Annual Report 2007

Yahoo Japan Corporation

YAHOO! JAPAN

Always with you Yahoo! JAPAN

Yahoo Japan Corporation

Annual Report 2007

Year ended March 31, 2007

Profile and History

Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have been a key driving force behind the rapid growth of Japan's Internet market. Offering Internet users a wide range of services, including search, information listing, community, and e-commerce, our site is the overwhelming leader in Japan in the number of users and page views.

We are constantly improving our "life engine" services designed to enrich the content and enhance the convenience of daily life. While continuing to focus on Internet advertising, members services, and e-commerce businesses, the Group's core revenue sources, we are also diversifying our earnings by incorporating user-generated content and developing our streaming content and mobile Internet businesses.

Effective April 1, 2006, the Group's former seven business segments, namely, (1) listing, (2) auction, (3) Yahoo! BB, (4) media, (5) shopping, (6) business solutions (BS), and (7) corporate common, were reorganized into three business segments, namely, (1) advertising, (2) business services, and (3) personal services, summarized below. Because this new business segmentation more accurately reflects the Group's actual operations as it continuously enhances and tailors services to meet changing demands in the rapidly expanding Internet market, it will enable greater transparency and consistency in the presentation of business results. At the same time, the Group implemented a divisional restructuring in an effort to more efficiently provide services.

The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of banner and text advertisements on the Yahoo! JAPAN Web site, the Sponsor Site paid search service, and advertisement planning and production services.

The Business Services segment includes non-advertising-related services for corporations. This segment derives revenue from fees and commissions for various information listing services, tenant fees and sales commissions from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, incentive fees for acquiring new subscribers to the Yahoo! BB broadband service, and fees for other information services.

The Personal Services segment consists of services to individual Internet users. Main revenue sources for this segment include Yahoo! Auctions system-use fees, Yahoo! Premium membership fees, Internet service provider (ISP) fees from Yahoo! BB subscribers, and sales of various kinds of content.

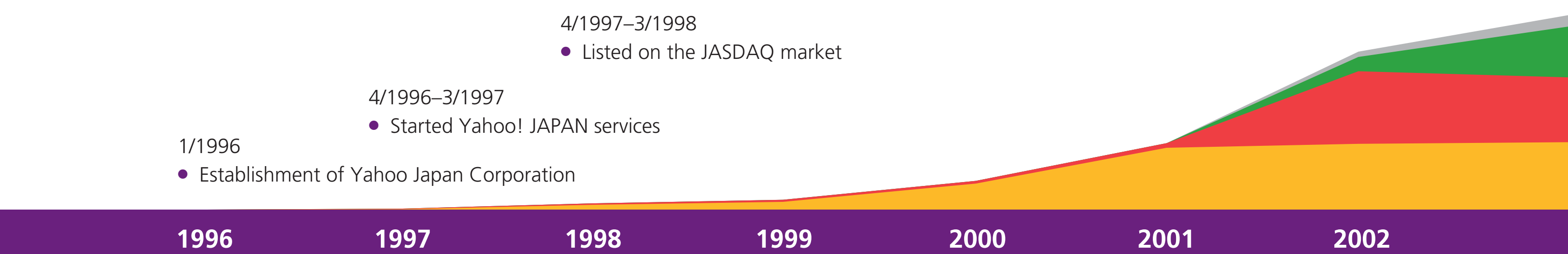
1/1996
- Establishment of Yahoo Japan Corporation

4/1996–3/1997
- Started Yahoo! JAPAN services

4/1997–3/1998
- Listed on the JASDAQ market

4/1999–3/2000
- Started online shopping service Yahoo! Shopping and online auction service Yahoo! Auctions

4/2001–3/2002
- Introduced Yahoo! Auctions personal identification system (currently Yahoo! Premium membership)
- Started comprehensive broadband service Yahoo! BB
- Made e-Shopping! Books CORP. (currently Seven and Y Corp.) a subsidiary



Important Considerations Regarding This Annual Report

1. Beginning with the fiscal year ended March 31, 2004 (fiscal 2003), Yahoo Japan Corporation (the Company) altered its method of booking sales. Figures in this annual report for fiscal years preceding fiscal 2003 have been revised to reflect this change in accounting method.
2. This annual report contains forward-looking statements. Readers are cautioned that a number of important factors could cause actual results to differ materially from those predicted.
3. For a detailed account of the factors that could affect performance, please see the section entitled Risk Factors. Readers should be aware that performance-affecting factors include, but are not limited to, those mentioned in the Risk Factors section.
4. The unauthorized use of the information or the data in this document is not permitted.

Net Sales Breakdown, by Business Segment

- Advertising
- Business Services
- Personal Services
- Other

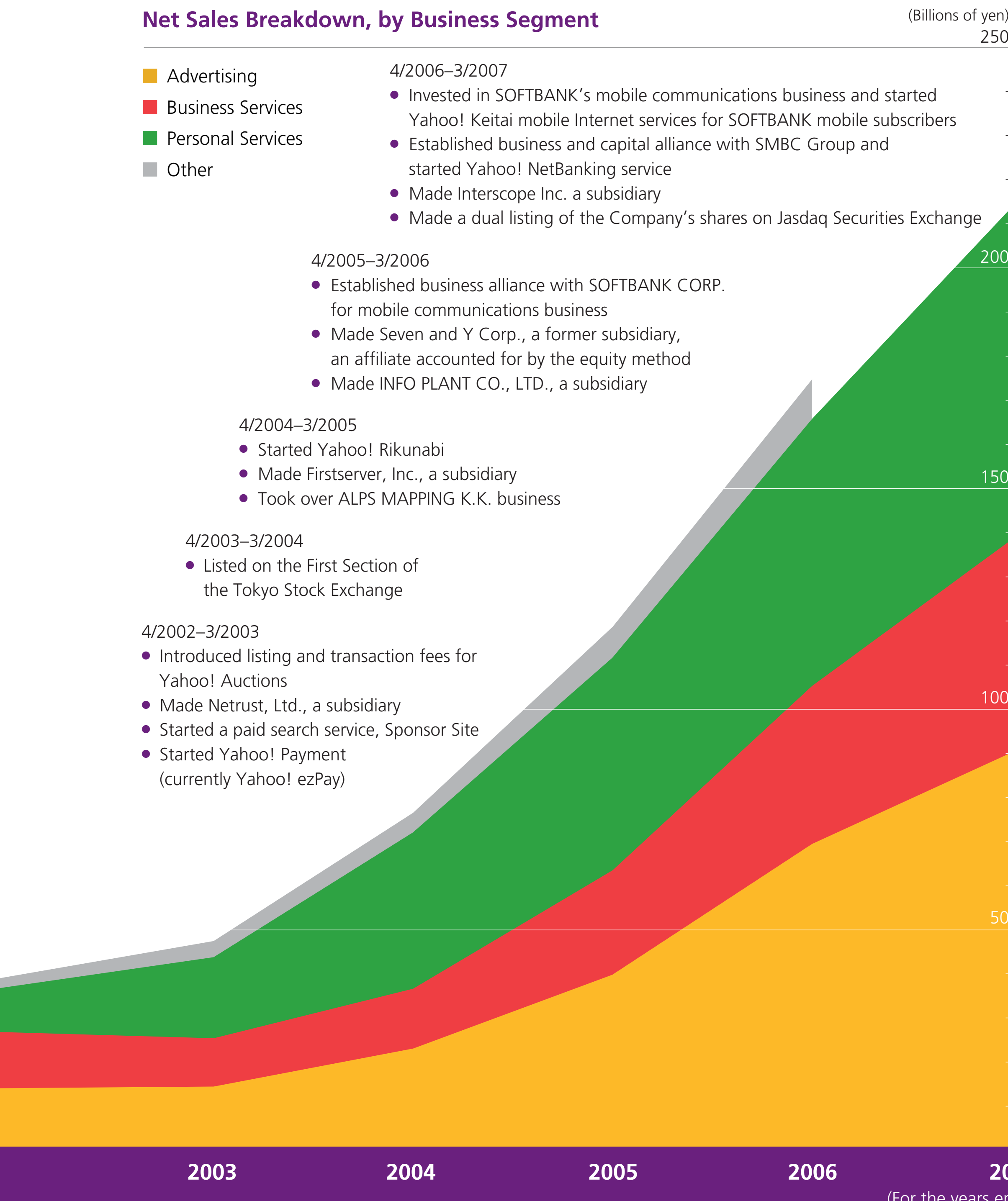
4/2006–3/2007
- Invested in SOFTBANK's mobile communications business and started Yahoo! Keitai mobile Internet services for SOFTBANK mobile subscribers
- Established business and capital alliance with SMBC Group and started Yahoo! NetBanking service
- Made Interscope Inc. a subsidiary
- Made a dual listing of the Company's shares on Jasdaq Securities Exchange

4/2005–3/2006
- Established business alliance with SOFTBANK CORP. for mobile communications business
- Made Seven and Y Corp., a former subsidiary, an affiliate accounted for by the equity method
- Made INFO PLANT CO., LTD., a subsidiary

4/2004–3/2005
- Started Yahoo! Rikunabi
- Made Firstserver, Inc., a subsidiary
- Took over ALPS MAPPING K.K. business

4/2003–3/2004
- Listed on the First Section of the Tokyo Stock Exchange

4/2002–3/2003
- Introduced listing and transaction fees for Yahoo! Auctions
- Made Netrust, Ltd., a subsidiary
- Started a paid search service, Sponsor Site
- Started Yahoo! Payment (currently Yahoo! ezPay)



Note:
The Other segment consists chiefly of the revenues of former consolidated subsidiary Seven and Y Corp., which became an affiliate accounted for by the equity method in February 2006.

35% of total sales
Personal Services
+23.2% year on year

23% of total sales
Business Services
+36.4% year on year

42% of total sales
Advertising
+30.5% year on year

Contents

Financial Highlights

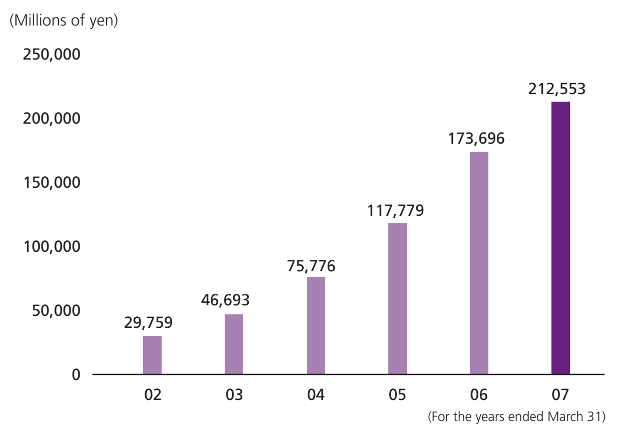
Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Years ended March 31:				
Net sales	**¥212,553**	¥173,696	¥117,779	**$1,800,531**
Operating income	**106,233**	82,133	60,187	**899,898**
Net income	**57,963**	47,091	36,521	**491,004**
Net income per share (Yen and U.S. dollars)	**959**	777	602	**8.12**
Dividends (Yen and U.S. dollars)	**96**	78	60.5	**0.81**
EBITDA	**115,743**	89,787	64,980	**980,460**
As of March 31:				
Total assets	**318,428**	190,975	130,244	**2,697,401**
Equity	**192,385**	142,455	96,060	**1,629,692**
Number of employees	**3,042**	2,534	1,713	
Cash flows	**(22,659)**	29,043	29,349	**(191,947)**
Operating activities	**72,710**	59,604	46,084	**615,927**
Investing activities	**(160,402)**	(27,533)	(17,119)	**(1,358,772)**
Financing activities	**65,033**	(3,028)	384	**550,898**
Ratios:				
Operating margin (%)	**50.0**	47.3	51.1	
Net income to net sales ratio (%)	**27.3**	27.1	31.0	
ROA (%)	**22.8**	29.3	34.3	
ROE (%)	**34.8**	39.5	46.9	
Equity / Total assets ratio (%)	**59.9**	74.6	73.8	

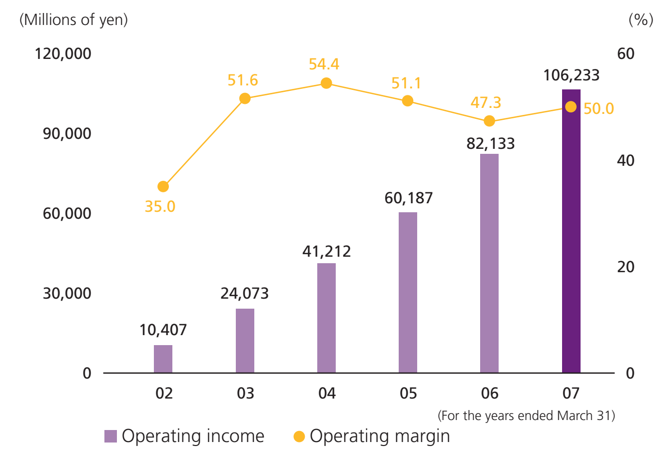
Notes:

- Yen amounts for the year ended March 31, 2007 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥118.05=U.S.$1, the effective rate of exchange at March 31, 2007.
- Net income per share and dividends for the years preceding the year ended March 31, 2007 have been retroactively adjusted to reflect stock splits.
- Equity as of March 31, 2007 is presented in accordance with the new accounting standard for presentation of equity, while the previous accounting standard has been applied for prior years. The change of accounting standard for presentation of equity is discussed in Note 2.o of the Notes to Consolidated Financial Statements.

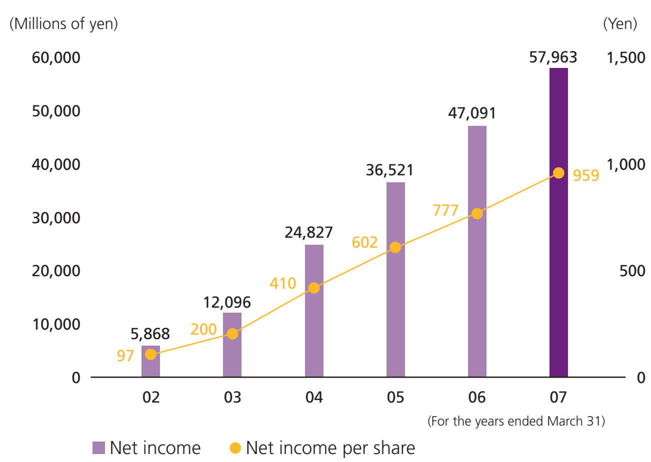
Net Sales



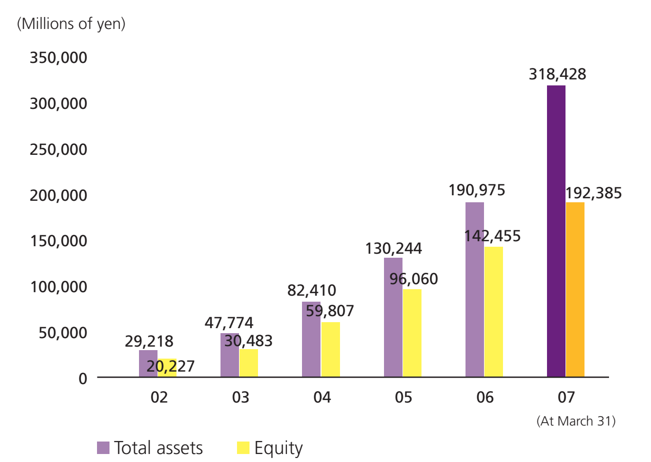
Operating Income / Operating Margin



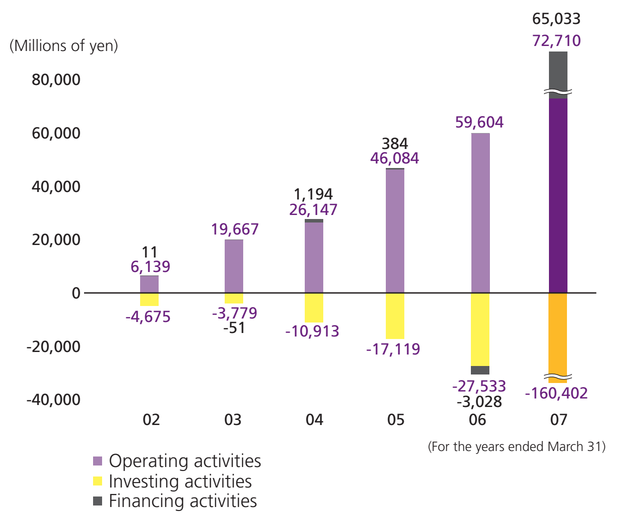
Net Income / Net Income per Share



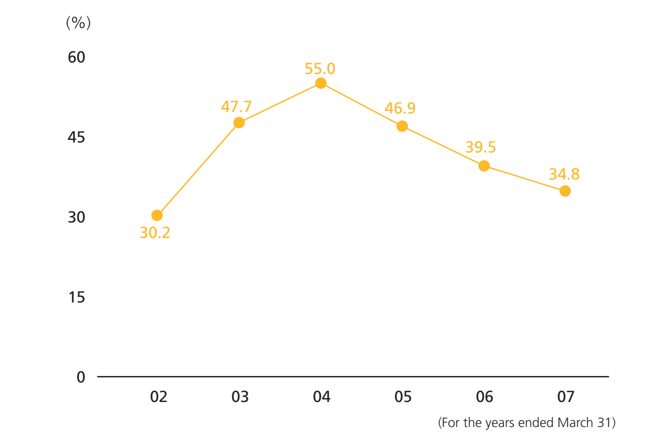
Total Assets / Equity



Cash Flows



ROE



To Our Shareholders

Masahiro Inoue
President & CEO
Yahoo Japan Corporation

Introduction

More than a decade has passed since Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) first began providing Internet services in the Japanese market. In the space of less than a decade, the Internet penetration rate has soared to 68.5% of all persons in Japan at the end of calendar year 2006, according to surveys by the Ministry of Internal Affairs and Communications. Now an indispensable element of daily life for most people in Japan, the Internet has become a mainstream advertising medium, already attracting higher advertising expenditures than radio, on a par with magazines, and moving steadily in the direction of newspapers and television.

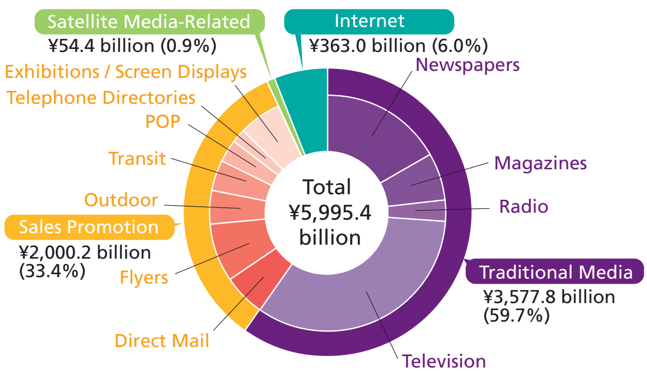
Leveraging the vanguard position of the Yahoo! JAPAN portal site, we have achieved phenomenal growth by providing an ever-widening range of services and content to a steadily expanding volume of users, effectively driving the growth of the entire Japanese Internet market. Looking forward, we still view the Internet as an exciting new market poised on the edge of dramatic change and explosive growth. Currently, the Internet is evolving into a super-convenient media form easily accessible by anyone, anytime, and anywhere via both personal computer (PC) and, increasingly, other Internet-enabled devices. Offering a growing range of services and content customizable to suit the preferences and needs of each individual user, the Internet is quickly becoming the preferred media choice for a growing portion of the population. These trends clearly imply significant growth in the Internet advertising and e-commerce markets moving forward, which in turn promises new and abundant profit-making opportunities for the Group.

Our services function as a “life engine” to enrich the content and enhance the convenience of daily life. By supplying the services and content that people want to as broad an audience as possible, we are dedicated to the ongoing development of Internet services in Japan.

Fiscal 2006 performance

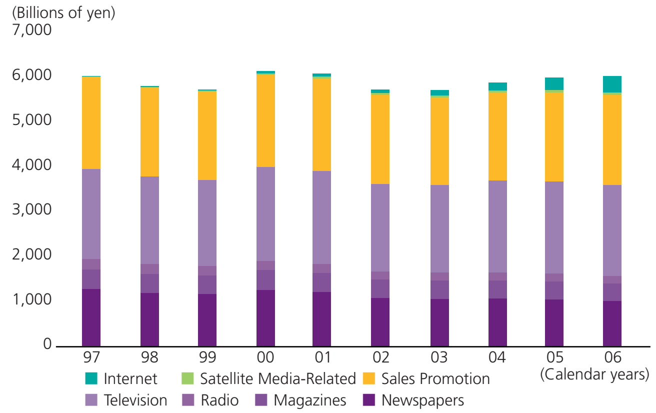
In fiscal 2006, the year ended March 31, 2007, the Group achieved its 10th consecutive year of record-high sales and profits. On a consolidated basis, net sales rose 22.4% year-on-year, to ¥212.6 billion, and operating income climbed 29.3% from the previous year, to ¥106.2 billion. Net income expanded 23.1% year-on-year, to ¥58.0 billion. The operating margin also improved, up 2.7 percentage points from the previous year’s result, to 50.0%.

Advertising Expenditures Breakdown, by Medium (Calendar Year 2006)



Source: *2006 Advertising Expenditures in Japan,* DENTSU INC.

Advertising Expenditures Breakdown, by Medium (10-Year Trend)



Source: *2006 Advertising Expenditures in Japan,* DENTSU INC.

1. Advertising: Internet advertising the fastest growing segment in an overall stagnant market

During the year under review, net sales of the Advertising segment increased 30.5%, to ¥89.2 billion. Operating income rose 35.0%, to ¥50.3 billion.

According to a recent report by DENTSU INC., calendar year 2006 marked the third consecutive year of expansion in the Japanese advertising market. Growth was hardly robust, however, with total advertising spending up just 0.6% from the previous year, to ¥5,995.4 billion. Sluggish growth was due to several factors, including a curtailment of advertising expenditures by many Japanese companies from the start of the fiscal year in April 2006. In addition, several prominent companies embroiled in recent scandals adopted relatively low media profiles during the year. The aggregate amount of advertising spending allocated during calendar year 2006 to the four traditional media—television, radio, newspapers, and magazines—actually dropped from the previous year, a clear sign of challenging business conditions in the overall advertising market. Bucking this general trend, the Internet advertising market demonstrated persistent strength in calendar year 2006, expanding 29.3%, to ¥363.0 billion. The Group's advertising-related sales, meanwhile, increased more than 40%, thus outpacing the growth rate of the Japanese Internet advertising market as a whole in calendar year 2006.

During the year under review, the Group focused on securing new demand and on expanding advertising placement opportunities. We intently applied our creativity to the development of innovative, high-appeal advertising products aimed at building brand awareness among users. We also introduced behavioral targeting advertisements, which are particularly effective for advertisers wanting to reach select audiences based on user attributes and Internet-usage histories. Sponsor Site, our paid search service that links advertisements to search results, posted solid sales growth, contributing a higher proportion of total advertising revenues than in the previous year.

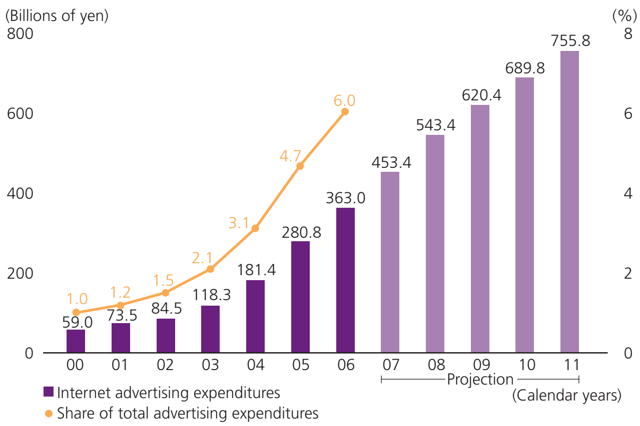
2. Business Services: Sharply higher revenues from information listing services and e-commerce

Net sales of the Business Services segment rose 36.4%, to ¥48.2 billion. Operating income increased 28.7%, to ¥19.3 billion.

Reflecting the ongoing shift of information listing services from print media to the Internet, fee-based revenues from our information listing services, particularly recruitment-related Yahoo! Rikunabi and Yahoo! Real Estate, showed strong growth and contributed significantly to the overall increase in segment sales.

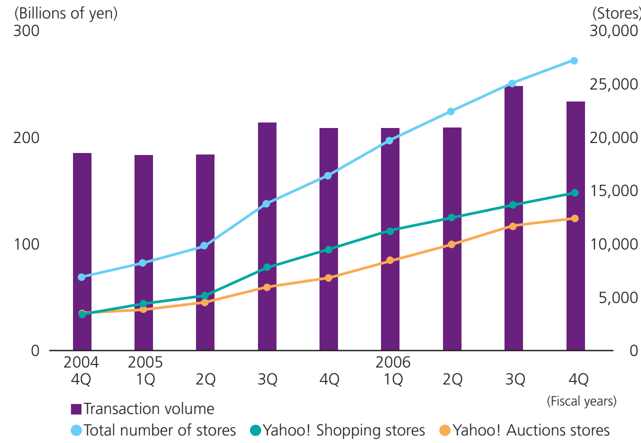
During the year, we worked to attract new stores to both the Yahoo! Auctions and Yahoo! Shopping sites by offering upgraded incentives as part of our promotional campaigns and by enhancing access to our store-opening guidelines page. As of March 31, 2007, the total number of registered stores on these two sites stood at 27,044, an increase of 10,721 stores, or 65.7%, over the figure at the previous year-end. Growth in revenues from tenant fees and sales commissions paralleled the surge in store numbers during the year. As a result of our efforts

Internet Advertising Expenditures and Share of Total Advertising Expenditures



Sources: DENTSU INC. and Dentsu Communication Institute Inc.

e-Commerce Transaction Volume and Number of Stores



Notes:
- Because former consolidated subsidiary Seven and Y Corp. became an affiliate accounted for by the equity method in February 2006, transaction volume on the Seven and Y site is eliminated beginning from that month.
- Beginning from the third quarter of fiscal 2005, new stores have been added to the total number of stores upon making the initial tenant fee payment. For prior periods, new stores were added to the total number of stores at the time of opening on the site.
- Transaction volume does not include fraudulent orders.

to generate increased mobile-based e-commerce activity, the mobile-based transaction volume on Yahoo! Shopping was 2.6 times higher than in the previous year. Our various seasonal promotional sales campaigns, meanwhile, proved highly effective. Total e-commerce transaction volume on Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets amounted to ¥899.9 billion in fiscal 2006, an increase of 14.4%.

Led by INFO PLANT CO., LTD., and INTAGE Interactive Inc., revenues from research-related services grew favorably. In a move to expand our Internet research business further, we made Interscope Inc. a consolidated subsidiary in February 2007. INFO PLANT and Interscope are scheduled to merge in July 2007 to form Yahoo Japan Value Insight Corporation.

3. Personal Services: Expanding the auction user base while maintaining the Yahoo! Premium membership base

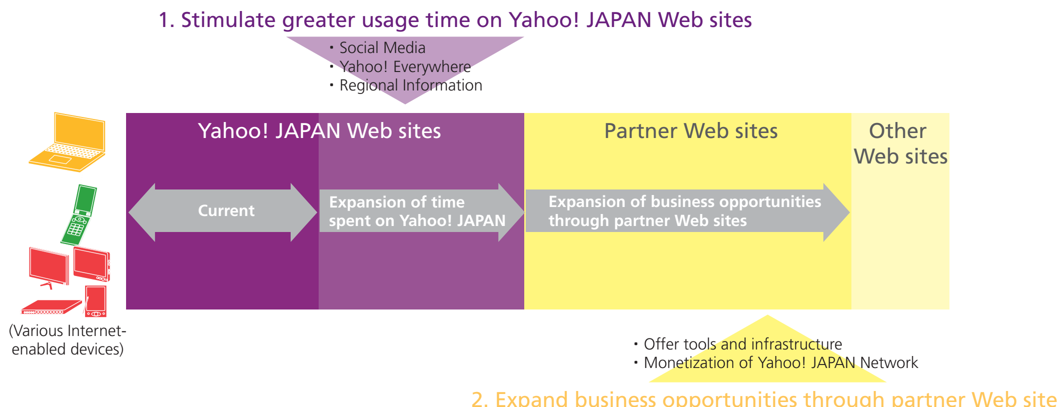
Net sales of the Personal Services segment rose 23.2%, to ¥75.3 billion. Operating income was up 26.3%, to ¥48.0 billion.

During the year, we continued to focus on expanding the user base for Yahoo! Auctions. Following upon a series of measures taken to relax the requirements for participation in Yahoo! Auctions, in October 2006 we kicked off a final campaign that effectively waived the requirement that Yahoo! Auctions bidders have a Yahoo! Premium member ID by granting the right of bidding to all users possessing a Yahoo! JAPAN ID. In addition, in July 2006 we ran an inaugural series of television commercials promoting Yahoo! Auctions. The result of these activities was a considerable increase in the number of Yahoo! Auctions bidders. Also during the year, we implemented enhanced security measures in an effort to further boost the confidence of all participants in our online auctions. Security initiatives undertaken during the year included a reinforcement of personal identification procedures for persons listing items for the first time and the implementation of comprehensive measures to remove illegal listings. In May 2006, we raised system-use fees only for items listed by individuals, but not for items listed on stores, from 3% to 5% of auction closing prices. Reflecting this hike, segment revenues generated by auction system-use fees in fiscal 2006 increased more than 30%.

Although new applications for Yahoo! Premium memberships decreased as a result of the relaxation of requirements for participation in Yahoo! Auctions, we managed to forestall an anticipated increase in churn rate and effectively maintained the size of the Yahoo! Premium membership base through campaigns offering a greater amount of value-added content to members, including exclusive discounts and online previews. The number of Yahoo! Premium member IDs totaled 6.19 million as of March 31, 2007, up 0.6% from the figure one year earlier.

The number of Yahoo! BB subscribers as of March 31, 2007, stood at 5.16 million, an increase of 2.3% from the figure at the previous fiscal year-end. Revenue from Internet service provider (ISP) fees was buoyant. Elsewhere, we continued to focus on sales of paid content services such as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling.

Long-term Group Strategies



Market shifts and long-term Group strategies

With Web 2.0 on nearly everyone's lips during the past year, the recent rise of user-generated content undeniably marks a fundamental change in the Internet usage modality. Meanwhile, a May 2006 Ministry of Internal Affairs and Communications survey of communications usage trends in Japan reveals that users accessing the Internet via mobile phones and other mobile devices outnumbered for the first time in calendar year 2005 users gaining access via PCs. At the end of calendar year 2005, the former group numbered 69.23 million, up 18.8% from the figure one year earlier, while the latter group totaled 66.01 million, up 2.9%.

Although the rate of mobile-based Internet access now exceeds that of PC access, the number of mobile Internet services actually used remains low, reflecting the fact that the large majority of mobile users in Japan access the Internet only to send and receive e-mail. Our launch during the year of Yahoo! Keitai services targeted at SOFTBANK mobile subscribers therefore focused on enhancing the convenience of using mobile phones to access a widening range of Internet services. Looking ahead, we see mobile phones becoming the device of choice for on-the-move access of the full range of Internet services.

Clearly, therefore, major shifts are under way in the Internet environment, both in the way that Internet services are actually utilized and in the devices that are employed to access them. In response, we are developing and implementing strategies with an eye to fully leveraging these shifts to the Group's business advantage in the coming decade.

1. Japan's No. 1 social media provider

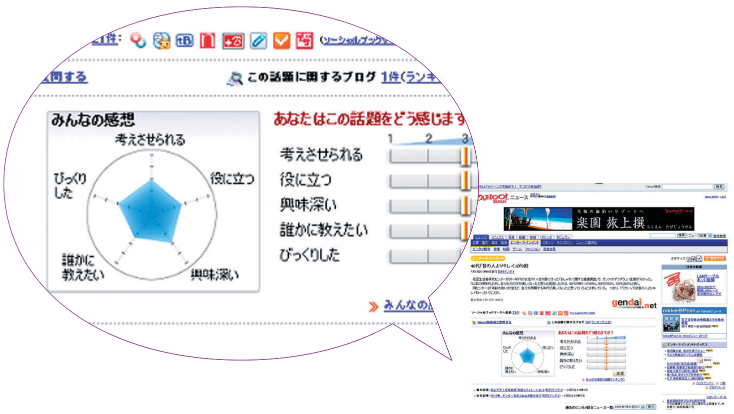
As a central element of our strategy to boost Yahoo! JAPAN service usage times across the board, we are promoting the Group's evolution into the top social media provider in Japan.

To date, the Internet has primarily adopted a mass-media usage paradigm whereby specified information providers publish information (head content) on the Internet for user viewing. At the moment, we are witnessing the proliferation of an entirely different usage style, referred to as Web 2.0, whereby users interactively utilize the Internet as a communication tool to provide a variety of information (tail content). In response to the Web 2.0 phenomenon, our Social Net business has already made significant progress toward expanding and improving user-generated content services. In January 2007, just two years after the launch of Yahoo! Blogs, the number of blogs established on the site surpassed the one million mark. In February 2006, we launched Yahoo! Days (beta version), our social networking service. Most recently, in April 2007 we introduced Yahoo! Videocast (beta version), which enables users to upload and share video clips.

In providing an expanding array of Social Net services, the Group is focused strategically on enhancing user satisfaction and thus extending service usage times. To this end, we are encouraging users of the more than 100 head content services offered by the Group to actively provide tail content for those services. As a result, we are able to supplement our trusted, high-quality head content with tail content individualized to match user attributes and according to relationships among users of our social net

Supplementing head content with tail content

A Yahoo! News screen shot, including a readers' comment chart —
an example of trusted head content supplemented with user-generated tail content



services. By offering each user individualized tail content in this way, the Group will advance significantly toward its goal of becoming the No. 1 social media provider in Japan.

Applying the same method of individualizing content according to user attributes and relationships with other users, we are able to provide valuable new information services. For example, in March 2007 we launched Wai Wai Map (beta version), a new community-type service that enables users to create original maps as well as to share and exchange map information with other users. In the example of Wai Wai Map, users generate information, which is then distributed to and utilized by other users. We plan to provide additional information services based on the same conceptual framework.

2. Yahoo! Everywhere

Our Yahoo! Everywhere concept, focusing on the expansion of Internet access opportunities, is a second key element of our strategy to boost usage times of Yahoo! JAPAN services. Yahoo! Everywhere emphasizes the use of a growing range of Internet-enabled devices other than PCs, including mobile phones, video-game consoles, televisions, and car navigation systems.

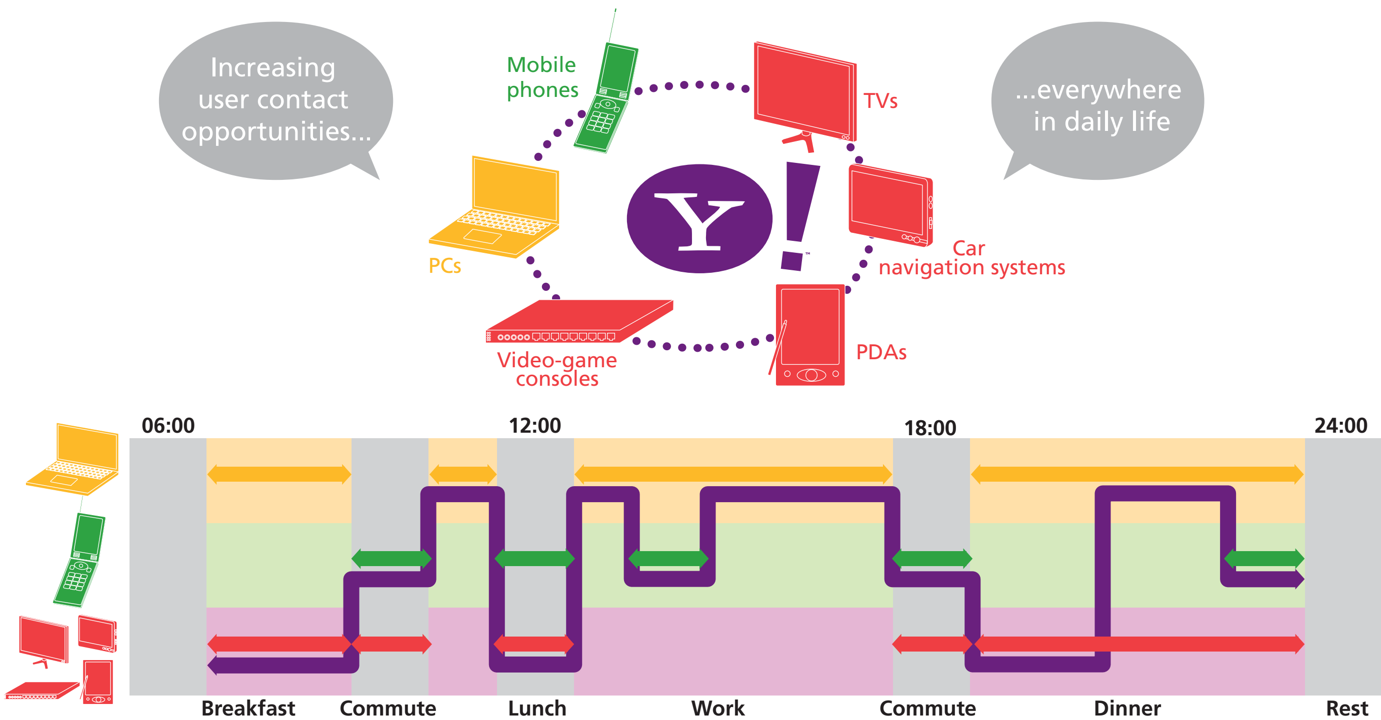
Slightly more than half of all persons living in Japan can already access the full range of Internet services via PCs. Looking ahead, our goal is to foster an environment in which users, unrestricted by either time or place, can easily access all Yahoo! JAPAN Internet services via a widening variety of non-PC devices. In such an environment, average daily Internet usage times per user are bound to increase, implying a dramatic rise in the overall usage of Group services.

Our Yahoo! Keitai mobile Internet services, a key element of the Yahoo! Everywhere concept, trace their roots to the entry into the mobile phone business of our parent company, SOFTBANK CORP., via its April 2006 acquisition of the former Vodafone Japan operations and subsequent formation of SOFTBANK MOBILE Corp. In October 2006, we started supplying Yahoo! Keitai mobile Internet services to SOFTBANK mobile subscribers. Since then, we have created an environment in which SOFTBANK mobile users can easily access a full range of Internet services comparable to those accessible via PC. To enhance access convenience, we have incorporated a mobile phone registration function that allows SOFTBANK subscribers who register for a Yahoo! JAPAN ID and password to be permanently logged in for instant access to Yahoo! Keitai services. In addition, some SOFTBANK mobile phones feature an exclusive "Y!" function key to facilitate quick and convenient access to our services.

While mobile phones have in recent years quickly become a widely used device for accessing the Internet in Japan, mobile-based Internet usage is still limited largely to e-mail and specialized services provided on the official Web site of each mobile carrier. Moreover, mobile Internet usage is concentrated among user groups that tend to access a delimited set of services, such as games or social network services, for extended time periods. In other words, the mobile Internet market differs significantly from

Yahoo! Everywhere Concept

Increased user access via various Internet-enabled devices will enhance the media value of the Internet.



the current PC-accessible Internet world, where many different types of users take full advantage of the entire range of Internet services.

Our investment in SOFTBANK's mobile communications business in April 2006 gives us a strong foothold in this key sector. In delivering a full range of mobile Internet services and at the same time enhancing the convenience of mobile Internet usage, we aim to forge a seamless mobile Internet environment encompassing not only SOFTBANK's services but also those offered by other carriers. Ultimately, we intend to forge an entirely new mobile Internet market comparable in size to the current PC-accessible Internet universe.

In addition to services for the mobile phone sector, we have already begun to supply services for other types of non-PC devices. In March 2007, we began providing data from Yahoo! Gourmet to Nissan Motor Co., Ltd., for information services linked to Carwings vehicle navigation systems. Also, in April 2007 we started to provide content-based services for Nintendo Co., Ltd.'s Wii video-game consoles and Sony Corporation's BRAVIA large-screen LCD television sets.

With their world-leading technological capabilities, Japanese manufacturers of mobile communications devices and home information appliances are well-positioned to take the lead in incorporating Internet connectivity into their products. By continuing to establish cooperative relationships with Japanese device and electronics manufacturers, the Group remains strategically aligned to secure a dominant position in the market for Internet services accessible via such products, comparable to the position we enjoy in the PC-accessible Internet market.

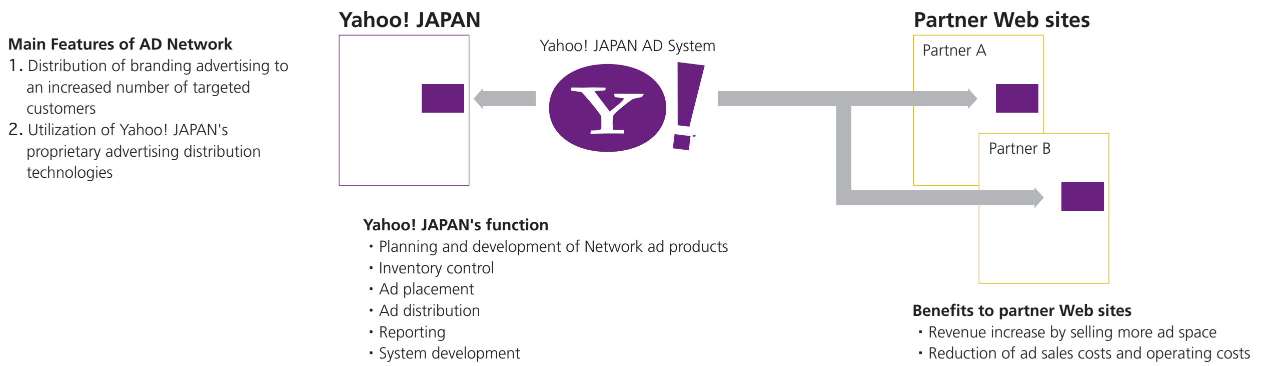
3. Regional information services

A third element in our strategy to boost usage times of our services focuses on offering regional information services alongside our nationwide information services provided to date. We are developing such regional information services based on mapping information supplied by Group subsidiary ALPS MAPPING K.K.

By supplying a region-specific Internet usage platform ideal for local businesses within each specified region, we expect to forge a new advertising market serving the many small- and medium-sized local advertisers for whom online advertising

AD Network

Creating an extended network of advertising space on partner Web sites and on Yahoo! JAPAN will boost the advertising media value of AD Network.



opportunities have been limited to date. Given the nature of this regional Internet platform, in particular, the physical proximity of users and business advertisers within a specific region, we expect it to be a highly effective advertising vehicle.

Meanwhile, a new legal requirement that all new 3G mobile phone models sold in Japan from April 2007 be fitted with global positioning system (GPS) locators represents an opportunity to fully leverage this technology to the benefit of our regional information services. GPS mobile phone tracking will enable the delivery of relevant information, including related advertising, automatically calibrated to the real-time location of each mobile phone user.

4. Yahoo! JAPAN Network

As another element of our overall strategy, we are making ongoing efforts to link Yahoo! JAPAN sites to partner Web sites with the goal of making contact with users visiting sites other than Yahoo! JAPAN. In building an extended Yahoo! JAPAN Network, we expect to achieve greatly expanded usage rates across the entire network, including all partner Web sites.

According to survey data published by NetRatings Japan, Inc., the reach of the Group's portal site in March 2007 was 87.3%, far ahead of competitor sites. The same survey also showed that while many users who access the Yahoo! JAPAN site actually remain on the site for significant periods of time, a large number are only light users. In cooperation with partner Web sites, we are pursuing a number of initiatives to create and maximize profit-making opportunities based on users' time spent on non-Group Web sites.

(1) AD Network

The Group is teaming up with other Web site operators to create an extended network of advertising space, marketed in Japan as AD Network, with potentially significant appeal to advertisers. Linking up in this way with sites that have a smaller reach boosts their advertising media value because advertisers can reach more potential customers over the entire Network. In January 2007, we began distributing advertisements to 21 of the roughly 70 companies that provide stories for Yahoo! News. In February 2007, we began distributing behavioral targeting advertisements over the Network. Because the analysis of Internet-usage histories is a critical factor in behavioral targeting advertising, we intend to leverage the Internet-usage data accumulated by the various Yahoo! JAPAN services. By applying the Group's proprietary online advertising technologies in an effort to refine behavioral targeting advertising, we expect to boost AD Network's advertising media value.

(2) Acquisition of Overture K.K.

In April 2007, we reached an agreement to exchange a non-binding memorandum of understanding with Yahoo! Inc. prior to acquiring shares in Yahoo! Inc. subsidiary Overture K.K. with the intention of making Overture a subsidiary of the Company. Posting excellent results since it began supplying paid search services in Japan in 2002, Overture has secured a dominant share of the paid search market by offering services in collaboration with the Group and other Overture partner sites. By making Overture a subsidiary of the Company, we will be able to join forces in service development and sales activities. As a result, we expect to offer advertisers in the Japanese market a highly effective online ad placement service.

Through AD Network and the acquisition of Overture, we aim to further reinforce our advertising business by fully leveraging an extended advertising distribution network spanning not only paid search but also banners and other advertisements.

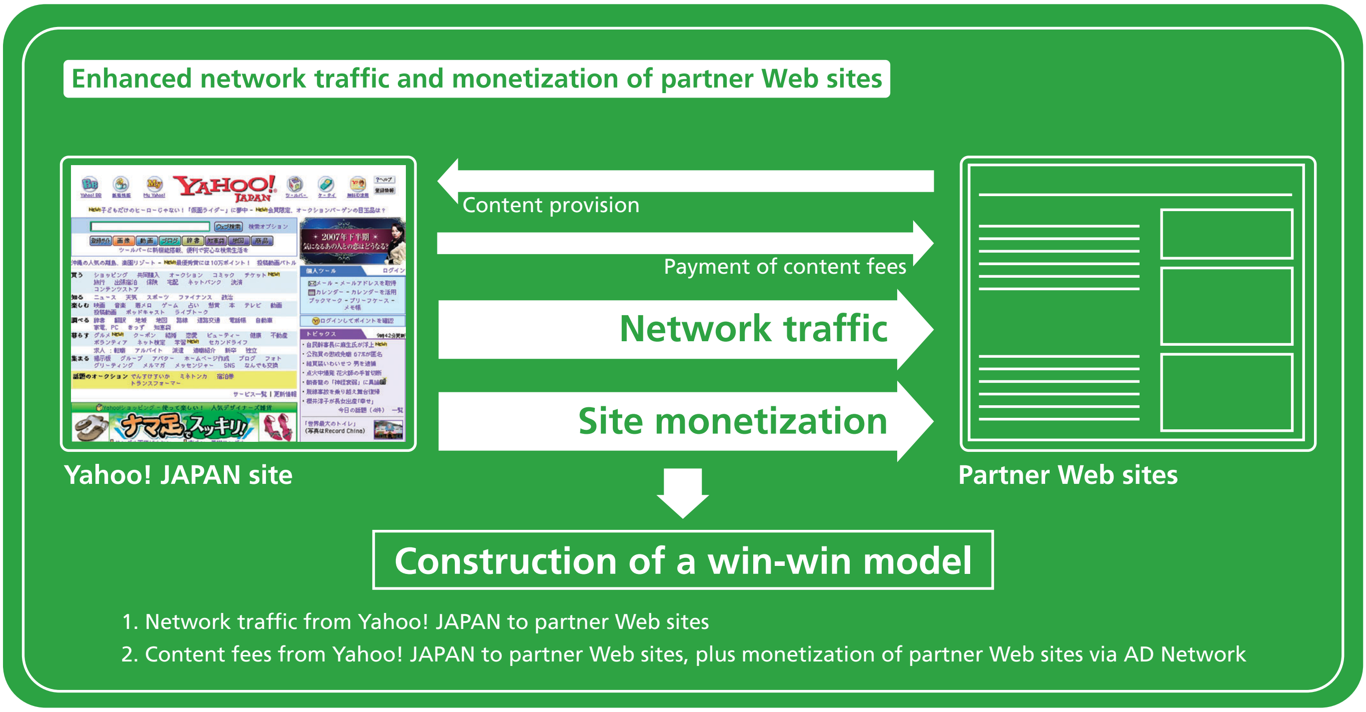
In conclusion

By responding swiftly and effectively to the ongoing changes in the expanding Japanese Internet market, the Group aims to achieve continuous sales and earnings growth over the medium and long term. We will accumulate retained earnings to fund investments for strengthening the corporate structure and undertaking activities to promote future business development. Recognizing the importance of returning profits to shareholders, management also will continue to focus on the goal of producing a profit each year while at the same time paying dividends commensurate with the Group's financial performance. For fiscal 2006, we declared a cash dividend of ¥96 per share, thereby achieving our target of a 10% payout ratio of consolidated net income. Taking into account the 2-for-1 stock split on April 1, 2006, this figure represents year-on-year dividend growth of 23%.

The Group's shares were listed on the First Section of the Tokyo Stock Exchange in October 2003. In February 2007, we successfully dual listed on the Jasdaq Securities Exchange. This dual listing represents not only expanded trading opportunities but also a diversification of the risk that trading become excessively concentrated on one security exchange. We therefore expect that our JASDAQ listing will support investors' positive assessments of the Group's stock as a stable, attractive issue.

In faithfully carrying out the Group's primary mission of providing useful and valuable Internet services and content accessible by anyone, anytime, and anywhere, we hope to earn the trust of all stakeholders, including our users, affiliated business partners, suppliers, and shareholders. On the strength of that trust, we can be certain of achieving sustained growth in the years to come. Moving confidently ahead, we look forward to your continued understanding and support.

Masahiro Inoue
President & CEO
June 21, 2007



Building a Yahoo! JAPAN Network

Toward greater network scale and improved site monetization

According to recent survey data published by NetRatings Japan, the Yahoo! JAPAN portal site achieved a reach of 87.3% in March 2007 with user numbers totaling 39.95 million, making it far and away the leading portal site in Japan. The same survey data also revealed that the average user spent 3 hours and 23 minutes per month on the Yahoo! JAPAN site. Although this figure was again the highest of all sites surveyed, it represents only about 16% of the average user's total monthly Internet usage time of 18 hours and 34 minutes. While many users access the Yahoo! JAPAN site frequently, they in addition access a certain number of other sites regularly and access a great many other sites occasionally. As a result, the average Internet user in Japan spends roughly 84% of total online time on sites other than those offering Group services.

Against this backdrop, we are currently engaged in proactively linking the Yahoo! JAPAN site to selected partner sites with the goal of building an extended Yahoo! JAPAN Network. As we expand the scale of the Network, we expect to achieve concomitant increases in total usage time, number of page views, and number of unique browsers across the Network. As a result, the Network's advertising media value will also grow. By distributing advertising over the Network or offering partner sites access to such transaction settlement tools as Yahoo! Wallet, we intend to improve the monetization of traffic on partner sites. In building a Yahoo! JAPAN Network, therefore, we aim both to broaden our own business and to help our partner sites grow their businesses, as well.

We are developing the Yahoo! JAPAN Network as a bundle of several diverse networks. The Yahoo! Media Network, for example, mainly comprises traditional-media sites, such as newspapers' Web sites. The Yahoo! Publisher Network, on the other hand, comprises smaller sites, such as blogs. In addition to such types of networks, we are modeling other networks upon Group service formats, such as a network for e-commerce sites. By distributing advertising over each of these various networks or providing transaction settlement tools, the Group intends to create network environments in which partner sites can effectively establish and expand their services.

AD Network system: Exploiting the Network for improved site monetization

Many Group services are built around a wealth of diverse content supplied by a wide range of information providers. For example, Yahoo! News brings together various formats and genres of news sourced from approximately 70 information providers, including leading Japanese and overseas news agencies, regional newspapers and TV channels, entertainment and sports news broadcasters, and specialized technology magazines. Under the traditional business model, the Group pays fees to information providers for the content supplied to our site pages. Advertising sales revenue is then generated by selling space on those pages to advertisers.

Because our Yahoo! JAPAN Network will be built on an alliance with partner Web sites, including live links in the case of the aforementioned information providers, users who want more in-depth information about a specific news item on the Yahoo! JAPAN site will be just a single click away from the relevant partner site. This will not only boost user convenience and satisfaction but also generate increased traffic over the entire Network.

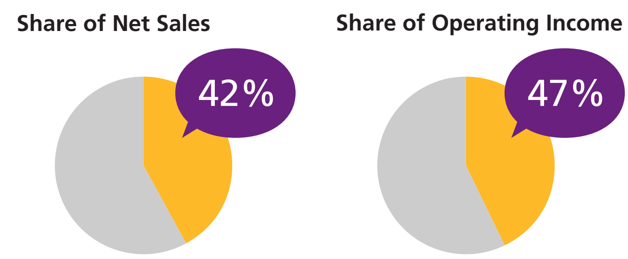
Once the Yahoo! JAPAN Network is in place, our AD Network system will effectively transform it into an extended network of advertising space. AD Network is our system for distributing banner and other types of advertisements from Yahoo! JAPAN to partner sites on the Network, thereby creating new opportunities for both the Group and partner sites to boost advertising sales revenues. Because of the limited user reach of independent sites, certain site pages are difficult to sell to advertisers. As a result of the AD Network system's ability to fully exploit the Network's vastly extended user reach, our partner sites will be able to more easily sell advertising space on such pages. This is the AD Network system's site monetization effect. The Group, meanwhile, benefits from the enhanced overall media value of the Network as it grows in scale owing to the additional page views and unique browsers on all partner sites. Increased network scale will be particularly critical in behavioral targeting advertising, an area of potential future expansion, especially considering that a larger network can reasonably be expected to yield a broader range of target groups based on user attributes and Internet-usage histories.

Overture: Contributing partner sites and paid-search advertising

In April 2007, a non-binding memorandum of understanding was exchanged with Yahoo! Inc. regarding the conversion of Overture into a subsidiary of the Company. Offering services in collaboration with the Group and other Overture partner sites, Overture is currently building its own advertising distribution network in Japan. By making Overture a Group subsidiary, we will be able to offer distribution both of paid search and of banners and other advertisements not only to Yahoo! JAPAN partner sites but also to Overture partner sites, as well. As a result, we anticipate enhanced profit-making opportunities across the Network, particularly with regard to the monetization of partner sites.

Advertising

The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of banner and text advertisements on the Yahoo! JAPAN Web site, the Sponsor Site paid search service, and advertisement planning and production services.



Fiscal 2006 segment overview

Net sales of the Advertising segment in fiscal 2006 increased 30.5%, to ¥89.2 billion, while operating income rose 35.0%, to ¥50.3 billion.

The Japanese advertising market recorded growth of just 0.6% in calendar year 2006. Market sluggishness reflected general concerns about higher oil prices and stock market weakness in Japan, which prompted many companies to curtail advertising expenditures from the start of the fiscal year in April 2006. In addition, several prominent companies embroiled in recent scandals adopted relatively low media profiles during the year. The aggregate amount of advertising spending allocated during calendar year 2006 to the four traditional media—television, radio, newspapers, and magazines—actually dropped from the previous year, testifying to challenging business conditions in the overall Japanese advertising market. In bold contrast, the Internet advertising market demonstrated persistent strength in calendar year 2006, expanding 29.3%, to ¥363.0 billion, or 6.0% of total advertising expenditures in Japan, compared with 4.7% in calendar year 2005. The Group's advertising-related sales, meanwhile, grew more than 40% in the same period, thus outpacing the growth rate of the entire Japanese Internet advertising market.

Against this market backdrop, the Group focused on capturing new demand for and boosting per-client spending on branding advertisements during the fiscal year. To this end, we tightened relationships with advertising agencies and offered a wide range of products and plans, all the while concentrating our creative efforts on developing innovative, high-appeal advertising products aimed at building brand awareness among users. For advertisers desiring multi-media solutions, we carried out the Internet component of multi-media campaigns also including related TV commercials and magazine advertisements. Through these and other activities during the year, we worked to extend the reach of Internet advertising and, as a result, boost the Internet's advertising media value.

The Group also emphasized products leveraging online advertising's unique targeting capabilities, which give the Internet a distinct advertising advantage vis-à-vis the traditional mass media. Specifically, in fiscal 2006 we introduced behavioral targeting advertisements, which are particularly effective for advertisers wanting to reach select audiences based on user attributes and Internet-usage histories. Demand for behavioral targeting advertisements was particularly strong from National Clients—defined as major companies that advertise actively in various media—in such sectors as automobiles, entertainment, and real estate. In addition, rising demand from advertisers desiring exposure in specific regional markets contributed to higher segment sales during the year.

Sponsor Site, the Group's paid search service that links advertisements to search results, also registered solid sales growth in fiscal 2006. Growth-boosting factors included a smaller-than-normal drop-off in user activity during the year-end holiday period as well as unusually high demand from advertisers in certain sectors toward the March 31 fiscal year-end.

Breakdown of Advertising Sales, by Industry, of Yahoo! JAPAN and Traditional Mass Media

(Calendar years)

Industry categories	Yahoo! JAPAN 2004	Yahoo! JAPAN 2005	Yahoo! JAPAN **2006**	Traditional Mass Media 2006
Cosmetics/Toiletries	3.9%	6.7%	**7.0%**	10.0%
Foodstuffs	1.7	2.4	**3.3**	8.2
Finance/Insurance	21.4	21.6	**20.4**	8.0
Transportation/Leisure	4.9	4.9	**6.0**	7.9
Beverages/Cigarettes	3.4	5.3	**4.3**	7.6
Information/Communications	18.3	13.3	**14.4**	7.4
Distribution/Retailing	0.6	1.3	**0.9**	6.4
Automobiles/Related Products	7.1	10.0	**9.0**	6.4
Pharmaceuticals/Medical Supplies	1.5	1.1	**1.5**	4.9
Real Estate/Housing Facilities	7.0	8.4	**9.5**	4.5
Hobbies/Sporting Goods	2.8	3.1	**2.9**	4.0
Publications	1.4	1.3	**1.0**	4.0
Food Services/Other Services	17.0	11.8	**9.6**	3.6
Education/Medical Services/Religion	4.0	3.1	**1.7**	3.5
Others	5.0	5.7	**8.5**	13.6
Total	100.0%	100.0%	**100.0%**	100.0%

Notes:
• Traditional mass media include television, radio, newspapers, and magazines.
• Sponsor Site revenues are not included in Yahoo! JAPAN breakdown.
• Traditional mass media breakdown taken from *2006 Advertising Expenditures in Japan*, DENTSU INC.

Business outlook and strategy

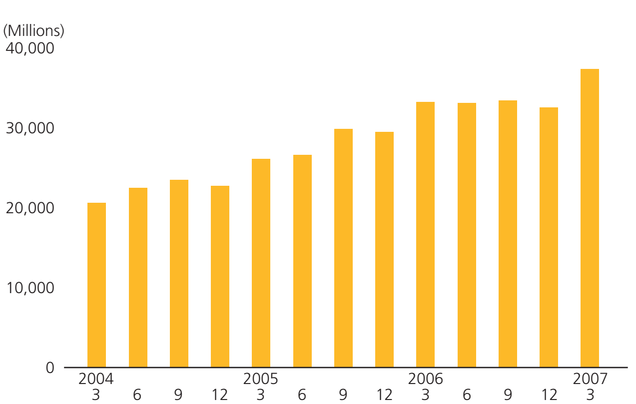
According to data published in April 2007 by Dentsu Communication Institute, the Japanese Internet advertising market is set to more than double in size over the next five years, reaching ¥755.8 billion in calendar year 2011. To maximize sales growth in this promising market environment, the Group is aggressively developing and implementing a series of initiatives, including the following:

- Through our Yahoo! Everywhere concept, focus on the expansion of Internet access opportunities by encouraging the use of a growing range of Internet-enabled devices other than PCs, including mobile phones, video-game consoles, televisions, and car navigation systems;
- introduce more effective methods of cooperating with advertising agencies;
- leverage online advertising's unique targeting capabilities to boost the value-added component of Internet advertising products; and
- incorporate greater creativity into our advertising products to enhance their value.

Looking forward, the Group plans to promote third-party distribution of branding and other types of advertisements over an extended advertising network in Japan. Also, we intend to reinforce our paid search advertising services through the acquisition of Overture. For further details, please refer to a related discussion appearing on page 13 of this report.

In addition to the above initiatives, the Group is working in cooperation with other Internet-related companies, advertisers, and advertising agencies to promote the development and adoption of criteria for quantitatively assessing the effectiveness of online advertising. The ultimate goal of these efforts is to raise the advertising media value of the Japanese Internet.

Monthly Page Views

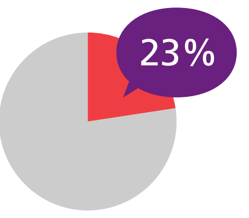


Note:
Beginning from January 2007, the method for calculating page views is based on users' browser exposures calculated using CSC (Client Side Counting), whereas previously it was based on distributions from Web servers.

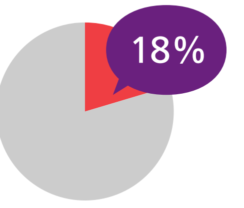
Business Services

The Business Services segment mainly consists of non-advertising-related services for corporations. This segment derives revenue from fees and commissions for various information listing services, tenant fees and sales commissions from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, incentive fees for acquiring new subscribers to the Yahoo! BB broadband service, and fees for other information services.

Share of Net Sales



Share of Operating Income



Fiscal 2006 segment overview

Net sales of the Business Services segment in fiscal 2006 rose 36.4%, to ¥48.2 billion, while operating income increased 28.7%, to ¥19.3 billion.

Reflecting the ongoing shift of information listing services from print media to the Internet, fee-based revenues from our information listing services, particularly recruitment-related Yahoo! Rikunabi and Yahoo! Real Estate, showed strong growth in fiscal 2006 and contributed significantly to the overall increase in Business Services segment sales.

During the year, the Group worked to attract new stores to both the Yahoo! Auctions and the Yahoo! Shopping sites. To this end, we waived initial set-up fees and monthly tenant fees for a specified period, offered upgraded incentives as part of promotional campaigns, and enhanced user access to our store-opening guidelines page. As a result, the total number of registered stores on these two sites stood at 27,044 as of March 31, 2007, an increase of 10,721 stores, or 65.7%, over the figure at the previous year-end. Growth in revenues from tenant fees and sales commissions moved in line with the surge in store numbers. Reflecting our efforts to generate increased mobile-based e-commerce activity, the mobile-based transaction volume on Yahoo! Shopping in fiscal 2006 was 2.6 times higher than in the previous year. Various seasonal sales promotions, in particular, proved highly effective. Total e-commerce transaction volume on Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets amounted to ¥899.9 billion in fiscal 2006, an increase of 14.4% over the previous year's result.

Led by INFO PLANT and INTAGE Interactive, revenues from research-related services grew favorably. In a move to expand our Internet research business further, we made Interscope a consolidated subsidiary in February 2007. INFO PLANT and Interscope merged in July 2007 to form Yahoo Japan Value Insight Corporation.

Business outlook and strategy

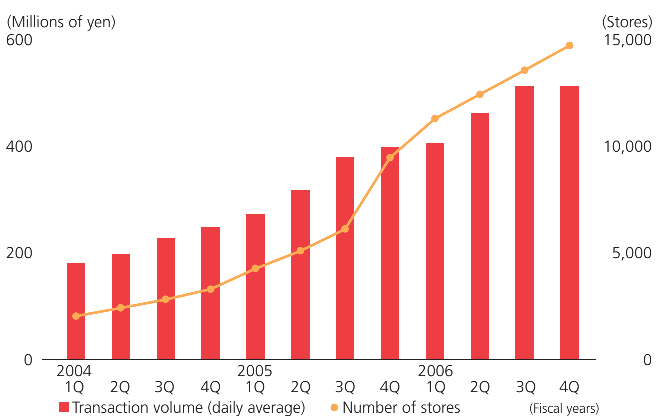
Alongside our nationwide information services provided to date, the Group plans to offer a growing range of regional information services with enhanced usefulness to individual users in specific locations. As part of this initiative, in August 2006 Yahoo! Maps became the first online map service in Japan to be updated on a daily basis, thereby benefiting users with improved map accuracy. In the mobile version of regional information services, GPS-based tracking will enable the delivery of relevant information automatically calibrated to the real-time location of each GPS-installed mobile phone user. By offering a broadening range of upgraded regional information services, the Group expects to forge a new advertising market serving the many small- and medium-sized local advertisers for whom online advertising opportunities have been limited to date. In addition, we believe that service usage times will rise in line with the Group's increasing provision of regional information services.

In the business-to-consumer arena, the Group intends to increase e-commerce transaction volume not only by attracting new store registrations but also by boosting the average per-store transaction volume. To this end, we will offer site development

and other consulting services to help storeowners build a more effective online presence, in addition to organizing various sales promotion activities.

Elsewhere in the segment, the Group aims to cultivate the customer base for corporate solution services by expanding and upgrading service offerings with an eye to promoting cross-selling opportunities. Currently, the Group's corporate solution services include Yahoo! Business Express, which assesses the suitability of independent business sites for registration on the Yahoo! Category site; Yahoo! Research, which undertakes online surveys of registered monitors; and Yahoo! WebHosting, which offers Web-hosting services on rental servers.

Yahoo! Shopping Transaction Volume (Daily Average) and Number of Stores

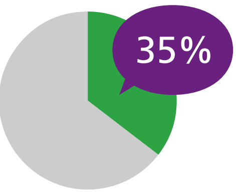


Notes:
- Transaction volume is the total of sales transaction volumes of Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket, excluding fraudulent orders and cancellations.
- Because former consolidated subsidiary Seven and Y Corp. became an affiliate accounted for by the equity method in February 2006, transaction volume on the Seven and Y site is eliminated beginning from that month.
- Beginning from the third quarter of fiscal 2005, new stores have been added to the total number of stores upon making the initial tenant fee payment. For prior periods, new stores were added to the total number of stores at the time of opening on the site.

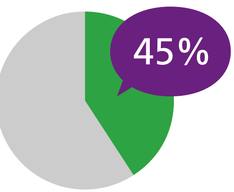
Personal Services

The Personal Services segment consists of services to individual Internet users. Main revenue sources for this segment include Yahoo! Auctions system-use fees, Yahoo! Premium membership fees, ISP fees from Yahoo! BB subscribers, and sales of various kinds of content.

Share of Net Sales



Share of Operating Income



Fiscal 2006 segment overview

Net sales of the Personal Services segment in fiscal 2006 rose 23.2%, to ¥75.3 billion, while operating income increased 26.3%, to ¥48.0 billion.

Following upon a series of measures taken to relax the requirements for participation in Yahoo! Auctions, in October 2006 the Group kicked off a final campaign that effectively waived the requirement that Yahoo! Auctions bidders have a Yahoo! Premium member ID by granting the right to bid in auctions to all users possessing a Yahoo! JAPAN ID. In addition, in July 2006 we ran an inaugural series of television commercials promoting Yahoo! Auctions. The Group also carried out various promotions to expand Yahoo! Auctions site usage, including a limited-duration free-listing campaign. In May 2006, we raised system-use fees only for items listed by individuals, but not for items listed on stores, from 3% to 5% of auction closing prices. Reflecting this hike, segment revenues generated by auction system-use fees in fiscal 2006 increased more than 30%.

Although new applications for Yahoo! Premium memberships decreased as a result of the relaxation of requirements for participation in Yahoo! Auctions, the Group successfully forestalled an anticipated increase in churn rate and effectively maintained the size of the Yahoo! Premium membership base through campaigns offering a greater amount of value-added content to members, including exclusive discounts and online previews. The number of Yahoo! Premium member IDs totaled 6.19 million as of March 31, 2007, an increase of 0.6% from the figure one year earlier.

The number of Yahoo! BB subscribers as of March 31, 2007, stood at 5.16 million, an increase of 2.3% from the figure at the previous fiscal year-end. Revenue from ISP fees was buoyant. Meanwhile, the Group continued to focus on sales of paid content services such as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling. The July 2006 launch of Yahoo! Partner, with full-scale paid content services commencing in December 2006, resulted in a steady increase in subscriber numbers.

The terms of the alliance agreement between the Group and SOFTBANK BB Corp. (SBB) governing services offered by the Group under the Yahoo! BB brand and related compensation have been revised as of March 31, 2007. Under the terms of the previous agreement, SBB paid the Group a fee of ¥200 per month for each Yahoo! BB subscriber receiving the Group's ISP services. The revised agreement specifies a monthly fee of ¥100, payable from April 2007, for each subscriber acquired by March 31, 2005, and from April 1, 2007. For each subscriber acquired during the two-year period from April 1, 2005, to March 31, 2007, the revised agreement stipulates that the monthly fee of ¥200 be reduced to ¥100 once the subscription period exceeds three years. The revised agreement also cancels a provision in force since April 2005 obligating the Group to pay SBB ¥2,400 for each new subscriber acquired.

Business outlook and strategy

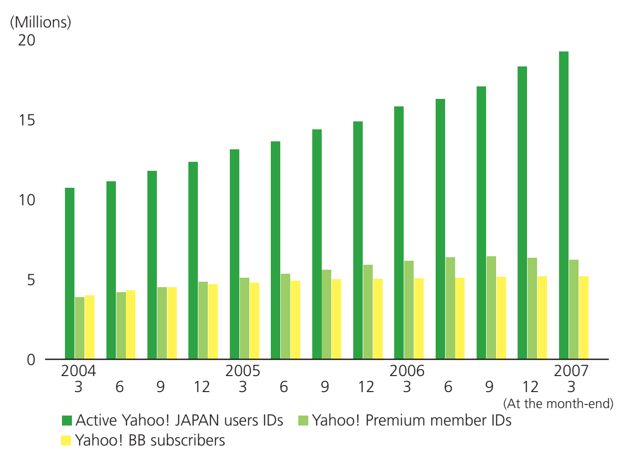
The Group intends to persist with various initiatives to attract new users to Yahoo! Auctions. In familiarizing more and more users with the enjoyment of online auctions, we are preparing the

ground for a steady increase in regular users of Yahoo! Auctions looking forward. Meanwhile, to encourage increased participation by existing Yahoo! Auctions users, the Group will carry out various incentive campaigns and special promotional events.

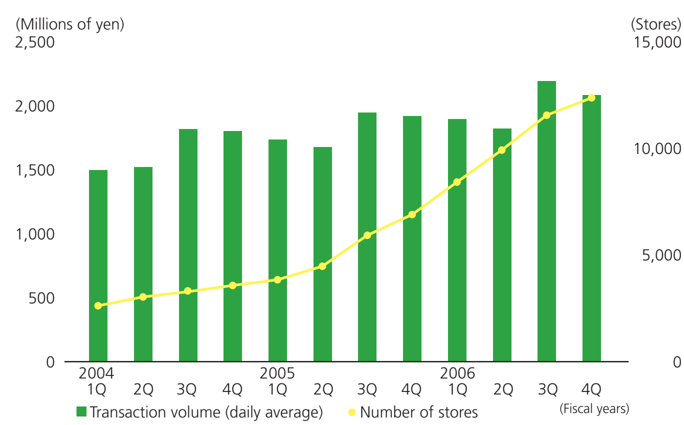
To boost e-commerce transaction volume, we are focusing on the provision of secure and convenient settlement systems. Currently, we offer the Yahoo! ezPay service, which facilitates Yahoo! Auctions transaction settlement via either credit card or online bank account; Yahoo! NetBanking, started in September 2006, which allows users with a Yahoo! JAPAN ID to use the settlement and financial services of the Japan Net Bank, Limited; and the Mobile Suica Net Settlement service, introduced in March 2007, which enables customers to make electronic payments for Yahoo! Shopping transactions via mobile phones.

Group efforts to acquire new Yahoo! Premium members and Yahoo! BB subscribers, and as a result expand related revenue streams, will focus on promotions that enhance the attractiveness of services offered exclusively to members, thereby boosting the value of membership and promoting customer satisfaction. In an effort to raise content-generated revenue, the Group intends to concentrate additional resources on developing and expanding paid content services with proven popularity among users.

Yahoo! JAPAN Users



Yahoo! Auctions Transaction Volume (Daily Average) and Number of Stores



Auction Business

Main services

- Yahoo! Auctions
- Yahoo! Delivery
- Yahoo! Classified

Business aims

The Yahoo! Auctions site provides an online platform that enables private individuals and merchants (Auction Stores) to buy and sell goods via an auction process. To promote increased BtoC and CtoC transaction volumes, this business is implementing ongoing measures to strengthen site security and carrying out various promotions to attract more participants and increase usage frequency among registered users.

Fiscal 2006 overview

Ongoing measures focused on increasing site security. Promotional efforts to expand the Yahoo! Auctions user base included a series of television commercials and a campaign effectively waiving the requirement that Yahoo! Auctions bidders have a Yahoo! Premium member ID by granting the right to bid in auctions to all users possessing a Yahoo! JAPAN ID. System-use fees for CtoC transactions were raised from 3% to 5% of auction closing prices in May 2006 to expand auction-related revenue. A beta version of the Yahoo! Classified service was released to enable users to exchange goods and information.

Principal revenue sources

CtoC auction system-use fees, Auction Store system-use fees, branding advertising

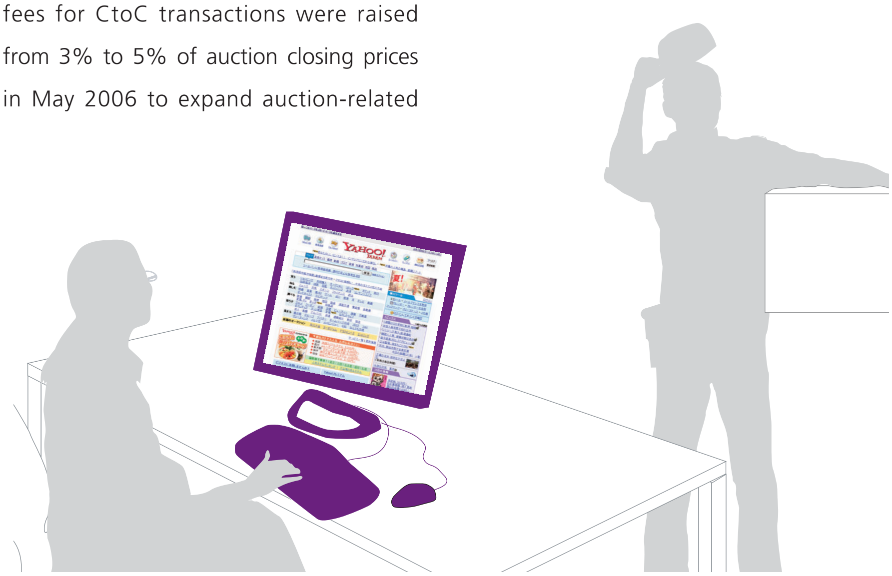
Search Business

Main services

- Yahoo! Search
- Yahoo! Category
- Yahoo! Blog Search
- Yahoo! Product Search
- Yahoo! Dictionary
- Yahoo! Translation
- Yahoo! Answers
- Yahoo! Bookmark

Business aims

This business supplies a range of convenient search services that provide straightforward solutions matched precisely to user needs. The Company's acquisition of Overture, scheduled for completion in fiscal 2007, and the introduction of a new paid-search advertising system incorporating a quality index and cost per click are expected to boost demand for Sponsor Site, the Group's paid-search advertising service, which is expected in turn to increase consolidated sales revenue.



Fiscal 2006 overview

The Group began supplying a mobile version of Yahoo! Search to the Yahoo! Keitai mobile Internet service for SOFTBANK mobile subscribers. The mobile versions of Yahoo! Search for i-mode and EZweb mobile users also were renewed to promote greater usage of Yahoo! JAPAN search services by subscribers to other mobile carriers. In addition, various functions were upgraded, including the start of PC site search services for each of the three major mobile carriers in Japan. The Group also introduced various search-related functional improvements, including a direct search function for maps, a new function in Yahoo! Blog Search to allow users to search by blog reputation, and a group search function for blogs to generate similar kinds of blog articles as a search result.

Principal revenue source

Sponsor Site paid-search advertising service

Members Services Business

Main services

- Yahoo! BB
- Yahoo! Premium
- Yahoo! Trading
- Yahoo! Insurance
- Yahoo! Tickets
- Yahoo! Live Talk
- Yahoo! Delivers
- Yahoo! Wallet
- Yahoo! Wedding
- Yahoo! Marriages
- Yahoo! Partner
- Yahoo! Keitai Shop

Business aims

Using various promotional tools and offering packages of exclusive services, this business focuses on attracting new Yahoo! Premium members and Yahoo! BB subscribers. By enhancing the value of exclusive member services for existing members and subscribers and by promoting greater service usage, we aim to raise customer satisfaction and to expand average revenue per user (ARPU).

Fiscal 2006 overview

Efforts focused on increasing the value of Yahoo! Premium and Yahoo! BB memberships by offering advance ticket sales for designated live concerts and other events, exclusive online previews, and other members-only services. Although new applications for Yahoo! Premium memberships decreased owing to the relaxation of participation requirements for Yahoo! Auctions, these efforts helped to forestall the anticipated increase in churn rate.

Principal revenue sources

Yahoo! Premium membership fees, Yahoo! BB subscriber ISP fees

Regional Services Business

Main services

- Yahoo! Area Search
- Yahoo! StepUp
- Yahoo! Maps
- Yahoo! Rikunabi
- Yahoo! Real Estate
- Yahoo! Transit
- Yahoo! Gourmet
- Yahoo! Get Local
- Yahoo! Healthcare
- Yahoo! Coupons
- Yahoo! Traffic Information
- Yahoo! Phone Book
- Yahoo! Internet Certification

Business aims

By linking Yahoo! JAPAN services with various types of regional information, this business aims to supply area-specific information to enrich the lives of residents in specific localities. Initiatives include supplying more comprehensive information, providing value-added services based on information contributed by users, and improving the mobile versions of services.

Fiscal 2006 overview

Yahoo! Maps began daily updating of information based on user postings and user map updates. The Group began supplying Wai Wai Map (beta version), a new community-type map service that enables users to create maps and to exchange and share map information with other users. New mobile versions of Yahoo! Real Estate and Yahoo! Traffic Information were made available. The Group also unveiled Yahoo! Partner, a service that brings together persons with compatible interests and provides opportunities for deepening communication.

Principal revenue sources

Information listings, branding advertising

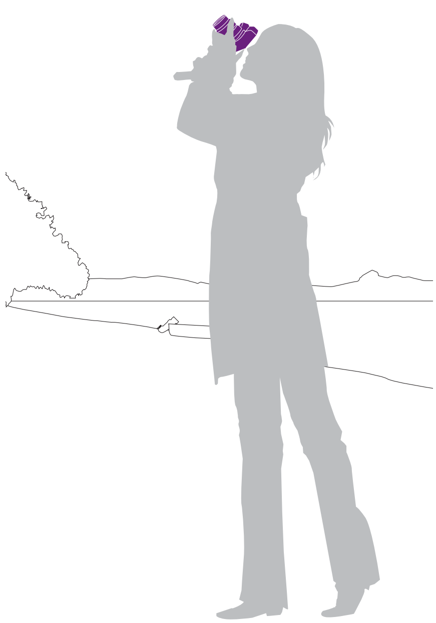
Media Business

Main services

- Yahoo! News
- Yahoo! Finance
- Yahoo! Sports
- Yahoo! Weather
- Yahoo! TV
- Yahoo! Streaming
- Yahoo! Disaster Information
- Yahoo! Politics
- Yahoo! Everybody's Topics
- Yahoo! Trend Word

Business aims

This business unit provides a variety of user-tailored content and services to boost user traffic and increase the number of page-views, thereby raising the Yahoo! JAPAN site's value as an advertising media. The Group is also working to maximize advertising sales revenue by forging partnerships with content providers to increase total network user traffic, which in turn boosts the advertising media value of partner sites and increases the Group's advertising revenues. Elsewhere, the Group is targeting higher revenues through the expanded provision of paid content and services.



Fiscal 2006 overview

Beta versions of three services were released: Yahoo! Everybody's Topics, a community-type news service; Yahoo! Trend Word, a service that ranks words frequently appearing in blogs and news services; and Stock Comment Book, a service that enables users to post comments about listed companies by ticker code. To promote increased user participation in Yahoo! News, new functions enabling users to post comments and to vote on issues were added. New links to content providers' sites were added to create a more open network.

Principal revenue sources

Branding advertising, information listings

Shopping Business

Main services

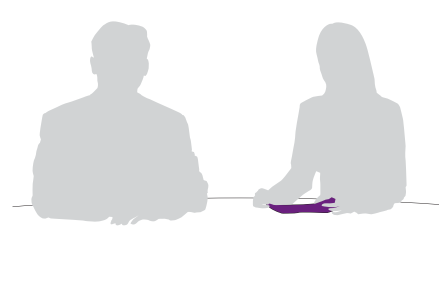
- Yahoo! Shopping
- Yahoo! GroupBuy
- Yahoo! Books
- Yahoo! Prize Competition

Business aims

The Shopping Business operates Yahoo! Shopping, a site featuring a broad selection of high-quality items supplied by companies ranging from established brand-name retailers to distinctive specialist boutiques. This business focuses on increasing transaction volume by developing advertising, carrying out various promotional campaigns, and providing support to stores registered on the Yahoo! Shopping site.

Fiscal 2006 overview

Efforts to expand transaction volume included various seasonal promotional campaigns on the Yahoo! Shopping site and a special discount-sale campaign linked to Yahoo! Auctions in celebration of both sites' seventh anniversary. Other initiatives focused on boosting user convenience, including a move enabling users to confirm with a single click their credit card information uploaded automatically from Yahoo! Wallet rather than manually inputting the information each time a purchase is made, thereby facilitating pay-



ments made to Yahoo! Shopping stores. In addition, Group subsidiary Netrust, Ltd., began offering the Mobile Suica Net Settlement service to site-registered stores as an option on settlement menus. Finally, the Commerce Conference 2007 Advance was held in order to provide consulting services designed to enhance the online presence of established stores on the site.

Principal revenue sources

Store tenant fees, advertising sales from stores, store sales commissions

Social Net Business

Main services

- Yahoo! Days
- Yahoo! Avatar
- Yahoo! Blogs
- Yahoo! Message Boards
- Yahoo! Messenger
- Yahoo! Greetings
- Yahoo! Mail
- Yahoo! Calendar
- Yahoo! Notepad
- Yahoo! Address Book
- Yahoo! GeoCities
- Yahoo! Groups
- Yahoo! Photo
- Yahoo! Briefcase
- Yahoo! Polls
- Yahoo! Alert
- Yahoo! Podcast
- Yahoo! Member Directory

Business aims

With the goal of transforming the Group into Japan's leading social media provider, the Social Net Business offers services that help people to maximize the benefits of interpersonal networks. This business unit works in cooperation with other business units to incorporate user-specific functionality into each of the Group's services.

Fiscal 2006 overview

The Social Net Business focused on creating platforms for incorporating users' accumulated Internet-usage histories and social networking data into the service provision mechanism of each Yahoo! JAPAN service. To this end, we developed a proprietary affinity engine capable of automatically generating user-specific recommendations regarding the provision of services and related product promotions. During the year, we began to introduce our affinity engine into selected Yahoo! JAPAN services.

The Group's social networking service, Yahoo! Days, became fully operational in July 2006. From November 2006, all SOFTBANK mobile subscribers were granted an exemption from the invitation-only requirement for participation in this service and allowed to freely access the mobile version of Yahoo! Days via the Yahoo! Keitai site. Elsewhere, security functions for Yahoo! Mail and other services were reinforced to combat fraud and other mail-related abuses.

Principal revenue sources

Branding advertising, paid content and services

Lifestyle Business

Main services

- Yahoo! Music
- Yahoo! Ringtone
- Yahoo! Autos
- Yahoo! Computers
- Yahoo! Fortune Telling
- Yahoo! Movies
- Yahoo! Beauty
- Yahoo! Comics
- Yahoo! Games
- Yahoo! Retirement

Business aims

Providing services with a significant social media component in lifestyle-related areas, this business features highly specialized and interest-specific content.

Fiscal 2006 overview

Efforts focused on expanding usage by adding recommendation, search, and reputation functions to each service to facilitate the exchange of information among users with similar interests and hobbies. We launched Yahoo! Retirement, a service site aimed at assisting seniors establish fulfilling and enjoyable later-year lives.

Principal revenue sources

Branding advertising, information listings, paid content and services

Mobile Business

Main services

- Yahoo! Mobile
- Yahoo! Content Store

Business aims

This business effectively boosts the convenience of Yahoo! JAPAN services by improving related services and content for usage by mobile phone subscribers in Japan, either through the Yahoo! Keitai site (SOFTBANK) or via the i-mode (NTT DoCoMo) and EZweb (KDDI) platforms.

Fiscal 2006 overview

In October 2006, the Group launched the SOFTBANK mobile portal site and began supplying Yahoo! Keitai mobile Internet services to SOFTBANK mobile subscribers. Elsewhere, preparations were made for the April 2007 renewal of the top pages of the mobile version of Yahoo! JAPAN services supplied to the i-mode and EZweb platforms. In collaboration with the Search Business, PC site search services were initiated for each of the three major mobile carriers in Japan, along with the provision of Yahoo! Answers services and various other functional upgrades.

Principal revenue sources

Branding advertising, Sponsor Site advertising, paid content and services

New Business Office

Main services

- Yahoo! Research
- Yahoo! ezPay
- Yahoo! NetBanking
- Yahoo! Points
- Yahoo! Card
- Yahoo! Travel
- Yahoo! Business Travel
- Yahoo! WebHosting
- Yahoo! Benefits
- Business Express

Business aims

The New Business Office aims to create new business models and to foster the development of new business units. Settlement-related services such as Yahoo! ezPay and Yahoo! NetBanking target the provision of reliable, secure, and convenient methods for settling online transactions. The Yahoo! Research business is working to expand its customer base and to upgrade its product lineup while improving online survey capabilities, mainly through Group subsidiaries INFO PLANT and Interscope as well as affiliate INTAGE Interactive. Group subsidiary Firstserver, a specialist domain and Web-hosting service provider, is working to expand operations in this area under the Yahoo! WebHosting brand.

Fiscal 2006 overview

In collaboration with the Japan Net Bank, the Group began offering the Yahoo! NetBanking service, which offers users with a Yahoo! JAPAN ID access to the convenient, safe, and reliable settlement services of the Japan Net Bank. Aiming to expand the Internet research-related services business further, the Group made Interscope a consolidated subsidiary in February 2007. INFO PLANT and Interscope merged in July 2007 to form Yahoo Japan Value Insight Corporation.

Principal revenue sources

Settlement-related services, research-related services, Web-hosting services, Business Express, travel-related services

Service Supervising Division

Main services

- Yahoo! JAPAN Top Page
- Yahoo! Safety Net
- Yahoo! Kids
- My Yahoo!
- Yahoo! Toolbar
- Yahoo! Newsletter
- Yahoo! eMail Magazine
- Yahoo! JAPAN Help Center
- Yahoo! Widgets
- Yahoo! Developer Network
- Yahoo! Volunteer

Business aims

The Service Supervising Division focuses on expanding the number of active users of Yahoo! JAPAN services and provides support to other business units in undertaking promotional campaigns.

Fiscal 2006 overview

The Group began providing Yahoo! Safety Net, a filtering service that prevents children from viewing Web sites targeting mature users. As part of the Group's social contribution activities, the division established the Yahoo! Charity Fund with the dual goal of promoting the sound development of Internet society and providing aid to victims of natural disasters. In addition, we added a new security function and toolbar designed to combat phishing fraud on Yahoo! JAPAN sites.

Principal revenue source

Advertising on Yahoo! JAPAN Top Page

Corporate Social Responsibility and Corporate Governance

As one of the main engines of growth in the Japanese Internet market, Yahoo Japan Corporation (the Company) is dedicated to the development of a sound, secure Internet environment in harmony with the expectations and needs of society. By fulfilling our corporate social responsibility (CSR), we aim to earn society's trust as we work to achieve sustained corporate growth and increased corporate value.

Corporate Social Responsibility

Promoting sound Internet market development and enhancing user security

- To further promote the sound, robust development of the Japanese Internet market, we established Yahoo! JAPAN Research in April 2007. This new research institution will work in collaboration with divisions of the Company and the research institute of Yahoo! Inc., as well as with various academic, Internet industry, and public-sector institutions both in Japan and overseas.
- We participated in a committee to formulate guidelines for the Internet Hotline Center, a public-service facility managed by the Internet Association Japan on behalf of government agencies and Internet industry groups.
- We continually implement various measures to strengthen user security and to improve our customer support. During the year, we added a new function and toolbar to combat phishing fraud and implemented various information security measures, in addition to carrying out 24-hour patrols of such sites as Yahoo! Auctions and Yahoo! Message Boards and providing user support through help pages and e-mail services.
- Our Yahoo! Kids site provides a safe Internet environment for children. We also offer Yahoo! Safety Net, a filtering service that prevents children from viewing Web sites targeting mature users.
- The Yahoo! Security Center provides users with effective methods of protection against various online threats, including computer viruses, Internet stalkers, and the leakage or abuse of personal information.

Reinforcing security on Yahoo! Auctions

- In November 2006, we introduced stricter identification procedures for persons listing items on our auction site for the first time. Such users are now required to provide a driver's license or similar official identification prior to listing items, in addition to the existing postal address verification procedure.
- We provide auction users with helpful information on avoiding fraud victimization and related abuses, including pegging accounts with problematic histories. We also maintain a compensation system for victims of fraud.
- Our auction system incorporates a fraud-detection model based on the behavioral patterns of known abusers of online auction services.
- Through joint efforts with the Business Software Alliance (BSA) to delete illegal listings of copied or pirated business software, we achieved a 96% decrease in the number of such listings in the second half of fiscal 2006 compared with the first half.

Protecting privacy

- The Information Security Office works with the relevant sections of each business division to implement measures designed to boost information security over the medium and long term.
- Strong measures are in place to protect privacy. We request of users only the minimum amount of personal information necessary to provide them with services. Users' personal information is separated physically from other data and constantly monitored, with only the required minimum number of persons authorized to access the personal information database.
- Group companies are focused on acquiring Information Security Management System (ISMS) certification. As of March 31, 2007, Yahoo Japan Corporation and nine subsidiaries were ISMS-certified. Certification is to ISO/IEC 27001:2005, the international standard, and to JIS Q27001:2006, the Japanese standard.

Fulfilling our mission as an information lifeline

- To ensure the fulfillment of our mission to be a lifeline that people can rely on in times of emergency, we maintain independently operating data centers in disparate locations, each designed to withstand disasters and blackouts.
- We provide a news flash service that prominently displays disaster-related information in the spaces normally used for advertising banners on the pages of all of our services, including the mobile version of Yahoo! JAPAN. We also maintain the Yahoo! Disaster Information site as a regular service.

Leveraging our media influence to the betterment of society

- We established the Yahoo! Charity Fund with the dual goal of promoting the sound development of Internet society and providing aid to victims of natural disasters. The Fund donated ¥1 million in aid for victims of the 2006 Noto Peninsula earthquake in Japan.
- Through Internet charity contributions, we provided aid to the victims of the 2004 Niigata Chuetsu earthquake in Japan, the 2005 earthquake in Pakistan, the 2006 central Java earthquake in Indonesia, and the 2006 Noto Peninsula earthquake.
- Our charity auctions on the Yahoo! Auctions site raised a total of ¥128.12 million for various charities during fiscal 2006.
- Our Yahoo! Politics service is dedicated to enhancing public awareness and understanding of policy issues as well as to encouraging greater voter participation in Japanese elections.
- We support the Pink Ribbon campaign, which promotes the early detection and treatment of breast cancer.
- We also support the Red Ribbon campaign, which disseminates accurate information about HIV transmission and AIDS, in addition to activities to prevent the spread of other infectious diseases.
- We continued to participate in the Japanese government's Global Warming Prevention Headquarters' national project, Team Minus 6%. In addition to setting air-conditioning thermostats in our offices a little higher during the summer months, we maintain a Team Minus 6% site providing information about the global warming prevention drive.
- As an official partner of the Japanese Olympic Committee and the Japan Paralympic Committee, we support various efforts to promote sports in Japan.

Improving customer support and incorporating user feedback

- We remain focused on expanding and improving the quality of our customer support services offered via the Yahoo! JAPAN Help Center and help pages.
- We continually upgrade our overall services by incorporating user feedback garnered via our customer support services and regular user surveys.

Corporate Governance

Yahoo Japan Corporation considers good corporate governance to be essential to achieving higher corporate value over the medium to long term. By clarifying the roles and responsibilities of directors, corporate auditors, and employees within the corporate governance system and by raising awareness of laws and regulations as well as of social and ethical norms, the Company aims to conduct appropriate and effective business operations.

In January 2002, the Company introduced a business division system designed to promote swift, strategic business management with the goal of improving competitiveness. This system clearly separates the business execution responsibilities of divisional managers from the decision-making role and executive oversight function of the Board of Directors. Currently, the Board of Directors comprises five members, including one outside director.

Based on an audit plan formulated by the Board of Auditors, the corporate auditors conduct audits of the Company's entire business operations, including assessments of the appropriateness of policy, planning, and procedures, the effectiveness of business activities, and the status of legal and regulatory compliance. In addition, the corporate auditors attend meetings of the Board of Directors and of the Management Committee, review important documentation, and conduct surveys of subsidiaries, reporting their findings to the Board of Auditors. Furthermore, the Board of Auditors receives reports from the independent auditors on the methodology and results of the financial accounting audit and from the Business Audit Office on the methodology and results of internal audits. Based on this information, the Board of Auditors regularly submits reports of audit results to the Board of Directors.

Since April 2002, the Business Audit Office, which is under the direct supervision of the President, has faithfully carried out internal inspections of all business operations, with particular responsibility for internal audits of the risk-prevention system. Based on these inspections, the Business Audit Office makes specific recommendations for improving business operations.

In the event that serious issues necessitating broad-based deliberation arise relating to the start of a new service or other aspect of business management, when deemed necessary the Company convenes an Advisory Board composed of lawyers, university professors, and other outside experts from the legal, academic, and financial communities. In this way, we incorporate a wide range of external views and opinions into important management decisions.

In May 2006, the Company clearly defined its code of conduct in a publicly released Business Practices Charter. To implement the Charter, it is essential that the Company have in place systems for maintaining appropriate corporate governance and for ensuring effective and efficient business activities, accurate financial reporting, and full legal compliance. To this end, the Internal Control Office was established in April 2006 to spearhead the development of and to oversee internal control systems throughout the operations of the Company and its subsidiaries. In addition to assessing the appropriateness and effectiveness of business execution companywide, the Internal Control Office is charged with evaluating, documenting, and continuously improving all newly introduced internal controls.

In line with this role, the Internal Control Office in December 2006 formulated a basic plan for the creation of internal controls relating to financial reporting. With regard to information systems, this plan identifies the critical elements for ensuring appropriate financial reporting and sets out various related measures for systems development, operation, and management.

Firmly dedicated to fulfilling our corporate social responsibility through good corporate governance, the Company intends to further reinforce internal control systems looking forward.

Financial Section

Key Financial Data

Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007, 2006, 2005, 2004, 2003 and 2002

	Millions of yen						Thousands of U.S. dollars
Years ended March 31:	**2007**	2006	2005	2004	2003	2002	**2007**
Net sales	**¥212,553**	¥173,696	¥117,779	¥75,776	¥46,693	¥29,759	**$1,800,531**
Advertising	**89,202**	—	—	—	—	—	**755,631**
Business Services	**48,215**	—	—	—	—	—	**408,429**
Personal Services	**75,283**	—	—	—	—	—	**637,716**
Eliminations or Corporate	**(147)**	—	—	—	—	—	**(1,245)**
Cost of sales	**8,487**	12,843	8,932	5,292	3,599	7,228	**71,893**
Advertising	**533**	—	—	—	—	—	**4,514**
Business Services	**6,483**	—	—	—	—	—	**54,918**
Personal Services	**1,529**	—	—	—	—	—	**12,948**
Eliminations or Corporate	**(58)**	—	—	—	—	—	**(487)**
SG&A expenses	**97,833**	78,720	48,660	29,272	19,021	12,124	**828,740**
Advertising	**38,364**	—	—	—	—	—	**324,984**
Business Services	**22,429**	—	—	—	—	—	**189,997**
Personal Services	**25,780**	—	—	—	—	—	**218,377**
Eliminations or Corporate	**11,260**	—	—	—	—	—	**95,382**
Operating income	**106,233**	82,133	60,187	41,212	24,073	10,407	**899,898**
Advertising	**50,305**	—	—	—	—	—	**426,133**
Business Services	**19,303**	—	—	—	—	—	**163,514**
Personal Services	**47,974**	—	—	—	—	—	**406,391**
Eliminations or Corporate	**(11,349)**	—	—	—	—	—	**(96,140)**
Net income	**57,963**	47,091	36,521	24,827	12,096	5,868	**491,004**
Net income per share (Yen and U.S. dollars)	**959**	777	602	410	200	97	**8.12**
Dividends (Yen and U.S. dollars)	**96**	78	60.5	—	—	—	**0.81**
EBITDA	**115,743**	89,787	64,980	44,329	26,147	11,824	**980,460**
As of March 31:							
Total assets	**318,428**	190,975	130,244	82,410	47,774	29,218	**2,697,401**
Equity	**192,385**	142,455	96,060	59,807	30,483	20,227	**1,629,692**
Number of employees	**3,042**	2,534	1,713	990	669	431	
Cash flows	**(22,659)**	29,043	29,349	16,428	15,837	1,475	**(191,947)**
Operating activities	**72,710**	59,604	46,084	26,147	19,667	6,139	**615,927**
Investing activities	**(160,402)**	(27,533)	(17,119)	(10,913)	(3,779)	(4,675)	**(1,358,772)**
Financing activities	**65,033**	(3,028)	384	1,194	(51)	11	**550,898**
Ratios:							
Operating margin (%)	**50.0**	47.3	51.1	54.4	51.6	35.0	
Net income to net sales ratio (%)	**27.3**	27.1	31.0	32.8	25.9	19.7	
ROA (%)	**22.8**	29.3	34.3	38.1	31.4	20.5	
ROE (%)	**34.8**	39.5	46.9	55.0	47.7	30.2	
Equity / total assets ratio (%)	**59.9**	74.6	73.8	72.6	63.8	69.2	

Notes:

- Yen amounts for the year ended March 31, 2007 have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥118.05=U.S.$1, the effective rate of exchange at March 31, 2007.
- Net income per share and dividends for the years preceding the year ended March 31, 2007 have been retroactively adjusted to reflect stock splits.
- Beginning with the year ended March 31, 2004, the Company altered its method of booking sales. Figures in this annual report for the years preceding the year ended March 31, 2004 have been revised to reflect this change in accounting method.
- Effective April 1, 2006, the Group's former seven business segments were reorganized into the business segments of Advertising, Business Services, and Personal Services.
- Equity as of March 31, 2007 is presented in accordance with the new accounting standard for presentation of equity, while the previous accounting standard has been applied for prior years. The change of accounting standard for presentation of equity is discussed in Note 2.o of the Notes to Consolidated Financial Statements.

Management's Discussion and Analysis

Results of Operations

Net Sales

Consolidated net sales for the year ended March 31, 2007, posted a record high of ¥212,553 million, increasing ¥38,857 million, or 22.4%, over the previous year's result. Most of this growth was attributable to higher sales recorded in the Advertising and Personal Services segments.

Cost of Sales

Cost of sales decreased ¥4,356 million, to ¥8,487 million. The main factor behind this 33.9% year-on-year fall was the removal from consolidation of Seven and Y Corp. following the sale of a portion of the Company's equity stake in this former subsidiary.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥19,113 million, or 24.3%, to ¥97,833 million. The major components of SG&A expenses were as follows:

Personnel expenses increased ¥4,050 million, or 27.5%, to ¥18,780 million. Compared with the figure one year earlier, the number of directors and employees, excluding overlapping positions, of the Group at the fiscal year-end was up 502, or 19.5%, to 3,078.

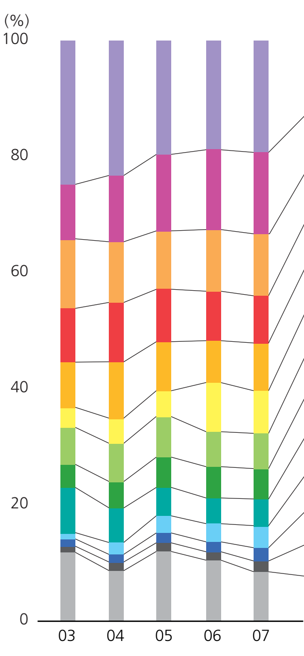
Business commissions surged ¥2,899 million, or 26.6%, to ¥13,804 million, mainly reflecting higher expenses for temporary and contract employees.

Sales commissions advanced ¥1,962 million, or 23.4%, to ¥10,339 million, owing chiefly to higher fees paid to advertising agencies in line with the growth in advertising sales.

Depreciation and amortization expenses rose ¥1,463 million, or 22.0%, to ¥8,126 million, mainly as a result of purchases of software and network equipment such as servers.

Communications charges amounted to ¥7,920 million, an increase of ¥2,245 million, or 39.6%, over the previous year. This increase primarily reflected the Group's expanded usage of

SG&A Expenses Breakdown



(Millions of yen)

For the years ended March 31	2003		2004		2005		2006		2007	
Personnel expenses	4,722	(24.8%)	6,782	(23.2%)	9,537	(19.6%)	14,730	(18.7%)	18,780	(19.2%)
Business commissions	1,813	(9.5%)	3,366	(11.5%)	6,482	(13.3%)	10,905	(13.9%)	13,804	(14.1%)
Sales commissions	2,236	(11.8%)	3,038	(10.4%)	4,778	(9.8%)	8,377	(10.6%)	10,339	(10.6%)
Depreciation and amortization	1,765	(9.3%)	3,003	(10.3%)	4,462	(9.2%)	6,663	(8.5%)	8,126	(8.3%)
Communications charges	1,496	(7.9%)	2,861	(9.8%)	4,138	(8.5%)	5,675	(7.2%)	7,920	(8.1%)
Sales promotion costs	653	(3.4%)	1,238	(4.2%)	2,135	(4.4%)	6,722	(8.5%)	7,120	(7.3%)
Royalty charge	1,207	(6.3%)	1,963	(6.7%)	3,379	(6.9%)	4,709	(6.0%)	6,024	(6.2%)
Lease and utility expenses	765	(4.0%)	1,285	(4.4%)	2,561	(5.3%)	4,252	(5.4%)	5,124	(5.2%)
Content provider fees	1,502	(7.9%)	1,725	(5.9%)	2,358	(4.8%)	3,346	(4.3%)	4,598	(4.7%)
Payment commissions	190	(1.0%)	606	(2.1%)	1,444	(3.0%)	2,537	(3.2%)	3,657	(3.7%)
Allowance for doubtful accounts	253	(1.3%)	421	(1.4%)	847	(1.7%)	1,394	(1.8%)	2,248	(2.3%)
Administrative and maintenance expenses	162	(0.9%)	404	(1.4%)	696	(1.4%)	1,089	(1.4%)	1,778	(1.8%)
Others	2,257	(11.9%)	2,580	(8.7%)	5,843	(12.1%)	8,321	(10.5%)	8,314	(8.5%)
Total	19,021	(100.0%)	29,272	(100.0%)	48,660	(100.0%)	78,720	(100.0%)	97,833	(100.0%)

Note:
Personnel expenses include health and welfare program costs, pension costs, and others.

data-center space to upgrade service capacity and to improve the access environment for users.

Sales promotion costs totaled ¥7,120 million, rising ¥398 million, or 5.9%, over the previous year. This increase was mainly the result of the increase in subscriber acquisition costs for Yahoo! BB services.

Royalty charge paid to Yahoo! Inc. of the United States increased ¥1,315 million, or 27.9%, to ¥6,024 million, paralleling the growth in net sales.

Lease and utility expenses increased ¥872 million, or 20.5%, to ¥5,124 million, primarily owing to higher utility expenses associated with office relocation and expansion.

Significant other expenses included (1) content provider fees, which advanced ¥1,252 million, or 37.4%, to ¥4,598 million; (2) payment commissions, which increased ¥1,120 million, or 44.1%, to ¥3,657 million; and (3) allowance for doubtful accounts, which rose ¥854 million, or 61.3%, to ¥2,248 million.

Operating Income

Consolidated operating income totaled ¥106,233 million, up ¥24,100 million, or 29.3%.

Income Taxes and Related Adjustments

Income taxes increased ¥10,822 million, or 33.2%, to ¥43,415 million. On a consolidated basis, the income tax rate for the fiscal year ended March 31, 2007, was 42.7%.

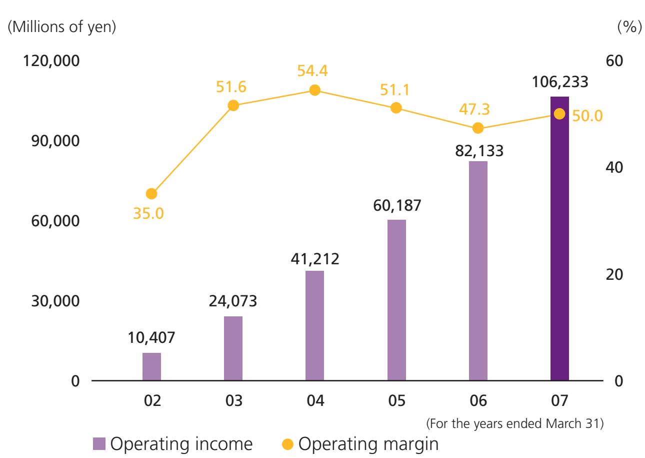
Minority Interests in Net Income

Minority interests in net income amounted to ¥390 million, increasing ¥110 million, or 39.3%, over the previous year. Minority interests in net income reflects the interest of shareholders other than the Company in the profits or losses of the Company's subsidiaries.

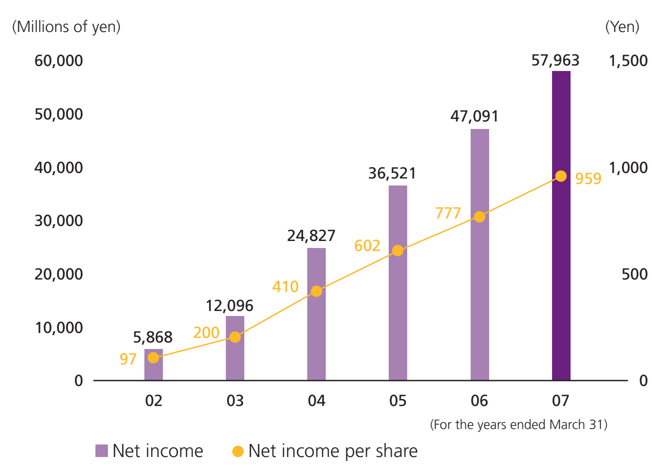
Net Income

Consolidated net income increased ¥10,872 million, or 23.1%, to ¥57,963 million. Net income per share amounted to ¥958.66, while fully diluted net income per share was ¥956.70.

Operating Income / Operating Margin



Net Income / Net Income per Share



Note:
Net income per share figures for the years preceding the year ended March 31, 2007 have been retroactively adjusted to reflect stock splits.

Financial Position

On a consolidated basis, total assets stood at ¥318,428 million as of March 31, 2007. This figure was ¥127,453 million, or 66.7%, higher than the total at the previous fiscal year-end. Total liabilities increased ¥78,890 million, or 167.3%, to ¥126,043 million. Total equity increased ¥49,930 million, or 35.0%, to ¥192,385 million.

Assets

- The decline in cash and cash equivalents compared with the previous year-end was mainly due to acquisitions of investment securities.
- Receivables increased compared with the previous year-end, mainly due to the growth in advertising sales.
- The rise in property and equipment was due principally to additional installations of servers and other network equipment.
- The surge in investment securities mainly reflected acquisitions of shares.
- The increase in other assets was principally due to security deposits required for office relocation and expansion.

Liabilities

- The year-on-year increases in both short-term and long-term debt were mainly due to borrowings related to an investment in BB Mobile Corp.
- The rise in income taxes payable primarily reflected growth in profits.

Equity

- The increase in common stock during the year under review resulted from the exercise of stock options.
- The growth in retained earnings was attributable to higher net income.
- The unrealized gain on available-for-sale securities declined from the previous year-end figure as a result of the mark-to-market valuation of investment securities for the fiscal year ended March 31, 2007.

Cash Flows

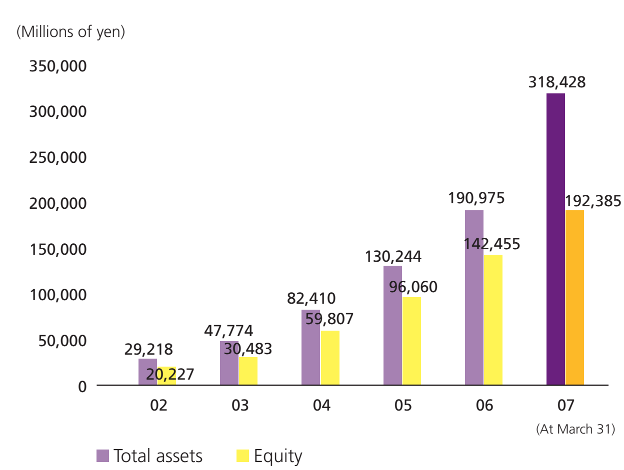
Net cash provided by operating activities totaled ¥72,710 million, increasing ¥13,106 million, or 22.0%, compared with the previous year. Operating cash inflows rose owing to higher sales and net income, which more than offset income tax payments.

Net cash used in investing activities totaled ¥160,402 million, representing an increase in investing cash outflows of ¥132,869 million compared with the previous year. Major factors behind this rise were acquisitions of investment securities and expenses related to office relocation and expansion. Collection on loans receivable increased compared with the previous year, slightly offsetting the rise in investing cash outflows.

Net cash provided by financing activities was ¥65,033 million. Compared with the net financing cash outflow of ¥3,028 million recorded in the previous year, this represented a year-on-year increase in financing cash inflow of ¥68,061 million. The major factor in this rise was an increase in proceeds from long-term debt.

The net change in cash and cash equivalents for the year was a decrease of ¥22,659 million. Compared with the net increase of ¥29,043 million for the previous year, this represented a deterioration in net cash flow of ¥51,702 million. The year-end balance of cash and cash equivalents stood at ¥75,212 million, down ¥22,823 million, or 23.3%, compared with the previous year-end figure.

Total Assets / Equity



Consolidated Balance Sheets

Yahoo Japan Corporation and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 75,212	¥ 98,035	$ 637,123
Receivables:			
Trade accounts	30,245	25,214	256,205
Other	3,426	852	29,023
Allowance for doubtful accounts	(2,300)	(1,806)	(19,482)
Inventories (Note 3)	173	166	1,469
Deferred tax assets (Note 9)	4,345	3,472	36,803
Other current assets	4,220	6,256	35,738
Total current assets	115,321	132,189	976,879
PROPERTY AND EQUIPMENT (Note 5):			
Buildings and structures	4,265	2,449	36,130
Machinery and equipment	31,757	25,574	269,017
Construction in progress	63	82	534
Total	36,085	28,105	305,681
Accumulated depreciation and impairment loss	(19,534)	(14,090)	(165,473)
Net property and equipment	16,551	14,015	140,208
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	149,767	13,027	1,268,673
Investments in unconsolidated subsidiaries and associated companies	12,501	15,674	105,895
Goodwill	4,062	4,129	34,408
Deferred tax assets (Note 9)	2,990		25,331
Other assets	17,260	11,963	146,208
Allowance for doubtful accounts	(24)	(22)	(201)
Total investments and other assets	186,556	44,771	1,580,314
TOTAL ASSETS	¥318,428	¥190,975	$2,697,401

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 120**	¥ 168	**$ 1,017**
Current portion of long-term bank loans (Note 6)	**20,000**	40	**169,420**
Payables:			
Trade accounts	**1,022**	890	**8,661**
Other	**13,345**	12,419	**113,050**
Income taxes payable (Note 9)	**28,372**	23,484	**240,338**
Provision for Yahoo! Points (Note 2.k)	**2,065**	1,337	**17,495**
Other current liabilities	**11,108**	7,151	**94,086**
Total current liabilities	**76,032**	45,489	**644,067**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**50,000**	30	**423,549**
Deferred tax liabilities (Note 9)		1,619	
Other	**11**	15	**93**
Total long-term liabilities	**50,011**	1,664	**423,642**
MINORITY INTERESTS		1,367	
COMMITMENTS (Notes 10 and 11)			
EQUITY (Notes 7 and 14):			
Common stock—241,600,000 shares authorized and 60,477,014 shares issued in 2007; 120,800,000 shares authorized and 30,226,069 shares issued in 2006	**7,187**	7,033	**60,882**
Capital surplus	**2,268**	2,114	**19,213**
Stock acquisition rights	**30**		**255**
Retained earnings	**179,897**	126,738	**1,523,908**
Unrealized gain on available-for-sale securities	**1,369**	6,597	**11,589**
Foreign currency translation adjustments		1	
Treasury stock—at cost, 1,926 shares in 2007 and 963 shares in 2006	**(28)**	(28)	**(238)**
Total	**190,723**	142,455	**1,615,609**
Minority interests	**1,662**		**14,083**
Total equity	**192,385**	142,455	**1,629,692**
TOTAL LIABILITIES AND EQUITY	**¥318,428**	¥190,975	**$2,697,401**

Consolidated Statements of Income

Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
NET SALES	**¥212,553**	¥173,696	**$1,800,531**
COST OF SALES	**8,487**	12,843	**71,893**
Gross profit	**204,066**	160,853	**1,728,638**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**97,833**	78,720	**828,740**
Operating income	**106,233**	82,133	**899,898**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**256**	654	**2,172**
Interest expense	**(480)**	(5)	**(4,067)**
Loss on exchange—net	**(7)**	(24)	**(61)**
Equity in losses of unconsolidated subsidiaries and associated companies	**(3,523)**	(2,690)	**(29,839)**
Gain on sale of investment securities—net	**202**	1,040	**1,712**
Loss on write-down of investment securities	**(773)**	(1,087)	**(6,551)**
Other—net	**(140)**	(57)	**(1,188)**
Other expenses—net	**(4,465)**	(2,169)	**(37,822)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**101,768**	79,964	**862,076**
INCOME TAXES (Note 9):			
Current	**45,223**	35,711	**383,087**
Deferred	**(1,808)**	(3,118)	**(15,319)**
Total income taxes	**43,415**	32,593	**367,768**
MINORITY INTERESTS IN NET INCOME	**390**	280	**3,304**
NET INCOME	**¥ 57,963**	¥ 47,091	**$ 491,004**

	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.u and 13):			
Basic net income	**¥958.66**	¥776.62	**$8.12**
Diluted net income	**956.70**	774.57	**8.10**
Cash dividends applicable to the year	**96.00**	78.00	**0.81**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 101,768	¥ 79,964	$ 862,076
Adjustments for:			
Income taxes—paid	(40,418)	(28,893)	(342,380)
Depreciation and amortization	8,576	6,922	72,648
Amortization of goodwill	1,384	1,039	11,725
Gain on sale of investment securities—net	(202)	(1,040)	(1,712)
Loss on write-down of investment securities	773	1,087	6,551
Equity in losses of unconsolidated subsidiaries and associated companies	3,523	2,690	29,839
Changes in assets and liabilities:			
Increase in trade receivables	(4,730)	(6,354)	(40,070)
Increase in other receivables	(4,128)	(2,549)	(34,966)
Increase in trade payables	102	1,386	868
Increase in other payables	4,232	5,305	35,851
Other—net	1,830	47	15,497
Total adjustments	(29,058)	(20,360)	(246,149)
Net cash provided by operating activities	72,710	59,604	615,927
INVESTING ACTIVITIES:			
Purchase of property and equipment	(10,204)	(7,228)	(86,441)
Purchase of other assets	(7,855)	(5,149)	(66,539)
Purchase of investment securities	(146,600)	(15,210)	(1,241,847)
Proceeds from sale of investment securities	428	1,963	3,622
Payments for purchase of newly consolidated subsidiaries' stocks	(719)	(3,984)	(6,089)
Collection on loans receivable	3,658	2,264	30,983
Other—net	890	(189)	7,539
Net cash used in investing activities	(160,402)	(27,533)	(1,358,772)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	80,070		678,272
Repayment of long-term debt	(10,048)		(85,116)
Dividends paid	(4,715)	(3,654)	(39,942)
Other—net	(274)	626	(2,316)
Net cash provided by (used in) financing activities	65,033	(3,028)	550,898
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,659)	29,043	(191,947)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	98,035	68,992	830,456
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO DECONSOLIDATION OF SUBSIDIARIES	(164)		(1,386)
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 75,212	¥ 98,035	$ 637,123
ADDITIONAL CASH FLOW INFORMATION:			
Current assets	¥ (861)	¥ (1,340)	$ (7,298)
Non-current assets	(117)	(824)	(987)
Goodwill	(734)	(3,319)	(6,221)
Current liabilities	333	508	2,821
Non-current liabilities	12	14	105
Minority interests	65	631	549
Acquisition costs	(1,302)	(4,330)	(11,031)
Cash and cash equivalents acquired	583	745	4,942
Subtotal	(719)	(3,585)	(6,089)
Payment for acquisitions in prior year		(399)	
Payment for purchase of newly consolidated subsidiaries' stocks	¥ (719)	¥ (3,984)	$ (6,089)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Thousands			
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Stock Acquisition Rights
BALANCE, APRIL 1, 2005	7,550	¥ 6,692	¥ 1,773	
Exercise of warrants	21	341	341	
Net income				
Cash dividends (¥60.5 per share)				
Bonuses to directors and corporate auditors				
Stock splits (Note 7)	22,655			
Net change in the year				
BALANCE, MARCH 31, 2006	30,226	7,033	2,114	
Reclassified balance as of March 31, 2006				
Exercise of warrants	**25**	**154**	**154**	
Net income				
Cash dividends (¥78 per share)				
Bonuses to directors and corporate auditors				
Deconsolidation of subsidiaries				
Stock splits (Note 7)	**30,226**			
Net change in the year				**¥30**
BALANCE, MARCH 31, 2007	**60,477**	**¥ 7,187**	**¥ 2,268**	**¥30**

	Common Stock	Capital Surplus	Stock Acquisition Rights
BALANCE, MARCH 31, 2006	$59,576	$17,907	
Reclassified balance as of March 31, 2006			
Exercise of warrants	**1,306**	**1,306**	
Net income			
Cash dividends ($0.66 per share)			
Bonuses to directors and corporate auditors			
Deconsolidation of subsidiaries			
Net change in the year			**$255**
BALANCE, MARCH 31, 2007	**$60,882**	**$19,213**	**$255**

See notes to consolidated financial statements.

Millions of Yen						
Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stocks	Total	Minority Interests	Total Equity
¥ 83,461	¥ 4,162		¥ (28)	¥ 96,060		¥ 96,060
				682		682
47,091				47,091		47,091
(3,654)				(3,654)		(3,654)
(160)				(160)		(160)
	2,435	¥ 1		2,436		2,436
126,738	6,597	1	(28)	142,455		142,455
					¥ 1,367	**1,367**
				308		**308**
57,963				**57,963**		**57,963**
(4,715)				**(4,715)**		**(4,715)**
(168)				**(168)**		**(168)**
79				**79**		**79**
	(5,228)	**(1)**		**(5,199)**	**295**	**(4,904)**
¥ 179,897	**¥ 1,369**		**¥ (28)**	**¥ 190,723**	**¥ 1,662**	**¥ 192,385**

Thousands of U.S. Dollars (Note 1)						
Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stocks	Total	Minority Interests	Total Equity
$1,073,596	$55,887	$ 10	$(238)	$1,206,738		$1,206,738
					$11,582	**11,582**
				2,612		**2,612**
491,004				**491,004**		**491,004**
(39,942)				**(39,942)**		**(39,942)**
(1,419)				**(1,419)**		**(1,419)**
669				**669**		**669**
	(44,298)	**(10)**		**(44,053)**	**2,501**	**(41,552)**
$1,523,908	**$11,589**		**$(238)**	**$1,615,609**	**$14,083**	**$1,629,692**

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

1. NATURE OF OPERATIONS AND BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Yahoo Japan Corporation (the "Company") was incorporated in Japan in 1996. The Company is the overwhelming leader in the Internet market in Japan. The Company classifies its services into three segments: (1) advertising, (2) business services and (3) personal services as discussed in Note 15.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards as to application and disclosure requirements.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the consolidated statement of changes in equity, which is effective for years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2006 financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers and have been made at the rate of ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***—The accompanying consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 13 (22 in 2006) significant subsidiaries. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company and consolidated subsidiaries (collectively, the "Group") has the ability to exercise significant influence are accounted for by the equity method.

Investments in 17 (10 in 2006) associated companies are accounted for by the equity method. Investments in the remaining 6 (none in 2006) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

For consolidated subsidiaries or associated companies whose closing dates are different from that of the Company, certain adjustments necessary to consolidate have been made.

In 2006, the Company acquired majority shareholdings in INFO PLANT CO, LTD. ("INFO PLANT") and NewsWatch, Inc. ("NewsWatch"). As a result, they became consolidated subsidiaries of the Company.

In February 2006, the Company excluded Seven and Y Corp. ("Seven and Y"), a former subsidiary of the Company, from the scope of consolidation due to decrease in holding ratio. As a result, the Company changed the accounting treatment for Seven and Y to the equity method. The profit and loss items of Seven and Y for the nine months ended December 31, 2005 were taken into the consolidation.

In February 2007, the Company acquired majority shareholdings in Interscope Inc. ("Interscope"). As a result, Interscope became a consolidated subsidiary of the Company.

In 2007, the Company sold all of its common shares of BridalNet Inc. ("BridalNet") and NETGENE Co., Ltd. (NETGENE). As a result, they were excluded from the scope of consolidation. The profit and loss items of BridalNet and NETGENE incurred until the date of sale were taken into the consolidation.

b. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories***—Merchandise, work in process and supplies are principally stated at cost determined by the specific identification method, while the first-in first-out method is applied to finished goods.

d. ***Property and Equipment***—Property and equipment are stated at cost. Depreciation is computed by using the declining-balance method.

e. ***Long-lived Assets***—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for years ending on or after March 31, 2004. The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

   The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

f. ***Marketable and Investment Securities***—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

   Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. ***Investments in Unconsolidated Subsidiaries and Associated Companies***—Investments in equity securities of unconsolidated subsidiaries and associated companies are stated at cost determined by the moving-average method.

h. ***Investments in Limited Partnerships and Others***—Investments in limited partnerships and others consist primarily of the Company's contributed capital in investment partnerships. The investments in these partnerships are accounted for by the equity method on the Company's consolidated balance sheets and statements of income.

i. ***Goodwill***—Goodwill represents the excess of the costs of an acquisition over the fair value of the net assets of the subsidiary acquired and is amortized on a straight-line basis over the estimated period of no more than five years, whereas immaterial goodwill is immediately charged to income as incurred.

j. ***Allowance for Doubtful Accounts***—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

k. ***Provision for Yahoo! Points***—As a sales promotion, the Company established the Yahoo! Points system, under which certain points are rewarded to the users of Yahoo! JAPAN redeemable against purchases made via at Yahoo! Shopping. The Company provides for future exercise of these points based on the outstanding number of points granted to users as of the balance sheet date.

l. ***Employees' Retirement Benefits***—The Company and certain subsidiaries primarily participate in defined contribution pension plans, after the transfer of the previous defined benefit pension plans in July 2000, following the enactment of the Act for Defined Contribution Pension. In addition, the Company and its domestic consolidated subsidiaries participate in a multi-employer contributory defined benefit welfare pension plan (the welfare pension plan) covering substantially all of their employees.

Contributions made by the Company and its domestic consolidated subsidiaries to the welfare pension plan are expensed when paid since the plan assets attributable to each participant cannot be reasonably determined. The fair value of the entire plan assets of the welfare pension plan at March 31, 2007 amounted to ¥147,036 million ($1,245,540 thousand), and the participation ratio of the Company and the relevant subsidiaries was 3.1% based on the number of employees.

The total contributions to the defined contribution pension plans and the welfare pension plan recognized as net periodic benefit cost for the years ended March 31, 2007 and 2006 were ¥544 million ($4,605 thousand) and ¥447 million, respectively.

m. ***Bonuses to Directors and Corporate Auditors***—Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. Companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007. The effect of adopting this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥203 million ($1,715 thousand).

n. ***Stock Options***—On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on or after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied the new accounting standard for stock options to those granted on and after May 1, 2006. The effect of adopting this accounting standard for the year ended March 31, 2007 was to decrease income before income taxes and minority interests by ¥30 million ($255 thousand).

o. ***Presentation of Equity***—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

p. ***Leases***—All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

q. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of incomes to the extent that they are not hedged by forward exchange contracts.

s. ***Derivative Financial Instruments***—The Company uses a variety of derivative financial instruments, including foreign currency forward contracts and foreign currency option contracts as a means of hedging exposure to foreign currency risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts and foreign currency option contracts that qualify for hedge accounting and meet specific matching criteria are remeasured at market value at the balance sheet date, and gains and losses are deferred to certain assets and liabilities denominated in foreign currencies.

t. ***Appropriations of Retained Earnings***—Appropriations of retained earnings are reflected in the consolidated financial statements for the year following approval at the shareholders meeting.

u. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits.

v. ***New Accounting Pronouncements***

Measurement of Inventories—Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized. However, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes that: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, and that (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process. (3) However, the following items, unless they are not material, should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished goods	**¥ 32**	¥ 40	**$ 267**
Merchandise		21	
Work in process	**29**	21	**244**
Raw material		1	
Supplies	**112**	83	**958**
Total	**¥173**	¥166	**$1,469**

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Non-current:			
Marketable equity securities	**¥ 2,950**	¥10,372	**$ 24,986**
Non-marketable equity securities	**146,144**	467	**1,237,984**
Investments in limited partnerships and similar investments	**344**	1,859	**2,916**
Other	**329**	329	**2,787**
Total	**¥149,767**	¥13,027	**$1,268,673**

The carrying amounts and aggregate fair value of investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		
	Cost	Unrealized Gains	Fair Value
March 31, 2007			
Securities classified as available-for-sale—equity securities	**¥684**	**¥2,266**	**¥2,950**
March 31, 2006			
Securities classified as available-for-sale—equity securities	674	9,698	10,372

	Thousands of U.S. Dollars		
	Cost	Unrealized Gains	Fair Value
March 31, 2007			
Securities classified as available-for-sale—equity securities	**$5,791**	**$19,195**	**$24,986**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities—preferred stocks	**¥141,285**		**$1,196,823**
Equity securities—common stocks	**4,859**	¥ 467	**41,161**
Investments in limited partnerships and others	**344**	1,859	**2,916**
Other	**329**	329	**2,787**
Total	**¥146,817**	¥2,655	**$1,243,687**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥428 million ($3,622 thousand) and ¥1,963 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥216 million ($1,827 thousand) and ¥14 million ($115 thousand), respectively, for the year ended March 31, 2007 and ¥1,040 million and zero, respectively, for the year ended March 31, 2006.

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥195 million as other expense for certain fixed assets that were written down to the recoverable amount for the year ended March 31, 2006. No impairment loss was recognized in 2007.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2007 and 2006 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans was the variable interest rate imputed at the short-term prime rate + 1.00%. The average interest rates for the years ended March 31, 2007 and 2006 were 1.62% and 1.51%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unsecured syndicated loan from banks and other financial institutions, due serially to 2010 with variable interest rate	**¥ 70,000**		**$ 592,969**
Unsecured loans from banks and other financial institutions, due 2007 with interest rates ranging from 1.50% to 3.02%		¥ 70	
Total	**70,000**	70	**592,969**
Less current portion	**(20,000)**	(40)	**(169,420)**
Long-term debt, less current portion	**¥ 50,000**	¥ 30	**$ 423,549**

The variable interest rate applicable to the syndicated loan above is imputed at the TIBOR (Tokyo Inter-Bank Offered Rate) plus 0.3% at the calculation date defined in the loan agreement.

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥20,000	$169,420
2009	20,000	169,420
2010	20,000	169,420
2011	10,000	84,709
Total	¥70,000	$592,969

7. EQUITY

From May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. *Dividends*

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. *Increases/Decreases and Transfer of Common Stock, Reserve and Surplus*

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. *Treasury Stock and Treasury Stock Acquisition Rights*

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On May 20, 2005, the Company made a stock split by way of a free share distribution at the rate of two shares for each outstanding share. As a result, 7,550,124 shares of common stock were issued to shareholders of record on March 31, 2005.

On August 17, 2005, the Board of Directors of the Company resolved the revision of the articles of incorporation to increase the number of authorized common stock by 60,400,000 shares to a total number of 120,800,000 shares.

On November 18, 2005, the Company made a second stock split in the year by way of a free share distribution at the rate of two shares for each outstanding share. As a result, 15,104,854 shares of common stock were issued to shareholders of record on September 30, 2005.

On February 16, 2006, the Board of Directors of the Company resolved the revision of the articles of incorporation to increase the number of authorized common stock by 120,800,000 shares to a total number of 241,600,000 shares.

On April 1, 2006, the Company made a stock split by way of a free share distribution at the rate of two shares for each outstanding share. As a result, 30,226,068 shares of common stock were issued to shareholders of record on March 31, 2006.

8. STOCK OPTION

Stock options outstanding as of March 31, 2007 are as follows:

The Company

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2000 Stock Option (1)	20 employees	57,344 shares	2000.1.31	¥51,270 ($434.3)	From January 22, 2002 to January 21, 2010
2000 Stock Option (2)	7 employees	11,264 shares	2000.6.27	¥38,086 ($322.6)	From June 17, 2002 to June 16, 2010
2000 Stock Option (3)	3 directors 84 employees	148,992 shares	2000.12.18	¥19,416 ($164.5)	From December 9, 2002 to December 8, 2010
2001 Stock Option (1)	3 directors 72 employees	108,544 shares	2001.6.29	¥9,559 ($81.0)	From June 21, 2003 to June 20, 2011
2001 Stock Option (2)	3 directors 72 employees	112,640 shares	2001.12.18	¥8,497 ($72.0)	From December 8, 2003 to December 7, 2011
2002 Stock Option (1)	2 directors 65 employees	47,616 shares	2002.7.29	¥10,196 ($86.4)	From June 21, 2004 to June 20, 2012
2002 Stock Option (2)	19 employees	5,888 shares	2002.11.20	¥11,375 ($96.4)	From November 21, 2004 to June 20, 2012
2003 Stock Option (1)	5 directors 83 employees	19,840 shares	2003.7.25	¥33,438 ($283.3)	From June 21, 2005 to June 20, 2013
2003 Stock Option (2)	43 employees	2,464 shares	2003.11.4	¥51,478 ($436.1)	From November 5, 2005 to June 20, 2013
2003 Stock Option (3)	38 employees	2,400 shares	2004.1.29	¥47,813 ($405.0)	From January 30, 2006 to June 20, 2013
2003 Stock Option (4)	41 employees	1,168 shares	2004.5.13	¥78,512 ($665.1)	From May 14, 2006 to June 20, 2013
2004 Stock Option (1)	5 directors 131 employees	9,856 shares	2004.7.29	¥65,290 ($553.1)	From June 18, 2006 to June 17, 2014
2004 Stock Option (2)	46 employees	712 shares	2004.11.1	¥62,488 ($529.3)	From November 2, 2006 to June 17, 2014
2004 Stock Option (3)	29 employees	344 shares	2005.1.28	¥65,375 ($553.8)	From January 29, 2007 to June 17, 2014
2004 Stock Option (4)	42 employees	276 shares	2005.5.12	¥60,563 ($513.0)	From May 13, 2007 to June 17, 2014
2005 Stock Option (1)	5 directors 180 employees	5,716 shares	2005.7.28	¥58,500 ($495.6)	From June 18, 2007 to June 17, 2015
2005 Stock Option (2)	31 employees	234 shares	2005.11.1	¥62,000 ($525.2)	From November 2, 2007 to June 17, 2015
2005 Stock Option (3)	65 employees	316 shares	2006.1.31	¥79,500 ($673.4)	From February 1, 2008 to June 17, 2015
2005 Stock Option (4)	49 employees	112 shares	2006.5.2	¥67,940 ($575.5)	From May 3, 2008 to June 17, 2015
2006 Stock Option (1)	5 directors 157 employees	8,569 shares	2006.9.6	¥47,198 ($399.8)	From August 24, 2008 to August 23, 2016
2006 Stock Option (2)	49 employees	313 shares	2006.11.6	¥44,774 ($379.3)	From October 24, 2008 to October 23, 2016
2006 Stock Option (3)	62 employees	360 shares	2007.2.7	¥47,495 ($402.3)	From January 25, 2009 to January 24, 2017

Notes: 1. Each stock option in the table above will be gradually vested in three phases with respective vesting conditions and vesting periods. For each stock option, the initiation date of the exercise period, defined as the day after the first vesting date, indicates the first day on which the first part of the option becomes exercisable.

2. The options will be forfeited upon termination of employment even if they were vested.

Consolidated Subsidiaries

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
INFO PLANT					
2000 Stock Option (1)	3 directors	300 shares	2000.3.30	¥50,000 ($423.5)	From April 1, 2002 to March 31, 2007
2000 Stock Option (2)	2 directors 18 employees	300 shares	2000.9.15	¥150,000 ($1,270.6)	From October 1, 2002 to September 30, 2007
2001 Stock Option	19 employees	190 shares	2001.3.30	¥400,000 ($3,388.4)	From April 1, 2003 to March 31, 2008
2002 Stock Option	32 employees	92 shares	2002.3.22	¥450,000 ($3,811.9)	From April 1, 2004 to March 31, 2009
2003 Stock Option	3 directors 30 employees	182 shares	2003.3.31	¥450,000 ($3,811.9)	From April 1, 2005 to March 31, 2010
NewsWatch					
2004 Stock Option	3 directors 33 employees	3,035 shares	2004.11.26	¥50,000 ($423.5)	From November 27, 2006 to November 26, 2014
2005 Stock Option	6 employees	200 shares	2005.11.18	¥50,000 ($423.5)	From November 27, 2006 to November 26, 2014

Note: The stock options of NewsWatch in the table above will be gradually vested in three phases with respective vesting conditions and vesting periods. For each stock option, the initiation date of the exercise period, defined as the day after the first vesting date, indicates the first day on which the first part of the option becomes exercisable.

The stock option activity for the year ended March 31, 2007 is as follows:

The Company

	2000 Stock Option (1)	2000 Stock Option (2)	2000 Stock Option (3)	2001 Stock Option (1)	2001 Stock Option (2)
			(Shares)		
For the Year Ended March 31, 2007					
Non-vested:					
March 31, 2006—outstanding					
Granted					
Canceled					
Vested					
March 31, 2007—outstanding					
Vested:					
March 31, 2006—outstanding	22,428	2,048	57,048	23,152	32,516
Vested					
Exercised			6,600	3,375	6,038
Canceled	3,996				
March 31, 2007—outstanding	18,432	2,048	50,448	19,777	26,478
Exercise price	¥51,270 ($434.3)	¥38,086 ($322.6)	¥19,416 ($164.5)	¥9,559 ($81.0)	¥8,497 ($72.0)
Average stock price at exercise			¥52,993 ($448.9)	¥53,147 ($450.2)	¥52,501 ($444.7)

	2002 Stock Option (1)	2002 Stock Option (2)	2003 Stock Option (1)	2003 Stock Option (2)	2003 Stock Option (3)
			(Shares)		
For the Year Ended March 31, 2007					
Non-vested:					
March 31, 2006—outstanding	19,200	4,096	10,560	1,568	1,216
Granted					
Canceled			(128)	(128)	(160)
Vested	(19,200)	(4,096)	(3,136)	(128)	(128)
March 31, 2007—outstanding			7,296	1,312	928
Vested:					
March 31, 2006—outstanding	13,312		6,912	384	448
Vested	19,200	4,096	3,136	128	128
Exercised	(6,912)	(1,792)	(128)		(32)
Canceled				(96)	(32)
March 31, 2007—outstanding	25,600	2,304	9,920	416	512
Exercise price	¥10,196	¥11,375	¥33,438	¥51,478	¥47,813
	($86.4)	($96.4)	($283.3)	($436.1)	($405.0)
Average stock price at exercise	¥50,465	¥44,871	¥50,650		¥46,200
	($427.5)	($380.1)	($429.1)		($391.4)

	2003 Stock Option (4)	2004 Stock Option (1)	2004 Stock Option (2)	2004 Stock Option (3)	2004 Stock Option (4)
			(Shares)		
For the Year Ended March 31, 2007					
Non-vested:					
March 31, 2006—outstanding	864	9,440	632	304	248
Granted					
Canceled	(128)	(144)	(96)	(40)	(16)
Vested	(240)	(4,016)	(184)	(64)	
March 31, 2007—outstanding	496	5,280	352	200	232
Vested:					
March 31, 2006—outstanding					
Vested	240	4,016	184	64	
Exercised					
Canceled	(64)	(48)			
March 31, 2007—outstanding	176	3,968	184	64	
Exercise price	¥78,512	¥65,290	¥62,488	¥65,375	¥60,563
	($665.1)	($553.1)	($529.3)	($553.8)	($513.0)
Average stock price at exercise					

	2005 Stock Option (1)	2005 Stock Option (2)	2005 Stock Option (3)	2005 Stock Option (4)	2006 Stock Option (1)
	(Shares)				
For the Year Ended March 31, 2007					
Non-vested:					
March 31, 2006—outstanding	5,632	234	314		
Granted				112	8,569
Canceled	(160)	(48)	(32)	(14)	(51)
Vested					
March 31, 2007—outstanding	5,472	186	282	98	8,518
Vested:					
March 31, 2006—outstanding					
Vested					
Exercised					
Canceled					
March 31, 2007—outstanding					
Exercise price	¥58,500	¥62,000	¥79,500	¥67,940	¥47,198
	($495.6)	($525.2)	($673.4)	($575.5)	($399.8)
Average stock price at exercise					

	2006 Stock Option (2)	2006 Stock Option (3)
	(Shares)	
For the Year Ended March 31, 2007		
Non-vested:		
March 31, 2006—outstanding		
Granted	313	360
Canceled	(11)	
Vested		
March 31, 2007—outstanding	302	360
Vested:		
March 31, 2006—outstanding		
Vested		
Exercised		
Canceled		
March 31, 2007—outstanding		
Exercise price	¥44,774	¥47,495
	($379.3)	($402.3)
Average stock price at exercise		

Fair value information of stock options granted on or after May 1, 2006, which is required under the new accounting standard for stock options, is as follows:

	2005 Stock Option (4)	2006 Stock Option (1)	2006 Stock Option (2)	2006 Stock Option (3)
Fair value price at grant date:				
a.	¥30,958	¥24,564	¥23,832	¥20,435
	($262.2)	($208.1)	($201.9)	($173.1)
b.	¥35,782	¥26,803	¥25,311	¥23,448
	($303.1)	($227.0)	($214.4)	($198.6)
c.	¥39,196	¥28,156	¥26,766	¥25,578
	($332.0)	($238.5)	($226.7)	($216.7)

Note: The stock options of the Company will be gradually vested in three phases with respective vesting conditions and vesting periods. Therefore, the information above is presented to show fair values of the stock options applicable to each of the three phases.

The assumptions used to measure fair value of stock options granted on or after May 1, 2006 are as follows:

Estimate method: Black-Scholes option pricing model

	2005 Stock Option (4)	2006 Stock Option (1)	2006 Stock Option (2)	2006 Stock Option (3)
Volatility of stock price:				
a.	55.5%	62.2%	61.7%	54.2%
b.	62.8%	66.6%	63.9%	60.9%
c.	67.4%	68.4%	66.2%	65.2%
Estimated remaining outstanding period:				
a.	5.17 years	5.96 years	5.96 years	5.96 years
b.	5.67 years	6.46 years	6.46 years	6.46 years
c.	6.17 years	6.96 years	6.96 years	6.96 years
Estimated dividend (dividend yield)	0.24%	0.35%	0.36%	0.36%
Interest rate with risk free:				
a.	1.39%	1.32%	1.39%	1.38%
b.	1.48%	1.38%	1.44%	1.43%
c.	1.56%	1.44%	1.50%	1.48%

Notes: 1. The a, b and c denoted in the table above correspond to those in the fair value information.
2. Periods for computation using actual stock price:

2005 Stock Option (4):
a. From March 19, 2001 to May 1, 2006
b. From September 18, 2000 to May 1, 2006
c. From March 20, 2000 to May 1, 2006

2006 Stock Option (1):
a. From September 11, 2000 to August 28, 2006
b. From March 13, 2000 to August 28, 2006
c. From September 13, 1999 to August 28, 2006

2006 Stock Option (2):	a. From November 13, 2000 to October 30, 2006
	b. From May 15, 2000 to October 30, 2006
	c. From November 15, 1999 to October 30, 2006
2006 Stock Option (3):	a. From February 12, 2001 to January 29, 2007
	b. From August 14, 2000 to January 29, 2007
	c. From February 14, 2000 to January 29, 2007

3. Estimated remaining outstanding period is determined based on the assumption that all the options are exercised until the middle date of the exercise period.
4. Estimated dividend is determined based on the actual dividend applicable to the year ended March 31, 2006.
5. For the interest rate with risk free, the Company uses the yield of Japanese treasury bond applicable to the estimated remaining outstanding period of options.
6. Estimated number of options vested is determined based on the actual termination ratio of employees.

Consolidated Subsidiaries

INFO PLANT

	2000 Stock Option (1)	2000 Stock Option (2)	2001 Stock Option	2002 Stock Option	2003 Stock Option
			(Shares)		
For the Year Ended March 31, 2007					
Non-vested:					
March 31, 2006—outstanding	100	230	100	53	106
Granted					
Canceled					
Vested					
March 31, 2007—outstanding	100	230	100	53	106
Vested:					
March 31, 2006—outstanding					
Vested					
Exercised					
Canceled					
March 31, 2007—outstanding					
Exercise price	¥50,000	¥150,000	¥400,000	¥450,000	¥450,000
	($423.5)	($1,270.6)	($3,388.4)	($3,811.9)	($3,811.9)
Average stock price at exercise					

NewsWatch

	2004 Stock Option	2005 Stock Option
	(Shares)	
For the Year Ended March 31, 2007		
Non-vested:		
March 31, 2006—outstanding	2,605	200
Granted		
Canceled	(505)	(40)
Vested		
March 31, 2007—outstanding	2,100	160
Vested:		
March 31, 2006—outstanding		
Vested		
Exercised		
Canceled		
March 31, 2007—outstanding		
Exercise price	¥50,000	¥50,000
	($423.5)	($423.5)
Average stock price at exercise		

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Enterprise tax payable	**¥2,059**	¥1,833	**$17,445**
Allowance for doubtful accounts	**995**	689	**8,432**
Tax loss carryforwards	**287**	1,236	**2,435**
Depreciation and amortization	**2,949**	2,012	**24,984**
Provision for Yahoo! Points	**828**	539	**7,015**
Other	**1,581**	1,322	**13,384**
Less valuation allowance	**(419)**	(1,236)	**(3,551)**
Total	**8,280**	6,395	**70,144**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**945**	4,527	**8,010**
Other		15	
Total	**945**	4,542	**8,010**
Net deferred tax assets	**¥7,335**	¥1,853	**$62,134**

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2007 and 2006 was not presented because the differences between them were not material.

At March 31, 2007, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥706 million ($5,978 thousand) which are available to be offset against taxable income of the respective companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥410	$3,474
2011	38	319
2012	149	1,259
2013	109	926
Total	¥706	$5,978

10. LEASE

The Group leases certain computer equipment, office equipment and vehicles.

Total rental expenses including lease payments under finance leases for the years ended March 31, 2007 and 2006 were ¥4,624 million ($39,167 thousand) and ¥3,824 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized basis for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen			
	2007			
	Buildings and Structures	Equipment	Software	Total
Acquisition cost	**¥13**	**¥131**	**¥ 60**	**¥ 204**
Accumulated depreciation	**(2)**	**(59)**	**(21)**	**(82)**
Net leased property	**¥11**	**¥ 72**	**¥ 39**	**¥ 122**

	Millions of Yen		
	2006		
	Equipment	Software	Total
Acquisition cost	¥114	¥50	¥164
Accumulated depreciation	(57)	(32)	(89)
Net leased property	¥ 57	¥18	¥ 75

	Thousands of U.S. Dollars			
	2007			
	Buildings and Structures	Equipment	Software	Total
Acquisition cost	**$112**	**$1,103**	**$512**	**$1,727**
Accumulated depreciation	**(20)**	**(494)**	**(180)**	**(694)**
Net leased property	**$ 92**	**$ 609**	**$332**	**$1,033**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	**¥ 36**	¥31	**$ 301**
Due after one year	**89**	46	**755**
Total	**¥125**	¥77	**$1,056**

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Depreciation expense	**¥40**	¥36	**$336**
Interest expense	**4**	2	**31**
Total	**¥44**	¥38	**$367**

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method with no salvage value and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥1,299	$11,001
Due after one year	3,862	32,715
Total	¥5,161	$43,716

11. DERIVATIVES

The Company enters into foreign currency forward contracts and foreign currency option contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with such assets and liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses caused by market risk arising from market fluctuation.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount. The basic policies for use of derivatives are approved by the directors and the execution and control of derivatives are controlled by the Management Department.

Since all of the Company's derivative transactions qualify for hedge accounting and meet specific matching criteria for the years ended March 31, 2007 and 2006, gains and losses related to the derivatives are deferred to certain assets and liabilities. Therefore, market value information of derivatives is not presented.

12. RELATED PARTY TRANSACTIONS

Transactions of the Group with the parent company, sister company, unconsolidated subsidiaries and associated companies (the "related companies") for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Sales of advertisement	**¥ 40,100**	¥28,687	**$ 339,684**
Sale of investment securities:			
Proceeds from sale	**294**		**2,488**
Gain on sale	**241**		**2,041**
Interest income		629	
Royalty paid	**6,025**	4,709	**51,036**
Stock subscription	**120,000**		**1,016,518**

The balances due to or from the related companies at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Accounts receivable	**¥ 4,191**	¥3,249	**$ 35,502**
Short-term loans receivable		3,656	
Investment securities	**120,000**		**1,016,518**
Other payable	**2,411**	1,328	**20,427**
Unearned revenue		35	

13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") after the retroactive restatement of stock splits for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Year Ended March 31, 2007				
Basic EPS—Net income available to common shareholders	**¥57,963**	**60,462**	**¥958.66**	**$8.12**
Effect of dilutive securities—Warrants		**125**		
Diluted EPS—Net income for computation	**¥57,963**	**60,587**	**¥956.70**	**$8.10**
Year Ended March 31, 2006				
Basic EPS—Net income available to common shareholders	¥46,923	60,420	¥776.62	
Effect of dilutive securities—Warrants		160		
Diluted EPS—Net income for computation	¥46,923	60,580	¥774.57	

14. SUBSEQUENT EVENT

a. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2007 was approved at the Company's general shareholders meeting held on June 21, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥96.00 ($0.81) per share	¥5,806	$49,181

b. Non-binding Memorandum to Acquire All Issued Shares of Overture K.K.

According to the non-binding memorandum dated on April 24, 2007, the Company will acquire all issued shares of Overture K.K. from Yahoo! Inc. Group for operating synergy and enhancement in the paid search services. The specific conditions such as acquisition cost and date of acquisition are currently under discussion.

15. SEGMENT INFORMATION

Effective April 1, 2006, the Group's former seven business segments, namely, (1) listing, (2) auction, (3) Yahoo! BB, (4) media, (5) shopping, (6) business solutions (BS) and (7) corporate common, were reorganized into three business segments, namely, (1) advertising, (2) business services, and (3) personal services, summarized below. Because this new business segmentation more accurately reflects the Group's actual operations as it continuously enhances and tailors services to meet changing demands in the rapidly expanding Internet market, it will enable greater transparency and consistency in the presentation of business results. At the same time, the Group implemented a divisional restructuring in an effort to more efficiently provide services.

The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of banner and text advertisements on the Yahoo! JAPAN Web site, the Sponsor Site paid search service, and advertisement planning and production services.

The Business Services segment includes non-advertising-related services for corporations. This segment derives revenue from fees and commissions for various information listing services, tenant fees and royalties from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, incentive fees for acquiring new subscribers to the Yahoo! BB broadband service, and fees for other information services.

The Personal Services segment consists of services to individual Internet users. Main revenue sources for this segment include Yahoo! Auctions system usage fees, Yahoo! Premium membership fees, Internet service provider (ISP) fees from Yahoo! BB subscribers, and sales of various kinds of content.

Information about business segments, geographical segments and sales to foreign customers of the Group as of and for the years ended March 31, 2007 and 2006 is as follows:

(1) Business Segments

a. Sales and Operating Income

	Millions of Yen				
	2007				
	Advertising	Business Services	Personal Services	Eliminations/ Corporate	Consolidated
Sales to customers	**¥89,197**	**¥48,098**	**¥75,258**		**¥212,553**
Intersegment sales	**5**	**117**	**25**	**¥ (147)**	
Total sales	**89,202**	**48,215**	**75,283**	**(147)**	**212,553**
Operating expenses	**38,897**	**28,912**	**27,309**	**11,202**	**106,320**
Operating income	**¥50,305**	**¥19,303**	**¥47,974**	**¥(11,349)**	**¥106,233**

b. Assets, Depreciation, Amortization and Capital Expenditures

	Millions of Yen				
	2007				
	Advertising	Business Services	Personal Services	Eliminations/ Corporate	Consolidated
Assets	**¥32,622**	**¥35,080**	**¥32,826**	**¥217,900**	**¥318,428**
Depreciation and amortization	**3,576**	**1,799**	**2,605**	**596**	**8,576**
Capital expenditures	**5,941**	**3,216**	**4,741**	**1,097**	**14,995**

a. Sales and Operating Income

	Thousands of U.S. Dollars				
	2007				
	Advertising	Business Services	Personal Services	Eliminations/ Corporate	Consolidated
Sales to customers	**$755,587**	**$407,436**	**$637,508**		**$1,800,531**
Intersegment sales	**44**	**993**	**208**	**$ (1,245)**	
Total sales	**755,631**	**408,429**	**637,716**	**(1,245)**	**1,800,531**
Operating expenses	**329,498**	**244,915**	**231,325**	**94,895**	**900,633**
Operating income	**$426,133**	**$163,514**	**$406,391**	**$(96,140)**	**$ 899,898**

b. Assets, Depreciation, Amortization and Capital Expenditures

	Thousands of U.S. Dollars				
	2007				
	Advertising	Business Services	Personal Services	Eliminations/ Corporate	Consolidated
Assets	**$276,342**	**$297,157**	**$278,070**	**$1,845,832**	**$2,697,401**
Depreciation and amortization	**30,295**	**15,242**	**22,065**	**5,046**	**72,648**
Capital expenditures	**50,330**	**27,242**	**40,156**	**9,291**	**127,019**

a. Sales and Operating Income

	Millions of Yen								
	2006								
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Eliminations/ Corporate	Consolidated
Sales to customers	¥49,561	¥35,934	¥19,485	¥18,357	¥15,905	¥5,092	¥29,362		¥173,696
Intersegment sales		53		10	58	18	163	¥ (302)	
Total sales	49,561	35,987	19,485	18,367	15,963	5,110	29,525	(302)	173,696
Operating expenses	12,225	14,519	11,808	10,787	14,218	5,592	11,098	11,316	91,563
Operating income (loss)	¥37,336	¥21,468	¥ 7,677	¥ 7,580	¥ 1,745	¥ (482)	¥18,427	¥(11,618)	¥ 82,133

b. Assets, Depreciation, Amortization and Capital Expenditures

	Millions of Yen								
	2006								
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Eliminations/ Corporate	Consolidated
Assets	¥55,205	¥47,142	¥25,510	¥11,627	¥5,858	¥7,499	¥35,093	¥3,041	¥190,975
Depreciation and amortization	426	1,059	1,003	414	283	336	565	2,836	6,922
Capital expenditures	1,161	1,911	852	976	684	816	1,249	5,209	12,858

If the industry segment information for the year ended March 31, 2006 were prepared using the new segmentation, such information would be as follows:

a. Sales and Operating Income

	Millions of Yen					
	2006					
	Advertising	Business Services	Personal Services	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥68,363	¥35,291	¥61,095	¥8,947		¥173,696
Intersegment sales	2	62	14		¥ (78)	
Total sales	68,365	35,353	61,109	8,947	(78)	173,696
Operating expenses	31,100	20,360	23,115	8,873	8,115	91,563
Operating income	¥37,265	¥14,993	¥37,994	¥ 74	¥(8,193)	¥ 82,133

b. Assets, Depreciation, Amortization and Capital Expenditures

	Millions of Yen					
	2006					
	Advertising	Business Services	Personal Services	Other	Eliminations/ Corporate	Consolidated
Assets	¥28,277	¥32,401	¥26,165	¥41	¥104,091	¥190,975
Depreciation and amortization	3,018	1,192	2,191	77	444	6,922
Capital expenditures	5,692	2,129	4,066	89	882	12,858

Note: "Other" in the table above primary consists of retail business operated by Seven and Y, a former consolidated subsidiary of the Company.

(2) Geographical Segments

Because the Company and its subsidiaries are located and conduct their operations primarily in Japan, geographical segment information is not presented.

(3) Sales to Foreign Customers

Because sales to foreign customers are not material, such information is not presented.

Independent Auditors' Report

To the Board of Directors and Shareholders of Yahoo Japan Corporation:

We have audited the accompanying consolidated balance sheet of Yahoo Japan Corporation (the "Company") and consolidated subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Yahoo Japan Corporation and consolidated subsidiaries for the year ended March 31, 2006 were audited by other auditors whose report, dated June 22, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yahoo Japan Corporation and consolidated subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 15 to the consolidated financial statements, effective April 1, 2006, the Company changed its business segmentation.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 21, 2007

Risk Factors

(April 24, 2007)

Major risk factors with regard to the businesses of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) as of the publication date of this document are discussed below. The Group proactively discloses those risk factors it deems necessary that potential 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 potential investors consider the issues below before assessing the position of the Group and its future performance. Please note that the risk factors 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. Internet Dependence and Competitive Challenges

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 due to the recent spread of broadband communications. As the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are the continued expansion of Internet-based communications and commercial activity 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 in response 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 rely on 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 beginning operations in 1996, the Group has offered search engine and information-related services via 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 6.0% of the total advertising market in calendar year 2006, according to a recent DENTSU INC. report. During the same year, Internet advertising expenditures exceeded those for radio and nearly equaled those for magazines. The Internet advertising market is still far smaller than the advertising markets for television and newspapers, however. In the future, growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated income, which could negatively affect Group performance.

Although the Internet advertising market is attracting increasing expenditures from companies in various 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 basis with limited budgets. To promote greater understanding and appreciation of Internet advertising in 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 revenue.

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 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 lease and utility 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 periods 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 Co., Ltd. If the Group fails to properly respond to changes in advertising methods, its advertising revenue 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 revenue 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 personal services businesses include system-use fees for Yahoo! Auctions; membership fees for Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions; Internet service provider fees for Yahoo! BB service; and sales of individually priced content.

With the spread of broadband communications, the number of

Internet users has increased drastically. Accordingly, the market for personal services business is likely to continue expanding. 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 revenues 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 devices 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 companies 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 (So-net Entertainment 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 the numbers of Yahoo! Premium members and Yahoo! BB subscribers also decrease as a result of competition, then 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.

4) Business Services

a. Trends in Corporate Internet Use and Market Change

In business services, Group income is derived mainly from information 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 information listing services, particularly Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT Co., Ltd., 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 attract stores to the Yahoo! Auctions and Yahoo! Shopping sites with the aim of expanding e-commerce income. Despite these efforts, the market might not expand for various reasons. Commercial use of the Internet by corporations might not expand as anticipated. The shift of information listing services to the Internet from traditional media, particularly paper media such as newspapers, magazines, and flyer inserts, might not advance further. The number of users of the Group's auction and shopping sites might not increase as anticipated. Transaction volumes of those sites might be less than expected, and the number of registered stores might be insufficient. Group performance could be influenced by these factors.

b. Influence of Changes in the Broadband Market

Incentive fees received from SOFTBANK BB Corp. (SBB; see note, below) for each new Yahoo! BB account signed on via the Yahoo! JAPAN site constitute a portion of the Group's business services revenue.

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

The commencement of the Group's Yahoo! BB service was a major stride for broadband communications in Japan. According to the 2005 White Paper on Telecommunication (Ministry of Internal Affairs and Communications), 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, chiefly the 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 much 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 or 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) underwent 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.) On December 1, 2005, SBB further split up its operations, spinning off its ADSL operations into BB TECHNOLOGY Corp. (BBT) while retaining its FTTH, retail, and other non-ADSL businesses. On March 31, 2007, these businesses were recombined when SBB merged with BBT, with BBT remaining as the surviving company. Following the merger, BBT changed its name to SOFTBANK BB Corp.

c. Trends among Competitors

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

Information 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) and bidders (DeNA). 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 information listing business or a decrease in store participation on 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. 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 via 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 Yahoo! Auctions

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

Effective September 1, 2003, a revision of legislation concerning 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 revised law requires operators to make efforts to confirm the identities 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 comply. The scope of the revised law, however, is limited to areas where the Group is already compliant. Furthermore, because no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have a significant impact on its auction business.

On June 8, 2006, the Japanese government introduced its "Plan 2006 to Promote Intellectual Property Rights Strategy" to carry forward extensive measures to fight the infringement of intellectual property rights 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 and enhanced efforts by intellectual property owners and auction operators through the Conference on Anti-distribution of Pirated Intellectual Property on the Internet. 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. In collaboration with Internet auction operators DeNA and Rakuten, the Group has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Group is actively working to devise measures against violations. To help educate persons who list items for sale on Internet auctions as well as the potential buyers of those items, the Group has published on its Web site "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures do not bring about the expected 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, it could have a significant impact on the Group's auction services.

c. Potential Legal Restriction on Other Services

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 brings it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction (IRR) Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Since the authorities have decided to make a revision to the Money-Lending Business Control and Regulation Law to reduce the interest rate ceiling on loans to the same maximum interest rate specified in the IRR Law, it is possible for customers to claim that interest paid in excess of the amount allowed under the IRR Law represents unfair profits, and demand repayment. The Company is preparing for any future interest repayment claims by booking all interest received in excess of the IRR Law's interest rate ceiling. In addition, the Company intends to lower its interest rates before the revised law is enforced. Based on these actions, the Company believes that the impact of the revised law on its business will be minor.

In its Yahoo! Trading (securities brokerage service), the Company is under the supervision of the Financial Services Agency and is subject to the Securities and Exchange Law and rules set by 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 efforts, it 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. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. In addition, the Group has set up a patrol team to eliminate illegal items from auctions 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, groups of users have already filed a suit for damage compensation against the Company. 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 capabilities to ensure proper management could lead to increased costs and therefore negatively impact earnings.

The Group has instituted a system for compensating 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. In general, however, 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 avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review 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 its 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 those Web sites with clauses indicating the full responsibility of the creators for the content of their sites. For such services as message 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 is implementing such programs as Yahoo! Kids and Yahoo! Safety Net. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The

Group could be subject to claims, reprimands, or damage suits 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 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 suit against the Group and that the Group will be forced to pay large royalties to acquire said patents or have to cease providing certain services.

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 the 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 be certain that such problems will not occur. In such cases, the Group might 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. Even so, a significant change in accounting methods could have a material impact on the Group's profits or losses.

3. Information Security Management

1) Group Efforts to Promote 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 groupwide. 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, below), 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 on information management 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, below) of the nonprofit privacy protection licensing institution TRUSTe. 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, 2007, Yahoo Japan Corporation and nine of its subsidiaries had acquired the above 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 the Company and its subsidiaries and affiliates, hereinafter referred to as the Group, is our most important asset. Protecting this information is extremely important not only to us but also to 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 of 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 be used only 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, these certification systems focus 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—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. In addition, the Group has set up a Yahoo! Security Center within the Yahoo! JAPAN site that urges users to be careful, specifically 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. The Group also handles internal information access rights with extreme care, granting only a limited number of persons access to users' personal information.

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, by companies with which business alliances have been concluded, or by companies to which the Group outsources work. Recently, there have been multiple cases of personal information stored on personal computers 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 fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ other methods such as phishing (see note, below), whereby they illicitly obtain personal user information, resulting in damage to users. 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 of 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. The Group's handling of personal information is in accordance with the provisions of this law.

Note:

Phishing fraud involves obtaining personal information by sending e-mails purportedly from a financial institution or other company that trick the recipients 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 resulting from phishing 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. 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 personal information in the manner indicated above. 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 offered by 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 alliance partners and of stores registered on 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 personal 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 partners. 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 independent contracts with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we now intend to prevent personal information leaks by these stores. This is being achieved by eliminating the necessity for stores to handle credit card numbers by offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure for using store management tools, restricting downloading of order information including customer information, and broadening information security awareness. Nevertheless, it is possible that information leaks may occur despite the implementation of these measures, 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 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. 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 other 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 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 their own reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstances 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 SOFTBANK CORP. and their related companies 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 dispersing its systems and data centers.

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 to 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

Our parent company, SOFTBANK CORP., has a variety of companies operating under its umbrella that are active in a range of fields and areas. The SOFTBANK Group's business segments include Internet Culture, Broadband Infrastructure, e-Commerce, Mobile Communications, Fixed-line Telecommunications, and Others (Broadcasting Media, Technology Services, Media and Marketing, Overseas Funds, and Others). The Group plays a central role in the Internet Culture segment and is also involved in the Broadband Infrastructure segment through its collaboration with SOFTBANK BB Corp. in providing the comprehensive broadband service Yahoo! BB. In the Others segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

b. Alliance Contracts and Other Arrangements with SOFTBANK BB Corp.

The Company has signed the following business alliance contract and incentive agreement concerning Yahoo! BB with SOFTBANK BB Corp. (SBB), which is a subsidiary of SOFTBANK CORP.

Contract name: Business alliance contract
Contract date: March 8, 2006 (original contract signed on June 20, 2001)
Contract term: From March 8, 2006; termination date unspecified
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB 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) SBB's main responsibilities *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 the following in exchange for services rendered: •Subscribers acquired by March 31, 2005: ¥100 per line per month •Subscribers acquired during the period from April 1, 2005, until March 31, 2007: ¥200 per line per month until the 36th month from the month of application. From the 37th month, ¥100 per line per month. •Subscribers acquired after April 1, 2007: ¥100 per line per month

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 each year)
Contracted party: SOFTBANK BB Corp.
Incentive fees *Acquisition incentive fees (100% upon verification of operational subscriber lines): Approx. ¥5,000–¥15,000 per application *Continuing incentive fees: Approx. ¥30–¥280 per month per continuing subscriber

Notes:

1. Although the counterparties to the above business alliance contract and incentive agreement were previously SBB and BB TECHNOLOGY Corp. (BBT) in both cases, a merger was carried out on March 31, 2007, in which SBB was absorbed by BBT, which then changed its name to SOFTBANK BB Corp.
2. SBB and the Company revised the above business alliance contract on March 31, 2007, to reflect a change in the value of the role taken by each company. The Company had been paying ¥2,400 per line to SBB after the first subscription fee was charged, thereby sharing the cost of Yahoo! BB subscriber acquisition. However, together with the revision of the above business alliance contract, the provision to share the cost of Yahoo! BB subscriber acquisition was cancelled.

c. Dependence on SOFTBANK BB Corp.

The portion of Yahoo! BB business handled by SBB could indirectly but significantly influence Group performance. If SBB fails 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 services quickly, thereby negatively impacting Group earnings.

d. Joint Venture for Streaming Content

As stated above, the Company has established and commenced operations of TV Bank Corporation (TV Bank) jointly with SOFTBANK CORP. to strengthen its streaming content business. The two partners have concentrated the necessary human resources and know-how into TV Bank and are proceeding with the procurement of streaming content, the development and operation of systems for transmitting or searching streaming content, and the creation and operation of streaming services. With the cooperation of content providers and advertising agencies, the Company intends to develop Yahoo! Streaming and other streaming content services into a core business in the years ahead.

Should TV Bank be unable to procure content as expected or the cost of content be greater than expected, or should the set-up of streaming content delivery and other systems take more time than anticipated, the Group's performance could be negatively impacted.

e. Investment in Mobile Phone Business

On April 27, 2006, SOFTBANK CORP. acquired Vodafone K.K. (now SOFTBANK MOBILE Corp.) through BB Mobile Corp., a subsidiary of SOFTBANK CORP. subsidiary Mobiletech Corp. Also on April 27, 2006, the Company made a ¥120 billion investment in BB Mobile Corp. comprising preferred shares with share acquisition rights. The investment was made with a full understanding of the risks involved based on adequate pre-investment investigations and due internal process.

The Group has expanded its mobile Internet services provided to SOFTBANK MOBILE in its capacity as the portal mobile site for its services, while also providing its services to carriers other than SOFTBANK MOBILE. The Group is providing SOFTBANK MOBILE's customers with an environment that facilitates the use of a variety of Internet services via mobile phone. In the future, the Group aims to achieve integrated mobile Internet services fully accessible by subscribers of all mobile carriers.

Should SOFTBANK MOBILE fail to achieve the level of profits originally projected, or, in the worst case, should the Company be unable to recover its investment in the business, the Group's business performance and financial condition could be negatively impacted.

f. Possibility of Competition within the SOFTBANK Group

As stated above, the Group is working with SOFTBANK CORP. in strategically developing the Yahoo! BB, streaming content, mobile phone, and other businesses. If SOFTBANK should invest in or tie up with a company offering services similar to those offered by the Group, competition within the SOFTBANK Group could arise in the future. Although the Group intends to proactively deal with such an eventuality by collaborating, any resultant competition within the SOFTBANK Group could affect the performance of the Group in some manner.

g. Joint Directorships

As of March 31, 2007, 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 part-time director)
* Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK president and CEO)

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 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.

h. Joint Auditors

Mitsuo Sano, who became a corporate auditor of Yahoo Japan Corporation in December 1996, is also a standing corporate auditor of SOFTBANK CORP. Mr. Sano was brought on board by the Company to strengthen its corporate auditing function.

2) Business Relationship with the Yahoo! Inc. Group

a. License Agreement with Yahoo! Inc.

The Group's operations are based on a license agreement with Yahoo! Inc., one of the founding partners of the Company. 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.

Contract name: YAHOO! JAPAN LICENSE AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified *Note:* The license agreement may be terminated under the following conditions: 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 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, below) *Note:* 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 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 will acquire domain names that the Group might find necessary to its business or will 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, representing a growing proportion of overall advertising sales. The Group intends to further expand Sponsor Site sales based on the continued good relationship with Overture. However, should the business relationship change or some type of obstruction arise to the smooth operation of Overture, the viability of the related services being offered could be compromised and the Group's performance negatively impacted.

Recently, a form of fraud misusing the system of Sponsor Sites has become a problem. Some fraudsters, taking advantage of the fact that the cost of Sponsor Site is based on the number of clicks, have dishonestly increased the number of clicks and thereby excessively charged advertisers. In the United States, some advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering this type of advertising product. The Group cannot rule out the possibility that such legal action will be taken against the Group and Overture, thereby damaging the Group's brand image and negatively impacting its 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 above. For these reasons, it has been necessary to have him on the board to support the Company's startup and expansion.

3) SOFTBANK CORP. and Yahoo! Inc. Shareholder Agreement

SOFTBANK CORP. and Yahoo! Inc. concluded a shareholder agreement at the time of the Company's establishment, the main points of which are as follows:

* The election of directors and corporate auditors shall be done according to law and the Company's articles of incorporation. However, as long as SOFTBANK and Yahoo! Inc. each maintains shareholdings equaling 5% or more of the Company's stock, SOFTBANK and Yahoo! Inc. shall each nominate its own representative to be a director. In addition, the number of directors shall be five, which number cannot be changed without first obtaining the approval of both SOFTBANK and Yahoo! Inc.
* The Company shall conduct its business according to law and its articles of incorporation. However, should the Company wish to undertake a merger that would reduce the combined shareholdings of SOFTBANK and Yahoo! Inc. to less than 50%, or to sell major assets, it must first obtain the approval of Yahoo! Inc.
* The Company shall increase its capital, raise funds, and take other financial actions according to law and its articles of incorporation. SOFTBANK will not approve any resolution by the Company to issue new share subscription rights without Yahoo! Inc.'s consent (except in the case of stock options for employees). Moreover, SOFTBANK and Yahoo! Inc. will determine the range allowed for granting stock options to employees before this agreement becomes valid.
* The right of SOFTBANK and Yahoo! Inc. as shareholders to inspect the Company's books shall be in accordance with law and the Company's articles of incorporation.
* Other points of agreement

— Neither SOFTBANK nor Yahoo! Inc. will agree to any change to the Company's articles of incorporation that would be detrimental to the other party.

— When one party decides to sell shares of Yahoo Japan Corporation, it will inform the other party at least 20 days in advance of the intended selling date.

— When one party decides to purchase additional shares of Yahoo Japan Corporation on the market, it will first obtain the consent of the other party.

— When one party decides to sell shares of Yahoo Japan Corporation on the market, it must offer the shares to the other party first. Should the other party not wish to buy the shares, they will be sold to a third party. In that case, the other party will also participate as a seller in the transaction with the same third party also buying its shares, and may sell shares held in Yahoo Japan Corporation to the third party as well in accordance with the proportion of shares held by SOFTBANK and Yahoo! Inc.

The Company is not the central party in this shareholder agreement. The Company, by principle, carries out its business in accordance with law and its articles of incorporation, and, moreover, the agreement does not significantly fetter the Company's operations or its pursuit of business. From this point of view, the Company believes that the agreement does not represent an invasion of the rights of other shareholders.

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 its 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 the Group's 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, the viability of the Group's services and its performance could be negatively impacted.

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 owing 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 caused the stoppage of a third-party system to which the Group's service is linked. Such events could lead to a 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 aforementioned 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 requires 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 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 owing to original development in Japan, including a rising level of expenditures for localizing work and preparation 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 support that process, the Group established a new research institution, Yahoo! JAPAN Research, on April 1, 2007. The Group is projecting substantial R&D expenses related to future business development. Actual R&D expenditures could rise beyond those projections and, depending on the time period required for development, the Group's competitiveness could actually diminish despite its 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, the Group is also focusing on organizational enhancement for service planning and for system development. Even so, the Group might fail to achieve targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than anticipated. 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, thereby compressing Group 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. However, should the Group not be able to acquire information and content as expected or the costs of acquiring the information and content be higher than anticipated, use of the Group's services by Internet users might decline, possibly resulting in a failure of the Group to achieve its projected earnings.

b. Advertising Guarantee

As mentioned above, advertising contract periods and page views are guaranteed for many of our products, with advertising fees based on those two parameters. Failure to obtain the number of required page views due to problems with the Internet connection environment or to 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.

Moreover, the Group might fail to provide services that meet the needs of advertisers, which could result in lost sales opportunities as well as reduced demand from advertisers, which would negatively impact 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 maintains a capital-investment program of comparatively large scale considering its current operations. To keep up with 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 time 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 ensure that unnecessary cash outflows do not occur by closely considering costs and benefits and by 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 its performance.

2) Internal Control System

a. Operations and Management

The Group has implemented stricter controls and operational standards for behavior to prevent or reduce the recurrence of problems related to improper employee conduct or human operational error. In April 2006, the Company established the Internal Control Office as an independent organization under the direct supervision of the President. The Internal Control Office will work to ensure effective and efficient business activities, accurate financial reporting, and full legal compliance, as well as maintain appropriate corporate governance. Despite these efforts, problems related to business management and control issues could occur in the future.

b. Human Resource Management as Business Expands

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, the Group must increase staff in response 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 for fee-based services.

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 operational efficiency.

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, these stock- option plans might not motivate plan participants but rather could 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 the Group's operations and the ramping-up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of Group 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, the Group might 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.

The nature and quantity of customer inquiries might broaden. Previously, most inquiries were related to service usage, but they might 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 customer inquiries, the Group is in the process of increasing staff, strengthening and expanding its management organization, and improving efficiency by standardizing and computerizing businesses. 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. Such a result could damage the Group's brand image and negatively impact Group performance.

e. Collection of Sales Credit Claims

In sales of advertising and other products, the Group follows a set of internal rules in carefully examining the credit standing of clients. It also exercises sufficient precautions so that the collection of receivables will not be delayed, such 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. Even so, the Group might be unable to collect payments from cardholders owing to declines in cardholder creditworthiness.

3) Consolidated Group Operations

The Group has subsidiaries and affiliates of all sizes with varying degrees of in-house management. 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.

Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of the businesses of the Company and of its subsidiaries and affiliates, which could negatively impact 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, the performance of each company could be damaged and, depending on the company, the continuation of operations could become impossible.

9. Funds Procurement and Changes in Interest Rates

1) Investment in Mobile Phone Business

As stated above, in tandem with SOFTBANK CORP.'s acquisition of Vodafone K.K. (now SOFTBANK MOBILE Corp.) through its subsidiary BB Mobile Corp., the Company made a ¥120 billion investment in BB Mobile Corp. comprising preferred shares with share acquisition rights. To raise funds for this investment, the Company borrowed ¥80 billion in the form of a syndicated loan arranged by Mizuho Corporate Bank, Ltd.

During the process of raising these funds, the Company fully considered the appropriateness of the size of the loan and its ability to repay it using cash flow, as well as other loan conditions. Nevertheless, interest rates might rise, causing an increase in the repayment amount, which could adversely influence the Company's performance.

2) Yahoo! ezPay Service

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

Because Netrust reimburses the seller of an 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, the Group might 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.

3) 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 merchants honoring the card. Because 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. Although the Group is considering diversifying its funding sources as the business expands, obtaining the necessary funding for reimbursements to merchants at a suitable cost could prove to be impossible.

10. Loans and Investments

The Group makes investments as a result of business ties or with an eye to forming business ties in the future. The Group cannot guarantee that these investments will be recoverable.

Furthermore, although some companies in which the Group has invested have already publicly listed and produced an unrealized gain, this unrealized gain could decline or turn to an unrealized loss in the future.

The Group takes the utmost care to ensure that the performances of the companies in which it invests are reflected appropriately in its own performance by operating in line with in-house rules in accordance with general accounting standards and by applying asset-impairment accounting. Nevertheless, depending on the direction of the performance of the companies in which the Group has invested, they could have an increasingly adverse effect on the Group's profit or loss in the future.

To maximize business synergies or to expand the Group's business, the Company expects to 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 risks 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 projected level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's future financial condition.

Investor Information

(As of March 31, 2007)

Share-Related Information

Fiscal year-end	March 31
General meeting of shareholders	June
Annual dividend	March 31
Interim dividend	September 30
Share listings	First Section of the Tokyo Stock Exchange (listed on October 28, 2003) Jasdaq Securities Exchange (listed on February 28, 2007)
IPO date	November 4, 1997 (JASDAQ)
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation

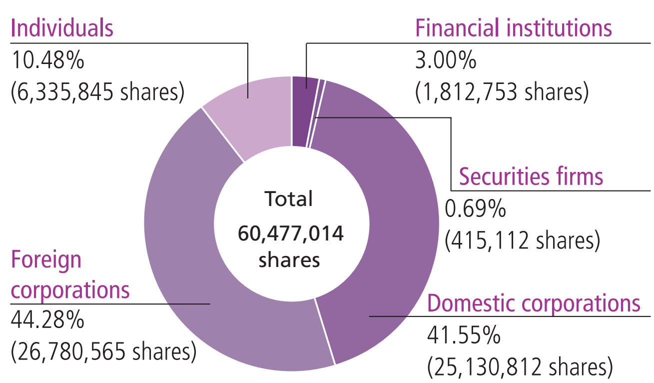
Major Shareholders

Name	Shareholding	Percent of total shares issued
SOFTBANK CORP.	24,853,824 shares	41.10%
Yahoo! Inc.	20,215,408 shares	33.43%
UBS AG London - IPB Segregated Client Account	916,429 shares	1.52%
State Street Bank and Trust Company	729,797 shares	1.21%
UBS AG London Asia Equities	689,260 shares	1.13%
The Master Trust Bank of Japan, Ltd.	448,446 shares	0.74%

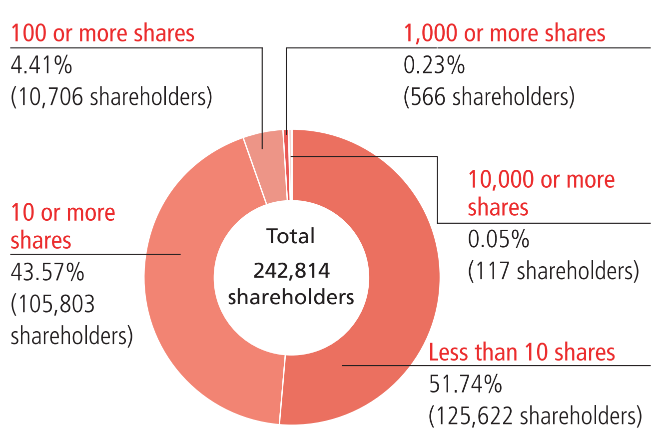
Historical Number of Shares Outstanding

Date	Action	Number of shares outstanding
1996/1/31	Establishment of the Company	4,000.00
1997/9/6	Rights offering: 1,800 shares	5,800.00
1997/11/4	Public offering: 975 shares	6,775.00
1999/3/6	Public offering at market price: 125 shares	6,900.00
1999/5/20	2-for-1 stock split	13,822.00
1999/11/19	2-for-1 stock split	27,826.00
2000/3/1	New stock issuance at merger: 1,100.15 shares	28,954.15
2000/5/19	2-for-1 stock split	57,940.30
2000/9/1	New stock issuance at merger: 110 shares	58,167.50
2000/11/20	2-for-1 stock split	116,917.00
2002/5/20	2-for-1 stock split	235,063.60
2002/11/20	2-for-1 stock split	471,059.04
2003/5/20	2-for-1 stock split	942,118.08
2003/11/20	2-for-1 stock split	1,884,923.16
2004/5/20	2-for-1 stock split	3,772,188.32
2004/11/19	2-for-1 stock split	7,546,426.64
2005/5/20	2-for-1 stock split	15,100,808.28
2005/11/18	2-for-1 stock split	30,209,708.56
2006/4/1	2-for-1 stock split	60,452,137.12
2007/3/31		60,477,014.12

Breakdown of Shares, by Shareholder Type



Breakdown of Shareholders, by Number of Shares Held



Corporate Information

Corporate Data

Company name	Yahoo Japan Corporation
Founded	January 31, 1996
Capital stock	¥7,187 million
Businesses	Internet advertising e-commerce Members services Other
Number of employees	3,042
Headquarters	Roppongi Hills Mori Tower, 6-10-1, Roppongi, Minato-ku, Tokyo 106-6182, Japan
Home page	http://www.yahoo.co.jp/
English-language IR page	http://ir.yahoo.co.jp/en/

Directors and Corporate Auditors (As of June 21, 2007)

Masahiro Inoue
President and CEO

Masayoshi Son
Chairman of the Board of Directors

Jerry Yang
Director

Akira Kajikawa
Director and CFO

Hiroaki Kitano
Director and COO

Sumio Sue
Standing Corporate Auditor

Yukihiko Chayama
Standing Corporate Auditor

Mitsuo Sano
Corporate Auditor

Shiho Konno
Corporate Auditor

Main Consolidated Subsidiaries (As of March 31, 2007)

ALPS MAPPING K.K.
Business: Producing various types and kinds of maps; providing map data and regional information
Founded: Aug. 2000
Capital Stock: ¥410 million
Yahoo! JAPAN's Ownership: 100.0%
URL: http://www.alpsmap.co.jp/

Firstserver, Inc.
Business: Information processing business of rental server, registration of domain, and other Internet services
Founded: Oct. 1996
Capital Stock: ¥364 million
Yahoo! JAPAN's Ownership: 65.0%
URL: http://www.fsv.jp/

Indival, Inc.
Business: Web-based recruiting services, development and operation of support services for job and personnel searches, and recruiting activities
Founded: Feb. 2004
Capital Stock: ¥200 million
Yahoo! JAPAN's Ownership: 60.0%
URL: http://shotworks.yahoo.co.jp/

INFO PLANT CO., LTD.*
Business: Online marketing research services
Founded: Jul. 1996
Capital Stock: ¥594 million
Yahoo! JAPAN's Ownership: 72.7%

Interscope Inc.*
Business: Planning, design, inspection, tabulation, and analysis of Internet research
Founded: Mar. 2000
Capital Stock: ¥552 million
Yahoo! JAPAN's Ownership: 89.5%

Netrust, Ltd.
Business: Online settlement services
Founded: Sept. 2000
Capital Stock: ¥244 million
Yahoo! JAPAN's Ownership: 60.0%
URL: http://www.netrust.ne.jp/

NewsWatch, Inc.
Business: Information provision services based on language processing technology
Founded: Apr. 1996
Capital Stock: ¥428 million
Yahoo! JAPAN's Ownership: 69.0%
URL: http://www.newswatch.co.jp/
http://www.fresheye.com/

Tricle Inc.
Business: Mobile commerce service
Founded: Jul. 2005
Capital Stock: ¥130 million
Yahoo! JAPAN's Ownership: 60.0%

Y's Agencies Inc.
Business: Planning and sales of ad products
Founded: Aug. 2001
Capital Stock: ¥10 million
Yahoo! JAPAN's Ownership: 100.0%

Y's Insurance Inc.
Business: Life/non-life insurance agency business
Founded: Nov. 2003
Capital Stock: ¥30 million
Yahoo! JAPAN's Ownership: 60.0%

Y's Sports Inc.
Business: Collecting sports information and producing articles and content
Founded: Dec. 1996
Capital Stock: ¥100 million
Yahoo! JAPAN's Ownership: 100.0%
URL: http://sportsnavi.yahoo.co.jp/

*As of July 1, 2007, INFO PLANT CO., LTD. and Interscope Inc. merged to form Yahoo Japan Value Insight Corporation.
URL: http://www.yahoo-vi.co.jp/

http://www.yahoo.co.jp/

Yahoo Japan Corporation

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Printed in Japan