

## Annual Report 2010

Year ended March 31, 2010



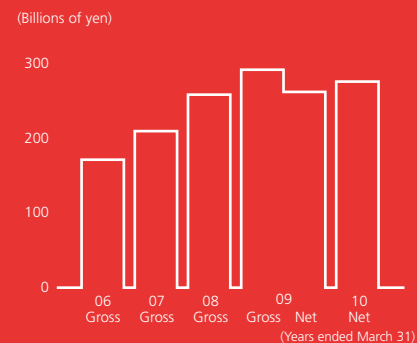
## Financial Highlights

	Millions of Yen			Thousands of U.S. Dollars	
Years ended March 31	2010 (Net)	2009 (Net)	2009 (Gross)	2008 (Gross)	2010 (Net)
<b>For the fiscal year:</b>					
Net sales	¥ 279,857	¥ 265,754	¥ 295,946	¥ 262,027	\$ 3,007,919
Operating income	143,826	134,618	134,618	124,808	1,545,849
Net income	83,523	74,715	74,715	62,618	897,716
Net income per share (Yen and U.S. dollars)	1,438	1,256	1,256	1,035	15.46
EBITDA	153,702	146,214	146,214	136,028	1,652,003
<b>At the fiscal year-end:</b>					
Total assets	418,262	311,552	311,552	369,660	4,495,509
Total equity	312,273	236,470	236,470	250,672	3,356,335
Number of employees	4,882	4,599	4,599	3,759	
Dividends per share (Yen and U.S. dollars)	288	130	130	104	3.10
<b>Cash flows</b>	101,357	(76,065)	(76,065)	38,320	1,089,394
Cash flows from operating activities	140,095	87,805	87,805	81,494	1,505,757
Cash flows from investing activities	(7,357)	(53,947)	(53,947)	(16,982)	(79,073)
Cash flows from financing activities	(31,381)	(109,923)	(109,923)	(26,192)	(337,290)
<b>Ratios:</b>					
Operating margin (%)	51.4	50.7	45.5	47.6	
Net income to net sales ratio (%)	29.8	28.1	25.2	23.9	
ROA (%)	22.9	21.9	21.9	18.2	
ROE (%)	30.7	31.0	31.0	28.5	
Total equity / Total assets ratio (%)	74.0	75.2	75.2	67.1	

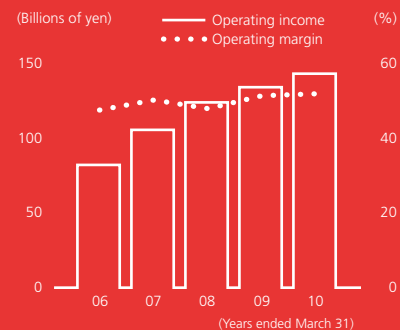
### Notes:

- Yen amounts for the year ended March 31, 2010 have been translated into U.S. dollar amounts, solely for the convenience of readers, at the rate of ¥93.04 = U.S.\$1, the effective rate of exchange at March 31, 2010.
- Beginning with the year ended March 31, 2009, net sales have been presented on a net-basis, rather than gross-basis. Gross-basis amounts for the year ended March 31, 2009 are presented solely for the convenience of readers. The change of accounting is discussed in the Note of Management's Discussion and Analysis.

## Net Sales

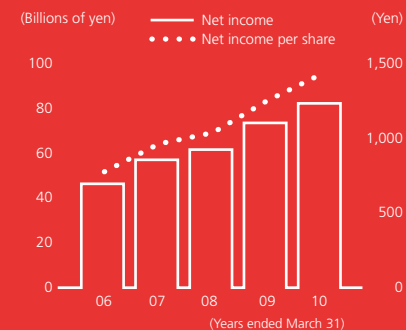


## Operating Income / Operating Margin

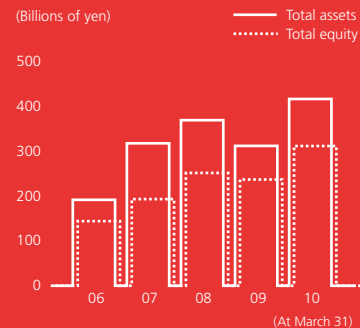


**Note:** The operating margin for each of the years ended March 31, 2009 and 2010, is presented on a net-basis.

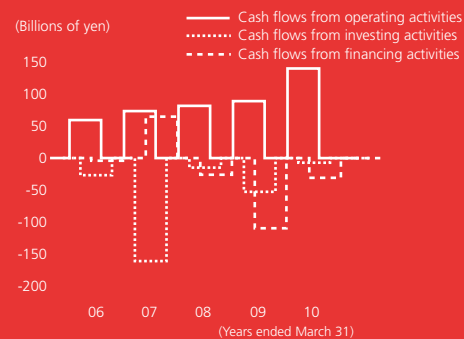
## Net Income / Net Income per Share



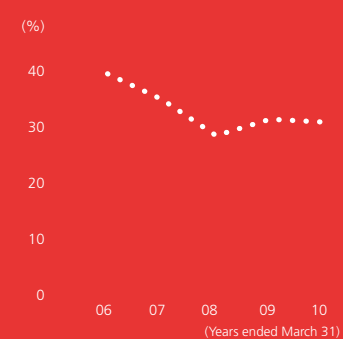
## Total Assets / Total Equity



## Cash Flows



## ROE



## Important Considerations Regarding This Annual Report

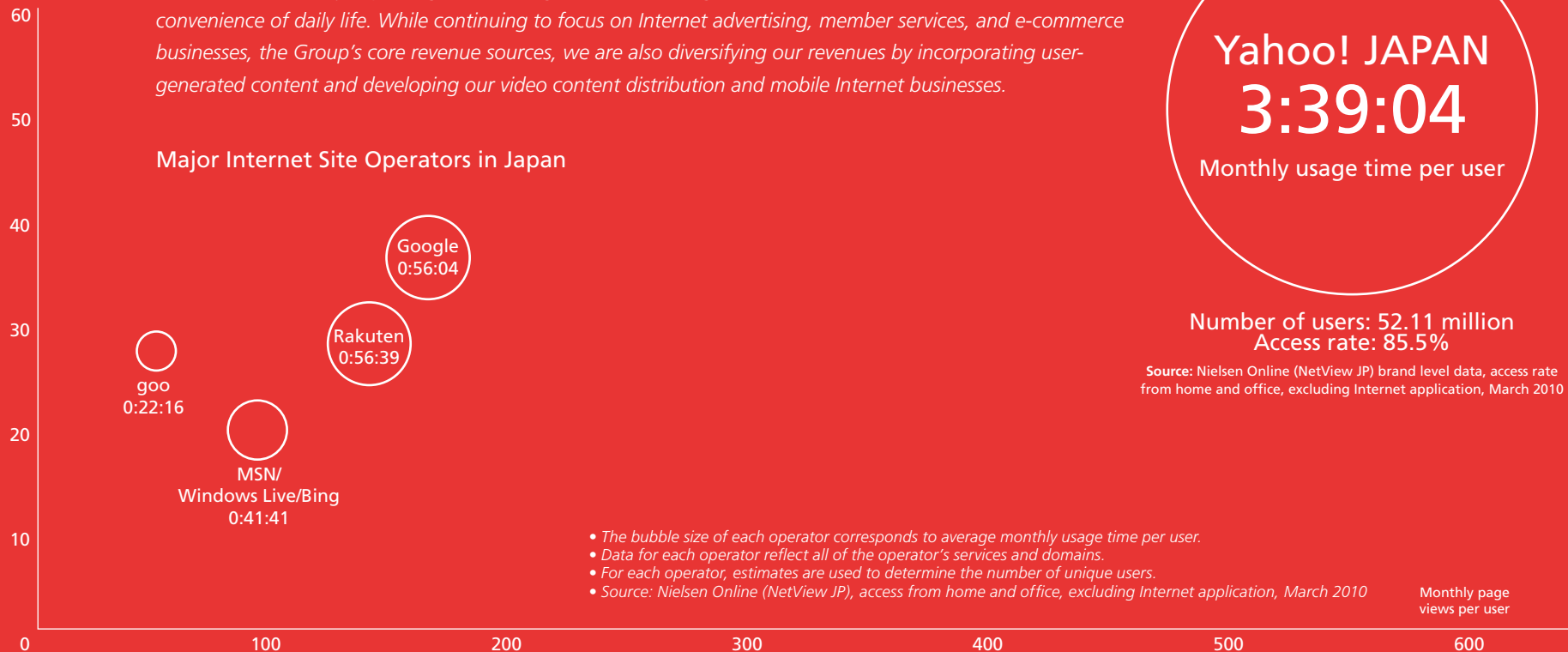
1. This annual report contains forward-looking statements. A number of important factors could cause actual results to differ materially from those predicted.
2. For a detailed account of the factors that could affect performance, please see the section entitled Risk Factors, beginning on page 84.
3. Unauthorized use or reproduction of this document is prohibited.

## Profile and History

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

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

Number of unique users (Millions)



1/1996

- Establishment of Yahoo Japan Corporation

4/1999 – 3/2000

- Started online shopping service Yahoo! Shopping and online auction service Yahoo! Auctions

4/2003 – 3/2004

- Listed on the First Section of the Tokyo Stock Exchange

4/1996 – 3/1997

- Started Yahoo! JAPAN services

4/2001 – 3/2002

- Introduced Yahoo! Auctions personal identification system (currently Yahoo! Premium membership)
- Started comprehensive broadband service Yahoo! BB

4/2004 – 3/2005

- Started Yahoo! Rikunabi
- Made Firstserver, Inc. a subsidiary
- Took over ALPS MAPPING K.K. business

4/1997 – 3/1998

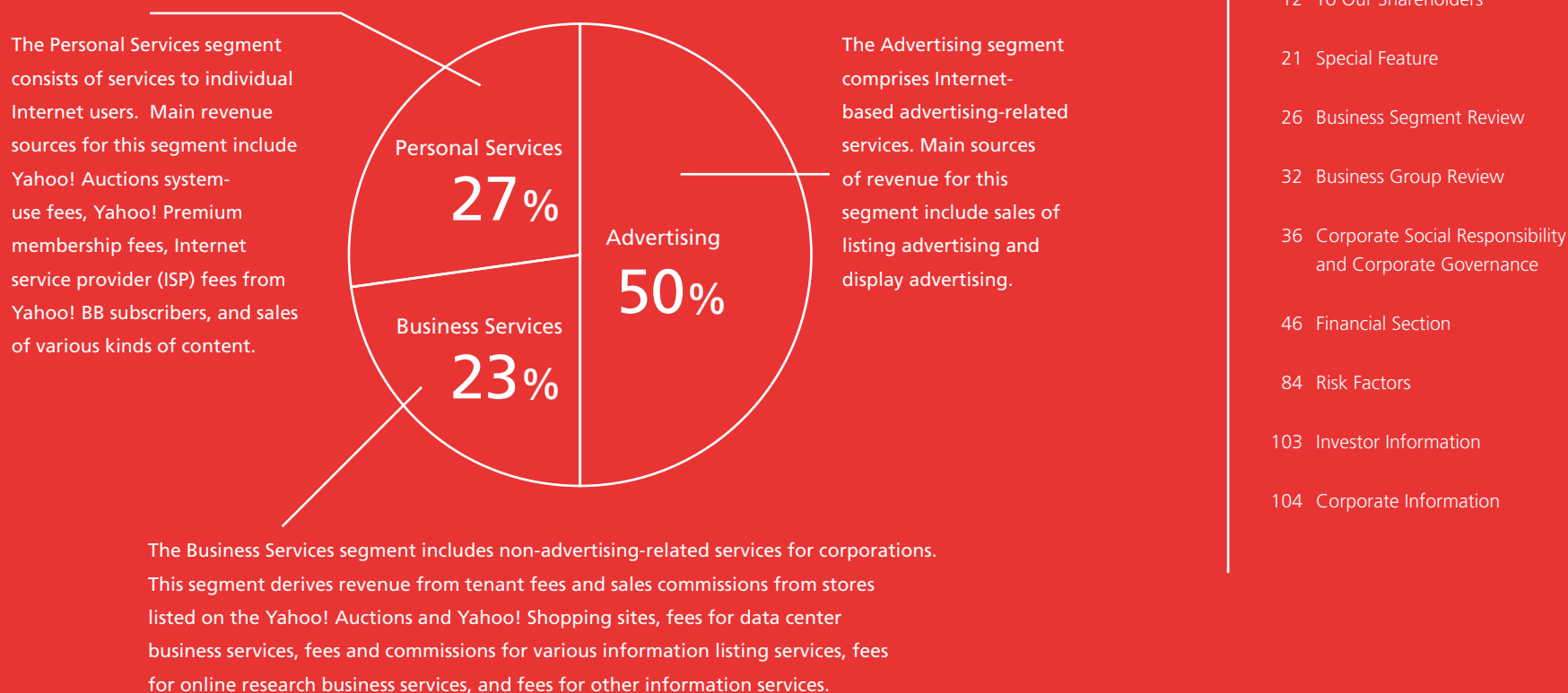
- Listed on the JASDAQ market

4/2002 – 3/2003

- Introduced listing and transaction fees for Yahoo! Auctions
- Made Netrust, Ltd. a subsidiary
- Started a paid search advertising service

## Share of Net Sales, by Business Segment

(For the year ended March 31, 2010)



## Contents

2	Profile and History
12	To Our Shareholders
21	Special Feature
26	Business Segment Review
32	Business Group Review
36	Corporate Social Responsibility and Corporate Governance
46	Financial Section
84	Risk Factors
103	Investor Information
104	Corporate Information

### 4/2005 – 3/2006

- Established business alliance with SOFTBANK CORP. for mobile communications business

### 4/2006 – 3/2007

- Invested in SOFTBANK's mobile communications business and started Yahoo! Keitai mobile Internet services for SOFTBANK mobile subscribers
- Made a dual listing of the Company's shares on Nasdaq Securities Exchange

### 4/2007 – 3/2008

- Made Overture K.K. a subsidiary
- Made Brainer.jp. a subsidiary

### 4/2008 – 3/2009

- Started Interest Match® interest-based advertising
- Made SOFTBANK IDC Solutions Corp. and SOFTBANK IDC Corp. (currently IDC Frontier Inc.) subsidiaries

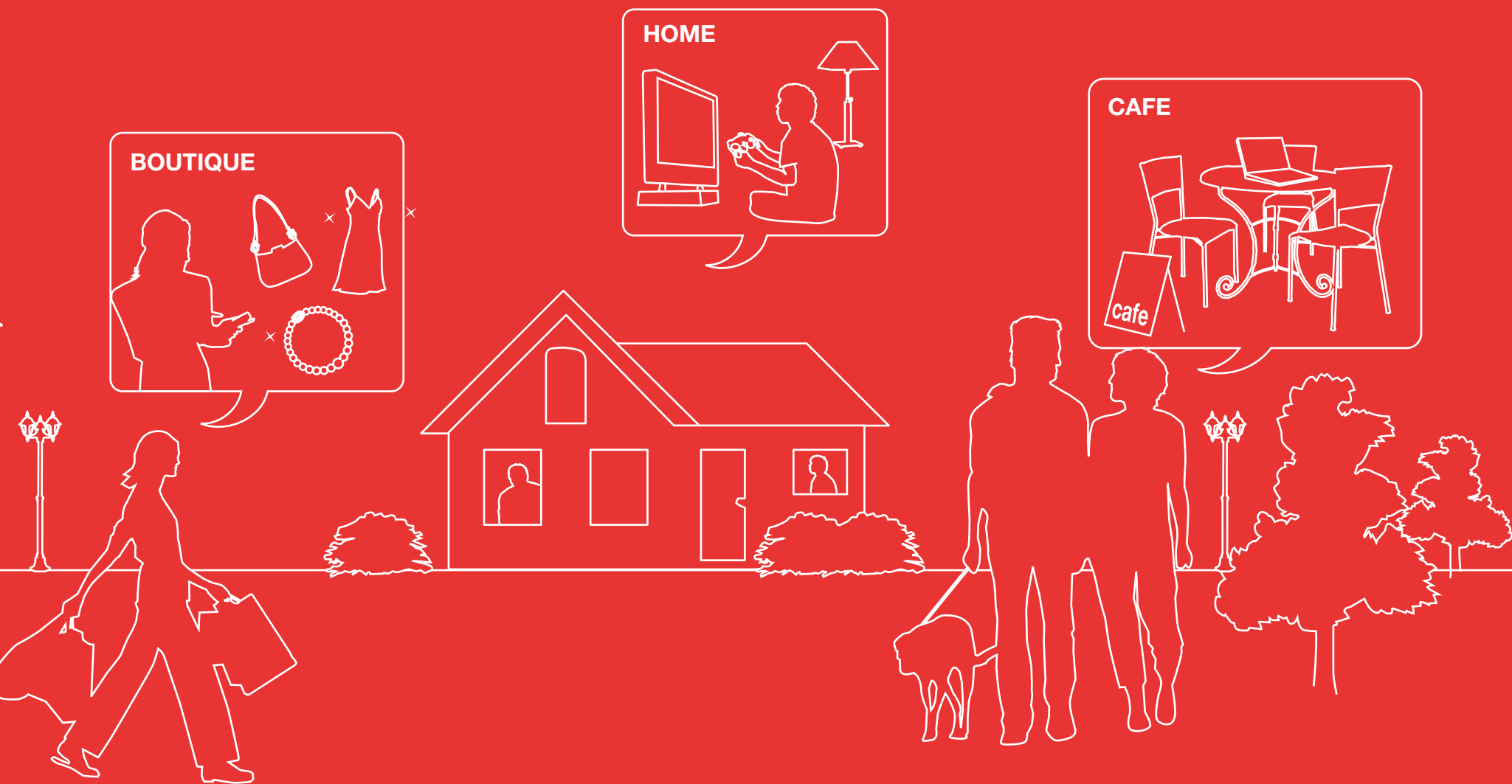
### 4/2009 - 3/2010

- Made GyaO CORPORATION a subsidiary
- Merged with Overture K.K.

# Yahoo! Everywhere

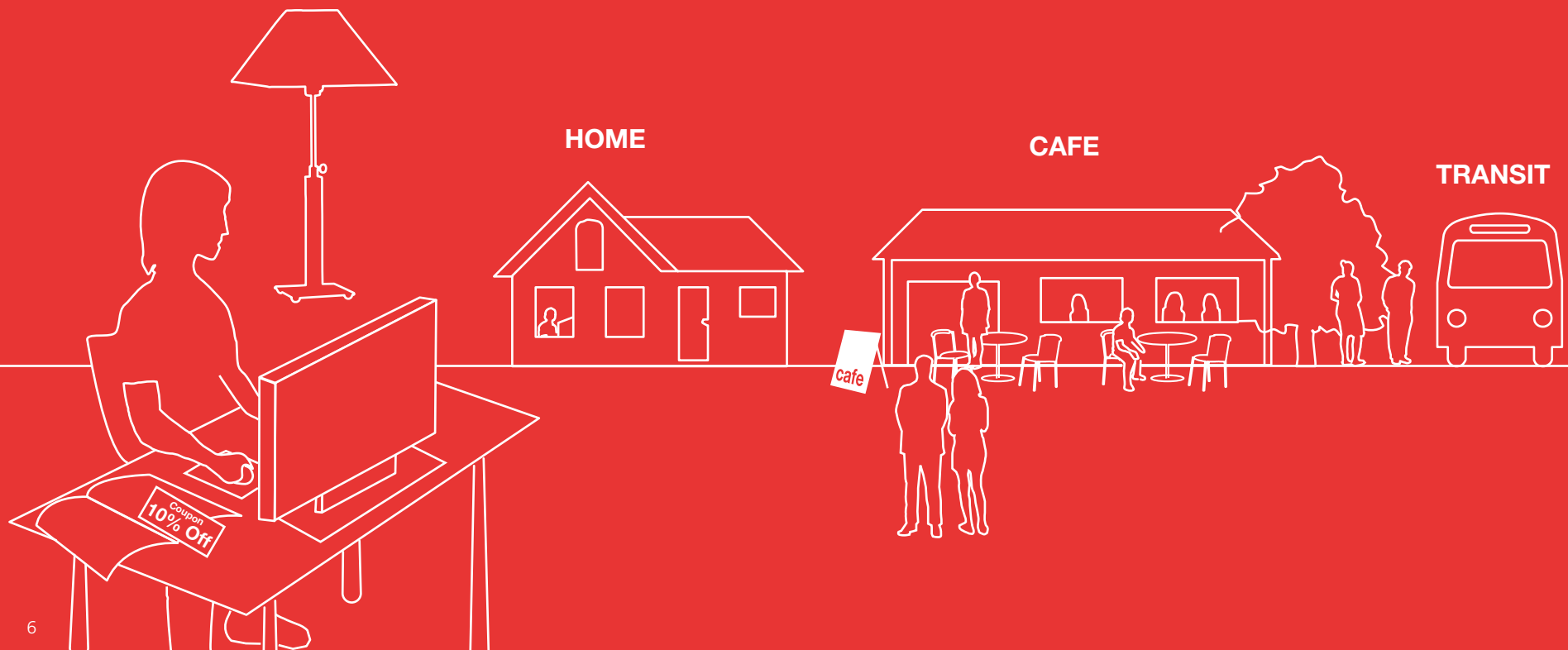
Translating the Group's primary mission of "providing useful, cutting-edge Internet services and content accessible by anyone, anytime and anywhere" into a viable growth strategy takes just two words: Yahoo! Everywhere. Commuting by train or walking the dog, hard at work or relaxing at home, everywhere and at all times we now have Internet access readily at hand. With mobile phone penetration at 86% and usage of smart phones on the rise, our Yahoo! Everywhere initiative is focused on enhancing the ease and convenience of mobile-based Internet access.





# Personalized Local Information Services

Intent on making Internet access easier and more convenient, we are at the same time dedicated to enhancing its relevance and usefulness. To that end, we are steadily increasing our provision of personalized local information services suited to a growing range of individual user lifestyles. By continually adding new map-based data to our regional information services, we help users get to where they want to go. And with our region-specific Internet business platforms, we help local businesses and shops connect to users living or working nearby.





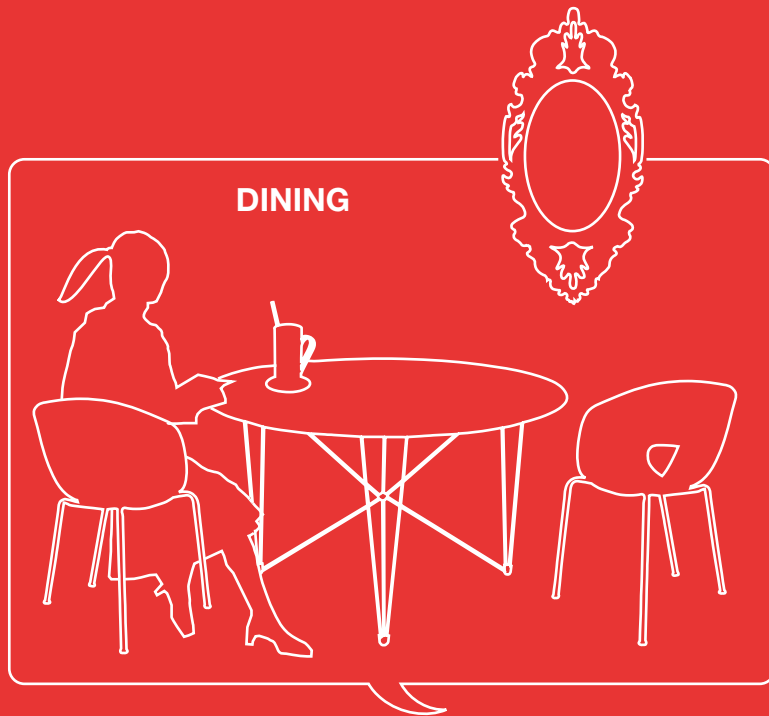
**SUPERMARKET**

**HAIR SALON**

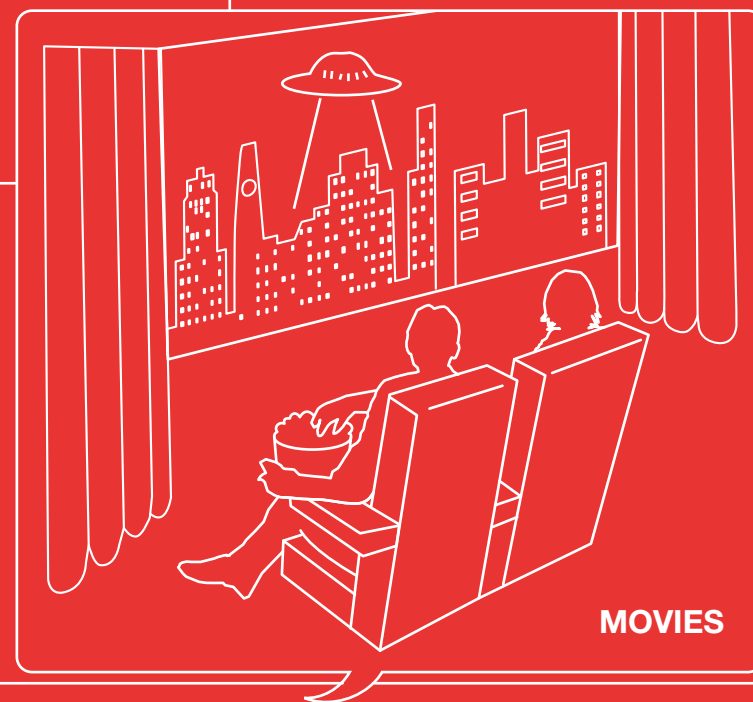
**STREET**



# User-oriented Social Media Services

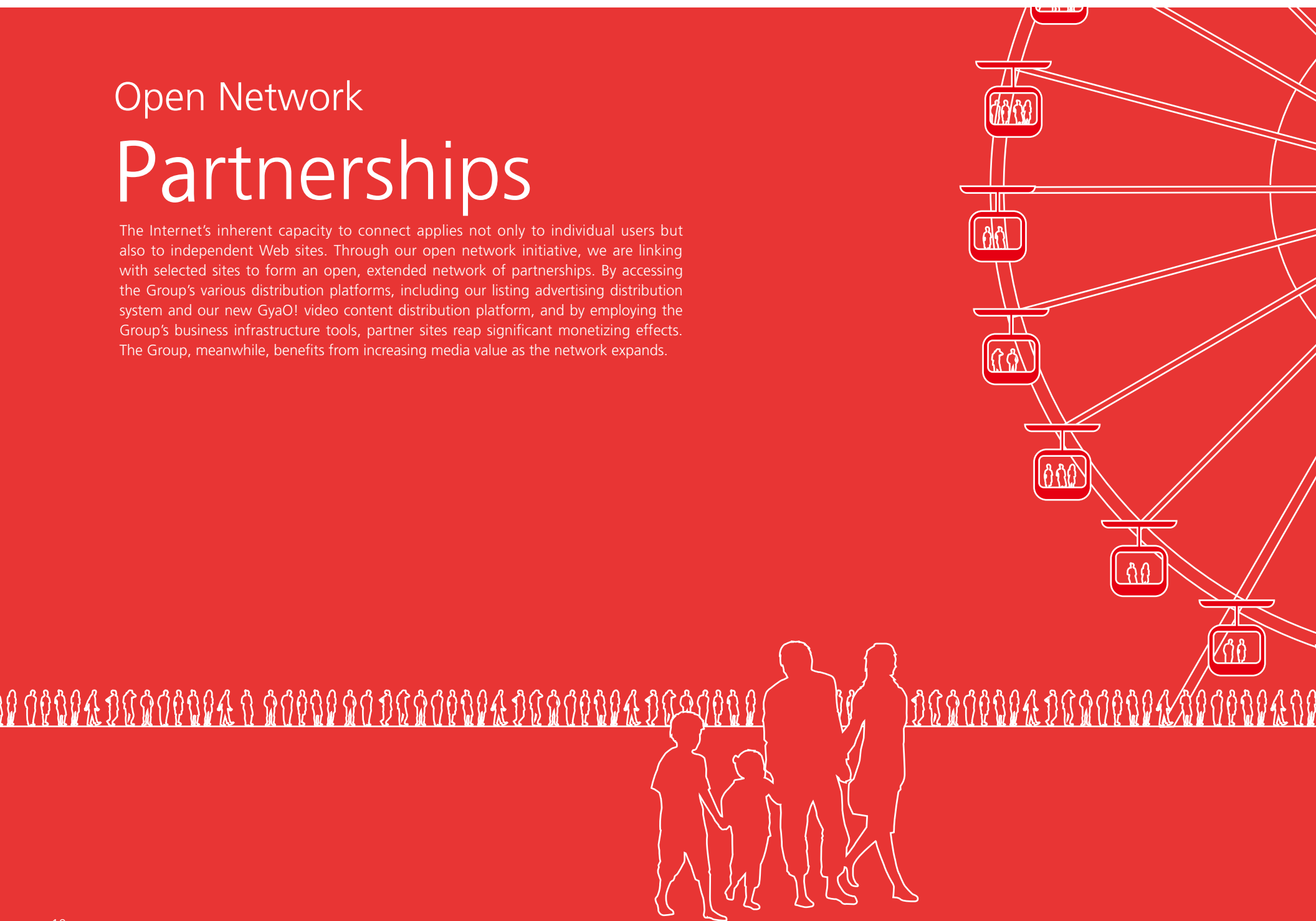


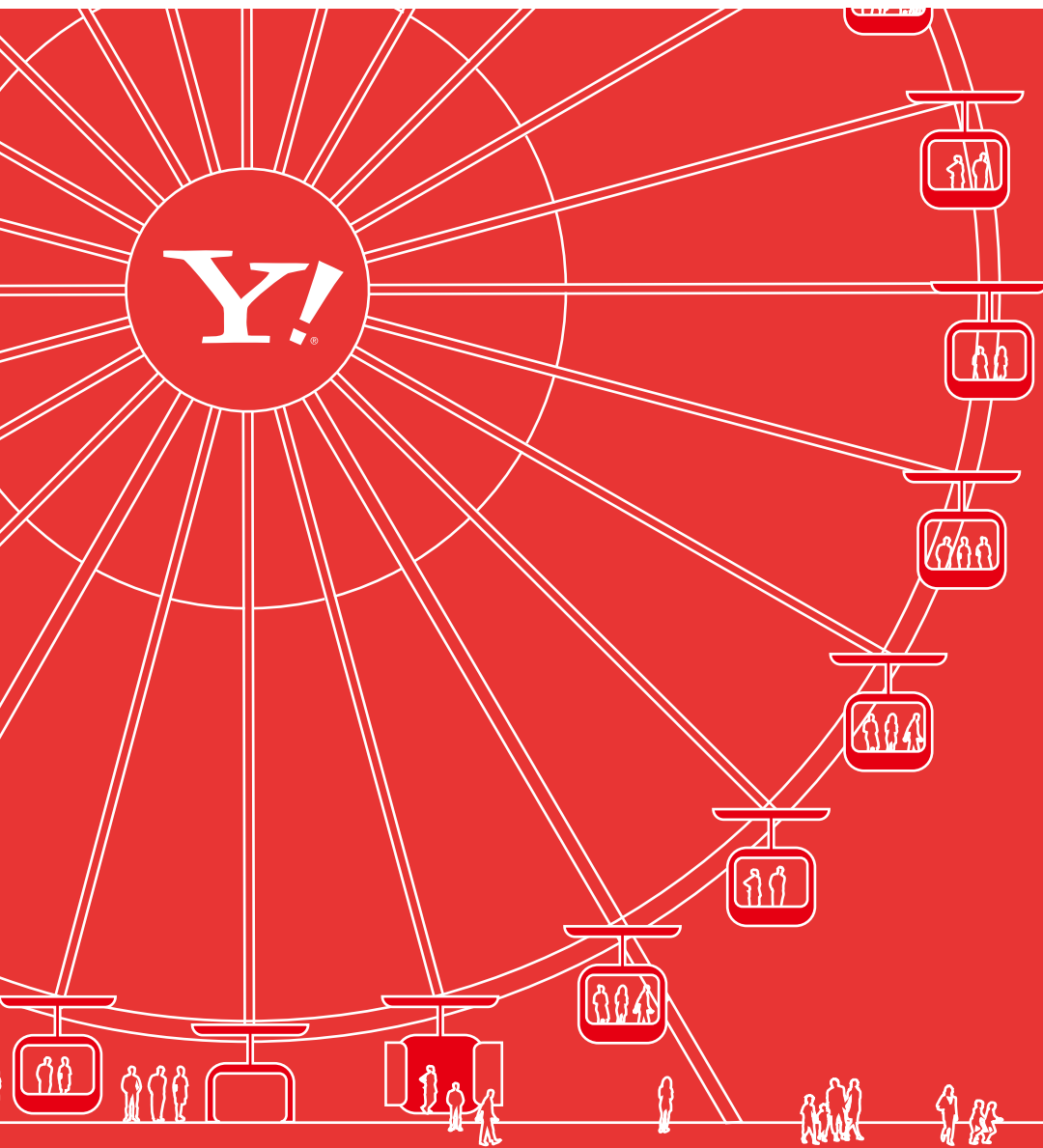
Life is a communicative act that, thanks to the rise of the Internet, is performed increasingly by key-stroking fingertips. Unique among information media, the Internet facilitates interactive communication and participatory exchange of information among users. Exploiting the Internet's capacity to connect users, we offer a range of popular social media sites, including knowledge-sharing services, blog services, and social games, and have added comment-posting functions to several services with the dual goal of appealing to a range of users and keeping them online.



# Open Network Partnerships

The Internet's inherent capacity to connect applies not only to individual users but also to independent Web sites. Through our open network initiative, we are linking with selected sites to form an open, extended network of partnerships. By accessing the Group's various distribution platforms, including our listing advertising distribution system and our new GyaO! video content distribution platform, and by employing the Group's business infrastructure tools, partner sites reap significant monetizing effects. The Group, meanwhile, benefits from increasing media value as the network expands.





*Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have occupied a position of unrivaled dominance in the Japanese Internet market since commencing business operations in April 1996. By steadily expanding the variety and enhancing the quality of services and content offered on the Yahoo! JAPAN portal site, the Group has achieved tremendous growth in user numbers and usage times, thereby establishing a formidable revenue-generating base.*



Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have occupied a position of unrivaled dominance in the Japanese Internet market since commencing business operations in April 1996. By steadily expanding the variety and enhancing the quality of services and content offered on the Yahoo! JAPAN portal site, the Group has achieved tremendous growth in user numbers and usage times, thereby establishing a formidable revenue-generating base.

According to an official survey conducted by Japan's Ministry of Internal Affairs and Communications, the Internet-viewing population in Japan totaled 94.08 million in calendar 2009, mainly reflecting advanced proliferation of broadband-based connectivity, particularly in residences, and widespread usage of Internet-enabled portable devices such as mobile phones. The number of viewers accessing the Internet via personal computer stood at 60.95 million in March 2010, according to a recent Nielsen Online survey. Among PC users, the Yahoo! JAPAN site registered a combined residential and workplace viewing rate of 85.5%, excluding Internet application use. Furthermore, the Yahoo! JAPAN site also boasts high viewing rates among users accessing the Internet via mobile phones. According to data collected by Video Research Interactive Inc., 64% of all viewers of NTT DOCOMO, Inc.'s i-mode

service accessed the mobile version of Yahoo! JAPAN in March 2010, an impressive viewing rate considering that Yahoo! JAPAN is not an official i-mode service site. In addition, of all viewers accessing the official SOFTBANK MOBILE Corp. Yahoo! Keitai site in March 2010, 85% also accessed the mobile version of Yahoo! JAPAN.

Explosive proliferation of Internet- and multimedia-enabled smart phones has rapidly transformed patterns of mobile Internet access and usage in recent years. Compared with users of conventional mobile phones, smart phone users tend to access the Internet more frequently and view a much broader range of sites offering a wider variety of services. As smart phones grow in popularity and the next generation of mobile communications devices emerges, we see new opportunities for business expansion. Intent on remaining a vital "life engine" for Internet users in Japan, and with sustainable growth as the guiding principle for all of our business activities, the Group will continue to provide a broad spectrum of useful services and content that satisfy the ever-diversifying needs of users.

#### Fiscal 2009 Overview and Business Results

The Japanese economy remained weak throughout fiscal 2009, the year ended March 31, 2010, reflecting ongoing worldwide economic malaise in the wake of the international financial crisis that

erupted in the autumn of 2008. The first half of the fiscal year witnessed a particularly virulent downturn, with corporate-sector earnings, employment conditions, and consumer sentiment deteriorating sharply.

Against this challenging backdrop, the Group shored up revenues by capitalizing on opportunities afforded by persistent growth in the Internet industry. While some businesses, most notably employment information services, struggled in the difficult economic environment, the Group performed strongly overall thanks largely to the effects of strategic steps taken in the previous fiscal year, including the December 2008 implementation of upward revisions to Yahoo! Premium membership fees and to Yahoo! Auctions store royalties, the February 2009 acquisition and subsequent merger of SOFTBANK IDC Solutions Corp., and the implementation of a strict policy of cost reduction.

As a result, in fiscal 2009 the Group posted its 13th consecutive year of record-high sales and profits. Consolidated net sales were ¥279.9 billion, up 5.3% from the previous fiscal year. Consolidated operating income climbed 6.8% year on year, to ¥143.8 billion, while consolidated net income grew 11.8%, to ¥83.5 billion.

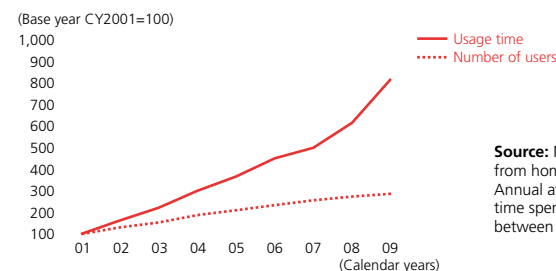
#### Advertising Business

With the general economy remaining weak, the Japanese advertising market lost further



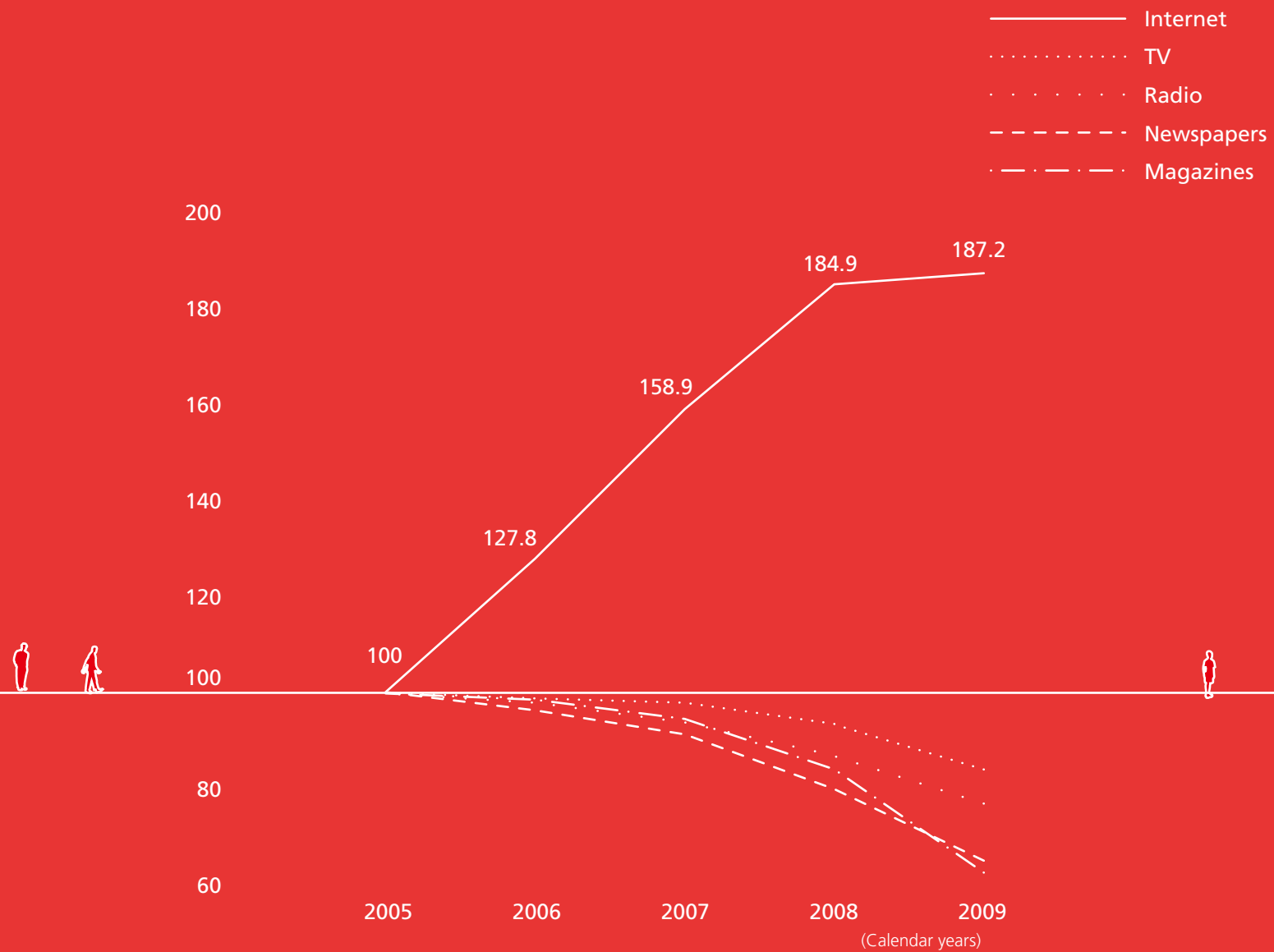
Masahiro Inoue  
President and CEO  
Yahoo Japan Corporation

#### Growth in Internet User Numbers and Usage Time



Source: Nielsen Online (NetView JP), access from home, excluding Internet application. Annual average figures calculated based on monthly time spent and number of Internet users. Figures between 2001-2008 are Yahoo! JAPAN's estimation.

## Changes in Japanese Advertising Expenditures, by Media (Base Year CY2005=100)



Source: 2009 Advertising Expenditures in Japan, DENTSU INC.



ground during the period under review. According to industry data compiled by DENTSU INC., total advertising expenditures in calendar 2009 declined 11.5% year on year. Advertising expenditures in the four traditional media markets of TV, newspapers, magazines, and radio contracted 14.3%, following on a 7.6% year-on-year drop in calendar 2008. In contrast, advertising expenditures in the Internet market edged up 1.2% to a level just surpassing newspapers, making the Internet the second largest advertising market behind television. Although short of the double-digit percentage growth recorded in calendar 2008, the uptick in the Internet advertising market contrasts favorably with the sharp contraction in the overall advertising market. These statistics testify to the ongoing shift of advertising expenditures from traditional media markets to the Internet market, as companies increasingly focus their dwindling advertising budgets on highly effective Internet-based advertising products.

Mirroring the growth in the entire Internet advertising market, the Group's Advertising business revenues in fiscal 2009 rose 1.8% year on year, to ¥141.4 billion.

Sales of display advertising, including mass-market advertising products such as banners used primarily by major corporations for branding purposes, tend to move in line with macroeconomic trends. During periods of macroeconomic weakness,

for example, corporate advertising budgets typically shrink, resulting in lower sales of display advertising. Listing advertising products, including paid search advertising and interest-based advertising, offer a popular, cost-effective means of sales promotion to a broad range of advertisers, from major corporations to small and medium-sized businesses. Compared with display advertising revenues, listing advertising revenues tend to show greater stability during economic downturns thanks largely to steady demand from small and medium-sized businesses.

Demand for display advertising weakened most noticeably during the first half of fiscal 2009, with revenues down approximately 10% compared with the corresponding six-month period of the previous fiscal year. Toward the beginning of the second half, however, indicators began to suggest a bottoming-out in corporate-sector earnings, which in turn boosted business sentiment and fueled a robust upsurge in Brand Panel sales. As a result, display advertising sales for the full year decreased only marginally.

Listing advertising revenues in fiscal 2009 were up, supported primarily by higher sales of Interest Match®. Utilizing proprietary Group technology, Interest Match® infers the preferences and interests of individual users by simultaneously analyzing (1) the content of the page being viewed,

(2) the route taken to arrive at the page, and (3) usage histories within the Yahoo! JAPAN site, with advertisements then distributed as appropriate to the page in question while it is being viewed. Since its launch in September 2008, Interest Match® has recorded steady sales growth despite the challenging economic environment. Accounting for less than 5% of total advertising sales in fiscal 2009 and therefore not yet a significant contributor to earnings, Interest Match® is expected to be a major source of advertising revenue in coming years.

### Other Core Businesses

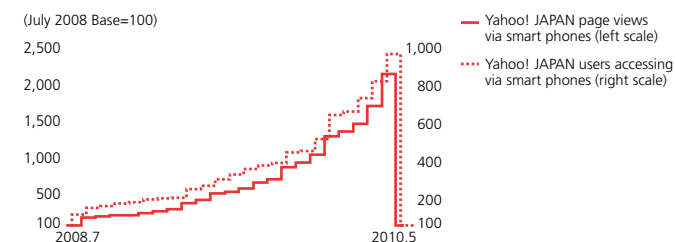
Strategic, forward-looking decisions made in the face of a rapidly worsening economy during fiscal 2008 resulted in substantial revenue growth for the period under review. One example is our December 2008 decision to raise Yahoo! Premium membership fees as well as Yahoo! Auctions store royalties. In fiscal 2009, the number of Yahoo! Premium member IDs continued to grow steadily, reaching 7.59 million as of March 31, 2010, up 3.1% from the previous year-end figure. Similarly, the increase in Yahoo! Auctions store royalties occasioned no adverse market reaction, as Yahoo! Auction store numbers maintained steady growth during the year. Another example is the acquisition and subsequent merger of SOFTBANK IDC Solutions, a company engaged primarily in the operation of data centers. Included

in the Group's scope of consolidation at the end of fiscal 2008, SOFTBANK IDC Solutions contributed approximately ¥10 billion to fiscal 2009 revenues.

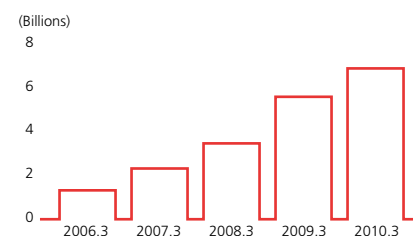
Yahoo! Shopping transaction value increased approximately 20% year on year. This strong result is attributable in part to online shopping's inherent attractions, including (1) freedom from the time constraints and other hassles of going out to shop, (2) instant access to a wide selection of products, and (3) price-comparison functionality for locating the best deals. Furthermore, the economic downturn has encouraged consumers to shop at home rather than going out. Also helping to drive Yahoo! Shopping growth during the period were several promotional campaigns, including special benefit plans linked to individual purchase amounts and large-scale fiscal year-end sales. Meanwhile, the total number of listings on Yahoo! Auctions increased during the period, as more users tried to sell items in an effort to raise cash. The average closing-bid price declined, however, reflecting the generally deflationary trend in the overall economy. As a result, total Yahoo! Auctions transaction value for fiscal 2009 dropped slightly from the previous year.

Nationwide sales statistics show that e-commerce transactions accounted for less than 3% of Japan's total consumption in calendar 2009, implying the potential for rapid and dramatic growth in the

### Yahoo! JAPAN Access via Smart Phones: Growth in Page Views and User Numbers



### Number of Monthly Page Views, Yahoo! JAPAN Mobile Version



Note: Includes page views of Yahoo! JAPAN versions for mobile phones (including iPhone but excluding all other smart phones) and iPod touch, as well as page views of Yahoo! Mobile pages on PCs.

## Projected Japanese e-Commerce Market\* Transaction Value

(Trillions of yen)

15

12

9

6

3

0

2008

2009

2010

2011

2012

2013

2014

(Fiscal years)

\*Including Internet auction and BtoC e-commerce transactions.  
Source: Nomura Research Institute, Ltd.

e-commerce market looking forward.

Committed to driving domestic e-commerce market growth, the Group intends to further enhance the convenience and appeal of Yahoo! Shopping and Yahoo! Auctions while at the same time conducting a wide variety of promotional campaigns. In line with this commitment, in June 2010 Yahoo! Shopping inaugurated a business alliance with Taobao, China's largest provider of e-commerce services and a member of the China-based Alibaba Group. By stimulating growth in cross-border transactions between Japan and China, this alliance has the potential not only to expand the Group's revenues and earnings but also to energize the entire domestic e-commerce market.

Our Yahoo! Rikunabi employment information service, a strong contributor to Group revenues prior to the economic downturn, continued to struggle under the weight of persistent weakness in hiring sentiment accompanying disappointing corporate performances throughout the economy. Following on a weak fiscal 2008 performance, Yahoo! Rikunabi revenues dropped approximately 60% in fiscal 2009. More positively, Yahoo! Rikunabi is showing early signs of a modest recovery on the back of an improved business climate during the initial months of 2010. Despite this favorable turnaround, a full-fledged revival of this service is expected to require a considerable amount of time.

### Containing SG&A Expenses

To ensure steady profitability in an uncertain economic environment, the Group adopted a proactive cost-containment stance during the previous fiscal year and rigorously maintained a belt-tightening approach coming into fiscal 2009. Among various initiatives aimed at rationalizing the Group's cost structure, we reviewed our resource allocations for developing and operating the Group's various services with an eye to bringing development and operational activities in-house to the extent possible. As a result, the Group achieved a 17.8% reduction in business commissions compared with the previous fiscal year. Bearing in mind that personnel expenses accounts for nearly 30% of selling, general and administrative (SG&A) expenses, we also focused on reducing the amount of overtime and holiday work and on maintaining standard work hours at an appropriate level.

With the acquisition and merger of SOFTBANK IDC Solutions, the Group has gained a highly energy efficient data center that is not only facilitating a seamless integration of server management but also contributing to energy cost reductions. In addition, the move has enabled the Group to reduce costs associated with existing data centers. As a result, communications charges decreased 0.8% in fiscal 2009.

Reflecting the Group's firm commitment to containing costs, SG&A

expenses in fiscal 2009 remained essentially unchanged from the previous year despite additional costs associated with the inclusion of SOFTBANK IDC Solutions and GyaO CORPORATION in the Group's scope of consolidation.

With a positive turnaround in the business environment from the fourth quarter of fiscal 2009, the Group has relaxed its stance on cost reduction in recognition of the need to make strategic investments in support of future business expansion. For example, in an effort to increase Yahoo! Shopping's transaction value we conducted a Yahoo! Points award campaign and commissioned a high-profile television-based promotional campaign. Moving forward, the Group intends to make additional investments deemed critical to future business growth.

### Growth Strategies

With an eye fixed firmly on ensuring a robust future, the Group is implementing a wide range of initiatives guided by four core growth strategies: (1) converting to user-oriented social media services, (2) making services available everywhere by increasing Internet access opportunities, (3) expanding and enhancing personalized local information services, and (4) partnering with other sites in an extended open network.

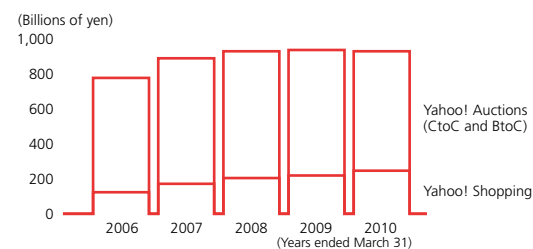
### User-Oriented Social Media Services

In the early years of the Internet, official content providers generated and supplied most of the information, known as head content. Recent years, however, have seen explosive growth in information generated and supplied by individual users, known as tail content. In keeping with the recent trend favoring user-generated tail content, the Group provides a range of user-oriented social media services designed to enhance user satisfaction and, as a result, boost usage times of the Yahoo! JAPAN site.

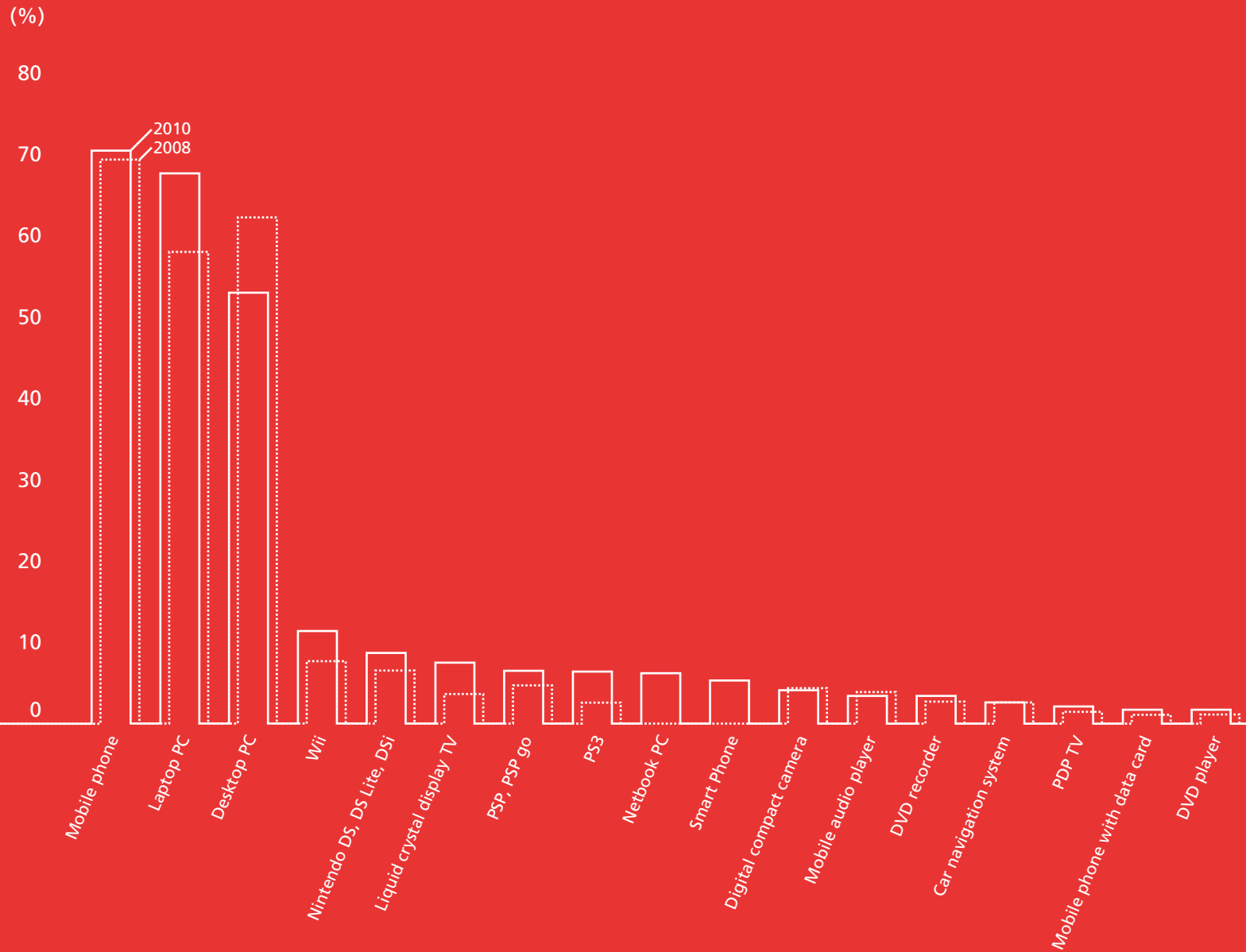
Two of the Group's more popular social media services based largely on user-generated tail content are Yahoo! Knowledge Search, a knowledge-sharing service, and Yahoo! Blogs. Drawing on the strengths of a vast number of diverse users, Yahoo! Knowledge Search is currently the most frequently viewed knowledge-sharing site on the Japanese Internet.

The Group also offers traditional head content services with functions enabling users to generate and supply rich and varied tail content. Currently, users can supply tail content to the more than 130 head content services offered by the Group. Yahoo! News, for example, includes a user comment function, and users similarly can post comments and reviews on Yahoo! Gourmet and Yahoo! Movies. To bolster our social media service offerings, we are marshalling the collective

### Group e-Commerce Transaction Value



Internet Access in Japan: Usage\* Ratios, by Device (2008 and 2010)



\*Including multiple-device usage

Sources: Internet White Paper 2010 and Internet White Paper 2009; impress R&D

strengths of the Group in an effort to add functional improvements throughout the Yahoo! JAPAN site. In this way, we aim to further enhance user satisfaction and, in turn, increase both user numbers and usage times of the Group's services.

In the area of communication-oriented social services, including social networking services (SNS's) and social games, the Group lags behind the competition. Usage rates of pure-play sites, for example, are higher than those of similar Group sites. While continuing to focus on enhancing the player allure of existing Group sites with the goal of increasing usage rates, we also are pursuing collaborative arrangements with game providers. In December 2009, for example, we concluded a cooperative agreement with Gummy Inc., a pure-play social game provider. More recently, in April 2010 we formed a business alliance with DeNA Co., Ltd., one of Japan's leading providers of mobile phone games. Collaboration with other companies relieves the Group of the obligation to spend money on in-house content development. In addition, collaboration enables the Group to access a virtual treasure trove of game contents. Collaboration partners, meanwhile, benefit by receiving Group guidance on increasing usage rates, which ultimately contributes to improved revenues and earnings. Such collaborative arrangements provide valuable opportunities

for building win-win relationships based firmly on mutual respect and understanding.

### *Yahoo! Everywhere*

More than 57 million persons living in Japan access the Internet via PC. Internet access is possible also via a growing number of other devices, including conventional mobile phones, smart phones, television sets, video-game consoles, and car navigation systems. Against this backdrop, the Group is dedicated to fostering an environment in which Internet services can be easily accessed by anyone, anytime and anywhere. This dedication is the driving force behind our Yahoo! Everywhere initiative, which ultimately aims to increase Internet access opportunities and boost usage times of Yahoo! JAPAN services.

As of December 1, 2009, the number of mobile phone subscribers in Japan stood at more than 110 million, representing a penetration rate of 86%, according to the Telecommunications Carriers Association and the Ministry of Internal Affairs and Communications. Recently, smart phones, particularly iPhones, have shown explosive diffusion rates. With conventional mobile phones, users tend to frequently access a limited range of services, including e-mail, games, and SNS's. This usage pattern is beginning to change in line with the growing penetration of smart phones, which are supporting a drastic expansion in the variety of Internet services accessed by users. Smart

phone proliferation in Japan is projected to accelerate and at some point surpass that of conventional mobile phones.

Bearing in mind the accelerating trend toward higher rates of mobile-based Internet access, the Group intends to introduce a growing array of the services mobile phone users want most, including newly developed services not available on the PC version of Yahoo! JAPAN. At the same time, we will continue to convert selected PC version services for inclusion on the mobile version of Yahoo! JAPAN. To that end, we have no intention of simply posting PC site information directly to conventional mobile and smart phone sites. Rather, we intend to deliver content and services employing interfaces optimized to match the specific technical and usage-related requirements of each Internet-enabled device on the market. For example, a mobile phone user waiting on the street for the arrival of a friend and a family together at home in front of an Internet-enabled television have different requirements. While the former might use e-mail, game, and location data-based information services, the latter can be expected to access services geared to multiple users and large-screen enjoyment, including news and sports features as well as photo and video content delivery. Among other offerings, the Group currently provides a mobile version of Yahoo! JAPAN, a variety of Yahoo! JAPAN iPhone application

services, and a television version of Yahoo! JAPAN. Moving forward, we are committed to providing useful, convenient content and services optimized for viewing via a growing variety of Internet-enabled devices.

### *Personalized Local Information Services*

To boost usage times of Yahoo! JAPAN services, we are increasing our provision of personalized information suited to a range of individual user lifestyles.

Proactive, vigorous distribution of information by business owners deeply rooted in their respective localities is critical to expanding the volume and quality of community and lifestyle information available on the Internet. In addition to offering business owners an array of information distribution services, we also provide the platforms necessary for launching Internet-based businesses. At the same time, we are working to cultivate an environment that not only facilitates acquisition of information by users but also enables those same users to post impressions and opinions online. In facilitating information exchange between business owners and users, the Group is mindful of its role in initiating a virtuous cycle that enhances convenience, boosts usage, and ultimately contributes to increased business patronage and earnings growth.

## To Our Shareholders

### Open Network Partnerships

In our open network initiative, we offer various distribution platforms and business infrastructure tools to an ever-expanding network of selected partner sites with the goal of maximizing revenue-generating opportunities for both the Group and partner sites.

In the advertising business, partner sites benefit from the monetizing effects of the Yahoo! JAPAN AD Network platform, which distributes advertising over the entire network. Listing advertising, including paid search and interest-based advertising, accounts for a large share of the revenues generated by the network and is expected to continue expanding in line with growth in the number of partner sites. For display advertising, we have begun marketing Yahoo! JAPAN AD Network inventory advertising space via Right Media Exchange, a new online auction-based advertising exchange platform. Through Right Media Exchange, advertisers can buy Yahoo! JAPAN AD Network inventory advertising space by placing bids, via advertising agency proxies, on page views. As a result, partner sites can more efficiently sell their inventory space for display advertising, and advertisers are able to buy it at rates set by the market. On the assumption that transactions via Right Media Exchange expand further, display advertising revenues are expected to rise for both the Group and partner sites.

Also as part of our open network initiative we offer partners access to some of the Group's business infrastructure tools, including the Yahoo! JAPAN ID verification application program interface, the Yahoo! Wallet online fee-collection system, and the Yahoo! Points service platform.

The video-streaming business is another area where the Group can offer partners low-cost access to a network-wide distribution platform. In April 2009, we acquired an equity share in USEN CORPORATION subsidiary GyaO CORP., a video-streaming service provider. Then, in September 2009 we launched GyaO!, an official free video content distribution platform with advertising-derived revenues, and the GyaO! Store, a pay video content distribution platform. For our partners involved in TV broadcasting and film distribution, for example, GyaO!'s video distribution platform could prove to be an efficient means to monetizing their substantial content. And, by securing continuous access to high-quality content, the Group would be better positioned to attract a broader customer base and additional advertising placements.

By establishing an open, extended network of partnerships, we aim not only to enhance the benefits to users but also to create opportunities for building win-win relationships with business partners.

### Maximizing Shareholder Value

Firmly committed to driving the ongoing expansion of the Japanese Internet market, the Group aims to achieve further business growth in the medium to long term by responding effectively to the challenges and opportunities of an ever-changing business environment. While emphasizing the accumulation of retained earnings necessary to strengthen our financial structure and to fund future business development, we will continue to place a high priority on returning profits to shareholders.

The Group strives to return profits to shareholders based on a payout ratio target of approximately 10% of consolidated net income. Taking into account the Group's notably strong performance in fiscal 2009, however, we have decided to raise the payout ratio to 20% for the year. We are therefore pleased to declare cash dividends of ¥288 per share for fiscal 2009, compared with ¥130 per share for fiscal 2008.

In the years ahead, we will continue to retain a level of financial reserves considered essential to the Group's ongoing growth. While striving to further boost our overall performance, we will maintain a flexible and balanced approach to the repurchase of our own shares and the return of profits to shareholders. In either case, the Group is guided by an overarching commitment to maximizing shareholder value.

### In Conclusion

In carrying out the Group's primary mission of providing useful, cutting-edge Internet services and content accessible by anyone, anytime and anywhere, we aim to earn the trust of all stakeholders, including shareholders, Internet users, affiliated business partners, and suppliers. Based on that trust, we can be certain of realizing sustainable growth in future years. Moving steadfastly forward, we humbly request your continuing understanding and support.



Masahiro Inoue  
President and CEO  
Yahoo Japan Corporation  
June 24, 2010

**Raised the dividend payout ratio to approx. 20%**  
(Past: Approx. 10% of consolidated net income for the period)

	FY2008	FY2009
Cash dividends per share:	¥130	→ ¥288
Total dividend payout:	¥7.6 billion	→ ¥16.7 billion

**Approx. 2.2 times compared with FY2008**

## Special Feature

# A Viable Business Model for Video Content Distribution

Evolving Internet functionality continues to bring new heights of convenience to the everyday lives of a growing number of people around the globe. Advanced Internet search capabilities enable users to quickly retrieve essential information and locate hard-to-find items for online purchase. With a few clicks of the mouse, it's possible to book a table for lunch, or even launch a new career, all from the comfort of home. Although for the most part a great boon to all concerned, the Internet's convenience-enhancing functionality, if abused, can also be the source of undesirable, far-reaching social consequences. One particularly vexing example of such abuse is copyright infringement resulting from the unauthorized posting of video content.

Video-sharing sites have enjoyed surging popularity since their appearance on the Internet in 2005. Essentially platforms enabling users to upload and share video content with other users, video-sharing sites embody the interactive quality of Internet usage, arguably one of the medium's chief points of popular appeal. While the vast majority of users upload content that conforms to the stated policies and guidelines of video-sharing sites, an alarming upward trend in unauthorized postings of television and film content has become increasingly apparent in recent years. Users who upload copyrighted content on video-sharing sites act in flagrant disregard both of the law and of the legitimate interests of content producers and other copyright holders. Users who view such unauthorized content do so entirely free of charge, but at the considerable expense of the legitimate owners of the content. As long as the current situation persists, content producers will be denied their rightful earnings, effectively limiting the funds available for the production of new content. For this reason, some observers are concerned about potential deterioration in both the quality and the quantity of new video content in coming years.



Sharing fully in these concerns about the future of video content production, the Group took an initial step toward rectifying this situation with its April 2009 acquisition and consolidation of video-streaming service provider GyaO CORPORATION and subsequent full-scale entry into the video-streaming service market. By offering Internet users a legitimate means of freely accessing popular video content, the Group sharply reduces the incentive for illegal uploading of video content. And by leveraging an integrated distribution platform that generates revenues both from advertising and pay content, the Group is well placed to fairly compensate copyright holders in return for the usage of their content, thereby facilitating the ongoing production and distribution of fresh video content. Positioning the video distribution business as an integral component of our open network initiative, we intend to work with partners in building a video distribution platform that satisfactorily balances the needs of producers, distributors, and viewers of video content.

### Consolidation of GyaO CORP., and Equity Participation by Major Players in the TV and Advertising Industries

The Group acquired 51% of the outstanding shares of GyaO CORP., a wholly owned subsidiary of USEN CORPORATION, in April 2009 and subsequently converted it into a consolidated subsidiary. This was a natural move, given the Group's active involvement in the video-streaming area via the Yahoo! Streaming service. Combining GyaO CORP.'s brand power, subscriber base, and content-procuring prowess with the Group's technological expertise and user base, we have created GyaO!, Japan's largest official video content distribution site. From its inception, GyaO! has attracted the attention of numerous companies both within and outside the Group. As of April 2010, Japan's five major television networks—TV Asahi, TOKYO BROADCASTING SYSTEM HOLDINGS, NIPPON TELEVISION NETWORK, Fuji Television Network, and TV TOKYO—and two large advertising agencies—DENTSU INC. and Hakuhodo DY Media Partners INCORPORATION—had each taken an equity stake in GyaO CORP. We view such broad-based equity participation as a clear endorsement of the Group's rationale and objectives with regard to the GyaO! launch. In addition to the equity partnership arrangements outlined above, we intend to cooperatively partner with content providers and advertising agencies in providing content as well as jointly developing and marketing advertising products. Looking ahead, the Group also expects to promote and participate in a wide variety of collaborative campaigns, such as free distribution of an episode of a popular television drama, offered on a special limited-period preview basis, to groups of randomly selected subscribers.

### Launch of GyaO!, including GyaO! Store

In September 2009, the Group launched GyaO!, an official free video content distribution site. GyaO! Store, a pay video content distribution platform, is an integral part of the GyaO! site. With the cooperation of television broadcasters, film distributors, and other copyright holders, GyaO! offers approximately 1,100 video programs and GyaO! Store around 1,400 programs as of March 2010. Whether to provide content on a free of charge or pay basis is decided by copyright holders, in principle, based on expectations regarding viewer audience scale. For newer content expected to attract a large viewership and, as a result, appeal to advertisers, services are generally provided free of charge. For older content expected to attract a more limited viewing audience, services are generally provided on a pay basis.

Interactive vision





## Advertising Products

Taking mainstream commercial television advertising as a model, Internet video advertising by convention used to be broadcast immediately before the start of each video program segment. Because Internet video program segments of only a few minutes in duration are fairly common, a 15- or 30-second advertisement broadcast before each start of brief video program segments can tend to annoy viewers. With this in mind, we are taking steps to design and market innovative branding advertising products that depart from convention in viewer-friendly directions.

Currently, our two most popular branding advertising products are top jack, which occupies GyaO!'s entire top page, and sponsor category. While GyaO!'s top page employs thumbnails to introduce video content and to guide users, the backdrop of the entire top page is designed to project the corporate brand image of the sponsoring advertiser. This is referred to as top jack advertising. Showa TV, a theme-based collection of video content on the GyaO! site, offers an example of sponsor category advertising. Here, the video content and advertising share a common corporate-sponsored theme. Leveraging the high visibility of the GyaO! site, these products address advertisers' principal goal of achieving a strong branding impact.

In addition, the Group has developed interactive vision, a high-impact video advertising product that is broadcast on peripheral screen space simultaneously with the video program under way. Compared with advertising broadcast immediately prior to each video program segment, interactive vision is less annoying to viewers.

GyaO!'s portfolio of advertising products employ cutting-edge audiovisual techniques to achieve impact and effectiveness levels comparable to those of television advertising. Thanks to the targeting capabilities unique to Internet advertising, moreover, all of these products can be fine-tuned to address the specific needs of each advertiser. Going forward, the Group intends to develop increasingly effective, viewer-friendly advertising products geared to maximizing advertising revenues.

## Pay Content

Although currently offering approximately 1,400 video programs, GyaO! Store's pay content sales are limited. Looking forward, we expect that pay content revenues will rise to approximately the same level as advertising revenues, assuming that we (1) continuously add new high-demand content to GyaO! Store's video offerings, (2) price the content appropriately, and (3) simplify the purchase process. Through partnerships with content providers, we expect to offer a steadily expanding and increasingly varied selection of video programs in the future. Purchases made through GyaO! Store can be settled using the Group's Yahoo! Wallet online settlement service. Requiring only a one-time initial registration, with no monthly membership fee, Yahoo! Wallet is a simply structured, easy-to-use service offering users wide-ranging benefits. Through collaborations between GyaO! and GyaO! Store, we plan to carry out a variety of promotional activities. One such collaboration might consist of free broadcasts of season-opening episodes of popular television dramas via GyaO!, with subsequent episodes broadcast only via GyaO! Store on a pay basis. With the goal of expanding pay content revenues, we will exploit all possible means of promoting increased usage of GyaO! Store services.

GyaO! official Web site top page



Note: Programming details and other information appearing above as of June 2010

## Other Earnings

In addition to revenues from advertising and pay content, we anticipate a third source of revenues in the form of commissions on transactions initiated via affiliate advertising links. Placed to the right of the video screen, affiliate advertising will primarily feature products related to the content of the video being viewed, including DVDs and promotional goods, with embedded links that lead viewers to Yahoo! Shopping and other e-commerce sites where transactions can be executed. Products sold in this manner generate affiliate commissions, paid by sellers, which are expected to be a stable revenue stream looking forward.

## Cost-Reduction Measures

Prior to Group consolidation, GyaO CORP. recorded an operating loss of approximately ¥2.7 billion on net sales of around ¥5.3 billion for the fiscal year ended August 31, 2008. Thanks to successful cost-reduction efforts, the company entered the black and registered an operating income for the month of December 2009 as well as the fourth quarter of fiscal 2009, the three-month period ended March 31, 2010. Cost-reduction efforts focused chiefly on two areas, as discussed below.

The distribution of video data entails far greater expenditures than does the distribution of still-image data. Furthermore, additional expenses accrue when a single program is viewed simultaneously by many users. With the goal of minimizing costs associated with distribution and simultaneous viewing, we integrated the independent video distribution systems previously employed in the Yahoo! Streaming service with GyaO CORP.'s video distribution systems, marshalling our diverse know-how and expertise to build more cost-effective video distribution operations. As a result, both GyaO! and GyaO! Store are optimally configured for efficient, low-cost distribution of high-quality video content.

In addition, we undertook a comprehensive review of GyaO CORP.'s cost structure, which in turn led to a renegotiation of the terms and conditions of content purchase agreements. While still under the umbrella of the USEN Group, GyaO CORP. had agreed to pay a fixed minimum amount to copyright holders regardless of the revenues generated from usage of their content. The company therefore had incurred losses in cases where content-related sales failed to exceed the fixed minimum amount paid to secure the content. Our renegotiation concluded with agreement on a revenue-sharing scheme with copyright holders, a change that locks in cost-containment benefits for GyaO CORP.

## Future Developments

The estimated number of GyaO! viewers in March 2010 was 11 million, based on Nielsen Online channel level data, including home and office access and excluding Internet application use. Including GyaO! Store's inventory, GyaO! offers some 2,500 video programs covering a wide range of categories including feature movies, foreign-language dramas, animations, comedy acts, and sports features. Working in cooperation with television broadcasters and other copyright holders, the Group intends to offer users access to video programs not viewed when originally broadcast. In promoting the secondary and tertiary use of video content, we aim to increase revenues both for copyright holders and for the Group.

GyaO! Store official Web site top page



## Business Segment Review

### Advertising

26

The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of listing advertising and display advertising.

### Business Services

29

The Business Services segment includes non-advertising-related services for corporations. This segment derives revenue from tenant fees and sales commissions from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, fees for data center business services, fees and commissions for various information listing services, fees for online research business services, and fees for other information services.

### Personal Services

30

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

## Business Group Review

32

Media Business Group, BS Business Group, Consumer Business Group, R&D Group, Operations Group, Business Strategy Group

# Advertising

*The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of listing advertising and display advertising.*

Share of Net Sales

50%



Share of Operating Income

57%



Advertising segment net sales for fiscal 2009 amounted to ¥141.4 billion, up 1.8%. Operating income climbed 11.1%, to ¥81.6 billion.

During its brief history of less than two decades, the Internet has attained a dominant position among the major communications media. The number of Internet users in Japan has grown at an accelerating pace, reaching 94.08 million, or 74.0% of the entire population, in calendar 2009, according to the Ministry of Internal Affairs and Communications' 2009 Survey of Communication Trends. Looking ahead, the Internet's media value is poised to steadily expand in line with increasing Internet accessibility and viewing times.

Facing persistent macroeconomic weakness, the Japanese advertising market languished during the period under review. According to industry data compiled by DENTSU INC., total advertising expenditures in calendar 2009 declined 11.5%. Advertising expenditures in the four traditional media markets of TV, newspapers, magazines, and radio contracted 14.3%, following on a 7.6% year-on-year drop in calendar 2008. In contrast, advertising expenditures in the Internet market edged up 1.2% to a level just surpassing newspapers, making the Internet the second largest advertising market behind television. These statistics testify to the ongoing shift of advertising expenditures from traditional media markets to the Internet market—a shift hastened by the Internet's burgeoning media value.

Sales of listing advertising products, including paid search advertising and interest-based advertising, were up slightly in fiscal 2009. Offered in the Japanese market since 2002 and currently accounting for approximately two-thirds of the Group's total advertising sales, listing advertising is a cost-effective means of sales promotion both for major corporations and for small and medium-sized businesses. Even so, usage remains limited to just a small fraction of all business enterprises in Japan. Looking forward, we therefore anticipate increasingly widespread placements of listing advertising, particularly from small and medium-sized businesses.

Although demand for listing advertising tends to be relatively resistant to fluctuations in the macroeconomic environment, persistent economic weakness during the period under

review took a toll on paid search advertising. Revenues dropped as a result of lower average keyword bid prices, reflecting budget cuts by major advertisers that had already placed large-volume orders through advertising agencies, particularly recruitment-related businesses and companies in the financial and real estate industries. On a positive note, steady increases were seen both in the number of accounts and in advertisements placed by small to medium-sized businesses ordering advertising directly online, which effectively offset the drop in sales via advertising agencies.

To stimulate interest among small and medium-sized businesses in Interest Match®, the Group's newest advertising product launched in September 2008, we held introductory seminars and a forum during

## Breakdown of the Group's Display Advertising Sales, by Industry Sector\*

(Calendar years)	2005	2006	2007	2008	2009	Breakdown of Total Advertising Expenditures in the Four Traditional Media, by Industry Sector** 2009
Foodstuffs	2.4%	3.3%	3.2%	3.3%	3.8%	10.2%
Cosmetics/Toiletries	6.7%	7.0%	7.5%	9.1%	10.6%	9.7%
Transportation/Leisure	4.9%	7.3%	8.2%	9.2%	8.6%	8.2%
Beverages/Cigarettes	5.3%	4.3%	3.9%	3.7%	5.3%	8.0%
Information/Communications	13.3%	15.1%	15.3%	12.3%	13.1%	7.2%
Distribution/Retail Sales	1.3%	0.9%	0.9%	0.5%	0.4%	6.8%
Pharmaceuticals/Medical Supplies	1.1%	1.5%	1.2%	1.5%	1.9%	5.8%
Finance/Insurance	21.6%	20.4%	17.5%	18.1%	13.7%	5.3%
Hobbies/Sporting Goods	3.1%	2.9%	3.2%	3.5%	2.6%	5.0%
Automobiles/Related Products	10.1%	9.0%	10.9%	11.5%	12.1%	4.8%
Food Services/Other Services	11.8%	9.6%	8.3%	6.7%	4.4%	4.8%
Real Estate/Housing Facilities	8.4%	9.5%	10.1%	11.5%	10.1%	4.0%
Fashion/Accessories	1.4%	2.2%	2.9%	3.4%	4.1%	3.3%
Publications	1.3%	1.0%	0.7%	0.5%	0.7%	3.3%
Others	7.3%	6.0%	6.2%	5.2%	8.6%	13.6%

\* Industry sector names, as used by DENTSU INC.

\*\* From 2009 Advertising Expenditures in Japan, DENTSU INC.

the period under review. To facilitate online ordering of advertising placements, from March 2010 we began consolidating each advertiser's Sponsored Search® ID and Interest Match® ID into a single ID for signing on to order either product. As a result, the number of advertisers using Interest Match® rose firmly and related revenues more than doubled in fiscal 2009, thereby supporting overall growth in listing advertising revenues.

Demand for display advertising, which accounts for approximately one-third of the Group's total advertising revenues, weakened noticeably during the first half of fiscal 2009, with revenues down approximately 10% compared with the corresponding six-month period of the previous year. Toward the beginning of the second half, however, indicators began to suggest a bottoming-

out in corporate-sector earnings, which in turn boosted business sentiment and fueled a robust upsurge in demand, particularly for Brand Panel display products. As a result, display advertising sales for the full year were down only marginally.

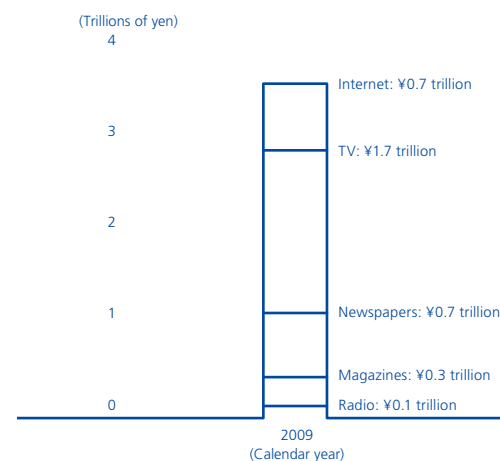
Sales of Brand Panel, used primarily by major corporations for mass-market branding purposes, were notably robust throughout the period. Even toward the beginning of fiscal 2009, when other mass media including TV endured substantial advertising revenue declines, Brand Panel sales were on a par with the same period of the previous fiscal year. Moving into the second quarter, sales steadily increased and by the fourth quarter reached full capacity on the back of growing expectations for economic recovery. As a result, Brand Panel sales attained record-high

levels in the fourth quarter of fiscal 2009. We also benefited from widespread advertiser acceptance of new display advertising products, including interactive vision, top jack, and sponsor category, introduced in September 2009 in conjunction with the GyaO! site launch. (For more details, please refer to the Special Feature beginning on page 21 of this annual report.)

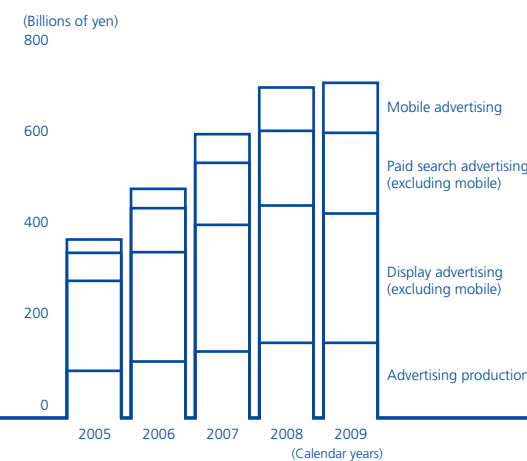
Considering the state of the current mobile Internet environment in Japan, with only a handful of specific services used by a delimited group of users, the first step toward building a mobile Internet advertising market is to facilitate and promote broader mobile-based Internet access and usage. Only when users of mobile devices begin to access the Internet on a daily basis, much as PC users do currently, can mobile advertising begin to

generate significant revenue. To that end, we are introducing a growing array of the services mobile phone users want most, including not only selected services already available on the PC version of Yahoo! JAPAN but also newly developed services. Compared with the PC, the number of Web sites optimized for mobile devices is extremely limited, a situation that greatly impairs search functionality. Accordingly, bearing in mind the unique characteristics of specific mobile devices we are focusing on improving search functionality while working also to enhance user convenience. For fiscal 2009, mobile-based advertising revenues accounted for slightly more than 5% of the Group's total advertising revenues.

### Breakdown of Japanese Mass-Media Advertising Expenditures



### Breakdown of Japanese Internet Advertising Expenditures



Source: 2009 Advertising Expenditures in Japan, DENTSU INC.

Launched in the Japanese market in July 2008, iPhones and other Internet- and multimedia-enabled smart phones have proliferated explosively, fueling rapid growth in mobile-based Internet access. Viewing this development as a growth opportunity, the Group quickly released an iPhone version of Yahoo! JAPAN in combination with a variety of popular service applications. In April 2010, we upgraded the iPhone version's top page, focusing on a more attractive and user-friendly design. Taking full advantage of the iPhone's relatively large screen, we then began test-marketing banner advertising products in May 2010. Through such initiatives, we intend to foster accelerated growth in mobile-based advertising.

## Strategies Going Forward

With signs of economic recovery coming into view, we are diligently preparing to maximize revenue gains on the back of an expected upswing in demand for the Group's advertising services.

Targeting medium- to long-term expansion in our listing advertising business, we are committed above all to enhancing quality. In line with this commitment, we no longer accept advertisement placements from how-to information scam operators, couple-busting divorce service providers, and other businesses considered to be detrimental to society. While advertisement placements from such businesses tend to yield relatively high per-unit revenues, they risk undermining users' confidence and trust over the medium to long term. Taking into consideration the Group's weighty social responsibility as Japan's leading Internet site operator, and in keeping with our commitment to boosting the Internet's credibility as a mainstream communications media, we intend to continue rigorously monitoring advertising quality. At the same time, we aim to increase listing advertising revenues by promoting online ordering of advertisement placements from a growing number of small and medium-sized businesses as well as by further expanding our open network of partner sites.

To boost display advertising revenues, we intend to develop and promote high-value-added products sharply attuned to advertisers' needs, promote more effective methods of collaboration with advertising agencies, and leverage our open network with an eye to more effectively monetizing partner-site traffic.

# Business Services

*The Business Services segment includes non-advertising-related services for corporations. This segment derives revenue from tenant fees and sales commissions from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, fees for data center business services, fees and commissions for various information listing services, fees for online research business services, and fees for other information services.*

Share of Net Sales

23%



Share of Operating Income

15%



Fiscal 2009 net sales of the Business Services segment were ¥64.3 billion, an increase of 17.8%. Operating income rose 6.0%, to ¥22.0 billion.

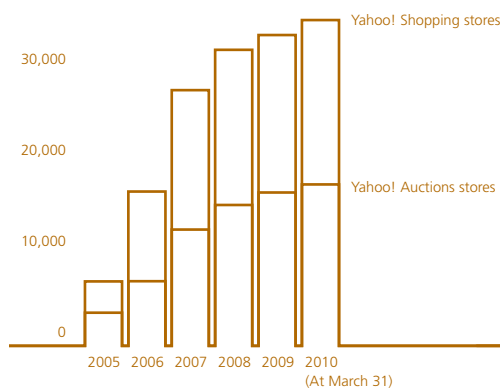
The upturn in segment sales resulted primarily from (1) the February 2009 acquisition and subsequent merger of data center operator SOFTBANK IDC Solutions Corp., (2) a hike in BtoC auction final-value fees, and (3) solid year-on-year growth in Yahoo! Shopping's transaction value. Included in the Group's scope of consolidation at the end of fiscal 2008, SOFTBANK IDC Solutions contributed approximately ¥10 billion to the Group's data center-related business in fiscal 2009. Our December 2008 implementation of an increase in BtoC auction final-value fees, from 3% to 5%, fueled growth of approximately 20% in Yahoo! Auctions-related revenues. In addition to conducting a Yahoo! Points

award campaign and commissioning a high-profile television campaign, Yahoo! Shopping collaborated with a major Tokyo department store in a popular gourmet foods and sweets marketing campaign. These and other efforts supported year-on-year growth in Yahoo! Shopping's transaction value of approximately 20%. As of March 31, 2010, the number of merchant stores registered on the Yahoo! Auctions and Yahoo! Shopping sites totaled 34,445, a 4.9% increase over the figure one year earlier.

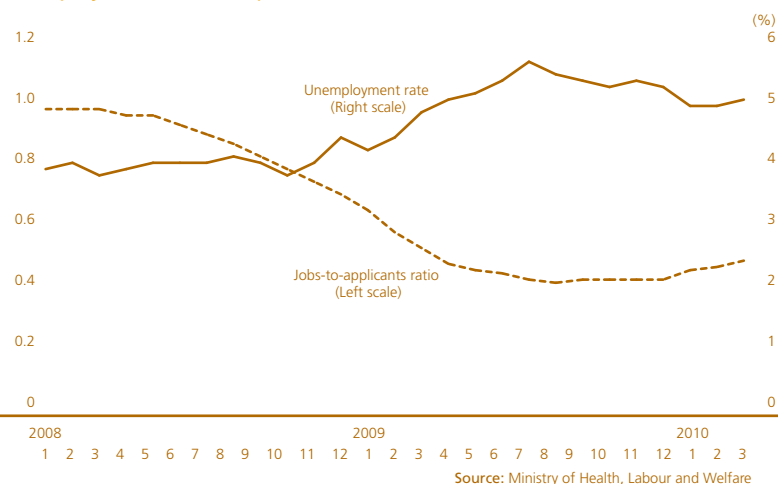
Elsewhere in the Business Services segment, employment information service Yahoo! Rikunabi continued to slide, with revenues for fiscal 2009 down approximately 60% owing largely to persistent weakness in hiring sentiment accompanying the economic downturn. More positively, fourth-quarter results confirmed a tentative recovery in this

Yahoo! Auctions and  
Yahoo! Shopping Stores

(Number of stores)  
40,000

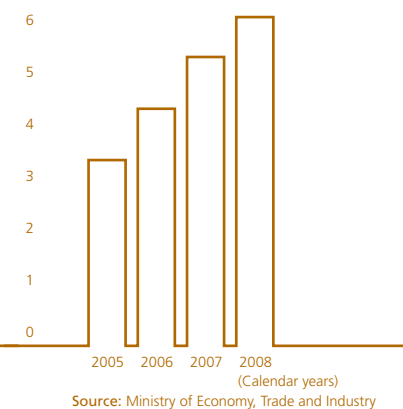


Jobs-to-Applicants Ratio and  
Unemployment Rate in Japan



Japanese BtoC e-Commerce  
Market Transaction Value

(Trillions of yen)  
7



business, which appears to be continuing into the initial months of fiscal 2010 on the back of an improved business climate. Yahoo! BB's ADSL broadband services also declined, owing mainly to high existing rates of market penetration for broadband Internet services and to the growing popularity of optical-fiber Internet services.

## Strategies Going Forward

Some businesses in this segment are inherently vulnerable to downward macroeconomic fluctuations, notably Yahoo! Rikunabi, and continued economic sluggishness therefore poses a particular challenge. Even so, we intend to further expand segment sales by making timely introductions of services that consistently satisfy the needs of a wide range of user groups and by promoting cross- and up-selling of our product menu. To facilitate those efforts, we undertook a major reorganization in April 2009, consolidating all of our business services other than advertising into the Business Services (BS) Business group. By bringing together under a single roof all of the Group's business services, we have enhanced our ability not only to offer services more finely attuned to user needs but also to shorten lead times for newly integrated services. Already, the BS Business group has successfully launched a data center-related service for small and medium-sized businesses featuring contract durations of as short as one month and built-in flexibility enabling daily capacity adjustments according to actual operational requirements. By offering such services, we are strategically building a base in data center operations with a view to entering such promising fields as cloud computing and open platforms. We also are strengthening the Group's future growth prospects by offering integrated service packages that meet the complete requirements of small and medium-sized regional businesses seeking to

enter the online market. Staking out a claim on potential e-commerce growth, Yahoo! Shopping in June 2010 formed a business alliance with Taobao, China's largest provider of e-commerce services. By stimulating growth in cross-border transactions between Japan and China, this alliance is expected to enhance user convenience and satisfaction, expand revenues and earnings for all participating stores, and energize the e-commerce market both in China and in Japan.



# Personal Services

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

Share of Net Sales

27%



Share of Operating Income

37%



Net sales of the Personal Services segment for fiscal 2009 amounted to ¥75.3 billion, an increase of 3.7%. Operating income edged up 0.3%, to ¥52.9 billion.

Yahoo! Auctions market activity was robust in terms of number of items listed, which increased significantly as more users sought to raise cash by auctioning unwanted items. Yahoo! Auctions CtoC system-use fees, on the other hand, declined on the slump in consumer sentiment and a lower average closing-bid price.

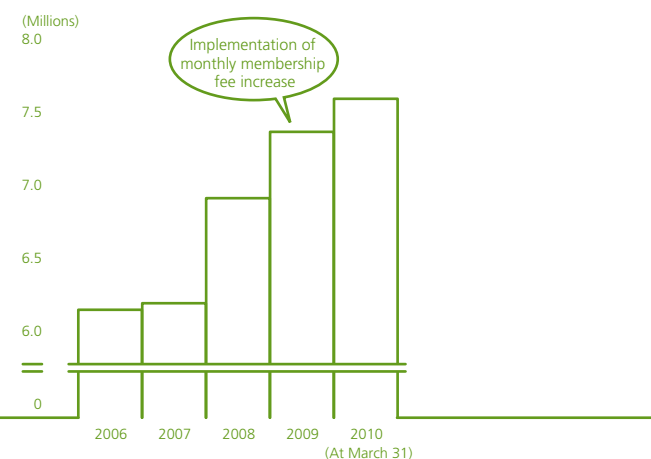
Revenues from Yahoo! Premium membership fees advanced firmly. Entitled to list and bid on items for sale on Yahoo! Auctions without restriction, Yahoo! Premium members also enjoy a range of other benefits, including exclusive access to various content and discounts on products and services offered on partner sites. Despite the monthly membership fee increase, from ¥280 to ¥330, effective December 2008, the number of Yahoo! Premium member IDs rose 3.1% on the year, to 7.59 million as of March 31, 2010, thanks in part to efforts made during the period to expand and improve member benefits.

Among our pay content services, Yahoo! Partner and Yahoo! Games posted solid sales gains. GyaO! Store, the pay video content distribution platform on our GyaO! site launched in September 2009, made a small but steadily growing contribution to sales.

## Strategies Going Forward

The Group will continue to enhance the value of Yahoo! Premium memberships with the dual goals of attracting new members and of encouraging more members to use a greater number of services more frequently. In addition, we will conduct various campaigns both to acquire first-time users and to encourage increased participation by existing users of Yahoo! Auctions services. Through these and other market-stimulating measures, we expect to achieve further gains in transaction value. At the same time, we will place renewed emphasis on developing content that matches user needs with the goal of expanding pay content revenues.

Yahoo! Premium Member IDs



## Business Group Review

Succumbing to the force of the global economic downturn arising from the financial crisis of autumn 2008, the Japanese economy stalled abruptly from the second half of fiscal 2008, with corporate-sector earnings declining sharply and employment conditions and consumer sentiment deteriorating apace. Meanwhile, forecasts for continuous growth in Internet user numbers and access times remained unchanged, despite the general economic malaise. Against this backdrop, the Group determined that to retain its premier position in the domestic Internet market it would have to adopt a more agile, flexible corporate structure.

So it was that the Group in April 2009 undertook a major structural reorganization with the immediate aim of maintaining continuous and sustainable growth. The Group's previous structural reorganization of comparable scale took place in 2002, when an autonomous business division system was implemented. The April 2009 reorganization resulted in six autonomous business groups, as outlined below.

- Three core business groups—Media Business group, Business Services (BS) Business group, and Consumer Business group—were created by consolidating former business divisions and reallocating service planning and marketing personnel from the Company's head office. Conducting its business activities via this core business group structure, the Group intends to enhance its media value for the

benefit of users and clients.

- The R&D group, comprising development engineers and editing and production personnel, focuses on refining the Group's technological capabilities with the goals of creating an engineering infrastructure capable of responding swiftly to the needs of each business group and significantly reducing development lead-times.
- The Operations group, consisting of operational and administrative support personnel, lays the groundwork for enhanced customer satisfaction by ensuring stable, efficient operations of Groupwide systems, including data centers and customer contact centers.
- The Business Strategy group formulates and implements Groupwide marketing strategies designed to enhance the value of the Yahoo! JAPAN brand while expanding the scope of the open network initiative.

As a result of this structural reorganization, the Group expects to improve service quality, accelerate the pace of new development, and enhance user satisfaction with the ultimate goal of increasing revenues and earnings to the extent required to further consolidate its competitive advantage in the Japanese Internet market.

### Media Business Group

The Media Business group aims to provide services that appeal to and attract both users and advertisers. To that end, this group plans various services with highly viewed pages on

which advertising can be listed, collaborates with information providers, and together with advertising agencies develops and sells advertising products.

### *Principal Activities in Fiscal 2009*

The acquisition and subsequent consolidation of GyaO CORPORATION was the main focus of activity during the period. On the understanding that video content distribution would be positioned as a major new business pillar, the Company acquired GyaO CORP. in April 2009. After comprehensive upgrades and renewals, GyaO!, a free video content distribution site, and GyaO! Store, a pay video content distribution site, were simultaneously launched in September 2009 as Japan's largest official video content distribution platform. (For more details, please refer to the Special Feature beginning on page 21 of this report.)

Among initiatives in the video content distribution business, the Yahoo! Video Topics site, comprising a selection of official videos from sites around the world, was launched with the aim of sparking user interest in Internet-based video viewing. A permanent corner was established on the lower half of the Yahoo! JAPAN top page to attract users to the site. Video Channel, a free service providing access to more than 3,000 videos in various genres, was launched on Yahoo! JAPAN for AQUOS, a service optimized for access exclusively via Sharp Corporation's AQUOS televisions.

Beyond the video content distribution field, the Media Business group is responsible for maintaining Yahoo! Politics, a site launched in 2006 with the aim of generating popular interest in and understanding of the current national political scene. In addition to highlighting the activities of individual Diet members and reproducing parliamentary debates related to the passage of bills, the site provides information about political parties. By shining a light on Lower House elections held in the summer of 2009, and utilizing debates on the bill to amend the Public Office Election Law, Yahoo! Politics functioned as a catalyst for the movement to lift restrictions on election- and campaign-related Internet use. Functions enabling users to post opinions and comments were added, enhancing the site's social media functionality and supporting expanded usage of the service. Regarding the 2009 Lower House elections, users were provided with information on individual candidates, election-related news, and real-time voting returns. Manifesto Match, a search service provided on Yahoo! Politics that enables a user to identify political parties that share his or her worldview and concerns, attracted approximately 470,000 users.

Supplementary contents, including a Vancouver Olympics Special and a live-coverage channel, were added to the Yahoo! Sports site during the Vancouver Winter Olympics in February 2010. As a result, page views exceeded the record attained during special coverage of previous Olympics.

The R25 site was newly launched on both PC and mobile versions of Yahoo! JAPAN. R25 is a free magazine published by RECRUIT Co., Ltd., and distributed throughout the Tokyo metropolitan area. New projects were unveiled and other steps taken to renew the contents of R25.

#### *Principal Revenue Sources:*

- Display advertising (banners and video advertising)
- Listing advertising via advertising agencies (pay per performance advertising)
- Yahoo! Research

### BS Business Group

The BS Business group aims to enhance and enrich user lifestyles with a wealth of community- and region-specific information. This group provides various business support services that enable small and medium-sized enterprises to distribute information, expand and enhance services, and leverage the Internet's robust advertising power.

#### *Principal Activities in Fiscal 2009*

With the goal of increasing online sales of listing advertising, including interest-based Interest Match® introduced in September 2008, marketing efforts focused primarily on small and medium-sized businesses. To simplify the online ordering process, from March 2010 we began consolidating each advertiser's Sponsored Search® ID and Interest Match® ID into a single ID for signing on to order either product. In this way, we aim to

attract a growing number of advertisers who order advertising online, thereby boosting listing advertising revenues.

New content was added to the Yahoo! Real Estate site, including Custom Home Building, an interactive service that enables users to construct dream homes using rich graphics. Providing copious information on house design and construction, the service also enables users to consider the multiple aspects of home construction from a variety of perspectives.

Yahoo! MachiMoba, a mobile search service that provides a range of useful information based on a user's actual location, was upgraded with the inclusion of restaurant information search functions of non-Group sites, including Hot Pepper and Gourmet Navigator, to supplement information provided by Yahoo! Gourmet. Moreover, to expand regional and lifestyle information a regional advertising flyer search function was added to Yahoo! MachiMoba's proximity search function. A wide variety of new content was added to the Yahoo! BEAUTY service providing information on aesthetic clinics, salons, and cosmetics. For example, a nail manicure catalogue service encompassing designs and decorative motifs as well as seasonal and event-related nail-art information was added to supplement the salon search function.

In Yahoo! Everywhere initiatives, the BS Business group launched a service that

enables users to transmit spot location information obtained via Route and Map app for Softbank Mobile devices to selected car navigation systems. The Yahoo! Maps iPhone service underwent a renewal, with a particular emphasis on enhancing convenience.

In the data center operations business, collaborative sales and promotional activities with subsidiary IDC Frontier Inc. were ramped up.

To strengthen marketing capabilities particularly in regional cities, marketing offices were established in Nagoya and other cities, joining the existing Osaka branch in an upgraded marketing network covering western Japan.

#### *Principal Revenue Sources:*

- Listing advertising via online ordering (pay per performance advertising)
- Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Travel
- Yahoo! Business Express, Yahoo! WebHosting
- Data center-related revenues

### Consumer Business Group

The Consumer Business group engages in the planning and promotion of e-commerce-related services, primarily Yahoo! Auctions and Yahoo! Shopping; membership services, including Yahoo! Premium; services for individuals, including pay content services; and settlement services, including Yahoo!

Wallet. Incorporating features designed to maximize user convenience, these services aim to facilitate and promote business transactions over the Internet.

#### *Principal Activities in Fiscal 2009*

To commemorate the passage of 10 years since the launch of services on both Yahoo! Auctions and Yahoo! Shopping, seasonal promotional campaigns were held as part of efforts to boost transaction values. Collaborative ties among services within the Yahoo! JAPAN site were strengthened through various initiatives, including the introduction of new inducements for cross-service usage among Yahoo! Auctions, Yahoo! Shopping, and Yahoo! Search. Star Club, a new benefits award program based on usage levels and types of Yahoo! JAPAN services accessed by individual users, was launched. In addition to exclusive access to bargain sales, Star Club members enjoyed special double-points award campaigns during the period. As a result of these and other promotions, the combined daily transaction value on Yahoo! Auctions and Yahoo! Shopping reached a record high on December 13, 2009.

To further enhance convenience, Yahoo! Auctions introduced HakoBOON, a reasonably priced parcel delivery system handled in collaboration with FamilyMart convenience stores nationwide. To encourage greater participation in online auctions, a DOCOMO Mobile Auction Membership system was added to the mobile version of Yahoo!

## Business Group Review

Auctions. This system allows bidding on and listing of items via NTT DOCOMO devices even without prior registration as a Yahoo! Premium member.

Yahoo! Shopping's popular gourmet shops collaborated with SEIBU Department Store's Ikebukuro flagship store in the SEIBU Ikebukuro x Yahoo! Shopping Popular Gourmet Foods and Sweets campaign, generating significant interest among both shoppers and the media. As a part of ongoing efforts to increase transaction value, in March 2010 Yahoo! Shopping conducted one of its largest sales promotions to date, including advertising campaigns carried out via Yahoo! JAPAN and TV commercials.

In open network initiatives, points program collaborations with non-Group partners expanded, including the launch of a points exchange program between Yahoo! Points and IY CARD SERVICE Co., Ltd.'s nanaco Points.

### *Principal Revenue Sources:*

- Yahoo! Auctions and Yahoo! Shopping merchant store tenant fees
- Yahoo! Auctions and Yahoo! Shopping system-use fees
- Yahoo! Premium membership fees
- Yahoo! BB subscriber ISP fees

## R&D Group

The R&D group develops and improves the functionality of Yahoo! JAPAN services. Responsible for integrating the basic platforms for advertising distribution, search, fee collection, and other services with the aim of ensuring efficient development, flexible business resource allocation, and improvements in technological capabilities, this group also works to enhance service quality and operability by unifying formats, structures, and designs.

### *Principal Activities in Fiscal 2009*

As part of efforts to upgrade search functionality and convenience, the Yahoo! Search direct display function was enhanced to directly display keyword search-related information from Yahoo! JAPAN services. Leveraging the Group's existing database, steps were taken to augment the range and format of search results, including the introduction of Yahoo! Search Plug-in, a new function that appealingly displays photographic images of keyword search-related stores and other locations, relevant address and contact details, and user-generated reviews and comments.

The My Yahoo! service was overhauled and upgraded to deliver additional user benefits, particularly with respect to operability. Users creating personalized Web pages can now add new content with just a single click and transfer existing content with a new drag-and-drop function. Cooperative ties with non-

Group sites were formed, further enhancing user appeal and convenience. Marking another milestone in ongoing development activities, a link to the office version (beta) of Yahoo! JAPAN was added to Yahoo! JAPAN's top page. Featuring a design calibrated to office environments, the Yahoo! JAPAN office version offers a streamlined menu of services most frequently accessed by office users.

Dedicated to ensuring a safe and secure environment for Internet use, the R&D group introduced new Yahoo! Mail service functions aimed at reducing unsolicited mail. Our Yahoo! Profile service, which enables communications with other users registered as friends, was integrated with Yahoo! Mail Academic Edition, a free Web mail service for educational institutions. By introducing this integrated service to institutions that offer Internet access via campus networks, we are effectively promoting Yahoo! Profile as an on-campus social networking site.

A variety of service improvements focusing on mobile devices were also implemented with the goal of promoting increased mobile-based Internet access. For example, the Yahoo! Search direct display function was enhanced to directly display keyword search-related information. Complementing these initiatives, a GPS-linked function was also introduced. For the iPhone, the best-selling smart phone in the Japanese market, a wide variety of officially authorized applications designed to enhance operability and convenience were released. In Yahoo! Everywhere initiatives,

a TV version of Yahoo! JAPAN capable of interfacing with browsers standard in the Internet-enabled televisions of most major domestic manufacturers was released.

## Operations Group

The Operations group is responsible for ensuring stable and efficient operations of Groupwide systems, including data centers. A secure operating environment for Groupwide systems is maintained by means of a control system designed to prevent service interruptions. This group is also responsible for ensuring problem-free operations of customer contact centers, thereby contributing to enhanced customer satisfaction.

### *Principal Activities in Fiscal 2009*

In addition to ensuring stable and efficient operations of systems and providing infrastructure throughout the Group, the Operations group focused on preparing and implementing systems essential to the operational stability and access reliability of GyaO!, the Group's video content distribution site launched in September 2009. In activities geared toward ensuring that the Group's systems and facilities are increasingly green, tests carried out at Asian Frontier, IDC Frontier Inc.'s environment-friendly next-generation data center, confirmed that the facility's air-conditioning systems not only reduce energy consumption but also recycle heat emissions through agricultural applications.

In an effort to promote usage of cloud computing services, access was provided to the NOAH platform service developed by subsidiary IDC Frontier Inc.

Yahoo Japan Customer Relations Corporation, a subsidiary company engaged in the operation of customer contact centers, established the Oita Center, which together with the existing Kochi Center is dedicated to enhancing customer satisfaction.

## Business Strategy Group

In promoting the open network strategy, the Business Strategy group focuses on establishing and maintaining alliances and partnerships. In addition to planning and developing marketing infrastructure, this group formulates and implements Groupwide marketing strategies designed to enhance the value of the Yahoo! JAPAN brand while expanding the scope of the open network initiative.

### *Principal Activities in Fiscal 2009*

In Internet-based social contribution activities, a signature-campaign site was launched to register public support of the lifting of restrictions on Internet-based political campaigning and electioneering. The results of this signature campaign were submitted to the appropriate government-related authorities.

Marketing activities conducted via the Yahoo! JAPAN site highlighted Yahoo! Shopping

campaigns and newly launched services such as GyaO! in addition to promoting Yahoo! JAPAN's entire service menu with the goal of encouraging greater cross-service access by existing Yahoo! JAPAN users. Similar marketing activities were also conducted via other media with the aim of cultivating new users of Yahoo! JAPAN services.

In open network strategic initiatives, links between Yahoo! JAPAN's top page and partner sites were strengthened. In addition to advertising distributed to partner sites, such business infrastructure tools as Yahoo! Wallet, Yahoo! JAPAN ID, and Yahoo! Points were provided. For example, a Yahoo! JAPAN ID-based log-in service was provided to Ito Yokado Net Super and Bandai Channel, while a collaborative arrangement related to Yahoo! Points commenced with the ORIX Group. In collaborative arrangements with device manufacturers, a growing number of Yahoo! JAPAN services were optimized for access and viewing via various electronic devices.

Efforts were made to promote expanded usage of Yahoo! Mail Academic Edition by educational institutions.

To increase display advertising revenues for the Group and partner sites, marketing of Yahoo! JAPAN AD Network inventory advertising space commenced via Right Media Exchange, an online auction-based advertising exchange platform.

## CSR Activities

*As a main engine of growth in the Japanese Internet market, Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Group) are fully committed to realizing a safe, secure Internet environment in harmony with the expectations and needs of society. By conducting our business activities in accordance with sound corporate policies and in a spirit of socially responsible fair-play and mutual benefit, we strive to gain the ever-deepening trust of society. On the strength of that trust, we are confident of achieving sustainable corporate growth and steadily increasing corporate value moving forward.*

### As a Responsible Company

#### Safety and Security

- Our Yahoo! Kids site, available in both PC and mobile versions, provides a safe Internet environment for children. We also offer Yahoo! Safety Net, a free filtering service that prevents children from viewing Web sites intended for mature users.
- We have been a member of the Internet Hotline Center's Guideline Formulation Committee since the establishment of the Center, the operation of which is entrusted by governmental agencies and Internet industry groups to the Internet Association Japan.
- In April 2008, jointly with NetSTAR Inc. we inaugurated the Study Group on Internet Usage by Children, which is currently preparing a comprehensive safety guide in collaboration with educational institutions, independent researchers, and parent and legal guardian representatives.
- Committed to reducing fraud and other abuses of Internet services, we fully cooperate with investigative bodies. During the fiscal year under review, some of our expert staff presented lectures on the theme of Internet-related crime prevention to the relevant sections of selected prefectural police headquarters in Japan.
- We continually implement various measures designed to strengthen user security and to improve our customer support. For example, we provide a log-in alert service that sends log-in confirmations to users via e-mail, disclosure of log-in records, a log-in seal service to prevent phishing fraud, a Tool Bar warning function to minimize phishing fraud, and user support provided through help pages and e-mail services.

#### Information Security

- To protect privacy, we request of users only the minimum amount of personal information necessary to provide them with services. Users' personal information is physically and systematically separated from other data and constantly monitored, with only the required minimum number of persons authorized to access the personal information database.
- Within the Internal Control Office, a unit with overall responsibility for information security develops and enforces information security related rules and regulations. This unit also implements wide-ranging management measures regarding such issues as enhancing information security awareness, technical measures aimed at upgrading information security systems, and physical measures for controlling access to and from information storage areas. In addition, the unit oversees Groupwide information security self-monitoring systems and maintains the Group's information assets ledger.
- To ensure that information security related issues are resolved when and where they arise, each business division designates several staff members as security officers, and each business group designates one staff member as a security promotional leader. All Group companies are fully committed to boosting information security over the medium and long term.
- In August 2004, the Company and its principal subsidiaries acquired Information Security Management System (ISMS) certification. In addition, as of April 2007 the Company and its principal subsidiaries had obtained ISO/IEC 27001:2005 certification, the international standard, and JIS Q27001:2006 certification, the Japanese standard. An independent third-party expert regularly performs inspections to confirm the ongoing validity of certification standards every six months, in

addition to conducting overall review inspections every three years.

- In November 2007, the Group developed iTres, a monitoring system for detecting information leaks in the Group's databases. iTres was the first database monitoring system certified for the public domain in Japan to acquire ISO15408 certification.
- In recognition of our acquisition of ISO15408 certification and of our contributions to raising public awareness of information security, we received an official commendation from Japan's Ministry of Economy, Trade and Industry (METI) in fiscal 2009.
- In November 2008, the Group obtained Payment Card Industry Data Security Standard (PCI DSS) certification for its Yahoo! Wallet credit card settlement service. PCI DSS is the international standard for settlement processing, including the handling and storage of credit cardholder and transaction information. The Group obtained level-1 PCI DSS certification by satisfying the most stringent requirements.

#### Protecting Intellectual Property Rights

- Together with intellectual property rights owners and related advocacy groups as well as relevant governmental authorities, we established the Council for Intellectual Property Protection on Internet (CIPP) in 2005. CIPP has published guidelines dealing with Internet-based distribution of items in violation of intellectual property rights. Based on these guidelines, intellectual property rights owners and the Internet industry are cooperatively engaged in combating this problem.
- In November 2006, we introduced stricter identification procedures for persons listing items for the first time on Yahoo! Auctions. New users are now required to provide a driver's license or similar official identification prior to listing

items, in addition to complying with the pre-existing postal address verification procedure.

- Our auction system constantly monitors for fraud using a fraud-detection model based on the behavioral patterns of known abusers of online auction services.
- We maintain a compensation system for innocent victims of fraud.
- In September 2009, the Company launched GyaO!, a video-streaming site that distributes content only with the consent of the rights-holding producers, based on mutually agreeable terms. Committed to protecting the intellectual property rights of content producers and delivering quality video content, GyaO! is already being employed as a new revenue-generating platform by various Group partners, including television broadcasters.

### As an Internet Company

#### Quality Service

- Dedicated to detecting fraud and other abuses, we conduct round-the-clock patrols of such sites as Yahoo! Auctions, Yahoo! Message Boards, and Yahoo! Knowledge Search.
- We remain focused on expanding the range and improving the quality of our customer support services offered via the Yahoo! JAPAN Help Center and help pages.
- In July 2008, Yahoo Japan Customer Relations Corporation began operations with the goal of improving our customer support services. This dedicated subsidiary plays a key role in the Group's ability to offer continuous high-quality support services and boost customer satisfaction as a result. Our customer support operations are physically located in Kochi Prefecture and Oita Prefecture.

- Our research departments periodically conduct user satisfaction surveys. Survey results data, which we publish on the Company's intranet, form the basis of our ongoing service improvements.
- In addition to incorporating Plan-Do-Check-Action (PDCA) quality-control cycles in our daily operations, we analyze results on a quarterly basis with an eye to improving service quality.
- In response to the market's rapidly expanding usage of the Internet as an advertising medium, we have established high screening standards for advertising content and presentation. In addition, the contents of all Group partner sites are subject to review based on established guidelines.
- To maintain the high quality of our services and to enhance their user-friendliness, we have assembled a dedicated in-house team to carry out strict quality-assurance checks and editing based on internal guidelines.

#### Researching the Future

- In line with our general goal of further promoting the sound and robust development of the Internet market, we established Yahoo! JAPAN Research in April 2007 to study the relationship between the Internet and society, particularly the potential impact of technological advances on the Internet's development. Currently, Yahoo! JAPAN Research is exploring the theme "user needs and technological seeds." Preliminary research results are posted on Yahoo! Labs and Yahoo! Developer Network in order to solicit user feedback, an integral step in the successful development of new services.
- The Yahoo! JAPAN Internet Creative Award, presented annually since 2006, is an initiative designed to spur cutting-edge contemplations of the Internet's transformative potential.

- We also proactively collaborate with universities and research institutes through formal discussions, data-sharing agreements, and joint research activities.

## As a Member of Society

### Support

- We support the Pink Ribbon campaign, which promotes the early detection and treatment of breast cancer. We also support the Red Ribbon campaign, which disseminates accurate information about HIV transmission and AIDS, with an emphasis on preventing the spread of HIV.
- Through Internet charity contributions, we have provided aid to victims of natural disasters in Japan and overseas since 2004, including victims of the Niigata Chuetsu earthquake, the Noto Peninsula earthquake, and a major flood in Kumamoto Prefecture. After both the Haitian earthquake in January 2010 and the Chilean earthquake several weeks later in February, we responded immediately by providing a site for the collection of Internet charity contributions. Since June 2007, users have been able to encash accumulated Yahoo! Points to make Internet charity contributions. As of March 31, 2010, Yahoo! JAPAN's cumulative Internet charity contributions exceeded ¥288 million.
- In another initiative in support of charities, in October 2008 we began offering the Click Contribution service on our Yahoo! Volunteer site. Click Contribution enables users to trigger a small contribution to charity simply by clicking on a button in reply to a trivia quiz, with the actual monetary contribution made by a sponsor company.
- In 2006, we established the Yahoo! Charity Fund with the dual goal of promoting the sound development of Internet-based

society and providing aid to victims of natural disasters. During the fiscal year under review, the Fund provided financial assistance to nonprofit organizations (NPOs) and other groups offering Internet consulting services or instructional courses in Internet usage safety for children and elderly persons. We also provided emergency relief funds for victims of the July 2009 flood in Fukuoka Prefecture and typhoon No. 9 in August 2009.

- Charity auctions hosted by the Yahoo! Auctions site raised nearly ¥109 million during fiscal 2009.
- Our Yahoo! Volunteer service provides information about NPOs and volunteer organizations to assist persons wishing to participate in volunteer activities. Volunteer organizations also can use this service to describe their activities and recruit volunteers. In addition to Yahoo! Volunteer, we maintain a volunteer corner on our Yahoo! Kids site.
- In March 2008, we inaugurated the Charity Shopping service as an adjunct to our Yahoo! JAPAN affiliates program with the goal of raising funds to support volunteer groups.
- As an official partner of the Japanese Olympic Committee and the Japan Paralympic Committee, we support various efforts to promote sports in Japan.
- Real-time flash reports of disaster-related information are prominently displayed in a designated space at the top of all service pages of both the PC and mobile versions of Yahoo! JAPAN. Yahoo! Disaster Information, meanwhile, is a regular service that provides accurate, instantaneous disaster occurrence reports and frequent status updates displayed in real-time, in addition to offering educational content aimed at broadening disaster-prevention knowledge among the general public.

### Engagement

- In response to the June 2009 promulgation of revisions to the Pharmaceutical Affairs Act significantly restricting online sales of over-the-counter (OTC) medications, a coalition of marketers and other concerned parties issued a joint statement urging the continuation of a free, unregulated Internet market for such medications. This joint statement appeared on an appropriate page of the Yahoo! JAPAN site in conjunction with a signature-collection campaign on Yahoo! Shopping protesting the OTC drug market regulations.
- With the ultimate goal of transforming the political election campaign system in Japan so that voters and candidates can freely and directly exchange information and views via the Internet, we launched a signature-collection campaign on the Yahoo! JAPAN site in October 2009.

## As an Environment-Friendly Company

### Preserving the Planet

- In February 2010, we launched Yahoo! JAPAN Green Project, a site dedicated to enhancing awareness of environmental issues among the general public.
- From November 2009, we conducted a three-month global warming prevention campaign through our Yahoo! Carbon Offset service. The campaign generated demand for carbon offsets equivalent to 270 metric tons of greenhouse gas emissions.
- Waste generated in our offices is separated into 14 different categories. For documents containing sensitive information, we use a dedicated environment-friendly recycling system that safeguards information confidentiality. The amount of recycled paper produced by this system in fiscal 2009 was the



equivalent of 680 trees.

- Working to achieve paperless business operations at our offices, we perform administrative tasks online and use screen projectors during meeting presentations. In line with our in-house green procurement standards, we purchase and use environment-friendly products to the extent possible.
- We purchased a carbon offset for the first time in fiscal 2008, in an amount equivalent to the non-green portion of our total electricity consumption during the previous fiscal year. Similarly, in fiscal 2009 a carbon offset equivalent to 38,751 metric tons of greenhouse gas emissions was purchased by transferring emission credits to an amortization account managed by the Japanese government.
- We participate in the “Challenge 25” Campaign, a national initiative begun in January 2010 dedicated to combating global warming.
- Construction of Asian Frontier, a next-generation data center complex, was completed in October 2008. Employing an energy-efficient air-conditioning method that utilizes outside air, the new complex has been shown in confirmation tests to reduce electricity consumption approximately 40%, resulting in energy cost savings of more than ¥40 million annually.

## As a Corporate Entity

### Risk Management

- We reduce overall risk by adhering to a set of Risk Management Regulations that systematically consolidate and structure our ad hoc approaches to risk management adopted to date.
- Within one hour of identifying a situation or incident with the potential to disrupt service provision, a report is filed in our

information system. The details are immediately shared with all relevant divisions and the event recorded in the database according to category of seriousness. In this way, progress with measures taken for each and every incident is managed, which helps to reduce recurrence.

- To ensure that Yahoo! JAPAN continues to function as a vital information lifeline in times of emergency, we maintain independently operating data centers in multiple locations, each designed to withstand disasters and blackouts. In addition, we have prepared emergency business contingency plans for use in the event of a large-scale disaster such as an earthquake or fire.
- To confirm employee safety in the event of an emergency, we have designed a safety-confirmation system utilizing the e-mail function of mobile phones.

### Compliance

- Reflecting the importance accorded to thorough compliance in our business activities, we have appointed a Chief Compliance Officer (CCO).
- New employees, whether recent graduates or mid-career hires, are required to take compliance-related training courses. Retention of course materials is reinforced through subsequent e-learning courses offered on a quarterly basis.
- As part of our efforts to develop and maintain a robust compliance structure, including a capacity to accurately ascertain relevant information, we have established a Compliance Hotline encouraging internal whistle-blowing disclosure of compliance violations.

### Information Disclosure

- In line with our policy of providing comprehensive, timely disclosure, we post not only legally required disclosure materials but also monthly disclosure materials and supplementary materials from our quarterly information meetings on the Company Information page in the Investor Relations section of the Yahoo! JAPAN site. Graphs of financial data and live broadcasts of information meetings are also made available on our site.
- Through the annual general meeting of shareholders and periodic notifications, we aim to provide individual shareholders with a deeper understanding of the Company. For institutional investors, we conduct quarterly live-broadcast information meetings providing detailed explanations of our financial performance and business operations. In addition, each quarter we hold one-on-one or small-group meetings with analysts from some 150 Japanese and overseas investment-related firms to explain the Company's growth strategies and other aspects of our business.
- Our disclosure activities for non-Japanese investors include publishing English-language versions of the annual report and of various other communications materials, holding English-language telephone conversations with institutional investors as requested, and undertaking informational overseas road shows.
- The Group recognizes that timely, comprehensive disclosure and the return of profits to shareholders are both key to enhancing corporate value. At the same time, we realize that we effectively boost our corporate value not only by developing our business and enhancing financial strength but also by contributing to the development of the Internet and society as whole. Accordingly, we grant the highest priority to

these issues. Historically, we have targeted a dividend payout ratio of approximately 10% of consolidated net income. In the fiscal year under review, the payout ratio was increased to approximately 20%.

- In September 2007, the Company was selected for inclusion in the FTSE4Good Japan Index, one of the world's major socially responsible investment indexes based on an internationally recognized set of corporate social responsibility standards. Having earned a sterling reputation as a sustainable growth company, we have been continually selected for inclusion in the index, including for the fiscal year ended March 31, 2010.

### With Our Employees

- Respecting the diverse abilities and personalities of individual employees, we use an objective, results-based personnel evaluation system that prioritizes self-motivation and the achievement of targeted goals.
- On a quarterly basis, we recognize employees who have made outstanding contributions to, for example, enhancing user satisfaction by awarding them with a "Yahoo! JAPAN Super Star" citation.
- As a fair employer, we make hiring decisions based on applicants' abilities and motivations regardless of physical disability. Certified personnel in our Human Resources Office are charged with recruiting disabled persons and providing them with special work-life advisory services.
- We nurture our employees with an eye to encouraging independence and positive focus. In addition to basic training programs conducted in groups based on job grade, we conduct a range of training courses and convene study groups on the latest Internet services and related technologies, with individual employees bearing primary responsibility for getting

the training necessary for successful job performance.

- Concerned with the emotional and physical well-being of all employees, we maintain an in-house staff of health-care professionals. In addition to offering annual general health checks free of charge, we encourage older employees to undergo various diagnostic tests and follow-up health-care consultations with in-house health-care staff.
- Our emergency preparation efforts include placing automated external defibrillator (AED) units in the workplace and offering fire prevention and emergency medical care training. Since November 2007, we have offered a regularly scheduled emergency training program comprising a series of fire prevention seminars and general emergency medical care training courses. As of March 31, 2010, 1,100 employees had completed this emergency training program, totaling 2.5 hours of course time, and received emergency medical care skills certificates from the Tokyo Fire Department.

### With Our Business Partners

- In line with our goal of achieving sustainable business development, we carefully review the financial and corporate information of potential business partners to ensure that it meets our established guidelines on business partner suitability.
- Based on the results of periodic surveys of our business partners designed to identify particular points of satisfaction or dissatisfaction as well as future expectations, we take concrete steps to maintain positive, mutually satisfying relationships with all of our business partners.

## Corporate Governance

*Yahoo Japan Corporation (the Company) considers good corporate governance to be essential to enhancing corporate value over the medium to long term. In clarifying the roles and responsibilities of directors, corporate auditors, and employees within the corporate governance system, and by consistently raising general awareness of laws and regulations as well as of social and ethical norms, the Company aims to conduct appropriate and effective business operations. The ongoing implementation of measures to enhance corporate governance throughout the Company and its consolidated subsidiaries and affiliates (the Group) further strengthens the financial and ethical soundness of the entire Group's business operations.*

### I. Business Execution, Auditing, and Supervision

The Company's corporate governance structure incorporates a corporate auditor system centered on a Board of Auditors. Consisting entirely of external appointees, the Board of Auditors carries out its role independently of the Board of Directors. To ensure impartial, effective management oversight, the decision-making and supervisory functions of the Board of Directors are clearly separated from the business execution functions of autonomous business groups.

#### 1. Board of Directors

The Company's Board of Directors, comprising five members, including one outside director, determines management policy and strategies, draws up business plans, decides on the acquisition and disposal of high-value assets, and makes all other materially significant decisions relating to the Company's organization and its personnel. The Board also acts as a supervisory body with respect to the execution of administrative directives throughout the Group.

In April 2009, the Company undertook a major reorganization by adopting an autonomous business group system designed to promote swift, strategic business management with the goal of maintaining and improving competitiveness. The April 2009 reorganization also established an Executive Council, composed of the Company's directors, executive officers, and corporate auditors and responsible for reviewing and discussing management issues prior to their consideration by the Board of Directors. Within the purview delegated to it by the Board of Directors, the Executive Council also makes decisions regarding issues of importance to the Company and the Group.

#### 2. Board of Auditors

The Board of Auditors is composed of one full-time and three part-time corporate auditors, all appointed from outside the Company. Based on an audit plan formulated by the Board of Auditors, each corporate auditor conducts audits of the Company's entire business operations. Specifically, each corporate auditor audits overall business execution, including assessments of the appropriateness of policy, planning, and procedures, the effectiveness of business activities, and the status of legal and regulatory compliance. In addition, each corporate auditor attends meetings of the Board of Directors and of the Executive Council, reviews important documentation, and conducts surveys of Group companies. On the basis of these activities, each corporate auditor submits an independent report for collective review by the entire Board of Auditors. Furthermore, the Board of Auditors receives reports both from independent accounting auditors on the methodology and results of the accounting audit and from the Administrative Auditing Office on the methodology and results of internal audits. On the basis of these audits and reports, the Board of Auditors regularly expresses its opinions to the Company's full-time directors. The Board of Auditors also produces an Audit Report in accordance with statutory requirements and submits reports of audit results to the annual general meeting of shareholders.

#### 3. Administrative Auditing Office

Established under the direct supervision of the president, the Administrative Auditing Office is charged with ensuring that the Company's internal auditing system functions effectively, with particular responsibility for conducting ongoing internal audits of the Company's risk management and other systems. Working in

cooperation with the various business groups of the Company, the Administrative Auditing Office conducts efficient internal audits. In addition, the Administrative Auditing Office provides specific advice and recommendations to individual business groups for improving business operations.

#### 4. Accounting Auditor and Legal Counsel

The Company has signed a contractual agreement with the accounting auditor firm Tohmatsu, a member of Deloitte Touche Tohmatsu, whereby Tohmatsu carries out an accounting audit as stipulated in the Companies Act and the Financial Instruments and Exchange Law. Furthermore, in addition to maintaining an in-house Legal Division the Company retains three law firms in the capacity of external legal counsel to provide appropriate advice and guidance on legal issues arising on a day-to-day basis, thereby ensuring legal compliance and management transparency.

#### 5. Internal Control Office

The Internal Control Office was established to develop and strengthen internal control systems and ensure their operation throughout the Group. The Office promotes and provides guidance in the careful documentation of all procedures of essential business operations throughout the Company. In addition, the Office assesses the appropriateness and effectiveness of business operations throughout the Group. As the entity with primary responsibility for internal control, the Internal Control Office focuses on assessing and improving the Group's overall internal control. Moreover, the Office periodically submits business reports to the Board of Auditors and liaises with the Administrative Auditing Office and accounting auditor as required.

#### 6. Advisory Board

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

## II. Objectives and Status of Internal Control Systems

### 1. Compliance

- (i) As stipulated in the Company's Business Practices Charter and Compliance Program, strict adherence to all relevant laws and regulations is the basic principle underlying the Group's business activities.
- (ii) A Chief Compliance Officer (CCO) has been appointed to oversee the Compliance Office, located within the Legal Division and responsible for ensuring Groupwide compliance. Upon discovery of important compliance-related issues, corrective measures are immediately implemented. The status of compliance throughout the Group is reported periodically to the Board of Directors and Board of Auditors.
- (iii) In an effort to obtain important compliance-related information, the Company has established an internal Compliance Hotline that enables employees to report instances of systemic fraudulence or irregularities and isolated instances of malfeasance by a director or employee directly to Company directors or corporate auditors, or anonymously to external legal counsel. In the event of such a report being made, the Compliance Office investigates the details of the claim. Corrective measures are discussed with the relevant business group, and judgments are then made. Agreed-upon corrective measures, if any, are then implemented throughout the entire Group. Compliance issues involving individual directors or corporate auditors are reported to directors and auditors. After consideration by the Board of Directors, judgments are made.
- (iv) The Compliance Office, Administrative Auditing Office, and corporate auditors coordinate their activities on a daily

basis, working to search out and identify compliance-related issues, particularly with respect to the Group's compliance system and implementation practices, and engage in internal compliance-related educational activities, including employee seminars.

- (v) The CCO reports employee violations of the law or of the Company's Articles of Incorporation to the Committee for Rewards and Penalties, which then recommends appropriate punitive actions. In the case of violations of the law or of the Articles of Incorporation committed by a director of the Company, the matter is reported to the corporate auditors and directors, with the CCO recommending appropriate punitive actions to the Board of Directors.
- (vi) The Group maintains a firmly resolute stance against any and all antisocial individuals or organizations jeopardizing the order and security of society, and every effort is therefore made to refrain from business dealings with such individuals or organizations.

## 2. Maintaining and managing information in connection with the performance of duties by directors

- (i) In order to facilitate easy access by directors and corporate auditors, the Company's Document Retention and Maintenance Rules and Regulations outline the retention methods, time period, and location for archived documents, including such important decision-making records as minutes of general meetings of shareholders and of Board of Directors' meetings; records of matters requiring management determination; and documents relating to business execution, including accounting records, financial statements, and vouchers.
- (ii) A set of rules and regulations regarding work assignments,

job descriptions, and delegated positional authority clearly assign decision-making authority with respect to any and all matters. Proper methods of recording decisions and/or settlements are clearly stipulated, as are the proper methods of requesting management determination in the case of sensitive matters. Such requests must be made according to a prescribed format, providing sufficient information to enable informed management determination by directors.

## 3. Risk management

- (i) The Company's Risk Management Regulations systematically consolidate and structure the ad hoc approaches to risk management adopted by the Company to date. In addition, the status of risk identification as well as risk assessment is periodically disclosed in Risk Factors. (Please refer to the section entitled "Risk Factors," beginning on page 84 of this report.)
- (ii) The Company has prepared emergency business contingency plans for use in the event of a large-scale disaster. A Zero Accident Administrative Bureau has been established to operate and manage an accident information system in the event that risks materialize and an accident occurs. In this manner, the Company has taken steps to ensure early detection and communication, a swift response, and the implementation of preventive measures.
- (iii) The Information Security Promotion Office spearheads the Company's efforts to ensure information security. Complementing this initiative, the Company has also appointed a Chief Security Officer. The Information Security Promotion Office has formulated a set of Information Security Regulations and is responsible for implementing handling criteria for information assets as well as for

ensuring that the criteria are both known and understood by all members of the Group. Reflecting a strong focus on information security, the Company in August 2004 acquired Information Security Management System (ISMS) certification.

## 4. Effective and efficient business execution

- (i) The Company has clarified the scope of duties, authority, and responsibility essential to the conduct of business in accordance with its administrative authority and decision-making rules, which are in turn based on a set of rules and regulations that clarify individual work assignments, job descriptions, and delegated authority. The Company has also established rules and regulations regarding such decision-making bodies as the Board of Directors, including proper methods of requesting management determination, and clearly stipulating settlement authority and procedures.
- (ii) The Company has adopted an executive officer system with the goal of achieving flexible and efficient business execution.
- (iii) Executive Council meetings attended by directors, corporate auditors, and executive officers are convened to review and discuss important management issues with the goal of promoting effective and appropriate decision-making.
- (iv) The Company monitors and manages business operations in accordance with business plans and budgets that clearly state objectives both for individual business groups and for the Group as a whole.
- (v) A performance evaluation system is employed to (1) ensure that established Groupwide objectives are understood and shared by directors and employees, (2) formulate specific targets for each employee in order to achieve established

objectives, and (3) measure target achievement levels.

- (vi) The Company's Internal Control Office continuously carries out Groupwide evaluation and improvement activities to promote enhanced task execution throughout the Group.

#### 5. Intra-Group transactions

- (i) In an effort to foster a common understanding and awareness of compliance issues among directors and employees Groupwide, the Company has prepared a Business Practices Charter applicable to all Group companies.
- (ii) Company regulations regarding legally sanctioned transactions with the parent company, SOFTBANK CORP., and all Group companies (collectively, associated companies) reflect the principle that the management of each of the associated companies is to be responsible for independent corporate development.
- (iii) Compliance-related education and training is provided to all Group directors and employees.
- (iv) As stipulated in the Associated Companies Management Regulations, Group companies are obligated to report to and obtain the consent of the relevant management divisions within the Company with regard to certain matters prior to resolution by the Board of Directors. In addition, screening and assessment by the Company's Compliance Office is required for matters of significant importance.
- (v) Various measures have been implemented to audit internal control functions and systems throughout the Group, including the dispatch of corporate auditors to individual Group companies.
- (vi) The Company's internal control system is being replicated at each Group company, with the Company division responsible for the management of Group companies

providing guidance as required to ensure the development of sound internal control environments.

- (vii) The aforementioned Compliance Hotline, which provides direct anonymous access to external legal counsel, can be used by all Group directors and employees.

#### 6. Regulations regarding support staff of corporate auditors

In accordance with regulations drafted to establish a corporate auditor system, employees shall be appointed to support corporate auditors upon request of the corporate auditors. In addition, and upon request, both individual corporate auditors and the collective Board of Auditors can directly employ support personnel. Corporate auditors are responsible for the instruction and supervision of support personnel. Transfers, evaluations, and disciplinary actions with respect to support personnel are effected solely at the discretion of the corporate auditors.

#### 7. Submission of reports to corporate auditors

Directors and employees are obligated to report to corporate auditors with respect to the following:

- (i) Matters of importance to the Group
- (ii) Matters with the potential to negatively impact the Company
- (iii) Violations of statutory and regulatory requirements or of the Company's Articles of Incorporation
- (iv) Status of compliance systems operations and management, and status of notifications made via the Compliance Hotline
- (v) Administrative Auditing Office audit results
- (vi) Matters other than items noted in (i) to (v) above that are considered essential to corporate auditors in the conduct of their duties

#### 8. Facilitating the auditing function

Hearings involving directors and employees shall be convened when deemed necessary by either the Board of Auditors or the full-time corporate auditor. In addition to regular meetings with independent accounting auditors and the internal audit divisions of principal subsidiary companies, corporate auditors attend meetings of the Executive Council, in accordance with Executive Council meeting rules and regulations. Moreover, upon request corporate auditors are permitted to attend all meetings that they deem to be of importance. Furthermore, an Auditor Business Office has been established to support corporate auditors in carrying out their duties in accordance with regulations drafted to establish a corporate auditor system.

### III. Measures Concerning Shareholders and Other Stakeholders

1. The Company has made various efforts to revitalize shareholders' meetings and facilitate shareholders' exercise of voting rights. For example, we hold our annual general meeting of shareholders on a day when other major companies are not holding meetings. In addition, shareholders are allowed to exercise their voting rights via the Internet. For institutional investors, we provide a dedicated Internet voting platform.
2. Measures taken with regard to investor relations activities include the establishment of a disclosure policy; improvements to the Company's IR Web site; investors meetings held to explain quarterly financial results complemented by live broadcasts and on-demand meeting videos; updates to the Company's business position provided at general meetings of shareholders together with on-demand update videos; monthly disclosure of business data; posting of letters to shareholders; and publication of an English-language version of the annual report as well as other communications materials.
3. Out of respect for all of our stakeholders, the Company carries out a variety of initiatives that contribute to the creation of a better society. Many of these initiatives are detailed in our annual Yahoo! JAPAN LIFE ENGINE (CSR) Report.

### IV. Other Corporate Governance Matters

#### 1. Anti-takeover measures

A small group of major shareholders account for a significant portion of the Company's ownership. Because the risk of a hostile takeover bid is considered to be low, the Company has not formulated takeover-related measures. Recognizing this matter as a potentially significant management issue, however, the Company intends to consider the necessity for and content of effective measures.

#### 2. Independence from associated companies

In conducting its business activities, the Company acts independently based on decisions made by the directors, a majority of whom are full-time directors. The Company is not overly dependent on either the parent company or any of the other associated companies with respect to sales and marketing transactions. The vast majority of the Company's business transactions are conducted with individual consumers and companies having no capital-related relationship with the Company. Moreover, the Company's Associated Companies Management Regulations prohibit transactions with the parent company and/or other associated companies that give rise to either an unfair advantage or disadvantage with respect to similar transactions with other third parties, as well as transactions that seek to transfer profits, losses, or risk. Based on these and other initiatives, the Company maintains ample business and operational independence from associated companies.

### V. Director Compensation

According to Company policy, director compensation is based on a formal assessment, carried out in accordance with contribution assessment rules agreed upon by the directors, of each director's contribution to the Company's performance for the period, together with the basic salary corresponding to each director's position. Corporate auditor compensation is determined entirely at the discretion of the Board of Auditors.

## FINANCIAL SECTION

## Key Financial Data

Years ended March 31	Millions of Yen							Thousands of U.S. Dollars
	2010 (Net)	2009 (Net)	2009 (Gross)	2008 (Gross)	2007 (Gross)	2006 (Gross)	2005 (Gross)	2010 (Net)
<b>Net sales</b>	<b>¥279,857</b>	¥265,754	¥ 295,946	¥ 262,027	¥ 212,553	¥ 173,696	¥ 117,779	<b>\$3,007,919</b>
Advertising	141,355	138,888	163,820	131,044	89,202	—	—	1,519,293
Business Services	64,275	54,555	55,977	58,069	48,215	—	—	690,828
Personal Services	75,332	72,671	76,510	73,054	75,283	—	—	809,673
Eliminations/corporate	(1,105)	(360)	(361)	(140)	(147)	—	—	(11,875)
<b>Cost of sales</b>	<b>32,646</b>	27,807	44,858	28,260	8,487	12,843	8,932	<b>350,877</b>
Advertising	18,884	19,751	36,801	19,547	533	—	—	202,965
Business Services	12,525	7,203	7,203	7,752	6,483	—	—	134,611
Personal Services	1,362	877	877	976	1,529	—	—	14,642
Eliminations/corporate	(125)	(24)	(23)	(15)	(58)	—	—	(1,341)
<b>SG&amp;A expenses</b>	<b>103,385</b>	103,329	116,470	108,959	97,833	78,720	48,660	<b>1,111,193</b>
Advertising	40,860	45,674	53,556	46,747	38,364	—	—	439,167
Business Services	29,737	26,576	27,998	26,754	22,429	—	—	319,615
Personal Services	21,064	19,069	22,908	23,395	25,780	—	—	226,399
Eliminations/corporate	11,724	12,010	12,008	12,063	11,260	—	—	126,012
<b>Operating income</b>	<b>143,826</b>	134,618	134,618	124,808	106,233	82,133	60,187	<b>1,545,849</b>
Advertising	81,611	73,463	73,463	64,750	50,305	—	—	877,161
Business Services	22,013	20,776	20,776	23,563	19,303	—	—	236,602
Personal Services	52,906	52,725	52,725	48,683	47,974	—	—	568,632
Eliminations/corporate	(12,704)	(12,346)	(12,346)	(12,188)	(11,349)	—	—	(136,546)
<b>Net income</b>	<b>83,523</b>	74,715	74,715	62,618	57,963	47,091	36,521	<b>897,716</b>
Net income per share (Yen and U.S. dollars)	1,438.23	1,255.52	1,255.52	1,035.27	958.66	776.62	602.29	15.46
<b>EBITDA</b>	<b>153,702</b>	146,214	146,214	136,028	115,743	89,787	64,980	<b>1,652,003</b>
<b>At fiscal year-end:</b>								
Total assets	418,262	311,552	311,552	369,660	318,428	190,975	130,244	4,495,509
Total equity	312,273	236,470	236,470	250,672	192,385	142,455	96,060	3,356,335
Number of employees	4,882	4,599	4,599	3,759	3,059	2,561	1,721	—
Dividends per share (Yen and U.S. dollars)	288	130	130	104	96	78	61	3.10
<b>Cash flows</b>	<b>101,357</b>	(76,065)	(76,065)	38,320	(22,659)	29,043	29,349	<b>1,089,394</b>
Cash flows from operating activities	140,095	87,805	87,805	81,494	72,710	59,604	46,084	1,505,757
Cash flows from investing activities	(7,357)	(53,947)	(53,947)	(16,982)	(160,402)	(27,533)	(17,119)	(79,073)
Cash flows from financing activities	(31,381)	(109,923)	(109,923)	(26,192)	65,033	(3,028)	384	(337,290)
<b>Ratios:</b>								
Operating margin (%)	51.4	50.7	45.5	47.6	50.0	47.3	51.1	
Net income to net sales ratio (%)	29.8	28.1	25.2	23.9	27.3	27.1	31.0	
ROA (%)	22.9	21.9	21.9	18.2	22.8	29.3	34.3	
ROE (%)	30.7	31.0	31.0	28.5	34.8	39.5	46.9	
Total equity / Total assets ratio (%)	74.0	75.2	75.2	67.1	59.9	74.6	73.8	

### Notes:

- Yen amounts for the year ended March 31, 2010 have been translated into U.S. dollar amounts, solely for the convenience of readers, at the rate of ¥93.04 = U.S.\$1, the effective rate of exchange at March 31, 2010.
- Net income per share and dividends per share have been retroactively adjusted to reflect stock splits.
- Beginning with the year ended March 31, 2009, net sales have been presented on a net-basis, rather than gross-basis. Gross-basis amounts for the year ended March 31, 2009 are presented solely for the convenience of readers. The change of accounting is discussed in the Note of Management's Discussion and Analysis.
- Effective April 1, 2006, the Group's former business segments were reorganized into the business segments of Advertising, Business Services, and Personal Services.
- Equity as of and before March 31, 2006 is presented in accordance with the previous accounting standard for presentation of equity. Under the previous accounting standard, certain equity items are presented as liabilities or other separate components. Such items include stock acquisition rights, minority interests, and others.



# Management's Discussion and Analysis

## RESULTS OF OPERATIONS

In fiscal 2009, the year ended March 31, 2010, the Japanese economy faltered against the backdrop of the ongoing global economic recession triggered by the financial crisis that erupted in the autumn of 2008. Corporate earnings, the employment situation, and consumer sentiment weakened markedly during the first half, as the economy endured a precipitous downturn. Unfazed by the general economic torpor, and with operations based in the growing Internet industry, Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) diligently maintained a focus on strategic business development. Through a range of initiatives, the Group sought to improve operating and management efficiency as well as contain costs. As a result, fiscal 2009 marked the 13th consecutive year of record-high sales and profits for the Group.

**Note:** Prior to April 1, 2008, traffic acquisition costs paid to business partners such as companies that operate Web sites were recognized as cost of sales, whereas commissions paid to sales agencies were recognized as selling expenses (hereinafter, "gross-basis"). In conjunction with its open network partnership strategy aimed at diversifying revenue sources by expanding business opportunities via business partners' Web sites, the Company reviewed positions and risks among the involved parties, namely, the Company, business partners, and sales agencies. As a result, the Company decided to change the accounting treatment for such payments from costs and expenses to deductions from sales (hereinafter, "net-basis"). The Company believes that the new accounting treatment more reasonably reflects the structure of its business and relationships among the involved parties.

## Net Sales

Consolidated net sales for fiscal 2009 rose ¥14,103 million, or 5.3%, to ¥279,857 million. This increase is largely attributable to a strong contribution from the Business Services segment. By business segment, Advertising net sales edged up 1.8%, to ¥141,355 million; Business Services net sales surged 17.8%, to ¥64,275 million; and Personal Services net sales rose 3.7%, to ¥75,332 million, with eliminations of ¥1,105 million for intersegment sales.

## Cost of Sales

Consolidated cost of sales increased ¥4,839 million, or 17.4%, to ¥32,646 million, owing chiefly to costs incurred by SOFTBANK IDC Solutions Corp., a consolidated subsidiary acquired through a merger in fiscal 2008.

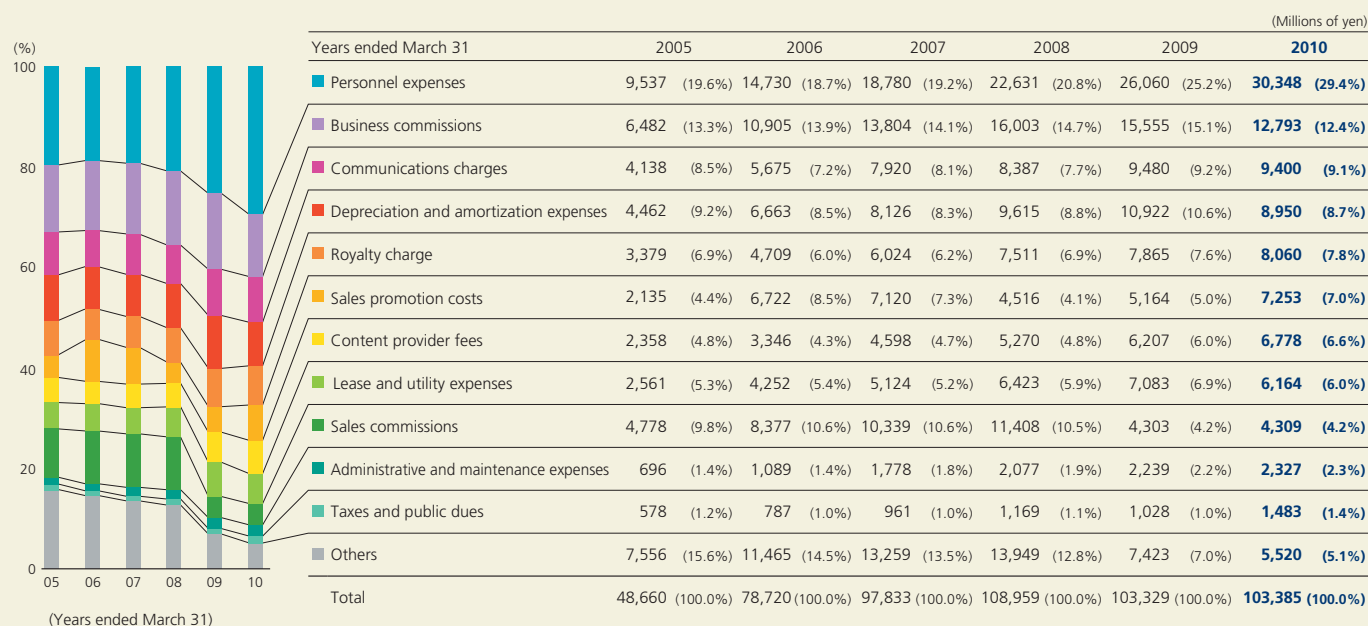
## Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses edged up a nominal ¥56 million, or 0.1%, to ¥103,385 million. The major components of SG&A expenses were as follows:

**Personnel expenses** increased ¥4,288 million, or 16.5%, to ¥30,348 million. As of March 31, 2010, the number of Group employees was 4,882, up 283, or 6.2%, over the figure one year earlier.

**Business commissions** declined ¥2,762 million, or 17.8%, to ¥12,793 million, primarily as a result of outsourcing cost reductions achieved by conducting a higher proportion of maintenance, management, and development work in-house.

## SG&A Expenses Breakdown



**Note:** Personnel expenses include health and welfare program costs, pension costs, and others. Figures for the year ended March 31, 2009 onward are presented on a net-basis.

**Depreciation and amortization expenses** contracted ¥1,972 million, or 18.1%, to ¥8,950 million, reflecting reduced purchases of tangible assets stemming from improved capital investment efficiency.

**Sales promotion costs** climbed ¥2,089 million, or 40.5%, to ¥7,253 million, largely attributable to the rise in affiliate expenses for Yahoo! Auctions and other services.

**Lease and utility expenses** were down ¥919 million, or 13.0%, to ¥6,164 million, owing mainly to progress in consolidating office locations.

**Significant other expenses** included (1) communications charges, which decreased ¥80 million, or 0.8%, to ¥9,400 million; (2) royalty charge, which rose ¥195 million, or 2.5%, to ¥8,060 million; and (3) content provider fees, which climbed ¥571 million, or 9.2%, to ¥6,778 million.

## Operating Income

Consolidated operating income for fiscal 2009, increased ¥9,208 million, or 6.8%, to ¥143,826 million. By business segment, Advertising operating income was up 11.1%, to ¥81,611 million; Business Services operating income increased 6.0%, to ¥22,013 million; Personal Services operating income edged up 0.3%, to ¥52,906 million; and Eliminations/corporate registered an operating loss of ¥12,704 million.

## Other Income and Expenses

For fiscal 2009, the Group recorded net other expenses of ¥3,150 million, compared with ¥8,243 million for the previous year. Principal other expenses were (1) an impairment loss of ¥1,470 million, whereas no impairment loss was recorded for fiscal 2008; (2) a loss on write-down of investment securities of ¥1,073 million, a decrease of ¥2,665 million; and (3) a loss on disposal of fixed assets of ¥594 million, down ¥558 million from the figure for fiscal 2008.

## Income before Income Taxes and Minority Interests

As a result of the aforementioned increase in operating income and decrease in net other expenses, income before income taxes and minority interests rose ¥14,301 million, or 11.3%, to ¥140,676 million.

## Income Taxes

Income taxes for fiscal 2009 amounted to ¥56,771 million, representing an effective income tax rate of 40.4%, slightly lower than normal effective statutory tax rate.

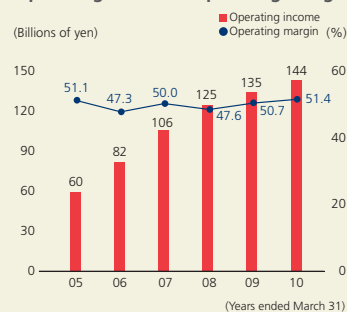
## Minority Interests in Net Income

Minority interests in net income totaled ¥382 million, down ¥218 million, or 36.2%, from the figure for fiscal 2008.

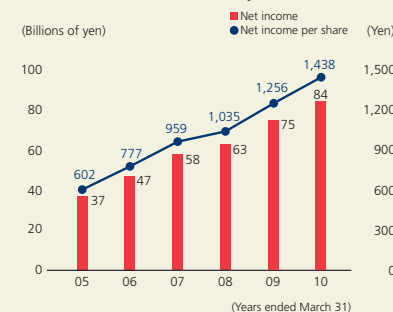
## Net Income

Consolidated net income for fiscal 2009 was ¥83,523 million, an increase of ¥8,808 million, or 11.8%. Basic net income per share climbed 14.6%, to ¥1,438.23. Diluted net income per share also rose 14.6%, to ¥1,437.03.

### Operating Income / Operating Margin



### Net Income / Net Income per Share



**Note:** The operating margin for each of the years ended March 31, 2009 and 2010, is presented on a net-basis.

## FINANCIAL POSITION

### Assets

On a consolidated basis, total assets stood at ¥418,262 million as of March 31, 2010, up ¥106,710 million, or 34.3%, compared with the previous fiscal year-end.

Current assets amounted to ¥203,342 million, an increase of ¥111,951 million, or 122.5%.

Cash and cash equivalents stood at ¥138,238 million, up ¥101,242 million, or 273.7%, mainly reflecting higher cash flows from operating activities.

Trade accounts receivable rose ¥2,566 million, or 7.4%, to ¥37,391 million, chiefly as a result of higher net sales in both the Advertising and Business Services segments.

Other current assets increased ¥5,537 million, or 36.3%, to ¥20,769 million, owing primarily to higher receivables related to Yahoo! eZPay.

Net property and equipment stood at ¥27,120 million as of March 31, 2010, a decrease of ¥2,065 million, or 7.1%. Reflecting the improved efficiency of the Group's capital investment activities, the decrease resulting from accumulated depreciation offset the increase attributed to purchases.

Total investments and other assets were ¥187,800 million, down ¥3,176 million, or 1.7%.

Investment securities edged up ¥2,551 million, or 1.7%, to ¥153,144 million, largely the result of unrealized gains arising from higher market prices.

Goodwill amounted to ¥4,896 million, a drop of ¥1,527 million, or 23.8%. Despite increasing effects of goodwill arising from new acquisitions, the overall decrease in goodwill is attributable mainly to amortization and impairment losses.

### Liabilities

Total liabilities stood at ¥105,989 million as of March 31, 2010, an increase of ¥30,907 million, or 41.2%, compared with the previous fiscal year-end.

Total current liabilities were ¥105,569 million, up ¥40,855 million, or 63.1%, largely a result of the ¥43,822 million, or 1,333.5%, increase in income taxes payable, to ¥47,108 million, attributable to the absence of the decreasing effect of a merger that was reflected in the balance as of March 31, 2009.

Total long-term liabilities amounted to ¥420 million, a decrease of ¥9,948 million, or 96.0%, due mainly to repayment of long-term debt that was financed for investments in BB Mobile Corp. in 2006.

### Equity

Total equity as of March 31, 2010, stood at ¥312,273 million, up ¥75,803 million, or 32.1%, over the figure a year earlier. This increase primarily reflects a surge in retained earnings of ¥76,541 million, or 34.2%, on the back of higher net income in fiscal 2009.

## CASH FLOWS

### Cash Flows from Operating Activities

Net cash provided by operating activities in fiscal 2009 came to ¥140,095 million, an increase of ¥52,290 million over the ¥87,805 million provided in the previous year. Principal components of operating cash flows were income before

income taxes and minority interests of ¥140,676 million, an adjustment for depreciation and amortization of ¥10,213 million, and an adjustment for income taxes paid for the year of ¥15,844 million.

### Cash Flows from Investing Activities

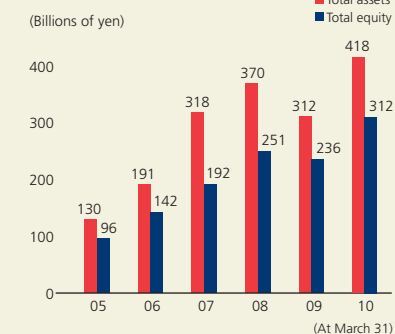
Net cash used in investing activities during the period totaled ¥7,357 million, a decline of ¥46,590 million from the ¥53,947 million used in the previous year. The major use of investment cash in fiscal 2009 was for the purchase of property and equipment, in the amount of ¥4,683 million.

### Cash Flows from Financing Activities

Net cash used in financing activities in fiscal 2009 was ¥31,381 million, down ¥78,542 million from the ¥109,923 million used in the previous year. Principal items were ¥3,068 million for purchase of treasury stock and ¥20,000 million for repayment of long-term debt.

Net increase in cash and cash equivalents from the aforementioned activities was ¥101,357 million. Taking into account the net increase and a decrease of ¥115 million due to deconsolidation of subsidiaries, cash and cash equivalents at the fiscal year-end stood at ¥138,238 million, an increase of ¥101,242 million, or 273.7%, over the figure at the previous fiscal year-end.

### Total Assets / Total Equity



# Consolidated Balance Sheets

Yahoo Japan Corporation and Consolidated Subsidiaries  
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2010	2009	2010
CURRENT ASSETS:			
Cash and cash equivalents (Note 4)	¥138,238	¥ 36,996	\$1,485,793
Receivables:			
Trade accounts (Note 4)	37,391	34,825	401,882
Other (Note 4)	1,511	1,938	16,241
Allowance for doubtful accounts	(1,456)	(1,459)	(15,646)
Inventories (Note 3)	202	258	2,168
Deferred tax assets (Note 9)	6,687	3,601	71,878
Other current assets	20,769	15,232	223,217
Total current assets	203,342	91,391	2,185,533
PROPERTY AND EQUIPMENT:			
Land	5,003	5,002	53,768
Buildings and structures	10,322	9,247	110,941
Machinery and equipment	8,794	7,296	94,519
Furniture and fixtures	39,249	39,589	421,852
Construction in progress	563	2,129	6,050
Total	63,931	63,263	687,130
Accumulated depreciation	(36,811)	(34,078)	(395,640)
Net property and equipment	27,120	29,185	291,490
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 5)	153,144	150,593	1,646,000
Investments in unconsolidated subsidiaries and associated companies (Note 4)	6,849	7,298	73,617
Goodwill	4,896	6,423	52,625
Deferred tax assets (Note 9)	6,313	7,249	67,857
Other assets	16,670	19,527	179,163
Allowance for doubtful accounts	(72)	(114)	(776)
Total investments and other assets	187,800	190,976	2,018,486
TOTAL ASSETS	¥418,262	¥311,552	\$4,495,509

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2010	2009	2010
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 4 and 6)	¥ 10,000	¥ 20,000	\$ 107,481
Payables:			
Trade accounts (Note 4)	7,502	5,329	80,633
Other (Note 4)	13,099	13,718	140,792
Income taxes payable (Note 4)	47,108	3,286	506,318
Provision for Yahoo! Points (Note 2.j)	3,920	2,768	42,129
Other current liabilities (Note 10)	23,940	19,613	257,312
Total current liabilities	105,569	64,714	1,134,665
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)		10,000	
Other (Note 10)	420	368	4,509
Total long-term liabilities	420	10,368	4,509
COMMITMENTS (Notes 10, 11 and 14)			
EQUITY (Notes 7 and 15):			
Common stock—241,600,000 shares authorized; 58,118,909 shares issued in 2010 and 58,107,980 shares issued in 2009	7,521	7,444	80,837
Capital surplus	2,602	2,525	27,967
Stock acquisition rights	450	260	4,837
Retained earnings	300,496	223,955	3,229,751
Net unrealized gain on available-for-sale securities	1,978	220	21,267
Deferred gain on derivatives under hedge accounting (Notes 4 and 11)	26		277
Treasury stock—at cost, 103,955 shares in 2010 and nil in 2009, respectively	(3,068)		(32,977)
Total	310,005	234,404	3,331,959
Minority interests	2,268	2,066	24,376
Total equity	312,273	236,470	3,356,335
TOTAL LIABILITIES AND EQUITY	¥418,262	¥311,552	\$4,495,509

See notes to consolidated financial statements.

# Consolidated Statements of Income

Yahoo Japan Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES	¥279,857	¥265,754	\$3,007,919
COST OF SALES	32,646	27,807	350,877
Gross profit	247,211	237,947	2,657,042
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	103,385	103,329	1,111,193
Operating income	143,826	134,618	1,545,849
OTHER INCOME (EXPENSES):			
Interest and dividend income	156	311	1,676
Interest expense	(197)	(462)	(2,120)
Gain on foreign exchange—net	75	143	804
Loss on disposal of fixed assets	(594)	(1,152)	(6,387)
Loss on write-down of investment securities (Notes 4 and 5)	(1,073)	(3,738)	(11,530)
Equity in losses of associated companies (Note 2.a)	(222)	(1,594)	(2,388)
Lump-sum amortization of goodwill (Note 2.h)		(479)	
Impairment loss (Note 2.e)	(1,470)		(15,800)
Relocation expenses	(51)	(1,623)	(546)
Other—net	226	351	2,441
Other expenses—net	(3,150)	(8,243)	(33,850)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	140,676	126,375	1,511,999
INCOME TAXES (Note 9):			
Current	59,625	29,238	640,854
Deferred	(2,854)	21,822	(30,681)
Total income taxes	56,771	51,060	610,173
MINORITY INTERESTS IN NET INCOME	382	600	4,110
NET INCOME	¥ 83,523	¥ 74,715	\$ 897,716
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.s and 13):			
Basic net income	¥1,438.23	¥1,255.52	\$15.46
Diluted net income	1,437.03	1,254.18	15.45
Cash dividends applicable to the year	288.00	130.00	3.10

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

Yahoo Japan Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2010 and 2009

Yahoo Japan Corporation and Consolidated Subsidiaries Years Ended March 31, 2010 and 2009	Thousands	Millions of Yen									
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for- sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2008	60,501	¥7,366	¥2,447	¥116	¥236,606	¥ 1,717		¥ (29)	¥248,223	¥2,449	¥250,672
Exercise of stock options	9	78	78						156		156
Net income					74,715				74,715		74,715
Cash dividends (¥104 per share)					(6,292)				(6,292)		(6,292)
Changes in the scope of applying the equity method					917				917		917
Deconsolidation of subsidiaries					39				39		39
Purchase of treasury stock (Note 7)	(2,402)							(82,001)	(82,001)		(82,001)
Retirement of treasury stock (Note 7)					(82,030)			82,030			
Net change in the year				144		(1,497)			(1,353)	(383)	(1,736)
BALANCE, MARCH 31, 2009	58,108	7,444	2,525	260	223,955	220			234,404	2,066	236,470
Exercise of stock options	11	77	77						154		154
Net income					83,523				83,523		83,523
Cash dividends (¥130 per share)					(7,554)				(7,554)		(7,554)
Changes in the scope of applying the equity method					595				595		595
Deconsolidation of subsidiaries					(23)				(23)		(23)
Purchase of treasury stock (Note 7)	(104)							(3,068)	(3,068)		(3,068)
Net change in the year				190		1,758	¥26		1,974	202	2,176
BALANCE, MARCH 31, 2010	58,015	¥7,521	¥2,602	¥450	¥300,496	¥ 1,978	¥26	¥ (3,068)	¥310,005	¥2,268	¥312,273
		Thousands of U.S. Dollars (Note 1)									
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Net Unrealized Gain on Available-for- sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2009		\$80,014	\$27,144	\$2,786	\$2,407,084	\$ 2,359			\$2,519,387	\$22,207	\$2,541,594
Exercise of stock options		823	823						1,646		1,646
Net income					897,716				897,716		897,716
Cash dividends (\$1.40 per share)					(81,191)				(81,191)		(81,191)
Changes in the scope of applying the equity method					6,397				6,397		6,397
Deconsolidation of subsidiaries					(255)				(255)		(255)
Purchase of treasury stock (Note 7)								\$(32,977)	(32,977)		(32,977)
Net change in the year				2,051		18,908	\$277		21,236	2,169	23,405
BALANCE, MARCH 31, 2010		\$80,837	\$27,967	\$4,837	\$3,229,751	\$ 21,267	\$277	\$(32,977)	\$3,331,959	\$24,376	\$3,356,335

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Yahoo Japan Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 140,676	¥ 126,375	\$ 1,511,999
Adjustments for:			
Income taxes—paid	(15,844)	(55,371)	(170,296)
Depreciation and amortization	10,213	11,517	109,774
Amortization of goodwill	926	1,153	9,956
Loss on disposal of fixed assets	594	1,152	6,387
Loss on write-down of investment securities	1,073	3,738	11,530
Equity in losses of associated companies	222	1,594	2,388
Impairment loss	1,470		15,800
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(1,625)	5,348	(17,467)
Increase in other current assets	(4,127)	(4,187)	(44,357)
Increase (decrease) in trade payables	2,121	(1,292)	22,792
Increase (decrease) in other current liabilities	3,535	(1,198)	37,998
Increase in provision for Yahoo! Points	1,152	475	12,379
Other—net	(291)	(1,499)	(3,126)
Total adjustments	(581)	(38,570)	(6,242)
Net cash provided by operating activities	140,095	87,805	1,505,757
<b>INVESTING ACTIVITIES:</b>			
Payment into time deposits	(1,000)		(10,748)
Purchase of property and equipment	(4,683)	(6,799)	(50,338)
Purchase of other assets	(2,186)	(4,864)	(23,499)
Purchase of investment securities	(619)	(2,116)	(6,654)
Proceeds from sales of investment securities	200	1,036	2,147
Proceeds from sales of investments in associated companies		1,300	
Payment for purchase of newly consolidated subsidiaries' stocks	(40)	(43,110)	(431)
Payment for additional investments in subsidiaries	(1,115)	(697)	(11,982)
Other—net	2,086	1,303	22,432
Net cash used in investing activities	(7,357)	(53,947)	(79,073)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from short-term bank loan		20,020	
Repayment of short-term bank loan	(440)	(20,020)	(4,729)
Repayment of long-term debt	(20,000)	(20,000)	(214,961)
Dividends paid	(7,519)	(6,256)	(80,819)
Purchase of treasury stock	(3,068)	(82,001)	(32,977)
Other—net	(354)	(1,666)	(3,804)
Net cash used in financing activities	(31,381)	(109,923)	(337,290)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	¥ 101,357	¥ (76,065)	\$ 1,089,394
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	36,996	113,027	397,639
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO ADDITION OF CONSOLIDATED SUBSIDIARIES		34	
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO DECONSOLIDATION OF SUBSIDIARIES	(115)		(1,240)
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 138,238	¥ 36,996	\$ 1,485,793
<b>ADDITIONAL CASH FLOW INFORMATION:</b>			
Current assets	¥ (147)		\$ (1,584)
Non-current assets	(128)		(1,378)
Goodwill	(398)		(4,279)
Current liabilities	673		7,241
Acquisition costs	0		0
Cash and cash equivalents acquired	3		32
Proceeds from purchase of newly consolidated subsidiaries' stocks (included in "Other" of investing activities)	¥ 3		\$ 32
Current assets	¥ (490)	¥ (40,753)	\$ (5,263)
Non-current assets		(17,450)	
Goodwill	(280)	(4,073)	(3,017)
Current liabilities	1	5,485	13
Non-current liabilities		234	
Minority interests	239	57	2,573
Acquisition costs	(530)	(56,500)	(5,694)
Cash and cash equivalents acquired	490	13,390	5,263
Payment for purchase of newly consolidated subsidiaries' stocks	¥ (40)	¥ (43,110)	\$ (431)

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries  
Years Ended March 31, 2010 and 2009

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

Yahoo Japan Corporation (the “Company”) was incorporated in Japan in 1996. The overwhelming leader in the Internet market in Japan, the Company classifies its services into three segments: (1) advertising, (2) business services and (3) personal services, as discussed in Note 16.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, as described in Note 2, which are different in certain respects from International Financial Reporting Standards as to application and disclosure requirements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers. In addition, certain reclassifications have been made to the 2009 consolidated financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers and have been made at the rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The accompanying consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 11 (13 in 2009) significant subsidiaries. Under the control or influence concept, those companies in which the Company is able to directly or indirectly exercise control over operations are fully consolidated, and those companies over which the Company and consolidated subsidiaries (collectively, the “Group”) have the ability to exercise significant influence are accounted for by the equity method.

Investments in 11 (18 in 2009) associated companies are accounted for by the equity method. Investments in the remaining eight (eight in 2009) unconsolidated subsidiaries and six (nil in 2009) associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

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

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

Since the fiscal year ended March 31, 2009, Yahoo Japan Customer Relations Corporation has been included in the scope of consolidation because of its growing significance to the consolidated financial statements of the Company.

During the fiscal year ended March 31, 2009, the Company acquired majority shareholdings of SOFTBANK IDC Corp. (“SIC”), BBIX Inc., and SOFTBANK IDC SOLUTIONS Corp. (“SISC”). As a result, SIC and BBIX Inc. became consolidated subsidiaries of the Company.

During the fiscal year ended March 31, 2009, the Company absorbed ALPS MAPPING K.K., Brainer.jp (“Brainer”), and SISC through mergers.

During the fiscal year ended March 31, 2010, the Company acquired majority shareholdings of GyaO CORPORATION (“GyaO”) and Yura, Inc. (“Yura”). As a result, GyaO and Yura became consolidated subsidiaries of the Company.

During the fiscal year ended March 31, 2010, the Company absorbed its wholly owned subsidiaries, Yura and Overture K.K. through mergers.

Equity in losses of associated companies for the year ended March 31, 2009 includes devaluation losses of equity interests due to declines in the market value of ValueCommerce Co., Ltd., a listed associated company. Such devaluation losses included in the equity in losses of associated companies were ¥529 million for the year ended March 31, 2009. For the year ended March 31, 2010, no such loss was recorded.

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

**c. Inventories**—Inventories are stated at the lower of cost, determined principally by the specific identification method

for merchandise, work in process, and supplies, and by the first-in, first-out method for finished goods, or net selling value.

**d. Property and Equipment**—Property and equipment are stated at cost. Depreciation is computed by using the declining-balance method whereas the straight-line method is applied to fixed assets related to the data center.

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

As a result of reviewing the Group's long-lived assets for impairment as of March 31, 2010, the Group recognized an impairment loss of ¥1,470 million (\$15,800 thousand) for the following assets:

	Millions of Yen	Thousands of U.S. Dollars
Operating assets:		
Furniture and fixtures	¥ 17	\$ 181
Software	268	2,881
Long-term prepaid expenses	4	42
Leased assets	284	3,050
Removal costs and other	99	1,070
Subtotal	672	7,224
Goodwill	798	8,576
Total	¥1,470	\$15,800

Operating assets other than the leased assets in the above table were written down to zero because the Company decided to dispose of them. Because finance lease contracts of the above leased assets were entered into before April 1, 2008 and had been accounted for as operating lease, the Group recorded allowances for impairment loss on leased assets. Goodwill originally recognized at the merger of Brainer was written down because the business plan established at the time of the merger was not expected to achieve forecasted earnings. No impairment loss was recorded for the year ended March 31, 2009.

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

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

**g. Investments in Limited Partnerships and Others**—Investments in limited partnerships and others consist primarily of the Company's contributed capital in investment partnerships. The investments in these partnerships are ac-

counted for by the equity method on the Company's consolidated balance sheets and statements of income.

**h. Goodwill**—Goodwill represents the excess of the costs of acquiring a company over the fair value of the acquired company's net assets. If there is excess fair value over the cost, such differences are stated as negative goodwill. Goodwill and negative goodwill are amortized on a straight-line basis over an estimated period. When such period cannot be estimated reliably, goodwill or negative goodwill is amortized over five years. Immaterial goodwill is immediately charged to income as incurred.

Lump-sum amortization of goodwill in other expenses is recognized in accordance with Article 32 in statement No. 7, "Guideline for Consolidation Procedures", issued by the Accounting Standards Committee. The Company recognized ¥479 million as lump-sum amortization of goodwill for the year ended March 31, 2009, in relation to the goodwill of NewsWatch Inc. ("NewsWatch"), a subsidiary.

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

**j. Provision for Yahoo! Points**—The Yahoo! Points system was established as a sales promotion whereby shopping points are awarded to the users of Yahoo! JAPAN redeemable against purchases made via Yahoo! Shopping and other services. The Company provides for future exercise of these points based on the number of unredeemed points held by users as of the balance sheet date.

**k. Employees' Retirement Benefits**—The Company and certain subsidiaries primarily participate in defined contribution pension plans, since the transfer of the previous defined benefit pension plans in July 2000, following the enactment of the Act for Defined Contribution Pension. In addition, the Company and certain consolidated subsidiaries participate in two multi-employer contributory defined benefit welfare pension plans (the "welfare pension plans") covering their employees.

Contributions made by the Company and its consolidated subsidiaries to the welfare pension plans are expensed when paid because the plan assets attributable to each participant cannot be reasonably determined. The participation ratios for the years ended March 31, 2010 and 2009 were 4.4% and 3.4%, respectively, for the welfare pension plan in which the Company and three subsidiaries participate ("Plan A") and 0.3% and 0.2%, respectively, for the welfare pension plan in which one subsidiary participates ("Plan B"), based on the number of employees.

The fair value of the welfare pension plans' entire assets and actuarial pension liabilities as of March 31, 2010 were as follows:

Plan A (Participation ratios in 2010 and 2009 of 4.4% and 3.4%, respectively)

	Millions of Yen	Thousands of U.S. Dollars
Fair value of all plan assets	¥ 127,937	\$ 1,375,078
Actuarial pension liabilities	(155,637)	(1,672,795)
Difference	¥ (27,700)	\$ (297,717)

Plan B (Participation ratios in 2010 and 2009 of 0.3% and 0.2%, respectively)

	Millions of Yen	Thousands of U.S. Dollars
Fair value of all plan assets	¥ 165,146	\$ 1,775,002
Actuarial pension liabilities	(203,202)	(2,184,033)
Difference	¥ (38,056)	\$ (409,031)

The major components of the differences between the aggregate plan assets and liabilities as of March 31, 2010 were as follows:

Plan A

	Millions of Yen	Thousands of U.S. Dollars
Other reserve	¥ 19,539	\$ 210,012
Adjustment for valuation of assets	(19,343)	(207,899)
Accumulated deficit	(27,896)	(299,830)
Total	¥ (27,700)	\$ (297,717)

Plan B

	Millions of Yen	Thousands of U.S. Dollars
Accumulated unfunded portion	¥ (16,588)	\$ (178,288)
Unamortized obligations	(21,468)	(230,743)
Total	¥ (38,056)	\$ (409,031)

Prior service cost is amortized over 20 years by using the straight-line method under both of the welfare pension plans.

The total contributions to the defined contribution pension plans and the welfare pension plans recognized as net periodic benefit cost for the years ended March 31, 2010 and 2009 were ¥906 million (\$9,736 thousand) and ¥822 million, respectively.

**l. Bonuses to Directors and Corporate Auditors**—Bonuses to directors and corporate auditors are accrued at the end of the year to which such bonuses are attributable.

**m. Stock Options**—Statement No. 8, "Accounting Standard

for Stock Options" and related guidance issued by the Accounting Standards Board of Japan (the "ASBJ") are applicable to stock options granted on or after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the grant date and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. Included in the balance sheet as a separate component of equity, the stock option is presented as a stock acquisition right until exercised. The standard allows unlisted companies to measure options at their intrinsic value if fair value cannot be estimated reliably. The Company has applied this standard to stock options granted on or after May 1, 2006.

**n. Research and Development Costs**—Research and development costs are charged to income as incurred. Research and development costs charged to income for the years ended March 31, 2010 and 2009 were ¥187 million (\$2,012 thousand) and ¥302 million, respectively.

**o. Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were required to be capitalized; however, other finance leases were permitted to be accounted for as

operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions be capitalized recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and did not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company adopted this revised accounting standard as of April 1, 2008, applying the permission discussed above to leases which existed at the transition date and do not transfer ownership of the leased property to the lessee. This accounting change did not have a material effect on the accompanying consolidated statements of income.

The Group leases certain computer equipment, software, office equipment and vehicles. Leased assets for which the initiation date of lease is on or after April 1, 2008 are included in property and equipment or other assets in the consolidated balance sheets. Depreciation of leased assets is computed by the straight-line method over the leasing period with no residual value.

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

**q. Foreign Currency Translations**—All short-term and

long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Foreign exchange translation gains and losses are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

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

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

If foreign currency forward contracts and foreign currency option contracts qualify for hedge accounting and meet specific matching criteria, assets and liabilities denominated in foreign currencies are translated at the contract rates and no gains or losses on derivative transactions are recognized.

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

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

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

**t. New Accounting Pronouncements**

**Business Combinations**—In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations”. Major accounting changes under the revised accounting standard are as follows:

- (1) The existing accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) Under the existing accounting standard, in-process research and development is charged to income as incurred. Under the revised standard, in-process research and development acquired in the business combination is capitalized as an intangible asset.

(3) Under the existing accounting standard, a bargain purchase gain (negative goodwill) is systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**Asset Retirement Obligations**—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations”. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if it is reasonably estimable. If the asset retirement obligation cannot be reasonably estimated in the period that the asset retirement obligation is incurred, such obligation should be recognized as a liability in the period when it becomes reasonably estimated. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the lia-

bility. The asset retirement cost is subsequently expensed through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value in each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**Segment Information Disclosures**—In March 2008, the ASBJ revised ASBJ Statement No. 17 “Accounting Standard for Segment Information Disclosures” and issued ASBJ Guidance No. 20 “Guidance on Accounting Standard for Segment Information Disclosures”. Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performances. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performances and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

**Accounting Changes and Error Corrections**—In December 2009, ASBJ issued ASBJ Statement No. 24 “Accounting

Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No. 24 “Guidance on Accounting Standard for Accounting Changes and Error Corrections”. Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies

When a new accounting policy is applied by a revision of accounting standards, a new policy is applied retroactively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentations

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors

When an error in prior-period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

### 3. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise and finished goods	¥ 24	¥ 30	\$ 256
Work in process	42	32	446
Supplies	136	196	1,466
Total	¥202	¥258	\$2,168

### 4. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

#### (1) Group Policy for Financial Instruments

Basically, the Group's use of its funds is limited to high-liquidity and low-risk investments which mature within a year. As to fund-raising, the Group finances by bank loans for which repayment periods are decided after considering the market environment and long-term and short-term balances. Derivatives are used only for the purpose of hedging exposure to foreign exchange risks. The Group does not hold or issue derivatives for trading or speculative purposes.

#### (2) Nature, Risks Arising from Financial Instruments, and Risk Management

Accounts receivable are subject to the credit risks of customers. The Group controls these risks by reviewing outstanding balances and due dates of each customer in accordance with internal rules for controlling receivables.

Most investment securities are related to capital and/or operating alliances with business partners, and are subject to market value volatility risks. In order to control these risks, fair value and financial condition of the investee are periodically reviewed and reported to the Board of Directors in accordance with internal rules for using funds.

Accounts payable, other payables, and accruals are payable within a year. Certain payables denominated in foreign currencies are subject to foreign exchange risks. The Group uses foreign currency forward contracts to hedge these risks.

Bank loans and lease obligations are financed for working capital use and capital investment use, and are subject to liquidity risks of default. To control these risks, the Group's Administrative Department prepares and updates cash-flow plans and maintains appropriate amounts of ready liquidity.

Regarding derivative instruments which are subject to foreign exchange risks, the Company uses foreign currency forward contracts to hedge the risks. Derivative transactions entered into by the Group are made and controlled in accordance with internal rules for controlling market risks, and are periodically reported to the Board of Directors. The hedging activity of the Group is based on internal policies which regulate the authorization and credit limit amount. Effectiveness of hedging transactions is measured mainly by ratio analysis before entering into contracts and in subsequent review.

Fair values of financial instruments are based on quoted prices in active markets. If quoted price is not available, other rational valuation techniques are used instead. Such valuation techniques include certain assumptions. Results may differ if different assumptions are used in the valuation.

The contract amounts for derivatives listed in Note 11 do not represent volume of underlying market risks of the derivative transactions.

Financial instruments whose fair value is readily determinable as of March 31, 2010 are as follows:

	Millions of Yen		
	2010		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Assets:			
(1) Cash and cash equivalents	¥138,238	¥138,238	
(2) Trade accounts receivable	36,689	36,689	
(3) Other receivables	1,510	1,510	
(4) Investment in unconsolidated subsidiaries and associated companies	5,097	6,428	¥1,331
(5) Investment securities	6,247	6,247	
Total	¥187,781	¥189,112	¥1,331
Liabilities:			
(6) Current portion of long-term debt	¥ 10,000	¥ 10,000	
(7) Trade accounts payable	7,502	7,502	
(8) Other payables	13,099	13,099	
(9) Income taxes payable	47,108	47,108	
Total	¥ 77,709	¥ 77,709	
(10) Derivative instruments under hedge accounting	¥ 44	¥ 44	

	Thousands of U.S. Dollars		
	2010		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Assets:			
(1) Cash and cash equivalents	\$1,485,793	\$1,485,793	
(2) Trade accounts receivable	394,339	394,339	
(3) Other receivables	16,229	16,229	
(4) Investment in unconsolidated subsidiaries and associated companies	54,786	69,086	\$14,300
(5) Investment securities	67,143	67,143	
Total	\$2,018,290	\$2,032,590	\$14,300
Liabilities:			
(6) Current portion of long-term debt	\$107,481	\$107,481	
(7) Trade accounts payable	80,633	80,633	
(8) Other payables	140,792	140,792	
(9) Income taxes payable	506,318	506,318	
Total	\$835,224	\$835,224	
(10) Derivative instruments under hedge accounting	\$ 468	\$ 468	

Notes: (1), (2), (3), (6), (7), (8), and (9)—As these items are settled within one year and have fair values approximately equal to the carrying amounts, they are stated at the carrying amounts. Accounts receivable and other receivables are stated after deducting allowance for doubtful accounts.

(4) and (5)—Fair value of these investments is stated at market price. Fair value information categorized by holding purpose of investment securities is discussed in Note 5.

(10)—Receivables and payables arising from derivative transactions are stated at net amount. Detailed information about derivatives is discussed in Note 11.

Financial instruments which do not have quoted market prices and whose fair value is not reliably determinable are not included in the table above. Such financial instruments as of March 31, 2010 are as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Investment securities	¥146,897	\$1,578,857
Investments in unconsolidated subsidiaries and associated companies	1,752	18,831
Total	¥148,649	\$1,597,688

Detailed information about investment securities is discussed in Note 5.

Maturity analysis for financial assets as of March 31, 2010 is as follows:

	Due within One Year	
	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥138,238	\$1,485,793
Trade accounts receivable	37,391	401,882
Other receivables	1,511	16,241
Total	¥177,140	\$1,903,916

Annual maturities of obligations under finance leases are discussed in Note 10.

## 5. INVESTMENT SECURITIES

Investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Non-current:			
Marketable equity securities	¥ 6,247	¥ 3,741	\$ 67,143
Non-marketable equity securities	146,892	146,845	1,578,801
Investments in limited partnerships and similar investments	5	7	56
Total	¥153,144	¥150,593	\$1,646,000

The carrying amounts and aggregate fair value of investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
Securities classified as available-for-sale—				
Equity securities	¥2,891	¥3,440	¥84	¥6,247
March 31, 2009				
Securities classified as available-for-sale—				
Equity securities	¥3,357	¥ 410	¥26	¥3,741

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
Securities classified as available-for-sale—				
Equity securities	\$31,074	\$36,972	\$903	\$67,143



Available-for-sale securities whose fair value is not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Available-for-sale:			
Equity securities—unlisted preferred stocks	<b>¥120,000</b>	¥120,000	<b>\$1,289,768</b>
Equity securities—unlisted common stocks	<b>26,892</b>	26,845	<b>289,033</b>
Investments in limited investment partnerships and others	<b>5</b>	7	<b>56</b>
<b>Total</b>	<b>¥146,897</b>	¥146,852	<b>\$1,578,857</b>

For unlisted equity securities held for one year or more, the Group periodically compares acquisition cost per share to investee's net assets per share. If net assets per share decline to 50% or less of acquisition cost per share, the Group recognizes a loss on write-down of investment securities after considering future recoverability. Losses on write-down of such investment securities for the years ended March 31, 2010 and 2009 were ¥721 million (\$7,751 thousand) and ¥61 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥94 million (\$1,005 thousand) and ¥1,036 million, respectively. Gross realized losses on these sales, computed on the moving average cost basis, were ¥101 million (\$1,082 thousand), whereas no gains were recognized for the year ended March 31, 2010. Gross realized gains on these sales, computed on the moving average cost basis, were ¥716 million, whereas no losses were recognized for the year ended March 31, 2009.

If market value declines to 50% or less of carrying amount, the carrying amount of the investment security is written down to the market value unless it is considered clearly recoverable. If market value declines to the range from 50% to 70% of carrying amount, the carrying amount of the investment security is written down to the amount considered to be appropriate based on its materiality and recoverability. Losses on write-down of available-for-sale securities for the years ended March 31, 2010 and 2009 were ¥352 million (\$3,779 thousand) and ¥3,677 million, respectively.

As of March 31, 2010, the Company had pledged ¥500 million (\$5,374 thousand) of investment securities as collateral to guarantee bank loans of a company in which the Company invests.

## 6. LONG-TERM DEBT

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Unsecured syndicated loan from banks and other financial institutions, due serially to 2011 with variable interest rate	<b>¥ 10,000</b>	¥ 30,000	<b>\$ 107,481</b>
Less current portion	<b>(10,000)</b>	(20,000)	<b>(107,481)</b>
Long-term debt, less current portion		¥ 10,000	

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

## 7. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

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

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

The Companies Act requires that an amount equal to 10% of dividends be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a



component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

**c. Treasury Stock and Treasury Stock Acquisition Rights**

The Companies Act also provides for companies to purchase treasury stock and retire such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate

component of equity or deducted directly from stock acquisition rights.

During the fiscal year ended March 31, 2009, the Company acquired and subsequently retired 2,401,572.64 shares of its treasury stock via market by a trust.

## 8. STOCK OPTION

Stock options outstanding as of March 31, 2010 are as follows:

***The Company***

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2000 Stock Option (1)	20 employees	57,344 shares	2000.1.31	¥51,270 (\$551.1)	From January 22, 2002 to January 21, 2010
2000 Stock Option (2)	7 employees	11,264 shares	2000.6.27	¥38,086 (\$409.4)	From June 17, 2002 to June 16, 2010
2000 Stock Option (3)	3 directors 84 employees	148,992 shares	2000.12.18	¥19,416 (\$208.7)	From December 9, 2002 to December 8, 2010
2001 Stock Option (1)	3 directors 72 employees	108,544 shares	2001.6.29	¥9,559 (\$102.7)	From June 21, 2003 to June 20, 2011
2001 Stock Option (2)	3 directors 72 employees	112,640 shares	2001.12.18	¥8,497 (\$91.3)	From December 8, 2003 to December 7, 2011
2002 Stock Option (1)	2 directors 65 employees	47,616 shares	2002.7.29	¥10,196 (\$109.6)	From June 21, 2004 to June 20, 2012
2002 Stock Option (2)	19 employees	5,888 shares	2002.11.20	¥11,375 (\$122.3)	From November 21, 2004 to June 20, 2012
2003 Stock Option (1)	5 directors 83 employees	19,840 shares	2003.7.25	¥33,438 (\$359.4)	From June 21, 2005 to June 20, 2013
2003 Stock Option (2)	43 employees	2,464 shares	2003.11.4	¥51,478 (\$553.3)	From November 5, 2005 to June 20, 2013
2003 Stock Option (3)	38 employees	2,400 shares	2004.1.29	¥47,813 (\$513.9)	From January 30, 2006 to June 20, 2013

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2003 Stock Option (4)	41 employees	1,168 shares	2004.5.13	¥78,512 (\$843.9)	From May 14, 2006 to June 20, 2013
2004 Stock Option (1)	5 directors 131 employees	9,856 shares	2004.7.29	¥65,290 (\$701.7)	From June 18, 2006 to June 17, 2014
2004 Stock Option (2)	46 employees	712 shares	2004.11.1	¥62,488 (\$671.6)	From November 2, 2006 to June 17, 2014
2004 Stock Option (3)	29 employees	344 shares	2005.1.28	¥65,375 (\$702.7)	From January 29, 2007 to June 17, 2014
2004 Stock Option (4)	42 employees	276 shares	2005.5.12	¥60,563 (\$650.9)	From May 13, 2007 to June 17, 2014
2005 Stock Option (1)	5 directors 180 employees	5,716 shares	2005.7.28	¥58,500 (\$628.8)	From June 18, 2007 to June 17, 2015
2005 Stock Option (2)	31 employees	234 shares	2005.11.1	¥62,000 (\$666.4)	From November 2, 2007 to June 17, 2015
2005 Stock Option (3)	65 employees	316 shares	2006.1.31	¥79,500 (\$854.5)	From February 1, 2008 to June 17, 2015
2005 Stock Option (4)	49 employees	112 shares	2006.5.2	¥67,940 (\$730.2)	From May 3, 2008 to June 17, 2015
2006 Stock Option (1)	5 directors 157 employees	8,569 shares	2006.9.6	¥47,198 (\$507.3)	From August 24, 2008 to August 23, 2016
2006 Stock Option (2)	49 employees	313 shares	2006.11.6	¥44,774 (\$481.2)	From October 24, 2008 to October 23, 2016
2006 Stock Option (3)	62 employees	360 shares	2007.2.7	¥47,495 (\$510.5)	From January 25, 2009 to January 24, 2017
2007 Stock Option (1)	66 employees	651 shares	2007.5.8	¥45,500 (\$489.0)	From April 25, 2009 to April 24, 2017
2007 Stock Option (2)	5 directors 225 employees	10,000 shares	2007.8.7	¥40,320 (\$433.4)	From July 25, 2009 to July 24, 2017
2007 Stock Option (3)	119 employees	766 shares	2007.11.7	¥51,162 (\$549.9)	From October 25, 2009 to October 24, 2017
2007 Stock Option (4)	124 employees	817 shares	2008.2.13	¥47,500 (\$510.5)	From January 31, 2010 to January 30, 2018
2008 Stock Option (1)	246 employees	2,059 shares	2008.5.9	¥51,781 (\$556.5)	From April 26, 2010 to April 25, 2018
2008 Stock Option (2)	5 directors 336 employees	11,750 shares	2008.8.8	¥40,505 (\$435.4)	From July 26, 2010 to July 25, 2018
2008 Stock Option (3)	128 employees	407 shares	2008.11.7	¥34,000 (\$365.4)	From October 25, 2010 to October 24, 2018
2008 Stock Option (4)	128 employees	350 shares	2009.2.10	¥32,341 (\$347.6)	From January 28, 2011 to January 27, 2019

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2009 Stock Option (1)	100 employees	890 shares	2009.5.12	¥26,879 (\$288.9)	From April 29, 2011 to April 28, 2019
2009 Stock Option (2)	5 directors 454 employees	12,848 shares	2009.8.11	¥30,700 (\$330.0)	From July 29, 2011 to July 28, 2019
2009 Stock Option (3)	61 employees	277 shares	2009.11.10	¥28,737 (\$308.9)	From October 28, 2011 to October 27, 2019
2009 Stock Option (4)	101 employees	571 shares	2010.2.10	¥32,050 (\$344.5)	From January 28, 2012 to January 27, 2020

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

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

#### **Consolidated Subsidiaries**

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
<b>Yahoo Japan Value Insight Corporation ("Value Insight")</b>					
2000 Stock Option (1)	3 directors	300 shares	2000.3.30	¥50,000 (\$537.4)	From April 1, 2002 to March 29, 2010
2000 Stock Option (2)	2 directors 18 employees	300 shares	2000.9.20	¥150,000 (\$1,612.2)	From October 1, 2002 to September 14, 2010
2001 Stock Option	19 employees	190 shares	2001.4.2	¥400,000 (\$4,299.2)	From April 1, 2003 to March 29, 2011
2002 Stock Option	32 employees	92 shares	2002.3.31	¥450,000 (\$4,836.6)	From April 1, 2004 to March 21, 2012
2003 Stock Option	3 directors 30 employees	182 shares	2003.3.31	¥450,000 (\$4,836.6)	From April 1, 2005 to March 27, 2013

#### **NewsWatch**

2004 Stock Option	3 directors 33 employees	3,035 shares	2004.11.26	¥50,000 (\$537.4)	From November 27, 2006 to November 26, 2014
2005 Stock Option	6 employees	200 shares	2005.11.18	¥50,000 (\$537.4)	From November 27, 2006 to November 26, 2014

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

The stock option activity is as follows:

**The Company**

	2000 Stock Option (1)	2000 Stock Option (2)	2000 Stock Option (3)	2001 Stock Option (1)	2001 Stock Option (2)
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding					
Granted					
Canceled					
Vested					
March 31, 2009—Outstanding					
Vested:					
March 31, 2008—Outstanding	18,432	2,048	40,744	16,835	21,732
Vested					
Exercised			(5,810)	(377)	(652)
Canceled					
March 31, 2009—Outstanding	18,432	2,048	34,934	16,458	21,080
<b>Year Ended March 31, 2010</b>					
Non-vested:					
March 31, 2009—Outstanding					
Granted					
Canceled					
Vested					
March 31, 2010—Outstanding					
Vested:					
March 31, 2009—Outstanding	18,432	2,048	34,934	16,458	21,080
Vested					
Exercised			(5,238)	(512)	(3,643)
Canceled	(18,432)		(512)		
March 31, 2010—Outstanding		2,048	29,184	15,946	17,437
Exercise price	¥51,270	¥38,086	¥19,416	¥9,559	¥8,497
	(\$551.1)	(\$409.4)	(\$208.7)	(\$102.7)	(\$91.3)
Average stock price at exercise			¥31,422	¥31,250	¥28,806
			(\$337.7)	(\$335.9)	(\$309.6)

	2002 Stock Option (1)	2002 Stock Option (2)	2003 Stock Option (1)	2003 Stock Option (2)	2003 Stock Option (3)
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding					
Granted					
Canceled					
Vested					
March 31, 2009—Outstanding					
Vested:					
March 31, 2008—Outstanding	19,968	1,280	16,256	1,440	1,216
Vested					
Exercised	(1,792)	(512)	(320)		
Canceled	(256)			(32)	(160)
March 31, 2009—Outstanding	17,920	768	15,936	1,408	1,056
<b>Year Ended March 31, 2010</b>					
Non-vested:					
March 31, 2009—Outstanding					
Granted					
Canceled					
Vested					
March 31, 2010—Outstanding					
Vested:					
March 31, 2009—Outstanding	17,920	768	15,936	1,408	1,056
Vested					
Exercised	(1,536)				
Canceled			(64)	(64)	
March 31, 2010—Outstanding	16,384	768	15,872	1,344	1,056
Exercise price	¥10,196	¥11,375	¥33,438	¥51,478	¥47,813
	(\$109.6)	(\$122.3)	(\$359.4)	(\$553.3)	(\$513.9)
Average stock price at exercise	¥31,917				
	(\$343.0)				

	2003 Stock Option (4)	2004 Stock Option (1)	2004 Stock Option (2)	2004 Stock Option (3)	2004 Stock Option (4)
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding	416	3,392	272	168	160
Granted					
Canceled	(16)		(32)	(16)	(12)
Vested	(400)	(3,392)	(240)	(152)	(12)
March 31, 2009—Outstanding					136
Vested:					
March 31, 2008—Outstanding	224	5,744	208	88	68
Vested	400	3,392	240	152	12
Exercised					
Canceled	(64)	(32)	(64)	(8)	(4)
March 31, 2009—Outstanding	560	9,104	384	232	76
Year Ended March 31, 2010					
Non-vested:					
March 31, 2009—Outstanding					136
Granted					
Canceled					
Vested					(136)
March 31, 2010—Outstanding					
Vested:					
March 31, 2009—Outstanding	560	9,104	384	232	76
Vested					136
Exercised					
Canceled	(64)	(144)		(8)	(4)
March 31, 2010—Outstanding	496	8,960	384	224	208
Exercise price	¥78,512	¥65,290	¥62,488	¥65,375	¥60,563
	(\$843.9)	(\$701.7)	(\$671.6)	(\$702.7)	(\$650.9)
Average stock price at exercise					

	2005 Stock Option (1)	2005 Stock Option (2)	2005 Stock Option (3)	2005 Stock Option (4)	2006 Stock Option (1)
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding	2,672	86	148	85	8,268
Granted					
Canceled	(60)	(4)	(2)	(2)	(371)
Vested	(1,064)	(20)	(28)	(36)	(3,941)
March 31, 2009—Outstanding	1,548	62	118	47	3,956
Vested:					
March 31, 2008—Outstanding	2,636	70	114		
Vested	1,064	20	28	36	3,941
Exercised					
Canceled	(88)	(2)			(41)
March 31, 2009—Outstanding	3,612	88	142	36	3,900
Year Ended March 31, 2010					
Non-vested:					
March 31, 2009—Outstanding	1,548	62	118	47	3,956
Granted					
Canceled	(12)		(6)		(63)
Vested	(1,536)	(62)	(112)	(5)	(1,933)
March 31, 2010—Outstanding				42	1,960
Vested:					
March 31, 2009—Outstanding	3,612	88	142	36	3,900
Vested	1,536	62	112	5	1,933
Exercised					
Canceled	(84)		(6)		(91)
March 31, 2010—Outstanding	5,064	150	248	41	5,742
Exercise price	¥58,500	¥62,000	¥79,500	¥67,940	¥47,198
	(\$628.8)	(\$666.4)	(\$854.5)	(\$730.2)	(\$507.3)
Average stock price at exercise					

	2006 Stock Option (2)	2006 Stock Option (3)	2007 Stock Option (1)	2007 Stock Option (2)	2007 Stock Option (3)
(Shares)					
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding	282	330	616	9,881	743
Granted					
Canceled	(5)		(8)	(416)	(7)
Vested	(124)	(147)			
March 31, 2009—Outstanding	153	183	608	9,465	736
Vested:					
March 31, 2008—Outstanding					
Vested	124	147			
Exercised					
Canceled					
March 31, 2009—Outstanding	124	147			
Year Ended March 31, 2010					
Non-vested:					
March 31, 2009—Outstanding	153	183	608	9,465	736
Granted					
Canceled	(4)	(31)	(21)	(226)	(16)
Vested	(64)	(59)	(290)	(4,587)	(330)
March 31, 2010—Outstanding	85	93	297	4,652	390
Vested:					
March 31, 2009—Outstanding	124	147			
Vested	64	59	290	4,587	330
Exercised					
Canceled	(4)	(32)	(20)	(34)	(3)
March 31, 2010—Outstanding	184	174	270	4,553	327
Exercise price	¥44,774	¥47,495	¥45,500	¥40,320	¥51,162
	(\$481.2)	(\$510.5)	(\$489.0)	(\$433.4)	(\$549.9)
Average stock price at exercise					



	2007 Stock Option (4)	2008 Stock Option (1)	2008 Stock Option (2)	2008 Stock Option (3)	2008 Stock Option (4)
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding	816				
Granted		2,059	11,750	407	350
Canceled	(15)	(219)	(104)		
Vested					
March 31, 2009—Outstanding	801	1,840	11,646	407	350
Vested:					
March 31, 2008—Outstanding					
Vested					
Exercised					
Canceled					
March 31, 2009—Outstanding					
<b>Year Ended March 31, 2010</b>					
Non-vested:					
March 31, 2009—Outstanding	801	1,840	11,646	407	350
Granted					
Canceled	(13)	(193)	(327)	(6)	(14)
Vested	(367)				
March 31, 2010—Outstanding	421	1,647	11,319	401	336
Vested:					
March 31, 2009—Outstanding					
Vested	367				
Exercised					
Canceled	(2)				
March 31, 2010—Outstanding	365				
Exercise price	¥47,500 (\$510.5)	¥51,781 (\$556.5)	¥40,505 (\$435.4)	¥34,000 (\$365.4)	¥32,341 (\$347.6)
Average stock price at exercise					

	2009 Stock Option (1)	2009 Stock Option (2)	2009 Stock Option (3)	2009 Stock Option (4)
	(Shares)			
Year Ended March 31, 2010				
Non-vested:				
March 31, 2009—Outstanding				
Granted	890	12,848	277	571
Canceled	(12)	(185)		
Vested				
March 31, 2010—Outstanding	878	12,663	277	571
Vested:				
March 31, 2009—Outstanding				
Vested				
Exercised				
Canceled				
March 31, 2010—Outstanding				
Exercise price	¥26,879	¥30,700	¥28,737	¥32,050
	(\$288.9)	(\$330.0)	(\$308.9)	(\$344.5)
Average stock price at exercise				

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

	2005 Stock Option (4)	2006 Stock Option (1)	2006 Stock Option (2)	2006 Stock Option (3)
Fair value price at grant date:				
a.	¥30,958 (\$332.7)	¥24,564 (\$264.0)	¥23,832 (\$256.1)	¥20,435 (\$219.6)
b.	¥35,782 (\$384.6)	¥26,803 (\$288.1)	¥25,311 (\$272.0)	¥23,448 (\$252.0)
c.	¥39,196 (\$421.3)	¥28,156 (\$302.6)	¥26,766 (\$287.7)	¥25,578 (\$274.9)

	2007 Stock Option (1)	2007 Stock Option (2)	2007 Stock Option (3)	2007 Stock Option (4)
Fair value price at grant date:				
a.	¥22,586 (\$242.8)	¥17,061 (\$183.4)	¥20,900 (\$224.6)	¥20,289 (\$218.1)
b.	¥25,697 (\$276.2)	¥18,121 (\$194.8)	¥23,651 (\$254.2)	¥23,128 (\$248.6)
c.	¥27,206 (\$292.4)	¥20,659 (\$222.0)	¥26,853 (\$288.6)	¥24,691 (\$265.4)

	2008 Stock Option (1)	2008 Stock Option (2)	2008 Stock Option (3)	2008 Stock Option (4)
Fair value price at grant date:				
a.	¥16,538 (\$177.8)	¥14,918 (\$160.3)	¥14,554 (\$156.4)	¥10,204 (\$109.7)
b.	¥18,525 (\$199.1)	¥15,716 (\$168.9)	¥15,075 (\$162.0)	¥10,715 (\$115.2)
c.	¥21,037 (\$226.1)	¥17,980 (\$193.3)	¥16,395 (\$176.2)	¥11,262 (\$121.0)

	2009 Stock Option (1)	2009 Stock Option (2)	2009 Stock Option (3)	2009 Stock Option (4)
Fair value price at grant date:				
a.	¥9,499 (\$102.1)	¥12,264 (\$131.8)	¥9,601 (\$103.2)	¥12,152 (\$130.6)
b.	¥10,338 (\$111.1)	¥13,247 (\$142.4)	¥10,271 (\$110.4)	¥12,987 (\$139.6)
c.	¥10,701 (\$115.0)	¥13,747 (\$147.8)	¥11,193 (\$120.3)	¥13,992 (\$150.4)

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

The assumptions used to measure fair value of stock options granted during the years ended March 31, 2010 and 2009 are as follows:

#### Year Ended March 31, 2010

Estimate method: Black-Scholes option pricing model

	2009 Stock Option (1)	2009 Stock Option (2)	2009 Stock Option (3)	2009 Stock Option (4)
Volatility of stock price:				
a.	43.5%	43.0%	41.5%	41.0%
b.	45.6%	45.0%	42.6%	42.3%
c.	45.5%	45.1%	44.8%	44.2%
Estimated remaining outstanding period:				
a.	5.96 years	5.97 years	5.97 years	5.97 years
b.	6.46 years	6.47 years	6.47 years	6.47 years
c.	6.96 years	6.97 years	6.97 years	6.97 years
Estimated dividend (dividend yield)	0.52%	0.42%	0.49%	0.41%
Risk free interest rate:				
a.	0.98%	0.92%	0.88%	0.68%
b.	1.04%	0.99%	0.96%	0.76%
c.	1.11%	1.08%	1.05%	0.86%

Notes: 1. The a, b and c denoted in the table above correspond to those in the fair value information.

2. Periods for computation using actual stock price:

2009 Stock Option (1):	a. From May 12, 2003 to May 8, 2009 b. From November 11, 2002 to May 8, 2009 c. From May 13, 2002 to May 8, 2009
2009 Stock Option (2):	a. From August 18, 2003 to August 7, 2009 b. From February 17, 2003 to August 7, 2009 c. From August 19, 2002 to August 7, 2009
2009 Stock Option (3):	a. From November 17, 2003 to November 6, 2009 b. From May 19, 2003 to November 6, 2009 c. From November 18, 2002 to November 6, 2009
2009 Stock Option (4):	a. From February 16, 2004 to February 5, 2010 b. From August 18, 2003 to February 5, 2010 c. From February 17, 2003 to February 5, 2010

3. Estimated remaining outstanding period is determined based on the assumption that all the options are exercised by the middle date of the exercise period.

4. Estimated dividend is determined based on the actual dividend applicable to the year ended March 31, 2009.

5. For the risk free interest rate, the Company uses the yield of Japanese treasury bond applicable to the estimated remaining outstanding period of options.

6. Estimated number of options vested is determined based on the actual termination ratio of employees.

Year Ended March 31, 2009

Estimate method: Black-Scholes option pricing model

	2008 Stock Option (1)	2008 Stock Option (2)	2008 Stock Option (3)	2008 Stock Option (4)
Volatility of stock price:				
a.	44.6%	44.0%	45.8%	45.3%
b.	47.8%	44.6%	45.7%	45.5%
c.	52.4%	49.8%	48.5%	45.9%
Estimated remaining outstanding period:				
a.	5.96 years	5.96 years	5.96 years	5.96 years
b.	6.46 years	6.46 years	6.46 years	6.46 years
c.	6.96 years	6.96 years	6.96 years	6.96 years
Estimated dividend (dividend yield)	0.24%	0.28%	0.31%	0.38%
Risk free interest rate:				
a.	1.18%	1.06%	1.01%	0.84%
b.	1.20%	1.08%	1.06%	0.89%
c.	1.24%	1.11%	1.13%	0.95%

Notes: 1. The a, b and c denoted in the table above correspond to those in the fair value information.

2. Periods for computation using actual stock price:

2008 Stock Option (1):	a. From May 20, 2002 to May 9, 2008 b. From November 19, 2001 to May 9, 2008 c. From May 21, 2001 to May 9, 2008
2008 Stock Option (2):	a. From August 19, 2002 to August 8, 2008 b. From February 18, 2002 to August 8, 2008 c. From August 20, 2001 to August 8, 2008

- 2008 Stock Option (3): a. From November 18, 2002 to November 7, 2008  
b. From May 20, 2002 to November 7, 2008  
c. From November 19, 2001 to November 7, 2008
- 2008 Stock Option (4): a. From February 17, 2003 to February 6, 2009  
b. From August 19, 2002 to February 6, 2009  
c. From February 18, 2002 to February 6, 2009

3. Estimated remaining outstanding period is determined based on the assumption that all the options are exercised by the middle date of the exercise period.
4. Estimated dividend is determined based on the actual dividend applicable to the year ended March 31, 2008.
5. For the risk free interest rate, the Company uses the yield of Japanese treasury bond applicable to the estimated remaining outstanding period of options.
6. Estimated number of options vested is determined based on the actual termination ratio of employees.

### **Consolidated Subsidiaries**

#### **Value Insight**

	2000 Stock Option (1)	2000 Stock Option (2)	2001 Stock Option	2002 Stock Option	2003 Stock Option
	(Shares)				
Year Ended March 31, 2009					
Non-vested:					
March 31, 2008—Outstanding	100	180	80	23	57
Granted					
Canceled		(5)	(30)	(9)	(19)
Vested					
March 31, 2009—Outstanding	100	175	50	14	38
Vested:					
March 31, 2008—Outstanding					
Vested					
Exercised					
Canceled					
March 31, 2009—Outstanding					
Year Ended March 31, 2010					
Non-vested:					
March 31, 2009—Outstanding	100	175	50	14	38
Granted					
Canceled	(100)	(110)	(35)		(4)
Vested					
March 31, 2010—Outstanding		65	15	14	34
Vested:					
March 31, 2009—Outstanding					
Vested					
Exercised					
Canceled					
March 31, 2010—Outstanding					
Exercise price	¥50,000 (\$537.4)	¥150,000 (\$1,612.2)	¥400,000 (\$4,299.2)	¥450,000 (\$4,836.6)	¥450,000 (\$4,836.6)
Average stock price at exercise					

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	2004 Stock Option	2005 Stock Option
	(Shares)	
Year Ended March 31, 2009		
Non-vested:		
March 31, 2008—Outstanding	1,960	160
Granted		
Canceled		
Vested		
March 31, 2009—Outstanding	1,960	160
Vested:		
March 31, 2008—Outstanding		
Vested		
Exercised		
Canceled		
March 31, 2009—Outstanding		
<b>Year Ended March 31, 2010</b>		
Non-vested:		
March 31, 2009—Outstanding	1,960	160
Granted		
Canceled		(60)
Vested		
March 31, 2010—Outstanding	1,960	100
Vested:		
March 31, 2009—Outstanding		
Vested		
Exercised		
Canceled		
March 31, 2010—Outstanding		
Exercise price	¥50,000 (\$537.4)	¥50,000 (\$537.4)
Average stock price at exercise		

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Enterprise tax payable	¥ 3,406	¥ 284	\$ 36,608
Allowance for doubtful accounts	303	181	3,258
Depreciation and amortization	4,952	5,792	53,221
Provision for Yahoo! Points	1,552	1,108	16,685
Write-down of investment securities	1,501	753	16,131
Revaluation on assets	3,722	4,584	40,002
Other	2,137	2,227	22,974
Less valuation allowance	(3,189)	(3,923)	(34,277)
Total	14,384	11,006	154,602
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	1,366	156	14,677
Other	18		190
Total	1,384	156	14,867
Net deferred tax assets	¥13,000	¥10,850	\$139,735

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 is not presented because the difference

between the two tax rates was not material.

## 10. LEASE

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2010 and 2009 were ¥6,042 million (\$64,941 thousand) and ¥6,536 million, respectively.

For the year ended March 31, 2010, the Group recorded an impairment loss of ¥284 million (\$3,050 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities—other. No impairment loss was recorded for the year ended March 31, 2009.

Lease liabilities included in the consolidated balance sheet at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Other current liabilities	¥102	\$1,090
Other (long-term)	253	2,722
Total	¥355	\$3,812

Annual repayment schedule as of March 31, 2010 was as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥101	\$1,083
2013	98	1,052
2014	54	587
Total	¥253	\$2,722

The following information summarizes finance lease contracts

that do not transfer ownership of the leased property to the lessee and that were entered into prior to April 1, 2008.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense, and other information on an “as if capitalized” basis for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen				
	2010				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥14	¥ 64	¥ 926	¥ 444	¥ 1,448
Accumulated depreciation	(7)	(47)	(653)	(310)	(1,017)
Accumulated impairment loss		(14)	(150)	(120)	(284)
Net leased property	¥ 7	¥ 3	¥ 123	¥ 14	¥ 147

	Millions of Yen				
	2009				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥13	¥ 18	¥ 661	¥ 33	¥ 725
Accumulated depreciation	(5)	(11)	(402)	(14)	(432)
Net leased property	¥ 8	¥ 7	¥ 259	¥ 19	¥ 293

	Thousands of U.S. Dollars				
	2010				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$153	\$ 686	\$ 9,957	\$4,767	\$15,563
Accumulated depreciation	(82)	(498)	(7,023)	(3,333)	(10,936)
Accumulated impairment loss		(152)	(1,616)	(1,282)	(3,050)
Net leased property	\$ 71	\$ 36	\$ 1,318	\$ 152	\$ 1,577

Obligations under finance leases:

	Millions of Yen	2009	Thousands of U.S. Dollars
	2010		2010
Due within one year	¥299	¥150	\$3,218
Due after one year	167	157	1,795
Total	¥466	¥307	\$5,013

Allowance for impairment loss on leased property of ¥284 million (\$3,050 thousand) as of March 31, 2010 is not included in obligations under finance leases.

Depreciation expense, interest expense, and other information under finance leases:

	Millions of Yen	2009	Thousands of U.S. Dollars
	2010		2010
Depreciation expense	¥333	¥35	\$3,578
Interest expense	32	4	344
Total	¥365	¥39	\$3,922
Lease payments	¥375	¥39	\$4,028
Impairment loss	284		3,050

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

The minimum rental commitments under noncancelable operating leases at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 6,472	\$ 69,558
Due after one year	4,622	49,682
Total	¥11,094	\$119,240

## 11. DERIVATIVES

Derivative contracts accounted for under hedge accounting as of March 31, 2010 are as follows:

- (1) Contract amount and fair value of derivative instruments to hedge foreign exchange risk associated with certain future expenses denominated in foreign currencies, of which gains and losses are deferred under hedge accounting:

	Millions of Yen	
	2010	
	Contract Amount	Fair Value
Foreign currency forward contract:		
Receipt: U.S. dollar, payment: Japanese yen	¥843	¥44
Receipt: Euro, payment: Japanese yen	14	
Total	¥857	¥44

	Thousands of U.S. Dollars	
	2010	
	Contract Amount	Fair Value
Foreign currency forward contract:		
Receipt: U.S. dollar, payment: Japanese yen	\$9,064	\$468
Receipt: Euro, payment: Japanese yen	144	
Total	\$9,208	\$468

Note: All derivative transactions are to be settled within a year. The fair value of derivative instruments is stated at amount obtained from financial institutions. No derivative contracts existed as of March 31, 2009.

- (2) Contract amount of derivative instruments to hedge foreign exchange risk associated with certain accounts payable and other payables denominated in foreign currencies that are translated at contract rates:

	Millions of Yen	Thousands of U.S. Dollars
	2010	2010
Foreign currency forward contract:		
Receipt: U.S. dollar, payment: Japanese yen	¥ 546	\$ 5,865
Receipt: Euro, payment: Japanese yen	1,312	14,108
Total	¥1,858	\$19,973

Note: All derivative transactions are to be settled within a year.

Because the derivative instruments are treated as a part of related payables, the fair value of derivative instruments is included in that of payables in the table shown in Note 4. Because the Group applied the revised accounting standard and the new guidance for financial instruments effective March 31, 2010, information as of March 31, 2009 is not disclosed.

## 12. RELATED PARTY TRANSACTIONS

Transactions of the Group with related parties for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen	2009	Thousands of U.S. Dollars
	2010		2010
Transaction of the Company with SOFTBANK CORP.—Purchase of stock		¥45,000	
Transaction of the Company with SISC—Purchase of stock		11,500	
Transaction of the Company with Yahoo! Sàrl—Payment of service fees	¥8,102		\$87,081
Transaction of a consolidated subsidiary with Yahoo! Sàrl—Payment of service fees	8,731	12,889	93,845
Transaction of a consolidated subsidiary with Overture Search Services (Ireland) Limited—Payment of service fees		7,461	
Transaction with individuals (directors)—Exercise of stock options	46	22	499



On February 20, 2009, the Company acquired all shares of SIC from SISC, and subsequently on February 24, 2009, the Company also acquired all shares of SISC from SOFTBANK CORP., the parent company of the Company. After the acquisition, the Company absorbed SISC through a merger on March 30, 2009. The acquisition prices of these transactions were determined based on negotiations considering the fair value of the respective company's net assets, potential value of deferred tax assets, future cash flows, operating synergy with the Company, appraisal value, and other factors.

Prior to August 1, 2008, Overture K.K., a consolidated subsidiary of the Company, had paid service fees to Overture Search Services (Ireland) Limited ("OSSIL"), a consolidated subsidiary of Yahoo! Inc. The contract term in the service agreement was 10 years beginning August 31, 2007. Effective August 1, 2008, the contractual rights and obligations of OSSIL were assumed by another Yahoo! Inc. consolidated subsidiary, Yahoo! Sàrl. The total service fees paid by Overture K.K. for the year ended March 31, 2009 were ¥20,350 million.

On October 1, 2009, the Company absorbed Overture K.K. through a merger. Since the merger, the Company has paid

service fees to Yahoo! Sàrl. The total service fees paid to Yahoo! Sàrl by Overture K.K. and the Company for the year ended March 31, 2010 were ¥16,833 million (\$180,926 thousand).

The balance due to or due from related parties listed in the above table at March 31, 2010 and 2009 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Other current liabilities	¥1,313	¥1,554	\$14,108

### 13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen	Thousands	Yen	U.S. Dollars
Year Ended March 31, 2010	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥83,523	58,074	¥1,438.23	\$15.46
Effect of dilutive securities—Warrants		48		
Diluted EPS—Net income for computation	¥83,523	58,122	¥1,437.03	\$15.45
Year Ended March 31, 2009				
Basic EPS—Net income available to common shareholders	¥74,715	59,509	¥1,255.52	
Effect of dilutive securities—Warrants		64		
Diluted EPS—Net income for computation	¥74,715	59,573	¥1,254.18	

#### 14. COMMITTED LINE OF CASH ADVANCE

The Company provides cash advance service to customers in its credit card operations.

The total amount of the committed line of cash advance granted and available for customers, outstanding balance, and remaining balance at March 31, 2010 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total amount of the committed line of cash advance	¥17,812	\$191,440
Outstanding balance	1,451	15,593
Remaining balance	¥16,361	\$175,847

#### 15. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2010 was approved at the Company's Board of Directors meeting held on May 20, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥288.00 (\$3.10) per share	¥16,708	\$179,582

#### 16. SEGMENT INFORMATION

The Group classifies its services into three segments, namely, (1) advertising, (2) business services, and (3) personal services, as summarized below.

The advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment

include sales of banner and text advertisements on the Yahoo! JAPAN Web site, the paid search service, and advertisement planning and production services.

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

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

Information about business segments, geographical segments and sales to foreign customers of the Group as of and for the years ended March 31, 2010 and 2009 is as follows:

#### (1) Business Segments

##### a. Sales and Operating Income

	Millions of Yen				
	2010				Consolidated
	Advertising	Business Services	Personal Services	Eliminations/Corporate	
Sales to customers	¥141,355	¥63,186	¥75,316		¥279,857
Intersegment sales		1,089	16	¥ (1,105)	
Total sales	141,355	64,275	75,332	(1,105)	279,857
Operating expenses	59,744	42,262	22,426	11,599	136,031
Operating income	¥ 81,611	¥22,013	¥52,906	¥(12,704)	¥143,826

**b. Total Assets, Depreciation and Amortization, Impairment Loss, and Capital Expenditures**

Millions of Yen					
2010					
	Advertising	Business Services	Personal Services	Eliminations/Corporate	Consolidated
Total assets	¥55,421	¥52,317	¥40,443	¥270,081	¥418,262
Depreciation and amortization	3,188	3,574	2,533	918	10,213
Impairment loss	1,252	218			1,470
Capital expenditures	2,255	2,263	1,842	562	6,922

**a. Sales and Operating Income**

Thousands of U.S. Dollars					
2010					
	Advertising	Business Services	Personal Services	Eliminations/Corporate	Consolidated
Sales to customers	\$1,519,293	\$679,123	\$809,503		\$3,007,919
Intersegment sales		11,705	170	\$ (11,875)	
Total sales	1,519,293	690,828	809,673	(11,875)	3,007,919
Operating expenses	642,132	454,226	241,041	124,671	1,462,070
Operating income	\$ 877,161	\$236,602	\$568,632	\$ (136,546)	\$1,545,849

**b. Total Assets, Depreciation and Amortization, Impairment Loss, and Capital Expenditures**

Thousands of U.S. Dollars					
2010					
	Advertising	Business Services	Personal Services	Eliminations/Corporate	Consolidated
Total assets	\$595,664	\$562,312	\$434,683	\$2,902,850	\$4,495,509
Depreciation and amortization	34,269	38,414	27,227	9,864	109,774
Impairment loss	13,462	2,338			15,800
Capital expenditures	24,241	24,322	19,799	6,036	74,398

**a. Sales and Operating Income**

Millions of Yen					
2009					
	Advertising	Business Services	Personal Services	Eliminations/Corporate	Consolidated
Sales to customers	¥138,887	¥54,207	¥72,660		¥265,754
Intersegment sales	1	348	11	¥ (360)	
Total sales	138,888	54,555	72,671	(360)	265,754
Operating expenses	65,425	33,779	19,946	11,986	131,136
Operating income	¥ 73,463	¥20,776	¥52,725	¥ (12,346)	¥134,618

***b. Total Assets, Depreciation and Amortization, and Capital Expenditures***

	Millions of Yen				
	2009				
	Advertising	Business Services	Personal Services	Eliminations/ Corporate	Consolidated
Total assets	¥37,005	¥44,567	¥19,872	¥210,108	¥311,552
Depreciation and amortization	5,098	2,964	2,824	631	11,517
Capital expenditures	12,842	6,378	6,862	1,441	27,523

**(2) Geographical Segments**

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

**(3) Sales to Foreign Customers**

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

## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Yahoo Japan Corporation (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yahoo Japan Corporation and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

*Deloitte Touche Tohmatsu LLC*

Tokyo, Japan

June 7, 2010

## Risk Factors

*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 them 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 following is not an exhaustive discussion of all risk factors that should be considered before investing in the shares of Yahoo Japan Corporation.*

### **1. IMPACT OF INTERNET MARKETS AND COMPETITION**

#### **1) Macroeconomic Trends, Internet Markets, and Users**

a. The Group's business development depends on the growth of Internet-based markets.

Internet usage in terms both of user numbers and usage times has grown steadily in Japan since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the recent spread of broadband communications and the proliferation of mobile phones. Because the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its business development are the continued expansion of Internet-based communications and commercial activities in line with increased Internet usage, as well as a stable and secure infrastructure for Internet users.

A number of factors contribute to uncertainty in the outlook for continued expansion of Internet-based markets: (1) user numbers might eventually peak or Internet usage times slump; (2) new Internet regulations or fees might constrict Internet usage; and (3) improper development and application of new protocols and technological standards in response to growing user numbers and increasingly advanced applications could result in reduced Internet usage.

b. The Internet's continued progress as an advertising media is uncertain.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations in 1996. Since that time, the Internet advertising market has grown significantly, accounting for 11.9% of the total domestic advertising market in calendar year 2009, according to a recent DENTSU INC. report, overtaking newspapers for the No. 2 spot, behind the television advertising market.

The Group engages in a range of activities aimed at enhancing its advertising media value. In the area of display advertising, for example, the Group is endeavoring to expand and stabilize its client base of corporate advertisers and

advertising agencies through various means, including periodic seminars aimed at promoting a greater understanding and appreciation of Internet advertising within the advertising industry. In the area of listing advertising, meanwhile, the Group is working to improve the match between advertisements and the interests of each user, thereby becoming a more valuable media for both users and advertisers.

Although the Internet has established itself as a commercially viable advertising media capable of competing with other major media, further progress in this regard could be hindered by such factors as extremely slow growth in the Internet advertising market or a premature tapering-off of growth in the market. As a result, the Group might not achieve anticipated levels of advertising revenues, which would negatively impact its business performance.

c. Short-term economic trends could affect Internet advertising and information listing services.

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first that companies reduce. Internet advertising, in particular, has a brief 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 stream.

Similarly, Internet information listing services are directly influenced by macroeconomic trends. In recruitment-related services, especially, client companies tend to calibrate recruitment activities to anticipated trends in the labor market. Such macroeconomic trends, therefore, strongly influence revenues from recruitment information listing services.

Furthermore, because the Group's cost structure includes a high proportion of fixed costs, such as personnel, lease, and

utilities expenses, expenditures cannot be adjusted easily according to revenues, contributing to underlying volatility in the Group's earnings stream.

**d. Advertising budget allocations of advertisers and advertising agencies could affect the Internet advertising business.**

Generally, major corporate advertisers outsource their advertising activities to advertising agencies. In addition to how the advertising budget is allocated among the various media, for example, Internet, television, and newspapers, the amount of advertising the Group receives mainly depends on the inclinations of major advertisers and the amount of discretion granted to advertising agencies. While the Group has implemented various measures to boost Yahoo! JAPAN's appeal as an advertising media as well as to boost the effectiveness of its advertising products, trends in advertising budget allocations among the various media could influence the Group's advertising sales.

**e. The Group might fail to attain the same market share in the mobile advertising market as it holds in the PC market.**

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 mobile Internet use expands substantially, however, the Group might fail to acquire the user numbers or usage times that it commands in the PC market and thus may see a fall in viewer rates and a corresponding reduction in market share. As a result, advertising revenue growth could taper off, with negative consequences for earnings.

**f. Commercial use of the Internet by corporations might not expand as anticipated.**

To expand the market for information listing services, such as

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 is endeavoring to expand the revenues of Yahoo! Auctions and Yahoo! Shopping. Despite these efforts, the market might not expand for any of various reasons. The shift of information listing services to the Internet from traditional media, particularly printed media such as newspapers, magazines, and flyer inserts, might not proceed as expected. 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. Any of these factors could negatively influence the Group's performance.

**g. Technological change in the broadband market could affect the Group's income.**

Yahoo! BB, the Group's comprehensive broadband service operated jointly by the Company and SOFTBANK BB Corp. (SBB), mainly provides inexpensive, high-speed DSL services. Owing to rapid progress in telecommunications technology, the broadband market is shifting from DSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. To acquire new subscribers in this environment, SBB has introduced Yahoo! BB hikari with FLET'S\*, a new comprehensive broadband FTTH service. Even so, the Group might be unable to achieve projected levels of new subscribers or sales, or existing customers might shift to competing services. Moreover, unanticipated expenses might arise. Any of these factors could negatively affect the Group's income.

\*FLET'S is a trademark of NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION (NTT EAST) and NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (NTT WEST).

**h. A slowdown in the growth rate of users of member services and other fee-based services could affect**

**Group revenues.**

With the spread of broadband and mobile communications in recent years, the number of Internet users has increased dramatically, fueling growth in the number of users of Yahoo! JAPAN member services and other fee-based services. (The Group's premier member service, Yahoo! Premium, grants to subscribers special members-only benefits and entitlements, including unrestricted participation in Yahoo! Auctions.) Eventually, however, broadband and mobile phone proliferation in Japan will reach a saturation point and growth in the number of Internet users will begin to slow. If, as a result, growth in the number of users of Yahoo! JAPAN member services and other fee-based services also slows, so too is growth in revenue derived from these services likely to decline. To offset the expected decline in revenue growth, the Group is implementing various measures to promote broader usage of Yahoo! JAPAN member services and other fee-based services. Despite these efforts, it is possible that revenues derived from member services and other fee-based services will begin to show slower growth, which could negatively impact overall Group revenues.

**i. The popularity of fee-based service content via the Internet might decrease.**

The spread of broadband communications has enabled the Group to deliver a variety of fee-based service content to meet changing user needs, including high-volume service content such as video and music. Demand for such service content via the Internet is likely to expand as the number of Internet users increases. If, on the other hand, fee-based service content fails to become a regular part of the lives of users, or if access to such service content via devices other than PCs becomes the norm, and if the Group fails to successfully break into the non-PC market, the achievement of expected earnings could be difficult.

## **2) Competition**

### **a. With competitors in each of its service areas, the Group might have difficulties maintaining its dominant position in the Japanese Internet market.**

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. The Group has multiple competitors in each of these service areas.

In such a business climate, 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 Group fully intends to continue gauging user opinions and usage patterns with an eye to offering services that users want. Nevertheless, it is possible that services offered by a start-up company could gain popularity with users and spread rapidly through the market, thereby posing 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.

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.

## **3) Other Companies' Products and Services**

### **a. In providing its services, the Group relies on the products and services of other companies, including servers,**

### **Internet connection lines, information devices, and software.**

Many of the products and services necessary for the provision of the Group's services, such as servers, Internet connection lines, information devices, and software, are offered by other companies. The smooth, uninterrupted provision of such products and services by other companies is a prerequisite to the successful provision of Group services.

Today, users can choose from several types of browser software for viewing Web sites and from a range of information devices including PCs, mobile phones, TVs, video-game consoles, and car navigation systems for accessing the Internet. Although the Group strives to make its services compatible with all types of browser software and information devices, some cases of incompatibility exist, most of which result from sub-optimal usage conditions or setting errors. Furthermore, browser software or information devices subject to specification changes, rate adjustments, or insufficient market supply have the potential to disrupt user access to Group services, thereby negatively affecting Group revenues.

## **4) Technological Change**

### **a. Failure to respond quickly and appropriately to technological innovation could greatly affect the Group's business.**

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 so as to sustain a strong competitive position requires close cooperation with Yahoo! Inc., which operates nearly identical services in the U.S. market, the center of innovation in Internet technologies. Together with

Yahoo! Inc., the Group is constantly developing new technologies geared to service improvement. The failure of Yahoo! Inc. or the Group to remain at the forefront of technological innovation could render their services obsolete, resulting in reduced competitiveness. Furthermore, the Group might be forced to bear an increasing financial burden owing to higher localization costs and to increased investments made in 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. LEGAL AND INSTITUTIONAL CHANGES**

### **1) Legal Restrictions**

#### **a. New laws or amendments relating to the Group or to the Internet industry as a whole could negatively affect the Group's provision of services.**

Reports in recent years of incidents in Japan related to the viewing or posting of sensitive information or to dubious business transactions on the Internet have resulted in the application of certain legal restrictions to Internet-based information and goods distribution. To ensure a safe, secure, and convenient Internet environment in Japan, the Group complies with all laws and regulations and carries out policies and awareness campaigns in cooperation with relevant organizations.

The introduction of new laws or amendments to existing laws relating to the Group or the Internet industry as a whole could result in increased compliance-related expenses or otherwise negatively influence the Group's provision of services, as well as affect the development of the Internet industry.

\* A Ministry of Health, Labour and Welfare ordinance enacted in a June 2009 revision to the Pharmaceutical Affairs Act limits the type of OTC drugs available for sale over the Internet to Type 3 pharmaceutical products with relatively few side effects. As a result, pharmaceuticals transaction volume on the Internet might decline.

\* A revised Copyright Act, approved during the 171<sup>st</sup> session of



the Diet and effective from January 2010, recognizes the legality both of Web crawling carried out in support of search service provision and of displaying copyrighted information in search results, thereby eliminating the previously existing compliance imperative to physically locate search-service-related servers inside Japan. In addition, the revised act permits photographic display of copyrighted material in Internet auction listings.

**b. Changes to the Provider Liability Limitation Law could restrict the Group's business.**

The Law Concerning the Limits of Liability for Damages of Specified Telecommunications Service Providers and the Right to Request Disclosure of Identification Information of the Senders (Provider Liability Limitation Law) has been in force since May 2002. This law merely clarifies the scope of liability for illegal behavior previously established by civil law and therefore does not increase the liability of businesses that act as intermediaries in Internet-based information distribution. Should a social consensus in support of increased liability of information distribution intermediaries emerge, however, the Group's business could be restricted as a result of the introduction of new laws or the implementation of rules for self-regulation.

**c. Amendments to the Telecommunications Business Law could restrict the Group's business.**

In order to operate Internet-based information communication services, the Group is required to comply with the Telecommunications Business Law and related ordinances enforced by relevant government divisions. Amendments to this law or to related ordinances could restrict the Group's business.

**d. The recently established Law on the Improvement of the Environment for the Safe and Secure Use of the Internet by Children could impinge upon the development of the Internet industry in Japan.**

Since its establishment, the Group has conducted a variety of measures to contribute to the sound development of the Internet and has taken steps to protect minors from potentially harmful information, such as the operation of Yahoo! Kids and the introduction of Yahoo! Safety Net. In June 2008, the government passed the Law on the Improvement of the Environment for the Safe and Secure Use of the Internet by Children. Judging from the provisions of that law, the Group expects that it will have only a minor impact upon its business. Nevertheless, the law raises many issues, such as restrictions on freedom of expression or inhibition of filtering development, which could impinge upon the development of the Internet industry in Japan and, consequently, affect the Group's performance.

**e. Legislation relating to auction services could negatively affect the Group's earnings.**

Reports have been made recently of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. When sellers subject to the law list branded products for auction, the Group instructs them to properly identify themselves 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 to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, 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 or fraudulent merchandise continue, legislation could be enacted restricting commercial activity carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could negatively affect the Group's earnings by, for example, discouraging participation in

Yahoo! Auctions, which would result in reduced system-use fees. Legislation could also result in a contraction in the Yahoo! Premium subscriber base.

**f. Legislation relating to social media services could affect the Group's provision of such services.**

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 right 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 all of the Group's services that include social media functions.

**g. The formulation of new laws or amendments to existing laws concerning financial services could affect the Group.**

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 both the Act on Controls, etc. on Money Lending and the Interest Limitation Law. Under the former, the Company is registered as a money lender with the

Kanto Local Finance Bureau. Because authorities revised the Act on Controls, etc. on Money Lending so as to lower the interest rate ceiling on loans to match the interest rate ceiling specified in the Interest Limitation Law, customers might claim that interest paid in excess of the rate permitted under the Interest Limitation Law represents unfair profits, and demand repayment. Based on these actions, the Group believes that the revised law's impact on its business will be minor. The Group had already lowered its interest rates in May 2008, before enforcement of the law.

In its Yahoo! Trading (financial instruments intermediary services) operations, the Company is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Act and rules set by the Japan Securities Dealers Association. Under the Financial Instruments and Exchange Act, the Company registers with the Prime Minister as a financial instruments intermediary business. 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 or trading system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

\* In June 2009, the Act on Settlement of Funds (Funds Settlement Act) was promulgated. Certain provisions of the act, such as requirements for companies engaging in the funds settlement business to submit official notifications and to set aside sufficient settlement funds, might affect some funds settlement services. In addition, because the act allows non-bank entities to enter the funds settlement business, competition is likely to intensify, which could negatively affect the Group's business performance.

**h. In addition to legal restrictions, official administrative guidance and governmental requirements could affect**

#### **the Group's service provision and performance.**

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

## **2) Litigation**

### **a. Victims of auction fraud might take legal action against the Group.**

The Group has implemented various measures to improve systems security for a safer and more stable auction environment. 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 a "do now, pay later" service (see Note, 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.

A lawsuit brought against the Group by certain users of Yahoo! Auctions seeking damage compensation relating to the non-receipt of paid auction items was ruled definitively in the Group's favor on October 27, 2009, on which date the Supreme Court dismissed an appeal by said users, effectively upholding its initial judgment that the Group was not liable for damages because it had not only forewarned Yahoo! Auctions users of the potential for auction fraud but also offered advice on how to detect and avoid it by citing actual examples of fraud.

Despite this ruling in the Group's favor, the strong likelihood that auction fraud will to some extent continue to exist implies that certain Yahoo! Auctions users might again take legal action against the Group, whether or not the Group is

responsible. Moreover, the implementation of additional measures to further strengthen systems security in order to prevent criminal activity, including an expansion of patrol capabilities, could entail increased costs and, as a result, lower earnings.

The Group has instituted a system guaranteeing limited compensation for users who have been victimized by auction fraud. This compensation system could lead to higher expenditures for the Group.

Note: The "do now, pay later" service is an anti-fraud measure that allows the buyer to pay the seller after receiving and inspecting the purchased item, thereby precluding the problem of non-delivery of paid items.

### **b. Affiliated financial instruments firms could demand damage compensation from the Group.**

In providing Yahoo! Trading (financial instruments intermediary services), the Group complies with internal solicitation policies and guidelines under the supervision of affiliated financial instruments firms (see Note, below) in setting up trading accounts and handling transactions. Before soliciting clients for transactions, the Group consults with affiliated financial instruments firms. Despite these precautions, the Group might make solicitations that inadvertently lead to misunderstanding on the part of certain clients. If, as a result of such solicitations, clients enter into transactions that result in client losses, the Group could be subject to demands for damage compensation from affiliated financial instruments firms, which in certain cases pay provisional damages to clients.

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

**c. The Group could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements or of Web sites accessed through links**

**on Group sites.**

To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates the content of advertisements and of Web sites accessed through advertisement links. As expressed in a written contract with each advertiser, the advertiser accepts full responsibility for the content of advertisements. The Group also maintains the right to remove at any time Web sites listed on Yahoo! Category. In addition, the Group fully discloses its legal obligations in written contracts with the creators of such Web sites with clauses stating that creators are fully responsible for the content of Web 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 slanderous content is prohibited and that full responsibility lies with users. The Group maintains the right to remove Web content that is in violation of its contracts with users and will do so upon discovering such Web content.

Through such internal regulation, 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 incurred by users as a result of Web browsing or information posting. However, there is no guarantee that such measures will suffice to stave off litigation. The Group could be subject to claims, reprimands, or damage suits brought by 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 time spent on Group sites, or to a suspension of certain Group services.

**d. The Group could be subject to damages that are in fact the responsibility of a third party.**

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 users through user rules or clauses posted on Group sites. Even so, it is possible that these measures will fail and that users will demand compensation for damages from the Group that actually are the responsibility of a third party. This could result in additional expenses to the Group or damage to its brand image, impacting negatively on performance.

The Group assigns all responsibility to users 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 be able to 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 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 treaty regarding the jurisdictions of international courts could result in future legal disputes with users of Group services who reside outside Japan.

**e. The Group could be subject to damage claims by third parties for infringement of intellectual property rights, such as patents or copyrights owned by third parties.**

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.

In many cases, the extent to which patent rights can be applied remains unclear. To avoid potential conflicts, the Group might be obligated to substantially increase expenditures related to patent management, which could impact its earnings. The geographic boundaries for the application of patent rights also remain unclear. Consequently, the Group cannot rule out the possibility of patent issues arising overseas, in addition to in Japan.

Moreover, 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 forced to cease providing certain services.

**f. Advertisers could claim reimbursement of excessive fees resulting from click fraud or other methods of artificially increasing advertising costs.**

In listing advertising, including paid search and content-linked advertising, a problem known as click fraud has arisen. Fees for listing advertising are determined by the number of times an advertising link is clicked by users. Click fraud is used to artificially inflate the number of clicks, thereby increasing listing advertising fees charged to advertisers. In the United States, major advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering listing advertising products. Yahoo! JAPAN systematically and in some cases manually monitors and determines whether click fraud is occurring and, in cases where click fraud is detected, removes fraudulent clicks from the count for billing. Nonetheless, a class-action lawsuit might be brought against the Group, resulting in damage to the brand image of Yahoo! JAPAN and negatively impacting Group performance.

### **3) Other Legal Regulations**

- a. Because the Group routinely consigns business to outside contractors, the possibility exists for violations of the Subcontract Law, which could diminish public confidence in the Group.

The Group periodically holds training courses related to the Subcontract Law for employees of the Group to ensure compliance with the law during business transactions. Despite such efforts, violations of the Subcontract Law might occur, which could damage the Group's credibility and performance.

- b. Changes to accounting standards and tax codes could affect the Group's profits or losses.

Against the backdrop of the recent trend in Japan to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards. Even so, significant changes in accounting methods or tax systems could have a material impact on the Group's profits or losses.

## **3. NATURAL DISASTERS AND EMERGENCY SITUATIONS**

### **1) Natural Disasters**

- a. Group operations could be suspended or discontinued as a result of natural disasters.

Group operations are vulnerable to natural disasters such as earthquakes and fires as well as the destruction of buildings, power outages, and network failures resulting therefrom. The Group's network infrastructure and human resources are mainly concentrated in Tokyo. To cope with accidents and surges in Internet access, the Group intends to improve its network 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.

### **2) Emergency Situations**

- a. The Group's operations could be suspended or discontinued as a result of international conflicts, terrorist attacks, or other emergency situations.

In the event of outbreaks of international conflicts or terrorist attacks, 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 disruption to planned advertising business. Or, for their own reasons advertisers might cancel, 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 fee-based services. In addition, 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 Internet service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain some of its services.

## **4. BUSINESS MANAGEMENT**

### **1) Management Policy and Business Strategies**

- a. Failure to quickly and properly modify strategies in response to changing market conditions could compromise the Group's competitive advantage.

The Group is currently promoting four key strategies—user-oriented social media services, Yahoo! Everywhere, personalized

local information services, and open network partnerships—with the specific management goal of increasing user numbers and per-user usage times. These strategies are modified quickly and flexibly according to changes in user needs, partner requirements, or technological or competitive trends.

If management fails to modify these strategies as required, the Group's competitive advantage could be compromised.

### **2) Technological Development and Improvement**

- a. Although the Group's R&D efforts aim to meet user needs through the implementation of new strategies and the start-up of new businesses, such efforts might fail to adequately address such needs or result in an R&D delay or failure.

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. 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 the delay or failure of R&D programs, excessive

expenses, or lack of effectiveness due to a failure to satisfy customer needs. 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.

**b. Failure to effectively implement a program aimed at continuously improving services could eventually render the Group's services obsolete.**

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 continuously improving the user experience is central to maintaining its competitive advantage. To this end, the Group focuses broadly 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 searches and other information services and actual user requests; and (3) accelerating display speeds of the results of searches and other information services.

To maintain and increase its competitive advantage, 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. Also, 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 of page views, which would have a negative impact on the Group's business performance due to reduced advertising revenues.

**c. Inadequate planning and implementation of capital investment programs could result in lower service quality and higher expenditures.**

To support future business expansion and facilitate ongoing provision of quality services that meet customer needs, the Group maintains a continuous capital-investment program of comparatively large scale relative to the size of current operations. Against a background of continuing growth in the Internet user base, increasing rates of broadband connectivity, and expanding Internet accessibility, the Group is obligated to add new and upgrade existing network-related facilities to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short time periods. With the acquisition of IDC Frontier Inc., the Group now has a large-scale data center. This action has enabled stable and efficient operations of Group servers, thereby reducing costs.

Consequently, the Group anticipates a growing need for ever larger capital investments made in a timely manner to build systems and networks for smoothly controlling large volumes of communications traffic, strengthening security systems to protect settlement services and the personal information of customers, and expanding systems to appropriately respond to the growth and diversification of user inquiries. Further, in line with its expanding business scope the Group will be required to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group intends to minimize cash outflows by closely considering costs and benefits and by keeping a tight rein on system development and equipment-related expenditures.

Although the Group believes that business expansion will result in earnings growth sufficient to provide operating cash flows to cover increased costs and cash outflows, insufficient and/or delayed returns on 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 lives of new or upgraded facilities might be shorter than planned. Accordingly, depreciation timeframes might be shorter and depreciation costs higher compared with those of previous facilities. By corollary, the accelerated disposal of existing facilities might result in higher-than-expected losses.

**d. Failure to properly adopt the specific information transmission standards of the full range of Internet-enabled devices could adversely affect the Group's business development.**

In recent years, the range of Internet-enabled terminals has grown to include mobile phones, video-game consoles, TVs, car navigation systems, and PDAs, resulting in a vastly expanded Internet-connection infrastructure for information terminals other than PCs. Responding to this trend, the Group has adopted the Yahoo! Everywhere strategy promoting Internet usage via a wide range of devices in addition to PCs, with the goal of increasing accessibility to and boosting usage times of Yahoo! JAPAN services. In promoting this strategy, the following risks are implied:

To offer Yahoo! JAPAN services to users via various devices, the Group must adopt the information transmission standards of each device with the support of the company that developed it. If the Group fails to properly adopt the standards for a given device, then it will not be able to provide services for that device.

Enabling users to easily connect to Group sites via any Internet-enabled device is an important element of the Group's competitiveness. For example, a Y! Button on SOFTBANK mobile phones provides easy and direct connection to Yahoo! JAPAN services. The Group also intends to work closely with companies that have developed Internet-enabled devices other than mobile phones to ensure easy connectivity. Failure to achieve smooth Internet connectivity via such devices could

undermine the Group's competitiveness. Furthermore, should higher-than-expected costs be incurred in achieving connectivity, the Group's performance could be negatively impacted.

Each device has unique features, such as screen size and input system. Under the Yahoo! Everywhere strategy the Group intends to optimize Yahoo! JAPAN sites for each of these features. Achieving this goal might take longer than expected, or the Group's services might be inferior to other companies' optimized services, resulting in an erosion of competitiveness. Moreover, higher-than-expected optimization-related expenditures could adversely affect the Group's performance.

**e. Failure to properly incorporate innovative advertising methods could adversely affect the Group's advertising revenue.**

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products suited to the specific needs of each advertiser, including products with guaranteed exposure periods and page views. The Group also offers Sponsor Site services (paid search advertising); an affiliate ad program, operated in cooperation with ValueCommerce Co., Ltd.; and content-linked advertising, which analyzes Web page content and then distributes advertising suited to that content.

In addition, the Group has developed and launched various advertising products incorporating innovative advertising distribution methods, including targeting advertising, which distributes advertising based on users' Internet usage histories, keyword search histories, demographic factors, and physical location; Interest Match®, which distributes text advertising based on users' Internet usage histories and the content of Web pages viewed at the time of ad distribution; and AD Network, which distributes advertising over a network of partner sites and thus achieves greater reach than single-site-distribution products. If the Group fails to properly incorporate

innovative advertising methods, 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.

**3) New Businesses**

**a. The Group's diversification into new businesses might yield lower-than-expected earnings contributions.**

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.

**4) Services Provided**

**a. The Group's search services and various targeting advertising products rely on platforms that are developed, operated, and maintained by Yahoo! Inc. or other companies.**

The Group's search services and various targeting advertising products, including paid search and interest-based advertising, rely on platforms that are developed, operated, and maintained by Yahoo! Inc. or other companies. For its part, the Group handles the marketing and sales in Japan of paid search and interest-based advertising. In addition, certain other Group services are developed, operated, and maintained by Yahoo! Inc.

Accordingly, should the Company's business relationship with Yahoo! Inc. change or some type of obstruction to the

smooth operation of Yahoo! Inc. arise, the viability of certain Group services could be jeopardized and the Group's performance negatively affected.

**b. For advertising products with guaranteed page views, failure to attain the required number of views could obligate the Group to provide some form of compensation.**

Advertising contract periods and page views are guaranteed for many of the Group's products, with advertising fees based on those two parameters. Failure to attain the number of required page views due to problems with the Internet connection environment or to similar problems could obligate 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 certain advertisers, which could result in reduced demand from those advertisers. This could negatively impact Group advertising revenues.

**c. Expenses for additional Internet connections or capital investment in infrastructure could rise in line with expanding use of streaming and other services requiring relatively large bandwidth.**

The Group provides streaming and other services, such as GyaO!, requiring relatively large bandwidth compared with services consisting only of text and images. Brand Panel and Prime Display, incorporating streaming and interactive features, also require greater Internet bandwidth. Because usage of these types of services and advertising products is likely to grow steadily in the future, expenses for Internet connections and capital investment in facilities, such as servers necessary for displaying such services, could increase as well.



## **5) Compliance**

### **a. Despite the Group's efforts to ensure compliance with laws and regulations, compliance-related risk exists.**

The Group recognizes that legal and regulatory compliance is a prerequisite for enhancing corporate value. Consequently, the Group has established various compliance regulations standards for all directors, corporate auditors, and employees to ensure compliance with laws and articles of incorporation. Aiming to achieve thorough observation of those regulations and standards, the Group has posted them on its Intranet and conducts periodic in-house training.

Despite these efforts, it is impossible to entirely eliminate compliance-related risk. If a violation occurs, the Group's brand image and performance could be affected.

## **6) Management and Operation Systems**

### **a. Failure to accurately increase staff levels as required by business diversification could negatively affect the Group's business development.**

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 operation and management of services required by the recent surge in Internet users, and to handle billing and provide customer support for fee-based services.

Failure on the part of management or of 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 aims to minimize the effects of increased staff levels on its operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

### **b. The resignation of key personnel could hinder the Group's continuing business development.**

The development of the Group's businesses depends on continued support from senior management and key technical personnel. These include the presidents, directors, and other representatives of each department who possess specialized knowledge and technical expertise concerning the Group and its businesses. Consequently, if key personnel were to leave and the Group failed to replace them, the continuation and development of some business could be hindered.

In addition, some senior managers participate in the stock-option plan, one of the Group's personnel incentive measures. Rather than motivate participants, however, the stock-option plan might have the opposite effect and be a cause of their leaving the Group.

### **c. Although the Group promotes the protection of its intellectual property rights to maintain its competitive advantage, these efforts might not be cost-effective.**

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 the Group's services to users are legally protected, it is possible that certain content will be used in a manner other than that sanctioned in user contracts, which could damage the Group's brand image. The increased costs associated with 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 exercise 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.

### **d. As the Group conducts a growing proportion of business transactions with a base of unspecified individual and corporate customers, costs related to settlement/collection and customer service might increase.**

In line with expansion of the Group's business scope and strengthening of its listing advertising, fee-based member services, and paid-content businesses, the proportion of Group revenues derived from a diverse client base of unspecified individuals and corporations has grown steadily.

The Group has formed a special team responsible for strengthening the 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 expanded 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, or matters related to commissioned third parties, such as distribution or settlement. 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.

## 5. RELATIONSHIP WITH MAJOR STAKEHOLDERS

### 1) Major Shareholders

#### a. Changes to parent company policies or in major shareholders could affect the Group's business.

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 Group has good business relationships with various associated business partners of SOFTBANK CORP. and Yahoo! Inc. Moving forward, the Group 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 shareholders, most notably the parent company and other major investors in the Company. Such changes could adversely affect the Group's businesses in various ways.

The shareholder agreement between SOFTBANK CORP. and Yahoo! Inc., the Company's major shareholders, places certain restrictions on the sale or purchase of Yahoo Japan Corporation's stock. The main points of the shareholder agreement 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 CORP. and Yahoo! Inc. maintain shareholdings equaling 5% or more of the Company's stock, SOFTBANK CORP. 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 CORP. 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 CORP. 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 CORP. 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 CORP. and the Company will determine the range allowed for granting stock options to employees before this agreement becomes valid.

\* The right of SOFTBANK CORP. 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 CORP. 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 CORP. 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.

#### b. Competition within the SOFTBANK Group could arise in the future.

The Group is working with SOFTBANK CORP. in strategically developing mobile phone, Yahoo! BB, and other businesses. If SOFTBANK CORP. 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.

#### c. Modifications to the license agreement with Yahoo Inc. could affect the Group's business.

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. Any modifications to the agreement could affect the Group's business.



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"> <li>* 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)</li> <li>* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark</li> <li>* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li> <li>* Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services</li> </ul> 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%

\* In July 2009, Yahoo! Inc. and Microsoft Corporation announced a business alliance regarding their Internet search and advertising businesses. In addition, the European Commission and the U.S. Department of Justice both approved the Internet search and advertising tie-ups under this agreement in February 2010. At present, the Group believes that the business alliance will have no effect on its license agreement with Yahoo! Inc.

#### d. Issues related to the management of the Yahoo! brand overseas could restrict the expansion of the Group's business.

The establishment and proliferation of the Yahoo! brand are considered 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 growth 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 Yahoo! 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 Yahoo! 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.

#### e. Any modifications to the business alliance contract with Yahoo! Sarl and Yahoo! Inc. could affect the Group's earnings.

The Company has signed the following business alliance contract with Yahoo! Sarl and Yahoo! Inc. to provide services such as paid search advertising, which is one of the Group's key income sources. Therefore, any modifications to the contract could affect the Group's earnings.

Contract counterparties	Yahoo! Sarl; Yahoo! Inc. (Yahoo)
Contract date	August 31, 2007
Contract term	August 31, 2007, to August 30, 2017 (10 years)
Main details	<p>ADVERTISER AND PUBLISHER SERVICES AGREEMENT</p> <p><u>1. Basic roles of each party</u></p> <p>Yahoo! Sarl will dedicate robust efforts to develop and enhance the contracted services and advance the competitiveness of the services. The Company will dedicate robust marketing efforts to advance customer adoption of the contracted services to enhance the Company revenue generated under this agreement.</p> <p>Yahoo! Sarl and the Company, via a joint steering committee, will agree to a roadmap of improvements and developments to carry out customization of contracted services for the Japanese market to optimize services for the market.</p> <p><u>2. Exclusive provision of contracted services by Yahoo! Sarl</u></p> <p>In Japan, 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 matched 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><u>3. Service fee payments to Yahoo! Sarl by the Company</u></p> <p>The Company shall pay to Yahoo! Sarl a service fee calculated as a rate prearranged for each year on the Company revenues (gross revenues earned by the Company or companies for which it owns 20% or more of the voting rights) associated with the use of the contracted services or Yahoo! Sarl's technologies or systems.</p> <p><u>4. The Company's exclusive rights in Japan</u></p> <p>The Company has the exclusive rights in Japan for provision of the search- and advertising-related services of Yahoo! Sarl, Yahoo! Inc., or its subsidiaries.</p>

Main details	<p>5. Exclusive obligation regarding contracted services</p> <p>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 Yahoo! Sarl's contracted services. If Yahoo! Sarl's performance issues arise based on a material breach of the service level stipulated in the arrangement, which may cause serious negative impact to the business of the Company, the joint steering committee will find a solution to 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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## 2) Consolidated Group Management

### a. Inadequate consolidated management coordination could impact the Group's performance.

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 Group's services or network as well as personnel support are essential to the operations of all of the services of the Group's subsidiaries and affiliates. The relevant sections of the Group 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 Group and of its subsidiaries and affiliates, which could negatively impact the Group's performance.

## 3) Other Major Business Partners

### a. Any modifications to the business alliance contract with SOFTBANK BB Corp. could affect the Group's earnings.

The Company has signed the following business alliance contract and incentive agreement concerning Yahoo! BB services with SOFTBANK BB Corp. (SBB), which is a subsidiary of SOFTBANK CORP. Should any modifications be made to said

business alliance contract with regard to the Yahoo! BB business, they could affect the Group's earnings.

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.
<p>1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main roles</p> <ul style="list-style-type: none"> <li>* Promoting Yahoo! BB services</li> <li>* Recruiting subscribers for Yahoo! BB services</li> <li>* Operating the Yahoo! BB portal site</li> <li>* Providing mail and Web site services</li> <li>* Providing a fee-collection platform</li> </ul> <p>3) SBB's main roles</p> <ul style="list-style-type: none"> <li>* Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>* Handling subscriber inquiries and providing technical support</li> <li>* From the ISP charge, the Company takes the following in exchange for services rendered: <ul style="list-style-type: none"> <li>— Yahoo! BB ADSL etc. subscribers acquired: ¥100 per line per month</li> <li>— Yahoo! BB hikari with FLET'S/Yahoo! BB hikari FLET'S course subscribers acquired: ¥60 per line per month</li> <li>— Yahoo! BB for Mobile subscribers acquired: ¥50 per line per month</li> </ul> </li> </ul>

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"> <li>• Customer acquisition incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB basic service: <ul style="list-style-type: none"> <li>Approx. ¥15,000 per subscription</li> </ul> </li> <li>Yahoo! BB+wireless LAN package: <ul style="list-style-type: none"> <li>Approx. ¥20,000 per subscription</li> </ul> </li> </ul> </li> <li>• Long-term customer incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB basic service: <ul style="list-style-type: none"> <li>Approx. ¥200 per month per continuing subscriber</li> </ul> </li> <li>Yahoo! BB+wireless LAN package: <ul style="list-style-type: none"> <li>Approx. ¥250 per month per continuing subscriber</li> </ul> </li> </ul> </li> </ul>

### b. Because the Yahoo! BB business is partially handled by SBB, the service quality of SBB could affect Group performance.

The portion of Yahoo! BB business handled by SBB could indirectly 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 early, thereby negatively impacting Group earnings.

## 6. FINANCES, LOANS, AND INVESTMENTS

### 1) Funds Procurement and Interest Rate Changes

#### a. In its Yahoo! ezPay service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from buyers.

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 funding sources. 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 negative impact on the Group's business and performance.

**b. In its Yahoo! JAPAN Card service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from cardholders.**

The Yahoo! JAPAN Card is a credit card issued by the Group and through which the Group provides credit to persons issued with the card. The Group reimburses payments made by cardholders to merchants honoring the card. Because payments are collected from cardholders once a month while reimbursements to merchants are 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 making reimbursements to merchants at a suitable cost could prove to be impossible.

**2) Investments**

**a. The Group often makes investments in or loans to other companies. However, appropriate returns might not be obtained on said investments or loans, or the funds could become irrecoverable.**

The Group makes investments as a result of business tie-ups or with an eye to forming business tie-ups in the future. The Group cannot guarantee that these investments are recoverable.

Some of the public companies in which the Group has invested have already produced evaluation profits or losses. In the future, evaluation profits could decline or turn into evaluation losses; moreover, evaluation losses could worsen.

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 stock market or 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 Group 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.

**b. The Company's investment in BB Mobile Corp. in support of SOFTBANK CORP.'s acquisition of Vodafone K.K. might yield returns that fall short of expectations.**

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.

**7. RELATIONSHIP WITH COMPETITORS AND PARTNERS**

**1) Business Alliances and Contracts**

**a. The Group's emphasis on building partnerships entails certain risks.**

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 advertising service, the Group and its partners now hold a dominant share of the search market. In addition, the Group is 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 text 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.

**b. The termination of paid search advertising business agreements could affect the Group's profitability.**

With the largest share of the paid search advertising market in Japan, the Group provides its paid search advertising services not only to the Group but also to other domestic portal sites and other partners with which it has business agreements. The Group intends to continue to expand the number of its partners and to create new services. However, should the Group's business agreements with such partners be terminated, profitability

could be negatively impacted.

**c. The Group's procurement of various content from third parties could be affected.**

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 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.

**2) Collection of Sales Credit Claims**

**a. Economic and business deterioration might make the collection of receivables from certain clients more difficult or impossible.**

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 setting upper limits for transaction amounts, adopting advanced payments, making sales through advertising agencies, or using credit card settlements. Nevertheless, economic fluctuations and deterioration of client businesses could increase delays in collection and the occurrence of defaults.

**b. The Group might be unable to collect payments from certain Yahoo! JAPAN Card holders.**

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 certain cardholders owing to declines in cardholder creditworthiness.

**3) Relationship with Third Parties**

**a. Each of the Group's businesses has a degree of dependence on specific customers or suppliers.**

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

**b. Relationships with third-party joint venture partners could deteriorate.**

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, the relationships with joint-venture partners are excellent and the cooperative relationships with these partners contribute 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.

c. In some cases, system development and operations essential to services are commissioned to specific third parties.

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, or that some condition could arise where obstructed operation or some other event causes 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.

d. Some services are dependent on external third parties.

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.

## 8. INFORMATION SECURITY

### 1) Group Efforts to Promote Information Security

a. Information leaks, network invasions, or computer virus attacks could erode public confidence in the Group.

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) empowered with wide-ranging authority. The President of the Company himself has announced our "Information Security Declaration," 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 (Secure Sockets Layer) systems and access to stored data is tightly restricted. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification. In November 2007, the Group was the first in Japan to receive ISO 15408 certification for its development of

a monitoring system to prevent information leakage from its databases. In November 2008, the Group obtained Information Security Standard (PCI DSS) certification for its Yahoo! Wallet credit card settlement service. The Group has used these third-party certification systems to implement objective, global-standard checks of its operations with the goal of further strengthening its information security measures and fulfilling its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee perfect maintenance of the Group's information security systems. If, under some circumstance, a problem such as an information leak were to occur, it could impact negatively on performance and erode public confidence in the Group.

### 2) Personal Information

a. Leaks of personal information required for user identification could damage the Group's credibility and lead to legal disputes.

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). In June 2008, the Group conducted open testing of an anti-phishing browser (see Note 4, below) that provides basic protection against phishing and is currently offering a phishing warning function on the Yahoo! Toolbar. As of January 2008, the Group began issuing OpenIDs (see Note 5, 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 Act on the Protection of Personal Information, 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.

#### 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 or 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: Anti-phishing browser

This is a browser equipped with a password entry column only for access authentication in its address bar field. An entered password is handled by the authentication server using a cryptographic protocol but is not sent directly to the server. Therefore, the password cannot be stolen even when carelessly entered on a fake site.

#### Note 5: 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. Leaks of personal information by stores registered on Yahoo! Shopping or Yahoo! Auctions, or by business alliance partners, could damage the Group's credibility and lead to legal disputes.**

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. However,

there are cases where the personal information management systems of business alliance partners and of stores registered on the Yahoo! Shopping and Yahoo! Auctions sites have a significant influence on the Group's efforts.

The Group intends to outsource the major portion of Yahoo! JAPAN Card services to take full advantage of available expertise in personal information management as well as 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 affiliated financial instruments firm partners. A portion of this information will be transferred to the Group in a way that complies with the Act on the Protection of Personal Information. 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 sued 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.

Yahoo! Shopping sends personal information provided by site users directly to stores where users have made purchases. Accordingly, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that customers' personal information is not disclosed to other individuals or entities, stores are given

clear instructions on proper methods of information control and are strictly prohibited from using personal information for purposes other than the delivery of items or sales promotions.

To clear credit card payments, stores may use the settlement system of the Group's subsidiary, Netrust, Ltd., or deal directly with credit card companies. Stores opting to use the Netrust settlement system cannot maintain records of credit card numbers, as these are provided directly to credit card companies by Netrust. Stores opting to deal directly with credit card companies are provided with strict instructions to control customers' credit card numbers in the same manner used to control other personal information. Despite such measures, information leaks might occur, resulting in a loss of Group credibility, regardless of whether or not the Group was responsible.

### **3) Communication Privacy**

#### **a. Leaks of information related to communications privacy could tarnish the Group's brand image and lead to legal disputes.**

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 handling this type of information, the Group takes appropriate measures to meet the requirements of the Telecommunications Business Law using the 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) Network Security**

#### **a. Attacks on or invasions of the Group's networks could disrupt Group services.**

Although the Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from invasion by computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such damage. Recently, there have been several incidents of specific Web sites or networks being targeted by huge volumes of data sent 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 disrupt the Group's business or services and in some cases impact on operating results.

### **5) Fraudulent Use**

#### **a. Fraudulent use could result in damage claims.**

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users' IDs, passwords, and credit card information, or use fraudulently obtained Yahoo! JAPAN Cards to make payments. As examples of fraud on Yahoo! Auctions, malicious users might use unsuspecting users' accounts to list fraudulent items or to make settlements via Yahoo! Wallet or Yahoo! ezPay. Similarly, on Yahoo! Mail malicious users can send e-mail via unsuspecting users' accounts.

The Group is taking steps to strengthen its information security, enlighten users about ID management, and take certain measures against anticipated fraud. Nevertheless, it is possible that fraudulent use of such information by malicious users

will prevent the collection of advances paid, that claims will be made for damage compensation by victims of fraudulent acts or that such compensation claims will be greater than expected or that the expenditures to prevent the recurrence of such fraudulent actions will be high, and that fraud will lower the brand image of Yahoo! JAPAN.

#### **6) Behavioral History Information**

##### **a. Restrictions on the collection and analysis of behavioral history information could affect the Group's behavioral targeting advertising and Interest Match®.**

Based on an analysis of users' Internet usage histories, behavioral targeting advertising and Interest Match® distribute advertisements for products or services to user groups whose Internet usage histories indicate a preference for or interest in those products or services. These advertising products are designed to boost advertising efficiency for all concerned parties, namely, advertisers, users, and the Internet media itself.

The Group rigorously respects the privacy of individual users in its collection and analysis of behavioral history information. Behavioral targeting advertising and Interest Match® analyze three aspects of users' behavioral history information: (1) the Yahoo! JAPAN services viewed by users, or more specifically, accessed via users' browsers; (2) the keywords employed by users in searches; and (3) the type of display advertising viewed, or clicked-on, by users. This information is used only for the purpose of grouping users, or more specifically, users' browsers, on the basis of similar preferences and interests; it is not used to analyze the preferences and interests of specific users.

Although the Group believes it is taking adequate precautions to respect users' privacy, it is possible that some users could object to the collection and analysis of their behavioral history information, or that legal restrictions could be placed on these activities. Such objections or restrictions could damage the Group's brand image or prevent the Group from selling behavioral targeting advertising and Interest Match® in the

future, which could have a detrimental impact on the Group's business results.

## **9. CORPORATE GOVERNANCE**

### **1) Corporate Governance System**

#### **a. Inadequate internal controls could affect business operations or result in higher operating expenses.**

The Group has implemented stricter controls and operational standards 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 works to ensure effective and efficient business activities, accurate financial reporting, full legal compliance, and appropriate corporate governance. Despite these efforts, problems related to business management and control issues could arise in the future. Moreover, increased costs stemming from efforts to improve internal control could negatively affect the Group's earnings.



# Investor Information

(As of March 31, 2010)

## SHARE-RELATED INFORMATION

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

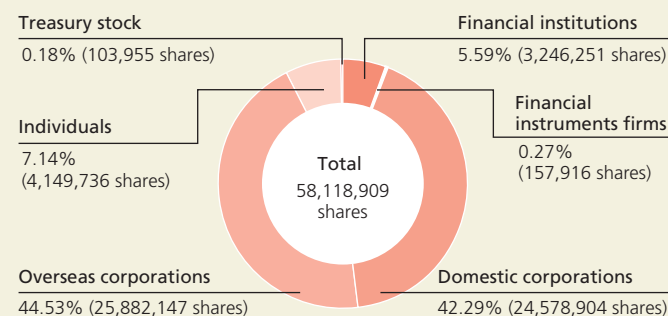
## HISTORICAL NUMBER OF SHARES OUTSTANDING

Date	Action	Number of shares outstanding
1996/1/31	Establishment of the Company	4,000.00
1997/9/6	Rights offering: 1,800 shares	5,800.00
1997/11/4	Public offering: 975 shares	6,775.00
1999/3/6	Public offering at market price: 125 shares	6,900.00
1999/5/20	2-for-1 stock split	13,822.00
1999/11/19	2-for-1 stock split	27,826.00
2000/3/1	New stock issuance at merger: 1,100.15 shares	28,954.15
2000/5/19	2-for-1 stock split	57,940.30
2000/9/1	New stock issuance at merger: 110 shares	58,167.50
2000/11/20	2-for-1 stock split	116,917.00
2002/5/20	2-for-1 stock split	235,063.60
2002/11/20	2-for-1 stock split	471,059.04
2003/5/20	2-for-1 stock split	942,118.08
2003/11/20	2-for-1 stock split	1,884,923.16
2004/5/20	2-for-1 stock split	3,772,188.32
2004/11/19	2-for-1 stock split	7,546,426.64
2005/5/20	2-for-1 stock split	15,100,808.28
2005/11/18	2-for-1 stock split	30,209,708.56
2006/4/1	2-for-1 stock split	60,452,137.12
2008/8/8	Retirement of treasury stock	59,284,577.68
2008/12/30	Retirement of treasury stock	59,290,736.00
2009/3/31	Retirement of treasury stock	58,107,980.00
2010/3/31	Exercise of stock option	58,118,909.00

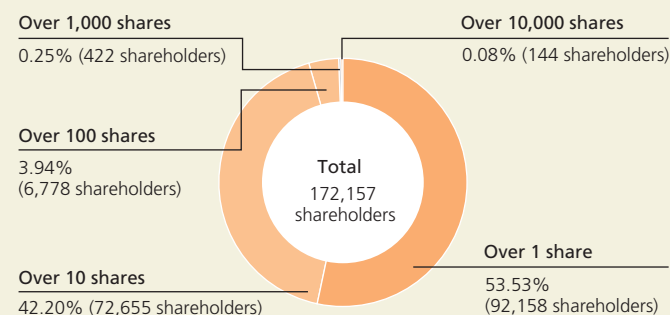
## MAJOR SHAREHOLDERS

Name	Share holdings	Percent of total shares issued
SOFTBANK CORP.	22,435,064 shares	38.60%
Yahoo! Inc.	20,215,408 shares	34.78%
SBBM Corp.	1,925,809 shares	3.31%
Japan Trustee Services Bank, Ltd.	959,634 shares	1.65%
The Master Trust Bank of Japan, Ltd.	767,487 shares	1.32%
Japan Trustee Services Bank, Ltd. (T9)	518,574 shares	0.89%

## BREAKDOWN OF SHARES, BY SHAREHOLDER TYPE



## BREAKDOWN OF SHAREHOLDERS, BY NUMBER OF SHARES HELD



# Corporate Information

## CORPORATE DATA

(As of March 31, 2010)

Company name	Yahoo Japan Corporation
Founded	January 31, 1996
Common stock	¥7,521 million
Businesses	Internet advertising business E-commerce business Members services business Other businesses
Headquarters	Midtown Tower, 7-1, Akasaka 9-chome, Minato-ku, Tokyo, 107-6211, Japan
Home page	<a href="http://www.yahoo.co.jp/">http://www.yahoo.co.jp/</a>
English-language IR page	<a href="http://ir.yahoo.co.jp/en/">http://ir.yahoo.co.jp/en/</a>

## DIRECTORS AND CORPORATE AUDITORS

(As of June 24, 2010)

<b>Masahiro Inoue</b> President and CEO
<b>Masayoshi Son</b> Chairman of the Board of Directors
<b>Jerry Yang</b> Director
<b>Akira Kajikawa</b> Director
<b>Hiroaki Kitano</b> Director
<b>Shingo Yoshii</b> Full-time Corporate Auditor
<b>Sumio Sue</b> Corporate Auditor
<b>Mitsuo Sano</b> Corporate Auditor
<b>Kyoko Uemura</b> Corporate Auditor

# Main Consolidated Subsidiaries

(As of March 31, 2010)

## **Firstserver, Inc.**

Business: Rental server information processing business,  
domain registration, and other Internet services  
Founded: October 1996  
Common Stock: ¥363 million  
Yahoo! JAPAN's Ownership: 98.8%  
URL: <http://www.fsv.jp/>

## **GyaO CORPORATION**

Business: Internet video-streaming provision, and sale and  
distribution of Internet advertising  
Founded: October 2008  
Common Stock: ¥250 million  
Yahoo! JAPAN's Ownership: 51.0%  
URL: <http://gyao.yahoo.co.jp/>

## **IDC Frontier Inc.**

Business: Data center business  
Founded: February 2009  
Common Stock: ¥100 million  
Yahoo! JAPAN's Ownership: 100.0%  
URL: <http://www.idcf.jp/EN/index.html>

## **Indival, Inc.**

Business: Internet-based recruiting services, and development  
and operation of support services for job  
and personnel searches  
Founded: February 2004  
Common Stock: ¥200 million  
Yahoo! JAPAN's Ownership: 60.0%  
URL: <http://shotworks.yahoo.co.jp/>

## **Netrust, Ltd.**

Business: Online settlement services  
Founded: September 2000  
Common Stock: ¥243 million  
Yahoo! JAPAN's Ownership: 60.0%  
URL: <http://www.netrust.ne.jp/>

## **NewsWatch, Inc.**

Business: Information provision services based  
on language processing technology  
Founded: April 1996  
Common Stock: ¥428 million  
Yahoo! JAPAN's Ownership: 69.0%  
URL: <http://www.newswatch.co.jp/>  
<http://www.fresheye.com/>

## **Yahoo Japan Customer Relations Corporation**

Business: Customer support contact center  
Common Stock: ¥10 million  
Yahoo! JAPAN's Ownership: 100.0%  
URL: <http://www.yahoo-cr.co.jp/>

## **Yahoo Japan Value Insight Corporation**

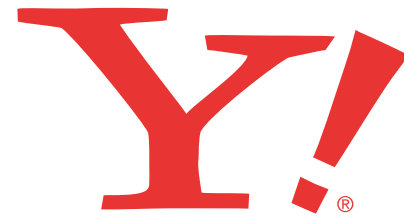
Business: Internet-based marketing research, data analysis,  
and market consulting  
Founded: July 1996  
Common Stock: ¥700 million  
Yahoo! JAPAN's Ownership: 76.6%

## **Y's Insurance Inc.**

Business: Life/Non-life insurance agency business  
Founded: November 2003  
Common Stock: ¥30 million  
Yahoo! JAPAN's Ownership: 60.0%

## **Y's Sports Inc.**

Business: Collection of sports-related information  
and production of articles and content  
Founded: December 1996  
Common Stock: ¥100 million  
Yahoo! JAPAN's Ownership: 100.0%  
URL: <http://sportsnavi.yahoo.co.jp/>



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



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