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business could be restricted owing to 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 enforced by related government divisions. Changes in the law or ordinances could influence the Group's business.

b. Potential legal restrictions on auction business

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services.

Effective September 2003, a revision of the law regarding the sale of used goods was promulgated in order to prevent criminal misuse of Internet auctions. 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 stipulates that when an operator is ordered by an investigative body to remove an auction listing based on suspicion of fraud, the operator must do so. The scope of the reformed law, however, is limited to items with which the Group is already in compliance. Furthermore, because 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.

On June 10, 2005, the Japanese government introduced its "Plan 2005 to Promote Intellectual Property Rights Strategy" to carry forward extensive measures to fight the infringement of intellectual property via the Internet. To help prevent damage to consumers and the owners of intellectual property, the plan includes such measures as compliance with the obligation to indicate the business operators subject to the Specified Commercial Transactions Law, instituting voluntary rules requiring compliance by auction houses, and closer linkage among the relevant government divisions and auctioneers.

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When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves properly and will revoke their IDs if they do not comply. Together with Internet auction operators DeNA and Rakuten, the Group has begun discussions with a view to formulating and enforcing voluntary restrictions, and will gradually seek cooperation from related government divisions. To educate those who list items for sale and potential buyers of those items, the Group has published on its Web site its "Intellectual Property Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures do not have the desired results and reports of illegal listings and fraud continue, new legislation could restrict commercial activities carried out via the Internet. Depending on the degree of restriction entailed by such legislation, this could have a significant impact on the Group's auction services.

c. Potential legal restrictions on other business

The Group offers the Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (securities brokerage service).

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which activities bring it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Recently, there have been an increasing number of cases where debtors demand refunds of interest paid in excess of the legal limit, claiming that the interest is undue profit for creditors. In our service, the Company intends to set interest rates within the range specified in the Interest Rate Restriction Law. However, in the case that the interest rates of our service exceed the legal limit for some reason, possible demands for refunds of the excess amount could negatively impact the Group's earnings.

In its Yahoo! Trading (securities brokerage service), the Group is under the supervision of the Financial Services Agency and is subject to the Securities and Exchange Law and rules set by the Japan Securities Dealers Association. Under

the Securities and Exchange Law, the Company registers as a securities broker with the Prime Minister. Although the Group is committed to compliance with these rules and regulations, it could be subject to penalties, such as a loss of registration, if, despite all our efforts, we should be found guilty of violating any of those laws and rules. Strengthening or revising the compliance system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

2) Potential litigation

a. Illegal acts by auction participants

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see note, below) for 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 addresses of users listing items on the auction site. In addition, the Group has set up a patrol team to eliminate the listing of illegal items in cooperation with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it is uncertain that illegal acts will not occur in the future. Therefore, the possibility of legal action being taken against the Group cannot be ruled out, whether or not the Group is responsible. In fact, users have already filed a suit for damage compensation against the Group. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group's ability to ensure proper management could lead to increased costs and therefore negatively impact earnings.

The Group has established a compensation system for users who have suffered damage owing to illegal activity. This could raise expenditures for the Group.

Note:

The escrow service consists of a company acting as an intermediate between the sell and buy sides of a transaction to ensure the smooth transfer of the item and payment. Provided by third parties and not the Company, this service varies according to the escrow company used. However, in general, the escrow company receives payment from the buyer and transfers it to the seller upon confirming the



buyer's receipt of the correct item in good condition. This service eliminates concerns that the item will not be delivered or payments not made.

b. Solicitation of securities transactions

In providing its Yahoo! Trading (securities brokerage service), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated securities houses (see note, below) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the securities houses, but the solicitation could mislead customers into losses. In such cases, the Company could be subject to demands for damage compensation from the securities houses, which temporarily pay damages to customers, depending on the situation.

Note:

"Affiliated securities houses" refers to firms that have signed a consignment agreement with the Company for securities brokerage.

c. Information distribution via the Internet

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 promote compliance 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 all advertisers, advertisers take full responsibility for the content of their advertisements. The Group also maintains the right to remove at any time Web sites listed on its Internet directory search services. In addition, the Group fully discloses its legal obligations in written contracts with the creators of those Web sites with clauses indicating the full responsibility of the creators for the content of their sites. For such services as bulletin boards, blogs, and auctions, where users can exchange 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 users. The Group maintains the right to remove content and will do so upon discovering Web content in violation of its contracts with users.

Through such internal regulations the Group prohibits illegal and slanderous content on its sites 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 information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. To protect minors from harmful content, the Group has implemented 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 sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

d. Third-party responsibility

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, measures are taken to ensure the understanding and agreement of customers through user rules or clauses posted on the Group's sites. Despite these efforts, it is possible that these measures will fail and that customers will demand compensation for damages from the Group that actually are the responsibility of a third party. This could result in additional costs to the Group or damage to its brand image, impacting negatively on performance.

The Group assigns all responsibility to the user and accepts no responsibility regarding Yahoo! Auctions, making no guarantees as to the selection, display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, 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 employing these services. Nor does the Group

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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 delay in the delivery of said goods. However, it remains possible that users of these services or other related parties will 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. Further, it is possible that the Group will be involved in legal disputes with users of these services outside Japan because of the treaty regarding the jurisdictions of international courts.

3) 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 might be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographic boundaries for the 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 on intellectual assets, such as copyrights and 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 be certain that such

problems will not occur. In such cases, the Group may be sued for compensation, required to pay substantial royalty fees, or be forced to cease providing certain services.

4) Changes in accounting standards

Against the backdrop of the recent trend to establish international accounting standards, the Group has made quick and appropriate changes to 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.

3. 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 Internet technology has broadened the horizons of Internet users and boosted convenience, it has also turned the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group is obligated to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures companywide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important



information. At the same time, to promote adherence to our in-house rules we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems, and access to stored data is tightly restricted. In April 2002, the Company obtained the right to use the TRUSTe mark (see Note 2) of the nonprofit privacy protection licensing institution TRUSTe. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification, which was developed by British Standards Institution. 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). As of March 31, 2006, Yahoo Japan Corporation and 13 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. Information Security Declaration

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

2. TRUSTe Certification Institution and the TRUSTe mark

TRUSTe is an independent, nonprofit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Web sites based on examinations 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 as part of the Japan Engineers Federation, a nonprofit organization, in recognition of the spreading use of the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms to 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.

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

a. Group efforts to protect personal information

The Group holds personal information to identify each individual customer in providing various services and electronic commerce.

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. 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. Recently, there have been several cases of personal information stored on personal computers

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being unknowingly leaked onto networks by virus-infected personal computers of users of file-sharing software called Winny. There is also a possibility that third parties will use passwords, for example, to fraudulently access systems or employ a method such as phishing (see note, below), whereby they illicitly obtain personal user information. Under such circumstances, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

Regardless of whether or not the Group is legally responsible, 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 a committee set up by the National Police Agency. By sharing information with related ministries, agencies, and industry associations, the Group is seeking to establish effective measures against this type of fraud.

Starting in April 2005, the Personal Information Protection Act and guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. Because the Group had already implemented in advance systems to ensure compliance with the regulations and requirements of the law and guidelines regarding handling of personal information, the enforcement of the law and guidelines is likely to have very little or no impact on Group operations.

Note:

Phishing fraud involves obtaining personal information by sending an e-mail purportedly from a financial institution or other 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, 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 recently, as well. The National Police Agency has posted warnings about phishing fraud on its Web site.

b. Risk of fraudulent use of credit cards

In providing services such as Yahoo! Wallet and Yahoo! ezPay, the Group has taken all practical precautions in protecting itself from such problems as the fraudulent use of credit cards as well as the leakage of sensitive personal information. However, there can be 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 a suit against the Group seeking compensation for losses, preventing the recovery of the funds reimbursed through Yahoo! ezPay, 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 other services of the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its Yahoo! JAPAN Card since the related services began. However, if such acts exceed 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.

c. Personal information management of business alliance partners and of stores registered on Yahoo! Shopping and Yahoo! Auctions

Personal information obtained through Group services is held within the Group in principle, and the Group is committed to taking all possible information protection measures as stated above. However, there are cases where the personal information management systems of business partners or stores registered on the Yahoo! Shopping and Yahoo! Auctions sites have a significant influence on the Group's efforts.

The Group intends to outsource the major portion of Yahoo! JAPAN Card services to take full advantage of available expertise in managing individual information and to maximize cost flexibility. Although the Group has been extremely careful in choosing its business partner for this service, the Group could be sued for damages should its business partner leak



personal information.

For Yahoo! Trading (securities brokerage services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by our securities-house partner. A portion of this information will be transferred to the Company in a way that complies with the Personal Information Protection Act. The Company has been extremely careful about the transfer and management of this information. If personal information is leaked from the Company or affiliated securities houses, the Company could be liable for damage compensation.

Previously, it was possible for stores on the Yahoo! Shopping and Yahoo! Auctions sites that had an independent contract with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we are now working to prevent personal information leaks by these stores by making it unnecessary for stores to handle credit card numbers, offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure when using store management tools, restricting downloading of order information including customer information, and broadening information security awareness. Despite the implementation of these measures, it is possible that incidents regarding information leaks will occur, resulting in a loss of Group credibility, regardless of whether or not it was responsible.

3) Network security

Although the Group has established appropriate security systems for ensuring the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such events. Recently, there have been several cases of specific Web sites or networks being targeted by huge volumes of data sent over a short period of time for the purpose of paralyzing the Web site or network. Although the Group has implemented effective security programs and

related measures as well as strengthened its monitoring system to deal with such attacks, there is no guarantee that all such 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.

4. International Conflicts, Terrorist Attacks, and Natural Disasters

In the event of outbreaks of international conflicts, 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's site, causing a disruption in planned advertising business. Or, for other reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstance arise whereby users would no 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 structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and its related companies or SBB, BBT, and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

In addition, Group operations are vulnerable to fire, power outage, damage to telephone networks, and other phenomena. Its network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other disasters. To cope with accidents and surges in Internet access, the Group intends to continue improving the infrastructure by duplicating and

Risk Factors

dispersing its systems and data center.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, an incident might occur for unforeseen reasons, making it 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.

5. Business with Involved Parties

1) Relationship with the SOFTBANK Group

a. Positioning within the SOFTBANK Group

As of March 31, 2006, SOFTBANK was the parent company of the Company, holding 41.1% of the Company's shares. As a holding company, SOFTBANK has a variety of 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, 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.

b. Alliance contracts and other arrangements with SBB and BBT

The Company has signed the following contracts concerning Yahoo! BB business with SBB and BBT, both subsidiaries of SOFTBANK. Yahoo! BB accounted for 11.2% of Group sales in the fiscal year ended March 31, 2006. Therefore, these contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: March 8, 2006 (original contract dated June 20, 2001)
Contract term: March 8, 2006–(valid until terminated)
Contracted parties: SOFTBANK BB Corp. and BB TECHNOLOGY Corp.
1) The Company, SBB, and BBT will jointly provide Internet access services using FTTH and DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting subscribers for Yahoo! BB services
* Operating the Yahoo! BB portal site
* Providing mail and Web site services
* Providing a fee-collection platform
3) Main responsibilities of SBB and BBT
* Providing ADSL and FTTH services 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
* From the ISP charge the Company takes ¥200 in exchange for service.

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract dated April 1, 2002)
Contract term: One year from April 1, 2004 (automatically renewed each year)
Contracted party: BB TECHNOLOGY Corp.
Incentives
* Acquisition incentives (100% upon verification of operational subscriber lines) Approx. ¥5,000–¥15,000 per application
* Continuing incentives Approx. ¥30–¥280 per month per continuing subscriber

Notes:

- Although the counterparty to the above business alliance contract and incentive agreement was in both cases SBB, as indicated in a previous note its operations were reorganized and split between SBB and BBT on December 1, 2005. Therefore, these contracts were changed to those shown above.
- As of April 1, 2005, the Company pays ¥2,400 per line to BBT after the first subscription fee is charged, sharing the cost of Yahoo! BB subscriber acquisition.

c. Dependence on SBB and BBT

The portion of Yahoo! BB business handled by SBB and BBT could indirectly but significantly influence Group performance. If SBB and BBT fail to complete construction on time and services to subscribers are delayed, the Group would be unable to account for projected sales on time and could lose business opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel service quickly and impact Group earnings.



d. Joint directorships

As of March 31, 2006, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK, as follows:

- * Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK part-time director)
- * Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK president)

Yahoo Japan Corporation president and CEO Masahiro Inoue has been a part-time director of SOFTBANK since June 2001. In addition, he sits on the board of another company in the SOFTBANK Group (excluding subsidiaries and affiliates of the Company) as a part-time director. Mr. Inoue has been engaged to sit on this board to offer advice on the strategic direction of its business, not to be involved in the business activities of this company. 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.

2) Business relationship with the Yahoo! Inc. Group

a. Licensing agreement 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 33.4% of the Company's shares as of March 31, 2006. The Yahoo! trademark, software, and tools (hereinafter referred to as the trademark) used in the operation of the Group's Internet 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 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 search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! 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! 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%

b. 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

Risk Factors

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.

c. Business tie-up with Overture

Based on the business tie-up with Overture, which is a part of the Yahoo! Inc. group, the Group's Sponsor Site sales have firmly expanded and become a larger proportion of overall advertising sales. The Group intends to further expand these advertising sales based on a continuing good relationship with Overture. However, should the business relationship change or some type of obstruction arise to the smooth operation of Overture, it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

Recently, a form of fraud misusing the system of Sponsor Sites has become a problem. Some fraudsters have taken advantage of the fact that the cost of Sponsor Site is based on the number of clicks, dishonestly increasing the number of clicks, and excessively charging advertisers. In the United States, there have been cases where advertisers that have fallen victim to this type of fraud have brought class action lawsuits against companies that offer this type of advertising product. In the future, the Group cannot rule out the possibility that such legal action will be taken against the Group and Overture. Such an event would damage our brand image and could have a negative impact on performance.

d. 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 startup and expansion.

3) Share distribution

The proportion of the Company's share distribution held by major shareholders is high. At March 31, 2006, SOFTBANK and Yahoo! Inc. held a total of 74.6% of the Company's shares. Recently, there has been some progress in reducing the proportion of nonfloat shares due to SOFTBANK's sale of a portion of its shareholdings. The Company has requested the cooperation of these major shareholders in this respect.

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.

6. Dependence on Specific Customers and Third Parties

1) 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 other than the involved parties described above.

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 advertising sales. In other businesses, also, the Group has major business transactions with specific companies among its sales customers, and these transactions account for a growing percentage of the Group's sales.

If there were 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.

2) Dependence on third parties

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 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.

7. Technological Innovation and Research and Development

1) 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 require close cooperation with Yahoo! Inc., which operates almost identical services in the United States, the center of innovation in Internet technologies. With this, the Group is constantly developing new technology to improve its services. The failure of either Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group might also bear an increasing financial burden from original development, including a rising level of expenditures for localizing work and preparing for the possibility that technological innovation in Japan will at some point surpass that in the United States, with new technologies being developed in Japan instead of in the United States.

2) Research and development

To respond to the growth and diversification of Internet use and maintain a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet customer needs. To that end, the Group is projecting substantial R&D expenses. However, these expenses could rise beyond those projections and, depending on the required development period, our competitiveness could

Risk Factors

be reduced despite our efforts.

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to changing market needs, organizational enhancement for service planning and for system development is also our focus. However, there is the possibility of failure in achieving targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than expected. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

In addition, the Group has introduced measures to respond to the increase in Internet access via mobile phones and other mobile terminals, which could result in larger expenditures for service development that could compress the Group's profits.

8. Group Business Operations

1) Maintenance and control of service quality

a. Acquisition of quality information and content

The Group offers and plans to continue offering Internet users quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content such as films and music. Failure to consistently provide high-quality information and content and/or to acquire content at a cost in the projected range could lower traffic and sales below expected levels, thereby subsequently impacting advertising revenue negatively.

b. Advertising guarantee

As already mentioned, advertising contract periods and page views on which an advertisement appears are guaranteed for

many of our products, and advertising fees are based on them. However, a failure to obtain the number of required page views owing to problems with the Internet connection environment or to similar system-based 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.

Moreover, the Group could fail to provide services that meet the needs of advertisers, which could result in loss of sales opportunities as well as reduced demand from advertisers, negatively impacting Group advertising revenues.

c. Equipment investment for quality service

To support expected business expansion and continue providing quality services to fulfill customer needs, 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 and reception over short periods. Consequently, the Group anticipates a growing need 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 of user inquiries. Further, 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 ensure that unnecessary cash outflows do not occur by closely considering costs and benefits, focusing on keeping system-development and equipment 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, insufficient and/or delayed effects of capital investments 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 invested facilities may be shorter than 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.

d. Diversification and new business

The Group plans to further diversify and enter new businesses to strengthen its operating base and provide quality services. To realize this goal, it is possible that the Group will have to incur additional expenses to employ new staff, expand and upgrade 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 could 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 investment expenses, which would significantly affect performance.

2) Internal control system

a. Operations and management

The Group has implemented stricter controls and operational standards for behavior so that problems related to improper conduct by employees or human operational errors are prevented or do not recur. Still, it is possible that such problems will occur in the future in terms of business management and control.

b. Human resource management as business expands

In addition to the enhancement of personnel and the organization for greater advertising sales and technology development, the Group must increase staff to respond to

business diversification 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.

Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

c. 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 will not motivate the participants in the plan but rather reduce their motivation and cause them to leave the Group.

d. Doing business with a large pool of unspecified customers

Along with the expansion of its 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

Risk Factors

system to improve business efficiency. Despite these measures, it is possible that 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.

It is also possible that the quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of 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.

e. 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 that 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.

The Group plans to curtail unrecoverable debt by rigorously evaluating the creditworthiness of individual Yahoo! JAPAN Card holders and monitoring their card use. However, it is possible that the Group will be unable to collect payments from cardholders to recover advances to the holders due to unrecoverable debt arising from declines in cardholder creditworthiness.

3) Consolidated Group operations

The Group has subsidiaries and affiliates of all sizes, and the degree of in-house management varies by size. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand. If these measures are not implemented in a timely manner, however, the Group's performance could be negatively affected.

Use of the Company's services or network as well as personnel support are essential to the operations of all of the services of its subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it is possible that it will become difficult to adequately provide such cooperative support owing to operational expansion of the Company and its subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several 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. Currently, relationships with 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.

9. Risk Related to Funds Procurement and Changes in Interest Rates

1) Yahoo! ezPay service

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

Since Netrust reimburses the seller of the item one to three business days after the buyer has made settlement by credit



card or Internet bank transfer, the subsidiary must 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 settlement cycles with the credit card companies' settlement banks as well as seeking methods of diversifying its sources of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible that 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.

2) Yahoo! JAPAN Card service

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 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.

10. Risk Related to Loans and Investments

1) Loans and investments

As of March 31, 2006, 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 pages 82 and 83. 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 impairment 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 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, engage in new investments by establishing companies, etc., or provide new loans to adequately provide 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 the future.

2) 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 SBB. The SPC is BB Modem Rental PLC., registered in the Cayman Islands. On July 31, 2003, the Group made a loan of ¥5.7 billion that will mature 42 months after that date.

Risk Factors

Finance scheme summary

- The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments. This amount is structured as senior and mezzanine loans and a *Tokumei Kumiai (TK)*, an anonymous partnership.
- 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 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 whereby SBB cannot adequately honor 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 exposure to the above finance scheme is limited to the principal and interest on its loan. The Group does not intend to commit to investing additional capital in the scheme.

If, in the 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.

As of March 31, 2006, the outstanding balance of the mezzanine loans was approximately ¥3,656 million, and the SPC had been making its payments without delay.

Note:

As a result of the previously mentioned reorganization of the operations of SBB, BBT is now the company that will be making any necessary credit compensation. However, this change has no actual effect on the above-mentioned risks to the Group.

Main Companies Invested in by Yahoo Japan Corporation

(As of March 31, 2006)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	7.9	5,572	Internet technical support services		
2	Vector Inc.	OSE Hercules	99/03/26	10.7	2,020	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	
3	SOFTBANK Internet Technology Fund No. 1	—	00/02/21	—	1,850			
4	e-Seikatsu Co., Ltd.	TSE Mothers	05/07/14	5.0	1,698	ASP solutions, network solutions	Alliance for Yahoo! Real Estate	Yes
5	Oricon Inc.	OSE Hercules	00/03/30	1.5	451	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping	
6	WEATHERNEWS INC.	TSE 1st Section	99/06/01	3.8	341	Weather observation, data collection and analysis, weather forecast, and related information services		
7	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	275	Internet sales of personal computers and audiovisual and home equipment	Yahoo! Shopping/Auctions tenant	
8	DigiOn, Inc.	—	05/08/23	7.5	200	Multimedia software for PCs, platform software, enterprise business solutions		
9	CyberMap Japan Corp.	—	98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
10	NNA JAPAN Co., Ltd.	—	05/10/25	14.8	80	Compiling and publishing regional economic and business information magazines in overseas markets; distributing news articles over the Internet in Japan		

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Shares in affiliated companies								
1	ValueCommerce Co., Ltd.	–	05/04/11	49.6	9,032	Affiliate program, Internet advertising distribution and management, Internet marketing consulting, server rental, hosting, and domain purchasing services	Alliance for affiliate marketing	Yes
2	All About, Inc.	Jasdaq	04/09/08	35.7	2,077	General information site based on expert guides; Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
3	CREO CO., LTD.	Jasdaq	05/01/26	36.9	1,607	System development; planning, development, and sale of software packages; and others	Alliance for system development	Yes
4	Fashion Walker Inc.	–	05/08/25	33.6	1,139	Operation of fashion goods shopping site	Alliance for shopping business	Yes
5	TV Bank Corporation	–	05/12/19	40.0	1,057	Streaming content services	Alliance for Yahoo! Streaming	Yes
6	YUME NO MACHI SOUZOU IINKAI CO., LTD.	–	04/10/20	25.5	339	Internet-based home delivery store information services centered on Demae Kan site; planning, development, and operation of e-commerce services	Alliance for Yahoo! Gourmet	Yes
7	Tavigator, Inc.	–	00/03/07	30.0	184	Internet travel agent and travel information services	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
8	INTAGE Interactive Inc.	–	02/10/01	49.0	168	Internet-based research services	Alliance for Yahoo! Research	Yes
9	Seven and Y Corp.	–	99/09/10	31.3	71	Internet-based sale of publications, CDs, and DVDs, and related services	Alliance for Yahoo! Shopping	Yes
10	JWord Inc.	–	05/01/28	33.4	0	“JWord” (Japanese keyword search) service	Alliance for Yahoo! JAPAN search services	Yes

Investments

1	Other investments	–	–	–	242			
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- 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.