

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. Impact of Internet Markets and Competition

1) Influence of Internet Markets and Infrastructure

a. Dependence on the Growth of Internet Usage

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995, with particularly notable growth 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 connection infrastructure should deteriorate and prevent easy use of the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

c. Service Provision via non-PC Internet-Enabled Devices

Recent years have seen an increase in the range of Internet-enabled devices other than PCs, including mobile phones, video game consoles, TV sets, car navigation systems, and personal digital assistants (PDAs), resulting in a significant expansion of the non-PC connection infrastructure. In response, the Group is implementing its Yahoo!

Everywhere initiative to promote Internet access via Internet-enabled devices other than PCs with the goal of increasing usage times of Yahoo! JAPAN services. Implied in the initiative are the following risks:

- To provide Yahoo! JAPAN services via Internet-enabled devices other than PCs, the Group must first adopt the various information transmission standards of such devices in cooperation with manufacturers. If the Group is unable to adopt the standards for a given device, then it will not be able to provide Yahoo! JAPAN services via that device.
- Enabling smooth Internet connectivity via non-PC devices is important to the Group's competitiveness. In the case of certain SOFTBANK mobile phones, a "Y!" function key facilitates quick and convenient connection to the Yahoo! JAPAN site. The Group intends to work closely with manufacturers of Internet-enabled devices other than mobile phones to ensure similarly smooth connectivity. If, however, the Group fails to ensure smooth connectivity via such devices, then its overall competitiveness could be undermined. Furthermore, if the Group is obligated to make higher-than-expected investments to ensure smooth connectivity, then its performance could be negatively affected.
- Each Internet-enabled device has unique features, ranging from variations in screen size to different input systems. In line with the Yahoo! Everywhere initiative, the Group intends to optimize its service provision with respect to the unique features of each and every device. Service provision optimization might take longer than expected and, once achieved, the Group's service provision might be inferior to that of other companies also offering optimized service provision for unique devices, resulting in an erosion of competitiveness. Higher-than-expected optimization costs also could adversely affect the Group's performance.

2) Forming Partnerships for an Extended Network

By actively forming partnerships with both corporate and personal Web sites, the Group is building an extended network that is expected to result in increased usage of the Group's services by users of partner sites as well as by Yahoo! JAPAN users.

In the advertising business, the Group is expanding its AD Network and AD Partner advertising networks by partnering with new sites and incorporating their advertising space in a network-wide advertising distribution system, thereby enabling partner sites with limited viewer reach to increase their advertising media value. Advertisers, meanwhile, can achieve wider exposure by targeting advertisements at the entire network's user base. In the search business, by jointly providing advertisers with the paid search service offered by Overture K.K., the Group and its partners now hold a dominant share of the search market. In the auction business, the Company has reached an agreement with eBay Inc. to mutually support and guide the two companies' respective entries into the U.S. and Japanese markets. In addition, the Group has begun offering other services, such as its online settlement service Yahoo! Wallet, on partner sites. By establishing an extended network, the Group is helping to enhance the convenience, security, efficiency, user appeal, and profitability of all partner sites on the network. At the same time, by working together with partner sites the Group aims to provide the full range of Internet services that users demand.

In pursuing these actions, the Group faces the following risks:

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect the Group's performance.
- The Group provides services to partners via proprietary systems and via systems owned by affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then the Group's brand image could be tarnished or the Group could be sued for damage compensation, either of which could negatively affect the Group's performance.
- Because the quality and reputation of our partners' services reflect on the reputation and credibility of the Group, any problems with our partners' services could tarnish the Group's brand image.

- AD Partner is a distribution service for display advertising and content-linked advertising mainly to personal homepages and blogs. This service aims to boost the brand image and advertising effects for advertisers as well as to reward sites that meet our selection standards by distributing advertising only to such sites. Should advertisers not get their expected advertising effects or personal site owners not get their expected rewards, however, it might become impossible to place ads or extend the network as expected, which could have a negative impact on the Group's performance.

3) The Social Media Services Market

Until recently, the Internet had adopted primarily a mass-media usage paradigm whereby specified information providers published information (head content) for user viewing and listening. Now, however, more and more users are interactively utilizing the Internet to generate and publish a variety of information (tail content) and to communicate with each other. In response, the Group has begun to offer user-generated social media services, including Yahoo! Blogs, Yahoo! Days social networking service, and Yahoo! Videocast, which enables users to upload and share video clips. In addition to providing new social media services, the Group is working to boost user satisfaction with and usage times of Yahoo! JAPAN services by adding social media functions, including spaces for publishing tail content, to its more than 100 head content services.

In the social media sector, a type of virtuous circle known as network externality is emerging wherein services with relatively high user numbers tend to attract new users at a faster rate than do services with relatively low user numbers. The Group's ability to introduce new social media services that are able to successfully compete with popular existing services is therefore uncertain. Moreover, the successful introduction of such services might necessitate greater-than-expected development and advertising expenditures.

4) Markets, by Business Segment

a. Advertising

i. 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 revenue. 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 8.6% of the total advertising market in calendar year 2007,

according to a recent DENTSU INC. report. During the same year, the Internet advertising market became the third-largest advertising market, after the television and newspaper advertising markets. Nevertheless, future growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated revenues, 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 carried out 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 or not the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, or 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, then the Group's ability to achieve stable advertising revenue could be compromised.

Based on projections that advertising via Internet-enabled terminals such as mobile phones will grow at a quickening pace, the Group is working to enable the provision of its services via such terminals in addition to PCs. If the bulk of Internet access shifts from PCs to mobile phones, however, the Group may see a fall in viewer rates and a corresponding reduction in its market share, which could slow down growth in advertising revenue and negatively impact earnings.

ii. 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.

iii. Greater Variation in Advertising Products

Many new advertising products incorporating a variety of advertising methods have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products suited to advertisers' specific needs, including products with guaranteed exposure periods and numbers of impressions. The Group also offers paid search advertising, operated jointly with Overture, and an affiliate ad program (pay-per-performance advertising), operated in cooperation with ValueCommerce Co., Ltd.

Recently, the Group has developed and launched various advertising products incorporating innovative advertising methods, including behavioral targeting products (see Note, below), which distribute advertising to targeted users based on Internet-usage histories; customized behavioral targeting products, which distribute advertising to targeted users based on search and browsing histories, demographic profile, and residential information; AD Network, which distributes advertising over a network of partner sites, giving it greater reach than single-site-distribution products; and content-linked advertising products, which distribute advertising to targeted pages based on page-content analysis. If the Group fails to properly incorporate innovative advertising methods, however, its advertising revenue could decrease even as the cost of developing new products and forming new partnerships with companies possessing expertise in innovative advertising methods grows. As a result, Group performance could be negatively affected.

Note: Behavioral targeting advertising employs Internet-usage histories only for grouping users (browsers) with common interests or concerns but not for analyzing the interests and concerns of individual users. All information obtained is operated in accordance with the Group's privacy policy.

b. Business Services

i. Trends in Corporate Internet Use and Market Change

In the Business Services segment, Group revenue is derived mainly from information listing services, such as Yahoo! Rikunabi, Yahoo! Real Estate, and Yahoo! Autos, as well as from tenant fees and sales commissions 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 revenue. 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 printed 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, or the number of registered stores might be insufficient. The Group's performance could be influenced by one or more of these factors.

ii. 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 2007 White Paper on Telecommunication (Ministry of Internal Affairs and Communications), the broadband environment in Japan provides the fastest and most economical 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 telecommunications technology, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. In line with this shift, the Group has introduced Yahoo! BB Hikari, a new comprehensive broadband service that employs FTTH technology. By undertaking sales promotions and various other campaigns as well as leveraging brand dominance and price-competitiveness, 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 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 Gaisha as a modem rental specialist. (BB Modem Rental was subsequently sold to Yugen Gaisha 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. Personal Services

The Group's primary revenue sources in the Personal Services segment include Yahoo! Auctions system-use fees; Yahoo! Premium membership fees covering a package of Yahoo! JAPAN services including Yahoo! Auctions; Yahoo! BB service Internet service provider fees; and sales of paid content.

With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for personal services 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 usage 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 could have a significantly negative influence on Group revenues.

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 online auctions, then the market could shrink and Group revenues from Yahoo! Auctions system-use fees and the number of Yahoo! Premium members decrease, significantly influencing Group performance.

The spread of broadband communications has enabled the Group to deliver a variety of content to meet changing user needs, including high-volume services such as video and music. Demand for such content via the Internet is likely to expand as the number of Internet users increases. If such content fails to become a regular part of the lives of users, or if access to content via devices other than PCs becomes the

norm, and if the Group fails to break into the non-PC market, the achievement of expected earnings could be difficult.

5) Competitors

The Group's services are centered on the flagship Yahoo! JAPAN portal site, which offers a diverse range of services over the Internet. These include directory and other search engine services; various types of information services, such as news; Internet tool services, such as e-mail; shopping and other e-commerce services; and payment settlement services. Although the Group has multiple competitors in each of these service areas, it recently has formed partnerships with many of those same competitors as a result of implementing the Yahoo! Everywhere initiative, forming partnerships for an extended network, and introducing new social media services.

Accordingly, the Group believes that its main competitor in the current market environment is Google (Google Inc.), which holds large shares of the U.S. and European search markets.

A degree of uncertainty exists as to whether or not the Group will be able to maintain its dominant position in the Japanese market. Income deterioration could result from price competition or increased customer acquisition costs. Also, the Group might be obligated to pay higher advertising commissions and content provider fees to advertising agencies and content providers, which could adversely affect performance.

The sudden emergence of a start-up company offering an innovative service that gains popularity with users and spreads rapidly through the market is always a possibility in the Internet market. The Group fully intends to continue to gauge user opinions and usage with an eye to offering services that users want. However, it is possible that a start-up company, or a specific service of such a company, could pose a competitive challenge to existing Group services. It is possible also that the Group will be obligated to make significant investments in developing new services to maintain its competitive advantage. Either eventuality could have a negative impact on the Group's business performance.

6) Revision of Business Forecasts

The Group's operations are concentrated in the Internet sector, the technologies and markets of which tend to change rapidly. Moreover, the advertising business, Internet-based and otherwise, 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 Group's business environment, then actual business results could 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 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, the passage of a new law could lead to a social consensus in support of requiring greater responsibility of information distribution intermediates. The Group's business could be restricted owing to the introduction of new laws or the implementation of rules on self-regulation.

As the operator of Yahoo! BB, the Group is required to observe the Telecommunication Business Law and related ordinances enforced by relevant government divisions. Changes to this law or related 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. Such measures have been further intensified under the “Plan 2007 to Promote Intellectual Property Rights Strategy.” 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 fail to 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 Restrictions on Social Media Services Content

Social media services provide a space for users to communicate with each other via postings of opinion and content. In the context of such services, the potential exists for defamation, invasion of privacy, and infringement of intellectual property rights and other legally protected ownership rights. The Group prohibits postings containing copyright-protected content and makes concerted efforts to prevent and eliminate such infringements, such as operating a patrol system for detecting illegal content, soliciting user reports of illegal content, and responding swiftly to requests by legitimate rights holders to remove illegal content.

If these measures fail to bring about the expected results and reports of illegal postings continue and become an object of public concern, new legislation might be enacted that could restrict comment posting services on the Internet. Depending on the degree of restriction entailed, such legislation could have a significant impact on the Group’s social media services.

d. Potential Legal Restrictions on Other Services

The Group offers the Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (financial instruments intermediary services).

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which activities bring it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction (IRR) Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Because authorities have decided to revise the Money-Lending Business Control and Regulation Law so as to lower the interest rate ceiling on loans to match the interest rate ceiling specified in the IRR Law, customers might claim that interest paid in excess of the rate permitted under the IRR Law represents unfair profits, and demand repayment. The Group has prepared for possible interest repayment claims by conservatively booking the full amount that could possibly be claimed. In addition, the Group intends to lower its interest rates before the revised law is enforced. Based on these actions, the Group believes that the revised law’s impact on its business will be minor.

In its Yahoo! Trading (financial instruments intermediary services), the Company is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Law and rules set by the Japan Securities Dealers Association. Under the Financial Instruments and Exchange Law, the Company registers as a financial instruments intermediary business 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.

e. Administrative Guidance and Requirements

In addition to the application of the aforementioned legal restrictions, self-regulatory systems of companies in the industry with regard to information communication or business under the administrative guidance and requirements of the national government, governmental ministries, and local governments could adversely impact the Group’s service provision and performance.

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 an escrow service (see Note 1, 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 July 2007, the Group began offering “do now, pay later” services, including anonymous payment and delivery services (see Note 2, below). 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 Group. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group’s 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 1: 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, not by the Group, 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 payment not made.

Note 2: The anonymous payment service enables auction sellers to receive payments without disclosing personal information to winning bidders. This service is made possible by use of a general payment account at the Japan Net Bank, Ltd., settled for each auction transaction.

The anonymous delivery service enables both the seller and buyer of an item to send and receive the item without disclosing personal information. All required personal information is managed by the Group and the transport company contracted to provide the anonymous delivery service. The Group expects that this service will reduce the incidence of sellers not sending items to winning bidders on Yahoo! Auctions.

b. Solicitation of Financial Instruments Transactions

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

Note: “Affiliated financial instruments firms” refers to firms that have signed a consignment agreement with the Group for financial instruments intermediary services.

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 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 user privacy. In addition, the Group publishes a disclaimer stating clearly that users bear full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. To protect minors from harmful content, the Group has implemented such programs as Yahoo! Kids and Yahoo! Safety Net. However, no guarantee can be provided that such measures will be sufficient to avoid litigation. The Group could be

subject to claims, reprimands, or damage suits from users, related parties, or governmental agencies with regard to the content of advertisements, Web sites accessed through links on Group 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 filing 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. Considering intellectual property to be an important management asset, the

Group has established an in-house team devoted exclusively to activities related to intellectual property, including investigation and filing.

However, the extent to which patent rights can be applied remains unclear. To avoid potential conflicts, the Group might be forced to substantially increase expenditures related to patent management, which could impact on 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.

In addition, internal regulations and training programs have been set up with the goal of ensuring that the Group's services or business-use software do not infringe on copyrights owned by third parties. Despite these efforts, infringements still might occur. If so, then the Group could 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 August 2004, the Group acquired Information Security Management Systems (ISMS) certification (see Note 2, below). The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0. In November 2007, the Group was the first in Japan to receive ISO 15408 certification (see Note 3, below) for its development of a monitoring system to prevent information leakage from its databases. 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.

Note 1: Information Security Declaration

The Group declares its commitment to the following policy regarding information security management for society as a whole:

Customer and other types of information held by the Group are our most important assets. 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.

Note 2: 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. At March 31, 2008, a total of 10 Group companies, including the Company and 9 subsidiaries, were certified.

Note 3: ISO 15408

ISO 15408 is an international standard that evaluates whether a product or system related to information technology has been properly designed and the design correctly implemented from the point of view of the security of information technology. The official name of the standard is ISO/IEC 15408 Information Technology Security Standard.

2) Personal Information

a. Group Efforts to Protect Personal Information

The Group is obligated to hold personal information for each Yahoo! JAPAN user in order to effectively provide services, including e-commerce.

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. The Yahoo! Security Center on the Yahoo! JAPAN site works to heighten users' awareness of potential risks by, for example, posting descriptive examples of fraudulent behavior and common methods employed to illicitly obtain personal information, along with suggested security measures to help users protect themselves. In addition, the Group observes strict guidelines regarding internal access to users' personal information, granting access rights only to a very limited number of personnel.

Nevertheless, the Group cannot completely eliminate the possibility that users' personal information will be leaked outside the Group, either deliberately or through negligence, by Group personnel, by companies with which business alliances have been concluded, or by companies to which the Group outsources work, or as a result of computer viruses introduced via defective or malicious software. There have been multiple incidents of personal information stored on virus-infected PCs being unknowingly leaked onto networks, the source of the virus being file-sharing software, such as Winny. Also, the possibility always exists for third parties to fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ such methods as spoofing or phishing (see Note 1, below) whereby personal user information is illicitly obtained, with unsuspecting users suffering the consequences. To guard against phishing attacks the Group introduced a log-in seal system (see Note 2, below) in March 2007. In December 2007, the

Group added to Yahoo! Mail a function enabling users to refuse spoofed mail (see Note 3, below). As of January 2008, the Group began issuing OpenIDs (see Note 4, below), in addition to offering an authentication bureau service to improve information security by eliminating the storage and management of IDs on other sites. Although the Group continues to implement such measures with the goal of minimizing the damage caused by ill-intentioned users, there is no guarantee that these measures will be sufficient. If problems occur despite our efforts to thwart them, the Group's services could be adversely affected and its brand image tarnished. Furthermore, the Group could become a target of lawsuits.

Regardless of questions of legal responsibility, the Group's policy is to propose measures aimed at strengthening the management and monitoring of the security systems of companies with which it has business alliances. Representatives from the Group currently participate on phishing e-mail countermeasures committees of the Ministry of Economy, Trade and Industry and the Ministry of Internal Affairs and Communications, as well as on a similar committee of the National Police Agency. By sharing information with relevant ministries, agencies, and Internet-related associations, the Group is seeking to establish effective measures against this type of fraud.

With the April 2005 promulgation of the Personal Information Protection Act, relevant ministries and agencies issued guidelines for observing the law to businesses under their respective jurisdictions. The Group's handling of personal information is in accordance with the provisions of this law and with each of the guidelines related to its businesses.

Note 1: Phishing fraud

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, log-in 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.

Note 2: Log-in seal

A log-in seal consists of an image or a text message appearing on a Yahoo! JAPAN log-in screen. After registering a favorite image or secret message as a log-in seal, a user can place the seal on a personalized log-in screen suited to a designated browser. Users who habitually confirm that the log-in seal appears on the log-in screen when signing in are quickly alerted to the possibility that they are on a fake log-in screen (phishing) when the log-in seal does not appear.

Note 3: Refusing spoofed e-mails

Spoofed e-mails, purportedly sent from one source but in fact sent from another, can be filtered out, or refused, by users armed with domain validation technology, such as DomainKeys and Sender Policy Framework (SPF). Since July 2005, Yahoo! Mail has featured a DomainKeys function, and in December 2006 we introduced an SPF function in a concerted effort to prevent phishing and other malicious mails from landing in Yahoo! Mail service inboxes. Now, with our introduction of SPF technology to the receiving server, users can filter out mail purporting to be from "yahoo.co.jp" or from other providers that utilize DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

Note 4: OpenID

OpenID is a shared-identity authorization system that allows Internet users to log in to multiple sites using a single ID, eliminating the need for a different user name and password for each site. The OpenID specifications have been publicly released by the OpenID Foundation (<http://openid.net/>). Anyone is free to issue an OpenID or develop and provide services that support the system. Yahoo! JAPAN is compliant with OpenID 2.0, the most recent version.

Yahoo! JAPAN users can access a variety of services on OpenID-enabled Web sites simply by using their Yahoo! JAPAN ID. There's no need to create a new account, with separate ID and password, each time a new site is visited. In addition, users can continue to take advantage of Yahoo! JAPAN's existing security functions, such as log-in seals and log-in histories.

Simply by supporting OpenID on their Web sites, developers are freed of the obligation to have their own authentication systems and can offer their services to Yahoo! JAPAN users without requiring them to create a new account.

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, as outlined 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, which 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 (financial instruments intermediary services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by our financial instruments firm partners. A portion of this information will be transferred to the Group in a way that complies with the Personal Information Protection Act. The Group has been extremely careful about the transfer and management of this information. If personal information is leaked from the Group or affiliated financial instruments firm partners, the Group could be liable for damage compensation.

The anonymous delivery service offered by Yahoo! Auctions involves the anonymous processing of item deliveries by the transport company commissioned to handle this service. However, if the commissioned transport company should fail to handle the anonymous service properly and the names of the sender and receiver of an item be divulged, the Group could face a legal suit for compensation or suffer damage to its brand image, which could adversely affect its business performance.

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 the Group was responsible.

3) Communications Privacy

The Group acts as a telecommunications provider in offering e-mail, instant messaging, and other services to users. Because of these services, the Group handles information related to communications privacy, such as the content of communications and the storage of communications, in addition to personal information, discussed above. In handling this type of information, the Group takes appropriate measures to meet the requirements of the Telecommunications Business Law using the aforementioned information security system.

Despite these measures, the Group cannot rule out the possibility that this information will be leaked outside the Group, either deliberately or through negligence, or used for malicious purposes by Group personnel, by companies with which business alliances have been concluded, or by companies to which the Group outsources work, or as a result of defective software, computer viruses, or physical intrusion into the Group's communications facilities. In such cases, the Group's brand image could be tarnished and the Group drawn into legal disputes, with a resultant negative impact on business performance.

4) Behavioral History Information

Behavioral targeting advertising, which targets users according to Internet-usage histories, is designed to distribute advertisements for products or services only to users whose Internet-usage histories indicate a preference for or interest in the advertised products or services. With this product, advertisers achieve enhanced advertising distribution efficiency, Internet sites realize more efficient site monetization, and users receive banner ads that are relevant and of personal interest. Recently, highly detailed targeting has become possible by including users' click histories, visits to major advertisers' sites, grouping (age and gender), and area information in addition to behavioral histories.

With regard to the collection and use of behavioral history information, the Group is very careful to respect the privacy of individual users. Behavioral history information used for behavioral targeting advertising includes the Yahoo! JAPAN services viewed by users, or, more specifically, users' browsers, in addition to keywords employed when using Yahoo! Search. This information is used only for the purpose of grouping users, or users' browsers, on the basis of similar preferences and interests. No analysis is made of the preferences and

interests of individual users. Moreover, the Group does not regularly collect behavioral history information from any of its business partner sites. Should the Group want to collect such information from a business partner site, in consideration of the privacy of the partner site's users a Web Beacon is posted on the site announcing the collection and use of the behavioral history information of users of the site. Site users who do not want their behavioral history information to be used can prevent its usage by changing a setting on the Yahoo! JAPAN site.

Although the Group believes it is taking adequate precautions to respect users' privacy, it is possible that some users who object to the use of their behavioral history information could cause damage to the Group's brand image. Moreover, if for the same reason, sales of behavioral targeting advertising become impossible, this could have a detrimental impact on the Group's business results.

5) Network Security

Although the Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such damage. Recently, there have been several incidents of specific Web sites or networks being targeted by huge volumes of data sent simultaneously from multiple terminals over brief periods of time with the intention of paralyzing the targeted Web site or network. Although the Group has implemented effective security programs and strengthened its monitoring systems in preparation for such an attack, there is no guarantee that such an attack can be averted. Such obstructive actions could seriously damage 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 businesses, 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. The Group's network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other natural 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 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 Other segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

b. Business Alliance Contract and Incentive Agreement 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 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
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 roles
 - * 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 roles
 - * 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: October 7, 2005
Contract term: One year, beginning October 1, 2004 (automatically renewed each year)
Contracted party: SOFTBANK BB Corp.
<ul style="list-style-type: none"> • Customer acquisition incentive fees <ul style="list-style-type: none"> Yahoo! BB basic service: <ul style="list-style-type: none"> Approx. ¥15,000 per subscription Yahoo! BB + wireless LAN package: <ul style="list-style-type: none"> Approx. ¥20,000 per subscription • Long-term customer incentive fees <ul style="list-style-type: none"> Yahoo! BB basic service: <ul style="list-style-type: none"> Approx. ¥200 per month per continuing subscriber Yahoo! BB + wireless LAN package: <ul style="list-style-type: none"> Approx. ¥250 per month per continuing subscriber

- * The original counterparties to the above business alliance contract and incentive agreement were SBB and BB TECHNOLOGY Corp. (BBT). A merger was carried out on March 31, 2007, in which SBB was absorbed by BBT, which then changed its name to that of the absorbed entity, SOFTBANK BB Corp. (SBB).
- * 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. Accordingly, the original cost-sharing provision with regard to Yahoo! BB subscriber acquisition that previously obligated the Company to pay ¥2,400 per line to SBB 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 mentioned 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 provider of the portal site for SOFTBANK subscribers, while also providing its services to carriers other than SOFTBANK MOBILE. The Group is providing SOFTBANK subscribers 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, 2008, 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: <ul style="list-style-type: none"> * 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. 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 both SOFTBANK and Yahoo! Inc. maintain 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 the Company 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 the 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.

4) Relationships with Associated Business Partners of SOFTBANK and Yahoo! Inc.

With SOFTBANK CORP. as the parent company and Yahoo! Inc. as the owner of the Yahoo! brand name, it is to be expected that the Company has good business relationships with various associated business partners of SOFTBANK CORP. and Yahoo! Inc. Moving forward, the Company intends to maintain these relationships. It is possible, however, that the Group's services or business contracts could be affected, or relationships with associated business partners transformed, as a result either of changes in the business strategies of certain companies or of changes in important stakeholders, most notably the parent company and other major investors in the Company. Such changes could adversely affect the Group's businesses in various ways.

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 either on sales to specific customers or on sales 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 total advertising sales. In its other businesses, as well, the Group has major business transactions with specific companies, which transactions account for a growing percentage of the Group's total 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. 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. In addition, in some cases a third party has contact with the Group's customers in its item delivery-related services or services provided through convenience stores. If the third party mishandles these services, it could result in the deterioration of the Group's brand image.

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.

3) Dependence on Third-party Plug-in Software for Display of Advertising

In providing its services, the Group relies on software extensions (plug ins) developed and distributed for free by third parties to enable a rich level of expression in advertising or video clips. Generally, such software extensions are already installed on computers and functional, or users are automatically prompted to install them. However, it is possible that users could erase such software extensions or change their settings so that the software extensions cannot be used or the developing company could begin to charge for the software extension or render it unusable. In such cases, the quality of expression could decline or functions could be limited. Moreover, depending on the service, it might become impossible to even offer the service.

In recent years, software extensions that block the display of advertising have emerged. It is possible that the use of this type of software extension could limit the display of screen advertising as well as advertising linked to search results or other operations.

Any of these situations could be extremely detrimental to the Group's advertising business and services.

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 Internet-enabled terminals, which could result in larger expenditures for service development, thereby compressing Group profits.

8. Group Business Operations

1) Services Provided by Overture K.K.

a. Service Agreement with Overture K.K.

Contracting company	Yahoo Japan Corporation (the Company); OVERTURE K.K. (OVKK) (Consolidated subsidiary)
Contract counterparties	OVERTURE SEARCH SERVICES (IRELAND) LIMITED (OSSIL); Yahoo! Inc. (Yahoo)
Contract date	August 31, 2007
Contract term	From August 31, 2007, to August 30, 2017 (10 years)

Main details	<p>ADVERTISER AND PUBLISHER SERVICES AGREEMENT</p> <p>1. Basic roles of each party OSSIL will dedicate robust efforts to develop and enhance the contracted services and advance the competitiveness of the services. OVKK will dedicate robust marketing efforts to advance customer adoption of the contracted services to enhance the OVKK revenue generated under this agreement. OSSIL and OVKK, via a joint steering committee, will agree to roadmap of improvements and developments to carry out customization of contracted services for the Japanese market to optimize services for the market.</p> <p>2. Exclusive provision of contracted services In Japan, OVKK, the Company, or subsidiaries for which the Company holds more than 50% of the voting rights will be the exclusive offeree of the contracted services. (The services include advertising platform related to paid search and content-linked advertising as of the contract date, and additional search- and advertising-related services adopted as contracted services through the procedure given in the original contract.)</p> <p>3. Service fee payments to OSSIL by OVKK OVKK shall pay to OSSIL a service fee calculated as a rate prearranged for each year on OVKK revenues (gross revenues earned by OVKK or companies for which it owns 20% or more of the voting rights) associated with the use of the contracted services or OSSIL's technologies or systems.</p> <p>4. OVKK's exclusive rights in Japan OVKK has the exclusive rights in Japan for provision of the search- and advertising-related services of OSSIL, the Company, or its subsidiaries.</p> <p>5. Exclusivist obligation regarding contracted services OVKK, the Company, or subsidiaries for which the Company holds more than 50% of the voting rights are obligated not to provide versions of or similar services to the contracted services. If the performance issues arise based on the material breach for the service level stipulated in the arrangement, which may cause serious negative impact to the business of OVKK, the joint steering committee will find a solution for the issue. Paid search and content-linked advertising services that the Company possesses as of the contract date will not be subject to this contract.</p>
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b. Paid Listing Advertising Services

Based on the business tie-up with Overture K.K. (see Note, below), the Group's paid listing advertising sales have firmly expanded and become a larger proportion of overall advertising sales. The advertising delivery platform for paid listing advertising is developed, operated, and maintained by Yahoo! Inc. and its subsidiary OSSIL. Overture K.K. handles the marketing and sales in Japan of advertising products (paid search and content-linked advertising) that use the platform. Accordingly, should the Company's business relationship with Yahoo! Inc. change or some type of obstruction to the smooth operation of Yahoo! Inc. arise, it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

Recently, a form of fraud misusing the system of paid listing advertising has become a problem. Some fraudsters, taking advantage of the fact that the cost of paid search advertising 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.

Note: The aforementioned agreement was concluded on August 31, 2007, and Overture K.K. was made a consolidated subsidiary of the Company effective September 1, 2007.

c. Partnership in Paid Listing Advertising

Overture K.K. provides its paid listing advertising services not only to the Group but also to other domestic portal sites and other partners with which it has business agreements. Overture holds the largest share of the paid listing advertising market in Japan. The Group intends to continue to expand the number of Overture's partners and to create new services. However, should its business agreements with such partners be terminated, it could have a major impact on the profitability of the Group.

2) 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. Continual Improvement of Services

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continually improving the user experience is central to maintaining its competitive advantages. To this end, the Group focuses on (1) improving the visibility and design layout of the display screen with an eye to enhancing operational convenience; (2) tightening the correspondence between the results of search and other information distribution systems and actual user requirements; and (3) accelerating display speeds of the results of search and other information distribution systems.

To maintain and increase its competitive advantages, the Group must continue to invest in such service improvements. Should these capital investments not be appropriately made, the Group could experience a decline in its competitiveness or in its brand image. Moreover, the level of investments required for achieving service improvements could rise. Either of these eventualities could adversely affect the business performance of the Group. Moreover, although the Group conducts adequate surveys and tests to determine the likely effects of planned improvements to or renewal of services, the actual effects could result in a reduction of the number of users or page views, which would have a negative impact on the Group's business performance.

d. 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.

e. Diversification into New Businesses

The Group plans to further diversify into new businesses to strengthen its operating base and provide a growing range of quality services. To this end, the Group might be obligated to incur additional expenses to employ new staff, expand and upgrade facilities, and conduct research and development.

Moreover, new businesses are unlikely to begin contributing stable revenues immediately. Consequently, the Group's profitability could decline temporarily.

In addition, new businesses might not develop in line with Group expectations. The Group might be unable to recover investment expenses, which could significantly affect its performance.

f. Group Intellectual Property Rights, Including Copyrights and Patents

The Group believes that its intellectual property rights are central to its ability to maintain certain competitive advantages in the market and that it is therefore essential to produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names.

Most of the content accompanying the Group's services offered to users is subject to copyrights and other legal rights. Users are allowed to utilize that content within the scope of the user contract to which they have agreed.

Although rights pertaining to the content provided in Group services to users are legally protected, it is possible that certain content will be used in a manner other than that sanctioned in the user contract, which could damage the Group's brand image. In addition, increasing costs of minimizing the likelihood of such an eventuality could negatively affect the Group's business performance. At the same

time, expenditures required to enable the Group to utilize those rights as competitive advantages could arise, making it difficult for the Group to gain sufficient benefit from the rights in view of the excessive expenditure entailed.

3) 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 of and stores registered on the Yahoo! Shopping and Yahoo! Auctions sites, 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.

4) 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.) 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 banking, 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 are 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.