

# Results for the Three Months Ended December 31, 2005 (FY2005-3Q) (Consolidated Basis)

2006.1.23

Company name **Yahoo Japan Corporation** (code number: 4689 TSE 1<sup>st</sup> Section)  
(URL: <http://www.yahoo.co.jp>)

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## 1. Significant Matters Concerning the Preparation of Quarterly Financial Information

- (1) Use of simplifications in accounting methods: No  
(2) Change in accounting methods in the current fiscal year: No  
(3) Change in scope of consolidation or application of equity method: Yes

New consolidated subsidiary 2 Subsidiary removed from consolidation 0

Company newly accounted for by the equity method 1

Company no longer accounted for by the equity method 0

## 2. Results for FY2005-3Q (October 1, 2005-December 31, 2005)

### (1) Consolidated Financial Results

(Amounts less than one million yen are omitted)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen (%)		Millions of yen (%)		Millions of yen (%)		Millions of yen (%)	
FY2005-3Q	46,621	(50.6)	21,123	(36.6)	20,562	(32.9)	12,646	(36.7)
FY2004-3Q	30,965	(54.2)	15,458	(39.2)	15,466	(38.0)	9,252	(39.2)
FY2005-9 months	126,638	(54.6)	58,545	(37.3)	56,926	(33.0)	34,099	(30.1)
FY2004-9 months	81,937	(54.0)	42,648	(48.3)	42,810	(48.9)	26,204	(53.2)
FY2004 (for reference)	117,779		60,187		60,295		36,521	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2005-3Q	418.60	417.47
FY2004-3Q	1,225.96	1,222.04
FY2005-9 months	1,128.91	1,125.94
FY2004-9 months	3,472.90	3,461.33
FY2004 (for reference)	4,766.03	4,750.62

Notes: 1. Average outstanding shares during the periods (Consolidated basis)

FY2005-3Q:	30,210,539 shares	FY2004-3Q:	7,546,747 shares
FY2005-9months:	30,205,840 shares	FY2004-9months:	7,545,576 shares
FY2004:	7,629,257 shares		

2. Percentage change figures for net sales, operating income, ordinary income, and net income represent percentage changes from the corresponding periods in the previous fiscal year.

\* For detailed information regarding consolidated management performance, please see Pages 5~6 and 14~15 of the Attached Materials.

## (2) Consolidated Financial Position

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2005-3Q	166,230	127,980	77.0	4,235.39
FY2004-3Q	109,019	85,225	78.2	11,290.06
FY2004 (for reference)	130,244	96,059	73.8	12,702.14

Note: Number of shares issued and outstanding at the end of each period (Consolidated basis)

FY2005-3Q: 30,216,873 shares  
FY2004: 7,549,883 shares

FY2004-3Q: 7,548,755 shares

\* For detailed information regarding changes in financial status, please see Pages 10~11 and 17~18 of the Attached Materials.

## (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the quarter
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2005-3Q	11,098	-4,827	211	78,021
FY2004-3Q	7,980	-4,373	228	54,565
FY2005-9 months	35,985	-23,777	-3,178	78,021
FY2004-9 months	25,186	-10,450	186	54,565
FY2004 (for reference)	46,083	-17,119	384	68,992

## 3. Business Outlook for FY2005-4Q (January 1, 2006-March 31, 2006) and Full Fiscal Year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-4Q	48,600~51,800	20,350~22,800	12,300~13,850
FY2005-full year	175,239~178,439	77,277~79,727	46,399~47,950

Estimated consolidated net income per share for the quarter: ¥407.21~ ¥458.52

Estimated consolidated net income per share for the full fiscal year: ¥1,536.09~ ¥1,587.44

(For reference) Non-Consolidated Business Outlook for FY2005-4Q (January 1, 2006-March 31, 2006) and Full Fiscal Year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-4Q	41,800~44,600	20,850~23,250	9,750~11,250
FY2005-full year	152,457~155,257	79,475~81,875	45,673~47,174

Estimated non-consolidated net income per share for the quarter: ¥322.79~ ¥372.44

Estimated non-consolidated net income per share for the full fiscal year: ¥1,512.06~ ¥1,561.75

	Estimated annual dividends per share	
	Year end	
FY2005-full year	Yen 153.00~159.00	Yen 153.00~159.00

**Forward-Looking Information Used in Performance Estimates**

Performance estimates have been made based on the information available to the Company and the Group at the current point in time. Consequently, changes in the underlying factors could cause actual results to differ significantly.

For details regarding the previously mentioned performance estimates, please see Pages 7~8 of the Attached Materials.

The average outstanding shares (30,205,840 shares) over the nine-month period of the fiscal year ending March 2006 was used in calculating the net income per share estimates for the periods.

**【For reference】 Non-Consolidated Results for FY2005-3Q**

**(October 1, 2005-December 31, 2005)**

**(1) Non-consolidated Financial Results**

(Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2005-3Q	40,339 (41.7)	20,900 (34.8)	21,020 (34.5)	13,293 (40.8)
FY2004-3Q	28,459 (52.2)	15,500 (40.5)	15,628 (40.3)	9,440 (42.7)
FY2005-9months	110,657 (46.2)	58,189 (36.6)	58,624 (36.7)	35,923 (35.8)
FY2004-9months	75,677 (53.1)	42,587 (48.3)	42,881 (49.6)	26,449 (55.3)
FY2004 (for reference)	107,407	60,318	60,922	37,157

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2005-3Q	440.02	438.83
FY2004-3Q	1,250.91	1,246.90
FY2005-9months	1,189.28	1,186.15
FY2004-9months	3,505.31	3,493.63
FY2004 (for reference)	4,849.47	4,833.79

Notes: 1. Average outstanding shares during the periods

FY2005-3Q:	30,210,539 shares	FY2004-3Q:	7,546,747 shares
FY2005-9months:	30,205,840 shares	FY2004-9months:	7,545,576 shares
FY2004:	7,629,257 shares		

2. Percentage change figures for net sales, operating income, ordinary income, and net income are percentage changes compared with the corresponding periods in the previous fiscal year.

**(2) Non-consolidated Financial Position**

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2005-3Q	160,360	130,558	81.4	4,320.73
FY2004-3Q	105,413	85,604	81.2	11,340.22
FY2004 (for reference)	126,210	96,830	76.7	12,804.29

Note: Number of shares issued and outstanding at the end of each period

FY2005-3Q:	30,216,873 shares	FY2004-3Q:	7,548,755 shares
FY2004:	7,549,883 shares		

## Attached Materials

### Third Quarter Highlights for the Fiscal Year Ending March 2006

- Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group”) continued to advance performance during the third quarter. Net sales rose to ¥46,621 million, up 13.3% from the second quarter and 50.6% year on year. Ordinary income increased 10.9% from the previous quarter and 32.9% year on year, to ¥20,562 million. Growth in advertising sales of Media and Listing Business, business services sales of BS and Auction Business, and personal services sales of Auction Business contributed to overall sales expansion.
- In advertising sales, with demand for Internet advertising rising among industries, National Clients continued to run Internet advertising campaigns as a way of awareness promotion when new products or services were introduced. As a result, branding advertising sales rose substantially during the quarter and advertising sales for the period performed well, rising 15.4% from the second quarter and 71.5% year on year, to ¥18,097 million.
- In business services other than advertising, the number of merchant stores registered on Yahoo! Auctions at the end of December 2005 rose significantly to 5,911, jumping 32.6% from the end of the previous quarter and 78.5% year on year. Consequently, the transaction volume of B-to-C sales increased. In addition, the number of stores listed on Yahoo! Shopping at the end of December 2005 greatly expanded to 7,760, increasing 10.8% from the end of the previous quarter and 110.5% year on year—also leading to good growth in transaction volume. Furthermore, INFO PLANT CO., LTD. was newly consolidated in BS Business. As a result, business services sales climbed 15.7% from the previous quarter and 61.7% year on year, to ¥9,467 million.

*Note:* Previously, stores were included in the number of stores when they opened on the site. From this quarter, however, stores are being included in the count at the point when the tenant fee is first charged to the store.
- In the Group’s personal services business, the year-end sales season and severe cold weather led to an increase in transactions of fashion and winter items. As a result, system-use revenues for Yahoo! Auctions grew favorably. The number of Yahoo! Premium members also increased steadily and personal services sales advanced to ¥15,735 million, increasing 8.3% from the previous quarter and 23.6% year on year.
- Commerce transaction volume, which comprises the transaction volumes of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, SevenAndY, and Yahoo! Tickets, totaled ¥762.8 billion for the period from January to December 2005, a 17.8% rise year on year. At the end of December 2005, the total number of stores registered on Yahoo! Auctions

and Yahoo! Shopping amounted to 13,671 stores, a substantial jump of 95.3% compared with the end of the same period in the previous fiscal year. Mobile phone transactions also increased. In the quarter, mobile phone transaction volumes on Yahoo! Auctions and Yahoo! Shopping totaled ¥18.8 billion, representing 8.8% of overall commerce transaction volume.

- The operations of TV Bank Corporation, a joint venture with SOFTBANK CORP., got under way during the quarter. To strengthen our streaming content operations, the company is procuring streaming content, developing and operating streaming content distribution and search systems, and creating and operating service Web site pages. In line with this move, in our Media Business, the Yahoo! Streaming site underwent a renewal transforming it into a streaming content portal site. We significantly increased free content on Yahoo! Streaming in addition to pay content, and aim to establish a business model of earning revenue from advertisers by inserting moving image advertisement into free content.

## Performance Outlook

The business climate surrounding the Company and its Group can fluctuate widely over a short interval. Consequently, it is extremely difficult to make performance estimates for the full fiscal year with a high degree of reliability.

The Company and its Group view the services used by its customers as an important factor in their business development. Specifically, we place great significance on the numbers of page views, which indicate overall access and access per service; unique browsers; and active user IDs, which signify the number of users with Yahoo! JAPAN IDs that log on monthly. In addition, the numbers of Yahoo! Premium IDs, indicating pay service users, and Yahoo! BB subscribers and the commercial transaction volumes of Yahoo! Auctions and Yahoo! Shopping are also considered to be important indicators.

Our estimations of income and expenses are based on the trends in these indicators, but in the rapidly changing environment of the Internet, it is difficult to establish a specific rate of growth or change in these indicators. Accordingly, we limit our performance estimates announced with each quarter report to estimates of performance for the next quarter. However, changes in conditions could result in the possibility of actual performance varying significantly from announced estimates. In such cases, we are committed to quickly announcing revisions in our estimates.

The following "Consolidated Performance Estimates for Fiscal Year Ending March 31, 2006 (FY2005)" is the aggregation of FY2005-4Q estimates together with accumulated actual results of FY2005-1Q to 3Q.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2006 (FY2005-4Q):

Net sales	¥48,600 million ~ ¥51,800 million
Ordinary income	¥20,350 million ~ ¥22,800 million
Net income	¥12,300 million ~ ¥13,850 million

Consolidated Performance Estimates for the Fiscal Year Ending March 31, 2006 (FY2005):

Net sales	¥175,239 million ~ ¥178,439 million
Ordinary income	¥77,277 million ~ ¥79,727 million
Net income	¥46,399 million ~ ¥47,950 million

Non-consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2006 (FY2005-4Q):

Net sales	¥41,800 million ~ ¥44,600 million
Ordinary income	¥20,850 million ~ ¥23,250 million
Net income (see note)	¥9,750 million ~ ¥11,250 million

Non-consolidated Performance Estimates for the Fiscal Year Ending March 31, 2006 (FY2005):

Net sales	¥152,457 million ~ ¥155,257 million
Ordinary income	¥ 79,475 million ~ ¥81,875 million
Net income (see note)	¥45,673 million ~ ¥47,174 million

*Note:* The forecast for non-consolidated net income for the fourth quarter of the current fiscal year is based on estimated impairment losses of some subsidiaries and affiliated companies calculated on a conservative basis. However, the actual impairment values may change.

## 1. Consolidated Balance Sheets

(Millions of yen)

	As of Dec. 31, 2005	As of Sep. 30, 2005	Comparison with the previous quarter		As of Dec. 31, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	78,025	71,542	6,482	9.1%	54,565
Notes and accounts receivable—trade (*2)	22,386	19,665	2,721	13.8%	18,108
Inventory	118	132	-13	-10.1%	47
Accounts receivable—other	1,356	645	711	110.2%	415
Short-term loans (*3)	4,624	4,517	106	2.4%	1,173
Deferred tax assets	2,598	2,565	33	1.3%	1,278
Other current assets	2,231	1,984	246	12.4%	1,063
Allowance for doubtful accounts	-1,795	-1,577	-218	13.9%	-1,207
Total current assets	109,546	99,476	10,069	10.1%	75,444
Fixed assets					
Tangible fixed assets					
Buildings and structures	1,571	1,584	-13	-0.9%	1,670
Machinery and equipment	11,631	10,883	747	6.9%	9,967
Other tangible fixed assets	45	56	-10	-18.8%	0
Total tangible fixed assets (*4)	13,248	12,525	723	5.8%	11,637
Intangible fixed assets					
Goodwill (*5)	3,567	1,509	2,058	136.3%	1,917
Other intangible fixed assets (*6)	6,440	5,165	1,274	24.7%	2,957
Total intangible fixed assets	10,008	6,675	3,333	49.9%	4,875
Investments and others					
Investment securities (*7)	29,278	27,538	1,740	6.3%	9,716
Long-term loans (*3)	147	1,344	-1,196	-89.0%	4,772
Others	4,023	3,780	242	6.4%	2,648
Allowance for doubtful accounts	-22	-26	3	-15.0%	-74
Total investments and others	33,427	32,637	790	2.4%	17,062
Total fixed assets	56,684	51,838	4,846	9.3%	33,575
<b>Total assets</b>	<b>166,230</b>	<b>151,314</b>	<b>14,915</b>	<b>9.9%</b>	<b>109,019</b>

(Millions of yen)

	As of Dec. 31, 2005	As of Sep. 30, 2005	Comparison with the previous quarter		As of Dec. 31, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable—trade (*8)	2,652	1,146	1,505	131.4%	1,312
Short-term loans	232	239	-6	-2.9%	193
Accounts payable—other	11,236	10,216	1,020	10.0%	7,035
Accrued income taxes (*9)	12,836	16,242	-3,405	-21.0%	8,363
Reserve for point system	1,158	934	223	24.0%	280
Other current liabilities (*10)	6,670	5,086	1,583	31.1%	4,193
Total current liabilities	34,787	33,865	921	2.7%	21,379
Long-term liabilities					
Long-term deferred taxes	2,049	1,963	85	4.4%	1,713
Reserve for retirement allowances	14	14	0	4.1%	13
Other long-term liabilities	200	195	4	2.4%	235
Total long-term liabilities	2,264	2,173	90	4.2%	1,962
<b>Total liabilities</b>	<b>37,051</b>	<b>36,039</b>	<b>1,012</b>	<b>2.8%</b>	<b>23,342</b>
<b>Minority interests in consolidated subsidiaries</b>					
Minority interests in consolidated subsidiaries	1,198	626	571	91.2%	451
<b>Shareholders' equity</b>					
Common stock (*11)	6,906	6,803	102	1.5%	6,637
Additional paid-in capital	1,987	1,884	102	5.4%	1,718
Retained earnings (*12)	113,746	101,100	12,646	12.5%	73,144
Other securities evaluation adjustment (*13)	5,367	4,887	479	9.8%	3,753
Account of exchange adjustment	0	-	0	-	-
Treasury stock	-27	-27	-	-	-27
<b>Total shareholders' equity</b>	<b>127,980</b>	<b>114,648</b>	<b>13,331</b>	<b>11.6%</b>	<b>85,225</b>
<b>Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity</b>	<b>166,230</b>	<b>151,314</b>	<b>14,915</b>	<b>9.9%</b>	<b>109,019</b>

## Main Points Regarding Consolidated Balance Sheets

### Assets

- \*1 The increase in cash and cash equivalents compared with the previous quarter and year on year was principally due to earnings growth based on sales activities.
- \*2 The increase in notes and accounts receivable—trade compared with the previous quarter and year on year is chiefly due to increase in sales from individuals and advertising sales.

- \*3 The increase in short-term loans and the decline in long-term loans compared with the previous quarter and year on year were chiefly due to the transfer of loans made based on a finance scheme for Yahoo! BB business from the long-term loans account to the current assets account because payment is expected within one year.
- \*4 The increase in tangible fixed assets compared with the previous quarter and year on year was mainly due to additional installations, such as servers, etc.
- \*5 The growth in goodwill compared with the previous quarter and year on year was due to the acquisition of subsidiaries. During the third quarter, INFO PLANT CO., LTD., and its subsidiary were newly included in consolidation.
- \*6 The expansion in other intangible fixed assets compared with the previous quarter and year on year was primarily due to growth in software.
- \*7 The increase in investment securities compared with the previous quarter and year on year was principally due to the acquisition of stocks of affiliates.

### **Liabilities**

- \*8 The increase in accounts payable—trade from the previous quarter and year on year resulted mainly from the increased balance of Seven and Y Corp.
- \*9 The decline in accrued income taxes compared with the previous quarter can primarily be attributed to the interim payment of income taxes.
- \*10 The expansion in other current liabilities from the previous quarter and year on year occurred chiefly because of an increase in deposits related to the business growth of Netrust, Ltd.

### **Shareholders' Equity**

- \*11 The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.
- \*12 The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.
- \*13 The other securities evaluation adjustment increased compared with the previous quarter and year on year due to the mark to market of investment securities.

## 2. Consolidated Statements of Income (October 1, 2005-December 31, 2005)

(Millions of yen)

	Three months ended Dec. 31, 2005		Three months ended Sep. 30, 2005	Comparison with the previous quarter		Three months ended Dec. 31, 2004
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	46,621	100.0%	41,140	5,481	13.3%	30,965
Cost of sales	4,251	9.1%	3,440	810	23.6%	2,233
Gross profit	42,370	90.9%	37,699	4,670	12.4%	28,732
SG&A expenses	21,246	45.6%	18,685	2,560	13.7%	13,273
Personnel expenses (*1)	3,920	8.4%	3,466	453	13.1%	2,478
Business commissions (*2)	2,958	6.3%	2,654	304	11.5%	1,826
Sales commissions	2,261	4.9%	1,877	384	20.5%	1,311
Sales promotion costs (*3)	1,910	4.1%	1,561	348	22.3%	721
Depreciation expenses (*4)	1,748	3.7%	1,537	210	13.7%	1,235
Communication charges	1,423	3.1%	1,333	90	6.8%	1,097
Royalties	1,241	2.7%	1,096	144	13.2%	1,098
Lease and utility expenses	1,158	2.5%	1,004	153	15.3%	745
Content provider fees	929	2.0%	734	194	26.4%	611
Payment commissions (*5)	715	1.5%	545	169	31.1%	406
Advertising costs (*6)	581	1.2%	385	195	50.6%	255
Allowance for doubtful accounts	360	0.8%	445	-84	-19.0%	268
Amortization of goodwill (*7)	307	0.7%	191	116	60.7%	48
Packing and transport expenses	290	0.6%	279	11	4.1%	194
Administrative and maintenance expenses	283	0.6%	255	27	10.8%	167
Others (*8)	1,155	2.5%	1,314	-159	-12.1%	807
Operating income	21,123	45.3%	19,014	2,109	11.1%	15,458
Non-operating expenses (income)	-561	-1.2%	-468	-92	-	8
Ordinary income	20,562	44.1%	18,545	2,017	10.9%	15,466
Extraordinary gains (losses)	977	2.1%	351	626	178.2%	-131
Quarterly income before income taxes	21,540	46.2%	18,896	2,643	14.0%	15,335
Income taxes, inhabitants' taxes and enterprise taxes	9,096	19.6%	8,829	267	3.0%	6,086
Adjustment to income taxes	-304	-0.7%	-1,145	841	-	28
Minority interests in losses (gains) of consolidated subsidiaries	101	0.2%	69	32	46.4%	-31
Quarterly net income	12,646	27.1%	11,143	1,502	13.5%	9,252

**Cumulative Consolidated Statements of Income for Nine Months**  
**(April 1, 2005-December 31, 2005)**

(Millions of yen)

	Nine months ended Dec. 31, 2005		Nine months ended Dec. 31, 2004	Comparison with the previous year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	126,638	100.0%	81,937	44,701	54.6%
Cost of sales	11,180	8.8%	5,675	5,505	97.0%
Gross profit	115,457	91.2%	76,262	39,195	51.4%
SG&A expenses	56,912	45.0%	33,613	23,298	69.3%
Personnel expenses (*1)	10,727	8.5%	6,685	4,041	60.5%
Business commissions (*2)	7,891	6.2%	4,586	3,304	72.0%
Sales commissions	5,946	4.7%	3,277	2,668	81.4%
Sales promotion costs (*3)	4,826	3.8%	1,527	3,298	215.9%
Depreciation expenses (*4)	4,644	3.7%	3,076	1,568	51.0%
Communication charges	4,132	3.3%	2,971	1,161	39.1%
Royalties	3,373	2.7%	2,419	953	39.4%
Lease and utility expenses	3,022	2.4%	1,758	1,264	71.9%
Content provider fees	2,330	1.8%	1,742	588	33.8%
Payment commissions (*5)	1,818	1.4%	922	896	97.2%
Advertising costs (*6)	1,322	1.0%	626	696	111.0%
Allowance for doubtful accounts	1,025	0.8%	591	434	73.4%
Amortization of goodwill (*7)	690	0.5%	156	533	340.8%
Packing and transport expenses	822	0.6%	488	333	68.4%
Administrative and maintenance expenses	777	0.6%	488	289	59.4%
Others (*8)	3,559	3.0%	2,293	1,265	55.2%
Operating income	58,545	46.2%	42,648	15,896	37.3%
Non-operating expenses (income)	-1,618	-1.2%	162	-1,780	-
Ordinary income	56,926	45.0%	42,810	14,116	33.0%
Extraordinary gains (losses)	1,292	1.0%	414	877	211.8%
Income before income taxes	58,219	46.0%	43,225	14,994	34.7%
Income taxes, inhabitants' taxes and enterprise taxes	25,048	19.8%	16,510	8,538	51.7%
Adjustment to income taxes	-1,127	-0.9%	542	-1,670	-
Minority interests in losses (gains) of consolidated subsidiaries	198	0.2%	-33	231	-
Net income for the period	34,099	26.9%	26,204	7,894	30.1%

## **Main Points Regarding Statements of Income**

### **Net Sales**

The growth in net sales from the previous quarter can be mainly attributed to increased advertising sales of the Media and Listing businesses, business services sales of the BS and Auction businesses, and the personal services sales of the Auction Business. Sales of consolidated subsidiaries, on a gross total basis, were ¥6,739 million for the third quarter.

### **Selling, General and Administrative Expenses**

#### **\*1 Personnel expenses**

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 2,474 up 1,034, or 71.8%, from the end of the same quarter in the previous fiscal year.

#### **\*2 Business commissions**

The main business commissions for the quarter were expenses for temporary and contracted employees, the settlement operations of personal services sales, and Yahoo! BB's call center. The increase in business commissions compared with the same quarter in the previous fiscal year can mainly be attributed to expenses related to temporary and contracted employees.

#### **\*3 Sales promotion costs**

Sales promotion costs expanded compared with the previous quarter and year on year chiefly because of the increase in commissions for affiliate marketing and sales promotion expenses related to Yahoo! BB's operations.

#### **\*4 Depreciation expenses**

Depreciation expenses increased compared with the previous quarter and year on year primarily because of the addition of servers and other equipment. Starting with the current fiscal year, the number of years of useful life has been reduced on some assets.

#### **\*5 Payment commissions**

Payment commissions increased from the previous quarter and year on year principally due to growth in commissions resulting from the expansion in transaction volume at Netrust, Ltd.

#### **\*6 Advertising costs**

The growth in advertising costs compared with the previous quarter and year on year mainly resulted from increased advertising and the publication of guidebooks.

\*7 Amortization of goodwill

Amortization of goodwill rose compared with the previous quarter and year on year due to acquisitions of subsidiaries.

\*8 Others

The major components of others were tax and public dues, compensation payments for Yahoo! Auctions, and purchase of fixtures and fittings.

**Non-Operating Income (Expenses)**

The main component of non-operating income for the quarter was interest earned from loan based on finance scheme on Yahoo! BB business. The main component of non-operating expenses was loss of affiliate on equity method.

**Extraordinary Gains (Losses)**

The major extraordinary gain recorded during the third quarter was a gain on sale of investment securities, while the major extraordinary loss was a loss on sale of tangible fixed assets.

**Income Taxes, etc.**

The effective income tax rate for the quarter was 40.8%.

**Minority Interests in Gains (Losses) of Consolidated Subsidiaries**

Minority interest gains/losses for the quarter reflects the interest of shareholders other than the Company in the profits and losses of subsidiaries.

**Quarterly Net Income**

Net income per share for the quarter amounted to ¥418.60.

### 3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Dec. 31, 2005	Nine months ended Dec. 31, 2005
<b>Cash flows from operating activities:</b>		
Income before income taxes for the periods	21,540	58,219
Depreciation and amortization	1,838	4,819
Losses on impairment	-	135
Amortization of goodwill	307	690
Increase in allowance for doubtful accounts	211	399
Additions to reserve for point system	223	681
Increase in reserve for retirement allowances	0	1
Losses on disposal of fixed assets	38	124
Losses on sale of fixed assets	6	28
Losses on evaluation of investment securities	0	0
Gains/ losses on sale of investment securities	-974	-1,012
Exchange gains/ losses	-0	-0
Equity in losses/gains under the equity method	666	1,986
Gains/losses on change in affiliate holding ratio	18	-395
Proceeds from interest and dividends	-159	-525
Interest expenses	1	4
Decrease in inventory	32	80
Increase in notes and accounts receivable—trade (*1)	-2,401	-3,704
Increase in accounts payable—trade	1,306	1,223
Increase in accounts receivable—other	-867	-1,923
Increase in accounts payable—other (*2)	1,194	4,133
Increase in consumption tax payable	694	160
Payment of bonuses to directors	-	-160
Other cash flows	-105	-250
Payment of income taxes and other taxes	-12,474	-28,733
<b>Cash flows from operating activities</b>	<b>11,098</b>	<b>35,985</b>
<b>Cash flows from investing activities:</b>		
Expenditures on tangible fixed assets (*3)	-1,679	-5,135
Expenditures on intangible fixed assets (*4)	-1,126	-2,670
Expenditures on investment securities (*5)	-1,633	-15,208
Proceeds from sale of investment securities	1,018	1,056
Expenditures on increase in equity funds	-89	-173
Proceeds from decrease in equity funds	-	300
Expenditures from acquisition of stock of subsidiaries (*6)	-2,545	-2,922
Proceeds from recovery of lending	1,090	1,147
Expenditures on increase in guarantee deposit assets	-0	-634
Proceeds from decrease in guarantee deposit assets	3	16
Proceeds from interest and dividends	137	453
Other cash flows	-2	-6
<b>Cash flows from investing activities</b>	<b>-4,827</b>	<b>-23,777</b>

(Millions of yen)

	Three months ended Dec. 31, 2005	Nine months ended Dec. 31, 2005
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loan (*7)	100	440
Redemption of short-term loan (*7)	-100	-500
Proceeds from issuance of shares	194	418
Proceeds from payments by minority interests	-	100
Expenditures on payments of dividends (*8)	-	-3,654
Interest expenses	-1	-4
Other cash flows	17	21
Cash flows from financing activities	211	-3,178
Effect of exchange rate changes on cash and cash equivalents	0	0
Net change in cash and cash equivalents	6,482	9,029
Cash and cash equivalents at the beginning of the periods	71,539	68,992
Cash and cash equivalents at the end of the periods	78,021	78,021

## Main Points Regarding Statements of Cash Flows

### Cash Flows from Operating Activities

\*1 Notes and accounts receivable-trade

The increase was chiefly attributable to growth in sales to individuals and advertising sales.

\*2 Accounts payable-other

The increase was primarily attributable to increase in accrued amount payable due to increased operating expense.

### Cash Flows from Investing Activities

\*3 Expenditures on tangible fixed assets

Expenditures were a result of purchase of servers and other equipment.

\*4 Expenditures on intangible fixed assets

Expenditures were chiefly for the purchase of software.

\*5 Expenditures on investment securities

Expenditures were mainly for the acquisition of stock of affiliates.

\*6 Expenditures from acquisition of stock of subsidiaries

Expenditures were mainly for the acquisition of subsidiaries.

### **Cash Flows from Financing Activities**

**\*7 Proceeds and Redemption of short-term loan**

Proceeds and expenditures resulted from the borrowing and redemption of short-term loans of subsidiaries.

**\*8 Expenditures on payments of dividends**

Payments of dividends were made for the distribution of last fiscal year earnings.

## 4. Segment Information

**FY2005-3Q (October 1, 2005-December 31, 2005)**

(Millions of yen)

	Listing	Auction	Shopping	Media	Yahoo! BB	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	12,513 (26.8%)	9,635 (20.7%)	5,286 (11.3%)	5,014 (10.8%)	4,935 (10.6%)	1,561 (3.3%)	7,754 (16.6%)	46,701 -	-79 (-0.1%)	46,621 (100.0%)
Operating expenses	3,210	3,849	4,813	2,894	3,105	1,715	2,971	22,560	2,937	25,498
Operating income (Contribution)	9,303 (44.0%)	5,786 (27.4%)	472 (2.2%)	2,119 (10.0%)	1,829 (8.7%)	-153 (-0.7%)	4,783 (22.6%)	24,141 -	-3,017 (-14.2%)	21,123 (100.0%)

**FY2005-2Q (July 1, 2005-September 30, 2005)**

(Millions of yen)

	Listing	Auction	Shopping	Media	Yahoo! BB	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	11,897 (28.9%)	8,214 (20.0%)	4,379 (10.6%)	4,143 (10.1%)	4,808 (11.7%)	844 (2.1%)	6,907 (16.8%)	41,195 -	-55 (-0.2%)	41,140 (100.0%)
Operating expenses	2,993	3,536	3,890	2,439	2,959	992	2,616	19,428	2,697	22,126
Operating income (Contribution)	8,903 (46.8%)	4,677 (24.6%)	489 (2.6%)	1,704 (9.0%)	1,849 (9.7%)	-148 (-0.8%)	4,290 (22.6%)	21,767 -	-2,753 (-14.5%)	19,014 (100.0%)

**FY2004-3Q (October 1, 2004-December 31, 2004)**

(Millions of yen)

	Listing	Auction	Shopping	Media	Yahoo! BB	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	7,488 (24.2%)	7,481 (24.2%)	2,731 (8.8%)	3,057 (9.9%)	4,295 (13.9%)	521 (1.7%)	5,433 (17.5%)	31,009 -	-44 (-0.2%)	30,965 (100.0%)
Operating expenses	1,654	2,682	2,819	1,852	1,811	537	1,842	13,200	2,306	15,506
Operating income (Contribution)	5,834 (37.7%)	4,799 (31.0%)	-87 (-0.6%)	1,205 (7.8%)	2,483 (16.1%)	-16 (-0.1%)	3,590 (23.2%)	17,809 -	-2,350 (-15.1%)	15,458 (100.0%)

## Cumulative total for the nine-month periods

FY2005 (April 1, 2005-December 31, 2005)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	34,520 (27.3%)	26,185 (20.7%)	14,364 (11.3%)	13,892 (11.0%)	13,075 (10.3%)	3,283 (2.6%)	21,486 (17.0%)	126,808 -	-169 (-0.2%)	126,638 (100.0%)
Operating expenses	8,606	10,519	8,800	12,557	7,589	3,710	7,935	59,718	8,374	68,093
Operating income (Contribution)	25,913 (44.3%)	15,666 (26.8%)	5,564 (9.5%)	1,335 (2.3%)	5,485 (9.4%)	-426 (-0.7%)	13,550 (23.1%)	67,089 -	-8,544 (-14.7%)	58,545 (100.0%)

FY2004 (April 1, 2004-December 31, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	19,640 (24.0%)	19,681 (24.0%)	12,263 (15.0%)	7,025 (8.6%)	7,333 (9.0%)	1,270 (1.6%)	14,846 (18.1%)	82,060 -	-123 (-0.3%)	81,937 (100.0%)
Operating expenses	4,523	6,633	4,922	6,699	4,938	1,317	4,382	33,416	5,872	39,289
Operating income (Contribution)	15,116 (35.4%)	13,048 (30.6%)	7,340 (17.2%)	326 (0.8%)	2,395 (5.6%)	-47 (-0.1%)	10,464 (24.5%)	48,643 -	-5,995 (-14.0%)	42,648 (100.0%)

## Outline of Businesses

Segment	Main Services and Associated Subsidiaries
Listing Business	<p>Provides search services, such as Yahoo! Search and Yahoo! Category; information listing services, such as Yahoo! Rikunabi and Yahoo! Autos; and regional information services, such as Yahoo! Maps and Yahoo! Phone Book.</p> <ul style="list-style-type: none"> <li>• ALPS MAPPING K.K.</li> <li>• BridalNet, Inc.</li> <li>• Indival, Inc.</li> </ul>
Auction Business	<p>Operates the auction site.</p> <ul style="list-style-type: none"> <li>• Netrust, Ltd.</li> </ul>
Shopping Business	<p>Operates online shopping site.</p> <ul style="list-style-type: none"> <li>• Seven and Y Corp., others</li> </ul>
Media Business	<p>Supplies information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies; and community services, such as Yahoo! Message Boards.</p> <ul style="list-style-type: none"> <li>• Y's Sports Inc.</li> <li>• Y's Insurance Inc.</li> </ul>
Yahoo! BB Business	<p>Offers comprehensive broadband-related services.</p>
Business Solutions (BS) Business	<p>Provides Yahoo! Research Internet survey services and domain/hosting services.</p> <ul style="list-style-type: none"> <li>• INFO PLANT CO., LTD.</li> <li>• Firstserver, Inc., others</li> </ul>
Corporate Common Business	<p>Advertising sales for the top page of Yahoo! JAPAN and Yahoo! Premium revenues.</p> <ul style="list-style-type: none"> <li>• NETGENE Co., Ltd.</li> <li>• VACS Corporation, others</li> </ul>

## 5. Operating Review by Business

The Group employs a business division organizational system. The reason for adopting this type of business organization was to clarify responsibility for profits and losses and cause individual business to do their own business planning and create their own budgets. Moreover, the system is intended to optimize the allocation of human, physical, and financial resources and speed up decisions, thus maximizing results. Business that is not related to any one of 6 businesses but common to all business is termed Corporate Common Business.

The following is an outline of the activities of the six businesses and Corporate Common Business for the period. For the statement of income by business, the net sales have been classified into the following four types of services.

Type of Service	Sales Content
Advertising	Sales of banner, e-mail advertising, and other advertising listed on the sales sheet as well as related sales. <ul style="list-style-type: none"> <li>• Regular banner, text, e-mail, and other advertising.</li> <li>• Results-based advertising, merchant margin, projected advertising production fees, and others.</li> <li>• Paid search services (Sponsor Site)</li> </ul>
Business Services	Sales to corporations other than advertising. <ul style="list-style-type: none"> <li>• Yahoo! BB customer acquisition incentive fees</li> <li>• Tenant fees and sales commissions for B to C auction and Yahoo! Shopping.</li> <li>• Business Express, Yahoo! Research, Yahoo! WebHosting, and other sales.</li> <li>• Information listing fees for Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Real Estate, and others.</li> <li>• Magazine and book licensing fees, fees for permission to use the Yahoo! name.</li> </ul>
Personal Services	Sales from services for individuals. <ul style="list-style-type: none"> <li>• System-use fees for Yahoo! Auctions.</li> <li>• Yahoo! Premium revenues.</li> <li>• Yahoo! BB ISP fees, content fees and others.</li> </ul>
Other	• Sales by Seven and Y Corp., and others.

### **Net Sales by Business (Third Quarter)**

(Millions of yen)

	Advertising	Business Services	Personal Services	Other	Total
Listing	8,707	3,676	129	-	12,513
Auction	697	1,449	7,489	-	9,635
Shopping	773	1,190	-	3,322	5,286
Media	4,362	212	439	-	5,014
Yahoo! BB	771	1,359	2,803	-	4,935
BS	21	1,530	9	-	1,561
Corporate Common Business	2,764	126	4,864	-	7,754
Elimination or Corporate	-	-79	-	-	-79
Total	18,097	9,467	15,735	3,322	46,621

## **(1) Listing Business**

### **1) Major Business**

This business provides search services, such as Yahoo! Search and Yahoo! Category; information listing services, such as Yahoo! Autos, Yahoo! Real Estate, and Yahoo! Rikunabi; and regional information services, such as Yahoo! Maps, Yahoo! Phone Book, and Yahoo! Gourmet. The business builds revenues by charging fees to the information providers and is developing a paid search business based on Sponsor Site.

Main Services: Yahoo! Search, Yahoo! Category, Yahoo! Product Search, Yahoo! Dictionary, Yahoo! Translation, Yahoo! Knowledge, Yahoo! Developer Network, Yahoo! Autos, Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Education, Yahoo! Marriage, Yahoo! Wedding, Yahoo! Healthcare, Yahoo! Present, Yahoo! Maps, Yahoo! Transit, Yahoo! Traffic Information, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Area Search, Yahoo! My Town, Yahoo! Phone Book, Yahoo! Coupons, Business Express

### **2) Activities in the Third Quarter**

In the third quarter we continued to expand services, targeting further growth in our user base. In our search services, we changed the format of Yahoo! Search to mainly displaying the results of a robot search. Moreover, we launched a top page specialized for searches. We also worked to increase opportunities to use our search services, strengthening functions that allow users to search Web sites in 37 languages and display Japanese translations of Chinese and Korean home pages. On Yahoo! Knowledge, which is now a finalized, stable version, we promoted use of the services by running a special feature about 22 prominent entrepreneurs in Q&A format. In our information listing services, we conducted a major renewal of Yahoo! Real Estate, providing an abundance of photographs and large-sized floor plans to make it easy to view and investigate newly built houses. In our regional information services, we launched a beta version of Yahoo! Area Search, which enables users to search 9 million stores and facilities in Japan by specific location. With Yahoo! Maps, we added a map scrolling function that can handle aerial maps, and began offer a mobile version that allows users to freely download maps adjusted to different models of mobile phones. In addition, we began operating a beta version of Yahoo! My Town, a service that enables users to share word of mouth and other information by local area.

### **Major New Services and Service Upgrades**

Date	New Services and Service Upgrades
October 3	• Renewed Yahoo! Search site and improved search services through preferentially displaying robot search results by “Yahoo! Search Technology”.
October 11	• Launched beta version of Yahoo! Area Search, which enables users to search stores and facilities in Japan by specific location, such as area name or train station, and have the stores or facilities displayed on a map of the selected area.

October 17	<ul style="list-style-type: none"> <li>Launched mobile version of Yahoo! Maps offering free downloads of easy-to-see, easy-to-use local area maps adjusted to mobile phone model.</li> </ul>
October 31	<ul style="list-style-type: none"> <li>Launched beta version Yahoo! My Town, a locally-oriented service that allows users to freely exchange local word-of-mouth information.</li> </ul>
November 15	<ul style="list-style-type: none"> <li>Added map scrolling function (beta version) that can handle aerial photographs to Yahoo! Maps.</li> </ul>
November 21~ December 5	<ul style="list-style-type: none"> <li>To commemorate the launching of the final, stable version of Yahoo! Knowledge, we chose 22 prominent entrepreneurs as respondents, and ran a Q&amp;A with Leading Entrepreneurs special feature with the theme of entrepreneurship in which viewers could pose their own questions.</li> </ul>
November 29	<ul style="list-style-type: none"> <li>Conducted a major renewal of Yahoo! Real Estate, expanding content and strengthening search and customizing functions mainly for information on newly build houses.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in December	4,025.75 million page views (-2.6%)	13.7% of total page views
Daily average page views in December	129.86 million page views (-5.8%)	

\*The above figure includes page views of ALPS MAPPING K.K. and BridalNet, Inc.

### Business Express Orders

October 2005	November 2005	December 2005
3,422 contracts	2,965 contracts	3,020 contracts

### 3) Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main components of business services sales are Business Express and information listing fees for Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Real Estate, and others.</li> <li>Main components of personal services sales were the sales of BridalNet, Inc. and ALPS MAPPING K.K.</li> <li>Main component of cost of sales was the expenses for producing the maps of ALPS MAPPING</li> </ul>
Advertising	8,707	604	7.5%	
Business services	3,676	81	2.3%	
Personal services	129	-69	-34.9%	
Other	-	-	-	
Total	12,513	616	5.2%	
Cost of sales	274	-66	-19.4%	
Gross profit	12,238	682	5.9%	

SG&A expenses	2,935	283	10.7%	K.K. • Main items in SG&A are personnel, content provider fees, business commissions, and royalty expenses.
Operating income	9,303	399	4.5%	
Operating margin	74.3%	-	-	

## **(2) Auction Business**

### **1) Major Business**

Based on its Yahoo! Auctions services, this business provides a place where individuals can buy and sell items and companies can sell their goods by auction. In addition, it supports companies to have stores on Yahoo! Auctions.

Main Services: Yahoo! Auctions, Yahoo! Delivery, Yahoo! ezPay

### **2) Activities in the Third Quarter**

During the third quarter, we conducted various activities to increase service use. In addition to running seasonal sales promotions, we started an “Accommodation Reservation Auction” that features auctions of high-premium-value accommodations at hotels and Japanese inns throughout Japan. For Yahoo! ezPay, we expanded the number of banks that users can use and offered a mobile version. To increase B-to-C transactions, we implemented a merchant store acquisition campaign that eliminated a portion of their fees for a limited time period. As a result, the number of merchant stores registered rose significantly to 5,911 at the end of December 2005, jumping 32.6% from the end of the previous quarter and 78.5% year on year. During the quarter, we took various steps to expand the use of Internet auctions by public bodies. In October, in addition to the metropolitan Tokyo government, 9 new regional and municipal governments held Internet auctions of real-estate properties. In December, a total of 19 regional and municipal governments submitted 594 items for Internet auction. Moreover, the Ministry of Finance decided to hold its first Internet auction of modern coins minted in Japan. We continued to strengthen our security measures during the quarter, creating and introducing an Internet auction fraud-detecting model that makes use of data mining technologies that can be applied to investigating for illegal activities.

*Note:* Previously, stores were included in the number of stores when they opened on the site. From this quarter, however, stores are being included in the count at the point when the tenant fee is first charged to the store.

### **Major New Services and Service Upgrades**

Date	New Services and Service Upgrades
October 14	• A total of 10 regional and municipal bodies held Internet auctions of real-estate properties, with nine bodies participating for the first time.

October 27	<ul style="list-style-type: none"> <li>Launched "Accommodation Reservation Auction", which auctions high-premium-value accommodations, such as business plan accommodation and suite rooms, at hotels and Japanese inns throughout Japan.</li> </ul>
November 14	<ul style="list-style-type: none"> <li>In cooperation with Financial Engineering Group, Inc. (currently, NIWS Financial Engineering Group, Inc.), created an Internet auction fraud-detecting model that makes use of data mining technologies that can be applied to investigating for illegal activities. The system was introduced on Yahoo! Auctions as an anti-fraud measure.</li> </ul>
December 15	<ul style="list-style-type: none"> <li>A total of 19 regional and municipal bodies held Internet auctions.</li> </ul>
December 26	<ul style="list-style-type: none"> <li>Announced date of first Internet auction by Ministry of Finance of modern coins minted in Japan.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in December	6,679.03 million page views (+3.7%)	22.7% of total page views
Daily average page views in December	215.45 million page views (+0.4%)	

### Yahoo! Auctions Number of Total Listed Items, etc.

	October 2005	November 2005	December 2005
Number of auction unique browsers	22.42 million browsers	21.89 million browsers	22.21 million browsers
Number of total listed items (Monthly average)	8.81 million items	9.12 million items	8.94 million items
Number of stores (As of the end of each month)	4,808 stores	5,792 stores	5,911 stores

	July 2005-September 2005	October 2005-December 2005
Daily average number of new listings	668 thousand items	708 thousand items
Daily average transaction volume	¥ 1,671 million	¥ 1,941 million
Average closing price per item	¥ 5,602	¥ 5,780
The average ratio of successful auctions per day	34%	35%

Notes: 1. Daily average transaction volume does not include cancellations or adjustments.

2. The average ratio of successful auctions per day is calculated excluding the ratio for the final days of free listing campaign.

### 3) Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main components of business services sales are sales commissions, tenant fees, and registration fees of stores (merchant stores).</li> <li>Sales included in personal services are system-use fees of Yahoo! Auctions and others.</li> <li>Main items in SG&amp;A are business commissions, payment commissions, communication, and personnel expenses.</li> </ul>
Advertising	697	118	20.4%	
Business services	1,449	355	32.5%	
Personal services	7,489	947	14.5%	
Other	-	-	-	
Total	9,635	1,421	17.3%	
Cost of sales	10	0	5.0%	
Gross profit	9,625	1,420	17.3%	
SG&A expenses	3,838	311	8.8%	
Operating income	5,786	1,109	23.7%	
Operating margin	60.1%	-	-	

### (3) Shopping Business

#### 1) Major Business

This business operates online shopping site with variety of goods, consisted with stores with high brand names and boutiques with a wide assortment of highly individualistic and appealing goods. It also supplies items related to travel, such as domestic and overseas accommodation and airline tickets, information on travel preparation and online ticket service.

Main Services: Yahoo! Shopping, Yahoo! Books, Yahoo! Computers, Yahoo! Tickets, Yahoo! Beauty, Yahoo! Travel, Yahoo! Business Travel, SevenAndY

#### 2) Activities in the Third Quarter

During the period under review, we implemented a variety of seasonal sales promotions, such as special features on Christmas and Year-end Gifts. We continued our efforts to increase the number of registered stores, focusing on getting new stores on board through such measures as strengthening our cooperative relationship with sales agency stores. As a result, the total number of stores climbed to 7,760 at the end of December 2005, a jump of 756 stores, or 10.8% from the end of previous quarter. To expand the use of Yahoo! Mobile Shopping, we ran a campaign offering five times the usual amount of Yahoo! Points. We also launched "Kaicom!", a mobile social shopping site with a community function operated by

Tricle Inc., a joint venture established with Index Corporation and Connect Technologies Corporation in July 2005. As for Yahoo! Travel, the Company has signed a comprehensive business alliance contract with the JAL Group. Working to increase use of its services, Yahoo! Travel began offering ticketing services for domestic flights of the JAL Group.

*Note:* Previously, stores were included in the number of stores when they opened on the site. From this quarter, however, stores are being included in the count at the point when the tenant fee is first charged to the store.

### Major New Services and Service Upgrades

Date	New Services and Service Upgrades
December 15	• Signed a comprehensive business alliance with the JAL Group to jointly develop services. To start with, Yahoo! Travel began offering reservations and ticket sales for the domestic flights of the JAL Group.
December 19	• Launched "Kaicom!", a mobile social shopping site with a community function.

### Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in December	589.16 million page views (-0.1%)	2.0% of total page views
Daily average page views in December	19.00 million page views (-3.3%)	

*Note:* Includes the page views of Seven and Y Corp.

### Daily Average Transaction Volume of Yahoo! Shopping Stores

July 2005-September 2005	October 2005-December 2005
¥ 316 million	¥ 378 million

*Note:* The figures represent the daily average transaction volume of Yahoo! Shopping, Yahoo! Travel, Yahoo! Tickets and SevenAndY.

### 3) Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main components of business service sales are tenant fees and sales commissions of Yahoo! Shopping and sales commissions of Tavigator, Inc.</li> <li>Main items in other sales are sales of Seven and Y Corp and others.</li> <li>Main item in cost of sales is purchasing costs of Seven and Y Corp.</li> </ul>
Advertising	773	161	26.3%	
Business services	1,190	165	16.2%	
Personal services	-	-	-	
Other	3,322	579	21.1%	
Total	5,286	906	20.7%	
Cost of sales	2,738	500	22.4%	
Gross profit	2,547	405	18.9%	

SG&A expenses	2,074	422	25.6%	• Main items in SG&A are personnel, business commissions, packing and transport, and sales promotion expenses.
Operating income	472	-16	-3.4%	
Operating margin	8.9%	-	-	

## **(4) Media Business**

### **1) Major Business**

Our Media business provides users with a variety of desired content and services, thereby stimulating page views and increasing advertising sales. The business also provides fee-based content and services. Services provided include information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies, Yahoo! Music, and Yahoo! Streaming; and community services, such as Yahoo! Message Boards and Yahoo! Avatar.

Main Services: Yahoo! News, Yahoo! Finance, Yahoo! Insurance, Yahoo! Sports, Yahoo! Weather, Yahoo! Movies, Yahoo! Music, Yahoo! ChakuMelo, Yahoo! TV, Yahoo! Fortune Telling, Yahoo! Games, Yahoo! Comics, Yahoo! Streaming, Yahoo! Member Directory, Yahoo! Message Boards, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! Groups, Yahoo! Delivers

### **2) Activities in the Third Quarter**

During the quarter under review, we continued to develop appealing content and special features for viewers and advertisers to expand sales. TV Bank Corporation, a joint venture with SOFTBANK CORP., began operations, helping to strengthen our streaming content business. In line with this move, we carried out a renewal of our Yahoo! Streaming site, converting it into a streaming content portal site. In addition to our pay content business model, we enhanced our advertising revenue model of Yahoo! Streaming so that we could earn revenues from advertisers by inserting advertisements into free content, and increased free streaming content for users to enjoy on the Yahoo! Streaming site. To increase use of our Yahoo! Movie services, we added special content, such as online previews of foreign and Japanese movies as well as New Year's special features. On Yahoo! Music, we distributed for a limited period "Music Magazine TV", a program done in collaboration with Sony Music that allows viewers to get to know recommended artists. During the quarter, Sony Music decided to make its rich library of songs available to Yahoo! Music Sound Station. Among efforts to increase sales of pay content, we renewed and upgraded the services on the Yahoo! Comics, and supplied high-value titles—for example, beginning to distribute the works of Hiroshi Motomiya. On Yahoo! Avatar, we offered seasonal items and items done in collaboration with famous artists.

## Major New Services and Service Upgrades

Service	Date	New services and service upgrades
Yahoo! Message Boards	October 3	<ul style="list-style-type: none"> <li>Added new functions, such as registration of favorite topics and filtering of unwanted messages.</li> </ul>
Yahoo! Movies	October 7 ~ November 4	<ul style="list-style-type: none"> <li>Ran special feature on “Spring Snow”, a movie starring Satoshi Tsumabuki and Yuko Takeuchi. Also distributed special content, such as a video clip interview with director Isao Yukisada and beautiful scenic wallpaper.</li> </ul>
	November 25 ~ January 31	<ul style="list-style-type: none"> <li>Ran special feature on “Silver Haired Agito”, a movie about the forest attacking people in a world 300 years from now. Also distributed movie trailers, special images, and an original short story outlining the mystery of the destruction of the earth.</li> </ul>
	November 28 ~ January 10	<ul style="list-style-type: none"> <li>Ran a special feature on the movie “Battleship Yamato and The Men of the Yamato”, which portrays the people who served on the Yamato at the time of its sinking. Also offered special content, such as online previews and coupons available on mobile phones.</li> </ul>
Yahoo! Streaming	December 19	<ul style="list-style-type: none"> <li>In addition to substantially increasing free streaming content, renewed the Yahoo! Streaming site to enable the viewing of high-quality streaming at 1.5 Mbps or better. Operations of TV Bank Corporation, a joint venture with SOFTBANK CORP., got under way, strengthening our streaming content services.</li> </ul>
Yahoo! Music	October 24 ~ December 9	<ul style="list-style-type: none"> <li>Launched “Music Magazine TV”, a program done in collaboration with Sony Music that allows viewers to get to know recommended artists.</li> </ul>
Yahoo! Games	November 17 ~ December 14	<ul style="list-style-type: none"> <li>Held the “1<sup>st</sup> Yahoo! Game Tournament Bloxi Championship”, in which players could win such prizes as limited Yahoo! Avatar items and 10,000 yen in Yahoo! Points.</li> </ul>

## Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in December	8,134.90 million page views (-8.9%)	27.6% of total page views
Daily average page views in December	262.41 million page views (-11.8%)	

Note: Includes the page views of Y's Insurance Inc.

## 3) Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main components of business services sales are car insurance package estimate</li> </ul>
Advertising	4,362	817	23.1%	
Business services	212	35	20.3%	

Personal services	439	17	4.2%	request service sales and information listing fees for Yahoo! Sports and others.
Other	-	-	-	
Total	5,014	871	21.0%	<ul style="list-style-type: none"> <li>• Main component of personal services sales is sales of fee-based content.</li> <li>• Main items in SG&amp;A are sales commissions, personnel, content provider fees, and business commissions expenses.</li> </ul>
Cost of sales	126	4	3.4%	
Gross profit	4,887	867	21.6%	
SG&A expenses	2,768	451	19.5%	
Operating income	2,119	415	24.4%	
Operating margin	42.3%	-	-	

## **(5) Yahoo! BB Business**

### **1) Major Business**

Yahoo! BB's business activities revolve around its comprehensive broadband service Yahoo! BB. They mainly comprise the acquisition of subscribers over the Web and the provision of some ISP services, such as e-mail, homepage creation, and others.

Main Services: Yahoo! BB, Yahoo! Mail, Yahoo! GeoCities

### **2) Activities in the Third Quarter**

During the quarter under review, we continued to focus on acquiring new subscribers over the Web. We also strengthened our cooperation as a business partner with regard to acquiring subscribers through other sales channels and worked to increase the total number of Yahoo! BB subscribers and expand our services for all members. To acquire new members for Yahoo! BB, we ran various campaigns, including a "10,000 yen Cash Back Membership Campaign". To enhance the value of being a Yahoo! BB subscriber, we held a first-come, first-served member-exclusive online movie preview of "A Moment to Remember" for 500 Yahoo! BB members. We also exclusively broadcast live the opening ceremony for the movie "Custom-Made 10.30", starring Tamio Okuda and Kaela Kimura. To further improve the security and comfort of our services, we did a renewal of the Yahoo! GeoCities site to make the top page easier to use, strengthened the anti-junk mail measures for Yahoo! Mail and expanded its mobile phone functions.

### **Major New Services and Service Upgrades**

Date	New Services and Service Upgrades
October 20	<ul style="list-style-type: none"> <li>• Ahead of the Japan showing of the big Korean hit movie, "A Moment to Remember", held first-come, first-served member-exclusive online movie preview of the movie for 500 Yahoo! BB members.</li> </ul>
October 24	<ul style="list-style-type: none"> <li>• Broadcast live exclusively for Yahoo! BB members the opening ceremony for the movie "Custom-Made 10.30", starring Tamio Okuda and Kaela Kimura.</li> </ul>

November 15 ~ December 14	<ul style="list-style-type: none"> <li>Held a “10,000 yen Cash Back Membership Campaign” offering 10,000 yen cash back and Yahoo! Points to people who applied for Yahoo! BB services and started using them within a set time frame.</li> </ul>
November 24 ~ November 30	<ul style="list-style-type: none"> <li>Exclusive for Yahoo! BB and Yahoo! Premium members, offered invitations on a lottery basis to a preview of the movie “King Kong” and the related press conference.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in December	3,394.71 million page views (-0.1%)	11.5% of total page views
Daily average page views in December	109.50 million page views (-3.4%)	

### Total Subscriber Lines for Yahoo! BB Services

End of September 2005	End of December 2005
Approximately 4,972 thousand lines (including approximately 1,176 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,007 thousand lines (including approximately 1,164 thousand lines marketed by Yahoo! JAPAN)

Note: Jumper installation completed, excluding service cancellations and “Yahoo! BB Hikari”.

### 3) Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/ decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main component of business services sales is the customer acquisition incentive fees of Yahoo! BB.</li> <li>Main component of personal services sales is the ISP fees for Yahoo! BB.</li> <li>Main items in SG&amp;A expenses are sales promotion, business commissions, personnel and depreciation expenses.</li> </ul>
Advertising	771	132	20.7%	
Business services	1,359	-77	-5.4%	
Personal services	2,803	70	2.6%	
Other	-	-	-	
Total	4,935	126	2.6%	
Cost of sales	268	13	5.4%	
Gross profit	4,666	112	2.5%	
SG&A expenses	2,836	132	4.9%	
Operating income	1,829	-20	-1.1%	
Operating margin	37.1%	-	-	

## **(6) Business Solutions (BS) Business**

### **1) Major Business**

This business utilizes the know-how and technology developed by the Group to offer business solutions to companies and government bodies, including sole proprietors. Specifically, it provides such services as domain and hosting services, the Internet survey service Yahoo! Research, licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C (for end-users) businesses or B-to-B (for sales outlets) businesses, and Web design consulting, etc.

Main Services: Yahoo! Research, Yahoo! WebHosting, Yahoo! Domain, Yahoo! Portal Solutions

### **2) Activities in the Third Quarter**

During the third quarter, we concentrated on building the sales of our Yahoo! Research services. Making INFO PLANT CO., LTD., a subsidiary, we worked to expand our Internet research business. We ran research monitor registration campaigns and other activities, and at the end of December, we had a total of about 870 thousand registered monitors, including research, mobile, and research lite monitors. In our domain hosting service, we took steps to increase the number of customers. We added a function that makes it easy for customers to switch from competitors' hosting services to our service, and ran a rental server switch campaign. In our portal site construction and support services, we continued our aggressive sales proposals, making a joint proposal with Hitachi, Ltd. for a portal site for local governments.

#### **Page Views (Figure in parentheses is change from previous quarter)**

Monthly page views in December	19.28 million page views (+215.9%)	0.07% of total page views
Daily average page views in December	621 thousand page views (+205.7%)	

Note: Includes the page views of INFO PLANT CO., LTD. and Firstserver, Inc.

### **3) Income Statements for the Third Quarter**

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> <li>Main components of business services sales are sales of INFO PLANT CO., LTD. and Firstserver, Inc., Yahoo! Research, and Yahoo! WebHosting.</li> </ul>
Advertising	21	-17	-45.4%	
Business services	1,530	733	92.1%	
Personal services	9	1	12.1%	
Other	-	-	-	

Total	1,561	717	84.9%	<ul style="list-style-type: none"> <li>Main components of cost of sales are costs for INFO PLANT CO., LTD. and Firstserver, Inc.</li> <li>Main items in SG&amp;A are personnel, amortization of goodwill, lease and utility and business commissions expenses.</li> </ul>
Cost of sales	659	308	88.0%	
Gross profit	901	408	82.7%	
SG&A expenses	1,055	413	64.4%	
Operating income	-153	-5	-	
Operating margin	-9.8%	-	-	

## **(7) Corporate Common Business– Elimination or Corporate**

Revenues and expenses related to advertisements on the top page of Yahoo! JAPAN and revenues and expenses on Yahoo! Premium membership relating to other services of the Company are not allocated to the results of the Group's six businesses, but considered sales and expenses of Corporate Common Business because these revenues and expenses are geared to developing our corporate brand. Sales and expenses from Headquarters are added up to Corporate Common Business.

Main Services: Yahoo! JAPAN Top Page, Yahoo! Kids, My Yahoo!, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert, Yahoo! Toolbar, Yahoo! Newsletter, Yahoo! Mobile, Yahoo! Volunteer, Yahoo! Bookmark, Yahoo! JAPAN Help Center, Yahoo! Internet Certification, Yahoo! Wallet, Yahoo! Premium, Yahoo! Points, Yahoo! Blogs, Yahoo! Trading, Yahoo! Disaster Information, Yahoo! Card, Yahoo! Live Talk, Yahoo! Content Store.

### **Activities in the Third Quarter**

In the third quarter, we continued to take measures to increase the number of Yahoo! Premium members and expand our services. We ran a "Naga-ku Otoku campaign" that awarded prizes by lottery to newly registered Yahoo! Premium members. We also offered Yahoo! Premium members exclusive fortune telling services on Yahoo! Fortune Telling and free tryouts of popular personal computer software. Among other activities, we launched Yahoo! Content Store, entering the digital content distribution service. During the quarter, we reached a fundamental agreement with Seven-Eleven Japan Co., Ltd., to begin considering a comprehensive business alliance.

### **Number of Premium Member IDs**

October 2005	November 2005	December 2005
5.69 million IDs	5.79 million IDs	5.88 million IDs

## Income Statements for the Third Quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				(Net Sales)
Advertising	2,764	599	27.7%	<ul style="list-style-type: none"> <li>Main components of sales of Corporate Common Business are advertising sales on top pages, etc. and Yahoo! Premium fees.</li> <li>Consolidation elimination figures are removed as sales of headquarters.</li> </ul>
Business services	47	-10	-18.4%	
Personal services	4,864	233	5.0%	
Other	-	0	-	
Total	7,675	823	12.0%	
Cost of sales	172	48	39.5%	(SG&A Expenses)
Gross profit	7,502	774	11.5%	<ul style="list-style-type: none"> <li>Main components of SG&amp;A of Corporate Common Business are personnel, sales commissions and business commissions expenses.</li> <li>Main items in Headquarters SG&amp;A are depreciation, personnel, and business commission expenses.</li> </ul>
SG&A expenses	5,736	545	10.5%	
Operating income	1,765	228	14.8%	
Operating margin	23.0%	-	-	

## Advertising

### (Advertising Related Sales)

The following is an outline of our advertising business in the quarter under review based on combining as advertising sales the banner, email, and other advertising sales of each business, and related advertising. Advertising sales also include the sales of Sponsor Site.

### Activities in the Third Quarter

During the third quarter, the advertising market posted good overall growth, stimulated by the higher activity resulting from year-end sales campaign targeting bonuses and the Christmas season. Demand for Internet advertising was particularly high among industries, and there were a greater number of opportunities to get clients to use Internet advertising even more than before, especially among National Clients. Under these circumstances, the Group strengthened its cooperative sales organization with advertising agencies and worked to develop new demand and win larger scale advertising. Toward this goal, the Group proposed to its clients advertising campaigns linked to TV and other mass advertising media and large-scale branding advertising campaign conducted solely on the Internet. In particular, targeting National Clients that are highly conscious of branding on the Internet, we aggressively marketed the high-profile Brand Panels for top pages that feature large advertising space, Super Banners for Yahoo! News-Topics, and Billboard Super Banners,

exposure of which is determined based on reach. Our introduction of advanced-technology full-screen flash advertising and mega banner advertising, which can distribute even greater volume than V banners, received high marks from high-impact seeking advertisers. In addition, due to the expansion into Sales Promotion (SP) advertising, we recorded sales growth for our text advertising products, mainly Run Of Center Text and News Top Text. For the first time, we offered regional targeting banner advertising that uses the Yahoo! JAPAN ID, IP address, and other factors to determine where the viewer is located, allowing the use of regionally specific advertising. This advertising was popular with the real estate and other industries. Although the growth of Sponsor Site slowed down in the latter half of the quarter, Sponsor site sales remained firm throughout the quarter.

Based on our sales efforts, quarterly advertising business sales rose to ¥18.0 billion, registering another record high.

(Third Quarter)

(Millions of yen)

	Amount	Comparison with the previous quarter		Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Advertising related sales	18,097	2,416	15.4%	7,546	71.5%

### Advertising Products

During the third quarter, sales of high-impact products remained firm. In addition to Brand Panels for top pages setting a quarterly sales record, sales of such large-sized products as Super Banner exceeded those of the previous quarter. Sales of Large Square advertising grew in particular due to advertisers' appreciation of their large-space and ability to use moving-picture advertising. In addition, we sold Large Square on top pages of each property by the set, which substantially expanded sales. During the quarter, our massive brand awareness advertising campaign for Sony Corporation's VAIO personal computer, which was done entirely on the Internet without any linkage to other mass advertising media, drew a lot of attention. We also ran such special features as "The Comfortable Life" covering the topics about housewives and child-care, gaining advertising from advertisers that target women.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.16 to ¥0.60 per page view, rates for targeting-type banner ads varied from ¥0.32 to ¥4.20 per page view, and rates for the large-sized Super Banners varied from ¥0.32 to ¥4.20 per page view. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥4.00 to ¥10.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥8.10 million to ¥10.80 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

## (Reference)

### **Yahoo! JAPAN CSR Activities**

As an Internet business, our Group carries out a variety of activities to contribute to the healthy development of the emerging Internet society. Our views and record regarding corporate social responsibility (CSR) activities are covered in the Yahoo! JAPAN Sustainability Report 2005.

The report introduces our various CSR activities from three points of view—our relationship with society, our relationship with the Internet community, and our stance on corporate governance and compliance.

\* The Yahoo! JAPAN Sustainability Report 2005 can be viewed at <http://csr.yahoo.co.jp/> (Japanese language only).

Our Group's major social contribution activities during the quarter were as follows.

#### 1. Disaster Information Service

- On our Yahoo! Disaster Information site, we provided accurate knowledge and the latest information about asbestos, and introduced government response centers and workers' accident compensation-related hospitals that can officially diagnose asbestos-related disease (November 9).
- Utilizing advertising distribution technology, we enabled faster earthquake alert distribution (December 12).

#### 2. Volunteer Activities

- We launched Red Ribbon Campaign 2005, a special site introducing information on HIV/AIDS, an awareness survey, and a variety of information on the Red Ribbon and other volunteer movements (November 22 to December 27).
- We ran a Pet Volunteer Special Feature, which introduced volunteer organizations that offer animal therapy to people using interaction with dogs and cats, horse riding, and swimming with dolphins (December 1 to January 23).
- During the quarter, we solicited contributions on our Internet Charity Contributions site for the victims of Typhoon No. 14 in Japan, Hurricane Katrina in the United States, and the earthquake in Pakistan. We also raised funds for the ASHINAGA World Orphans' ASHINAGA Scholarship Fund, the Japanese Foundation for AIDS Prevention's Japan Stop AIDS Fund, and the Children's Forest Project of OISCA International.

#### 3. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the third quarter, we held many charity auctions featuring famous people. Among them, we auctioned a DVD camera signed by professional tennis player Maria Sharapova, which Maria personally handed to the winning

bidder, and a Chiba Lotte Marines' baseball uniform signed by their manager Robert Valentine. In total, we held 578 charity auctions during the quarter, raising a total of approximately ¥30.7 million. The funds raised for such charities are being donated to the following charities (not listed in any special order).

- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.
- The Japan Paralympic Support Council, which supports sports events for disabled people.
- The Japan Cancer Society, which seeks to contribute to maintaining the health of Japanese and contributing to their welfare by promoting preventative care and treatment with the goal of fighting cancer.
- The Save Yuki Club, which raises funds for the heart transplant operation need by Yuki, who has dilative cardiomyopathy (enlarged heart).

#### 4. Contributing to the Promotion and Development of Sports Culture

During the quarter, aiming to contribute to the development of sports culture by giving people an opportunity to realize the splendor of sports, we held the 2<sup>nd</sup> Yahoo! JAPAN Sports Project "Chasing the Dream Together" and selected the winning contestants. The aim of the project was to have people submit their feelings about sports and select a group of contestants with the "hottest" message. The winning group will receive the equivalent of one million yen in sports goods as well as special lectures from famous athletes.

In November 2005, Yahoo! JAPAN received an award in the online category during the Paralympic Media Awards 2005, which was sponsored by the International Paralympic Committee. This was the only award received by the Japanese media. As an official partner of the Japanese Paralympic Committee, Yahoo! Japan set up an Athens Paralympic Special Support Site in August 2004 and encouraged greater awareness of sports events for people with disabilities over the Internet in a variety of ways.

## **Risk Factors**

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

### **1. Influence of Internet Markets and Competition**

#### **1) Influence of Internet Markets and Infrastructure**

##### **a. Dependence on the Growth of Internet Usage**

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

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

##### **b. Dependence on the Infrastructure for Internet Connections**

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

If for any reason the connecting infrastructure should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

## **2) Internet Advertising Market**

### **a. Potentials of the Internet Advertising Market**

Since it began operations in 1996, the Group has been offering search engines and information-related services through its portal site, with advertising as its main source of income. It has grown to become a leading Internet service operator in Japan, with overwhelming user support.

In Japan the Internet-based advertising industry is generally thought to have begun with the Group's start of operations here. According to Dentsu Inc., Internet advertising accounted for about 3% of Japan's total advertising market in 2004, moving ahead of radio advertising for the first time. But this market is still far smaller than those for advertising via leading media like television, newspaper and magazines. In the future, market growth could slow or fall short of our expectations, and the Group will then have less income than anticipated, which could affect its performance.

Along with market growth, the Internet is gaining value as an advertising medium and attracting firms in various industries to expand their advertising. However, its value as an advertising medium has not been adequately established among advertisers, consumers, and advertising agencies. Corporate use of the Internet for advertising has a relatively short history, and it is often done on a test basis with limited budgets. The Group regularly hosts seminars and other informational events to promote understanding and appreciation of Internet advertising in the advertising industry, including both advertisers and agencies. The Group is also enhancing its advertising sales system and ties with advertising companies to expand and stabilize the advertiser base. It is uncertain, however, whether the Internet will ultimately compete with leading media and become established as a profitable advertising medium. There is no guarantee that National Clients, the leading companies that conduct nationwide sales campaigns on relatively large budgets, will come to continually place advertising on the Internet in large volumes, as they do through leading media. That may make it hard for the Group to stabilize advertising income.

The Group projects that advertising through mobile terminals like cellular phones will grow more active than ever, and is working to make its services available through such terminals in addition to personal computers. However, if the weight of Internet access shifts from computers to cellular phones, the Group may see viewer rates fall. That would reduce Group market share, slowing the increase in advertising revenue and impacting earnings.

### **b. Characteristics of Internet Advertising**

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses that companies reduce. Moreover, Internet advertising has a short history, and changes in

more developed markets, such as the United States, could affect the Japanese market.

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

### **c. Greater Variation in Advertising Products**

The Group develops and sells a variety of advertising products to help fulfill advertiser needs, including products that guarantee exposure periods and numbers of hits, and Sponsor Site services (paid search advertising) operates jointly with Overture K.K.

Products are appearing that employ unconventional advertising methods, such as affiliate ad program (results-based advertising), and the Group intends to keep current with this trend in cooperation with new partners like ValueCommerce Co., Ltd. If the Group fails to properly handle the new approaches required by the evolution of advertising, it could lose advertising income even as costs grow for developing new products and new partnerships with firms that deal with new types of advertising, impacting group performance as a result.

### **d. Trends among Competitors**

Competitors for the Group's advertising business are companies working to earn advertising income by operating portal sites offering search engines and information-related services in Japanese or mainly for Japanese users.

Search engines and information-related services are currently offered through portal sites like Google (Google Inc.), MSN (Microsoft Corp.), infoseek (Rakuten Inc.), goo (NTT-Resonant Inc.), livedoor (livedoor Co., Ltd.) and excite (excite Japan Co., Ltd.). There are many other Websites offering highly specialized information. All compete with the Group's various services.

Operators of these sites include those affiliated with US companies that offer competitive Internet-based services and therefore compete with Yahoo! Inc., which is the primary shareholder of the Company. In this competitive environment, it is uncertain whether the Group can exercise superiority and maintain its dominant position in the industry. Competition could cause price-competition and lower unit prices for the Group's advertising products. In addition to content provider fees and sales commissions paid to advertising agencies and information providers, the Group may have to increase advertising expenses to compete and attract advertisers. That could impact Group performance.

### **3) Personal Services**

#### **a. Market Shifts Due to Increasing Individual Internet Use**

The Group's primary income from businesses targeting individual customers includes system-use fees for Yahoo! Auctions, sales of Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions, Internet service provider fees for Yahoo! BB service, and sales of individually priced contents.

With the spread of broadband communications, the number of Internet users has increased drastically. In this trend, the market for business designed for individuals will likely expand and continue growing. Sooner or later broadband communications in Japan will reach a saturation point and user growth will plateau. To prepare for that time, the Group is taking various measures to build customer satisfaction and promote uses for its range of services. The growth of participation in Yahoo! Auctions, Yahoo! Premium and Yahoo! BB, however, may eventually lose early momentum, which will have significant negative influence on Group earnings.

The market for Yahoo! Auctions has been expanding as participation increases, but with that growth have come reports of incidents never considered in the genesis of the service, such as fraud and illegal listings. To create a safe auction site, the Group will continue instituting measures to comply with legal restrictions and meet societal needs. If these measures fail to have the intended effects and instead cause unanticipated harm, such as discouraging people from participating in Internet auctions, that could reduce Group income from system-use fees for Yahoo! Auctions and the number of Yahoo! Premium members, significantly influencing Group performance.

The spread of broadband communications has allowed the Group to deliver varieties of content to fulfill Internet users' needs, including high-volume services like video and music. The use of this class of content via the Internet will likely expand as Internet users increase. If the delivery of this class of content fails to become a regular part of the lives of users, or access to content using terminal devices other than personal computers becomes the norm, and the Group fails to break into that market, achieving expected earnings could be difficult.

#### **b. Trends among Competitors**

Competitors for the Group business designed for individuals are companies offering electronic commerce, like auctions, IPS services and content delivery in Japanese or mainly for Japanese users.

They include previously mentioned portal site operators; auction sites such as Rakuten Ichiba (Rakuten, Inc.) and BIDDERS (DeNA Co., Ltd.); and IPS services such as @nifty (Nifty Corp.), So-net (Sony Communication Network Corp.), BIGLOBE (NEC Corp.) and OCN (NTT Communications Corp.). Many companies deliver

content and compete with the Group.

In this competitive environment, it is not certain that the Group will be able to exercise superiority and maintain its dominant position in the industry. If participation in the Company's auction site decreases as a result of competition, and the same happens with Yahoo! Premium and Yahoo! BB subscribers as a consequence, the Group could make less from system-use fees and commissions. The probability of commission cuts or major changes in pricing structure due to price competition is not zero. The Group might have to increase advertising expenditures to compete for customers. All these factors could negatively impact Group performance.

#### **4) Business Services**

##### **a. Trends in Corporate Internet Use and Market Change**

In business services other than advertising, Group income comes mainly from listing services, such as Yahoo! Rikunabi, Yahoo! Autos and Yahoo! Real Estate, and commerce, such as corporate tenant fees and commissions from Yahoo! Auctions and Yahoo! Shopping.

The Group has been expanding the market for listing services, particularly Yahoo! Rikunabi, an employment listing site jointly operated with Recruit Co., Ltd., making the most of the convenience of its Websites and dominant brand power and strength to attract customers. With enhanced sales infrastructure, it is actively attracting retailers to Yahoo! Auctions and Yahoo! Shopping, and will continue to do so to expand commerce income. Despite these efforts, the market may not expand for various reasons. Commercial use of the Internet by corporations may not expand as anticipated, the shift of listing services to the Internet from conventional media, particularly paper media like newspapers, magazines and inserts, may not advance further, the number of users for Group auction and shopping sites and transaction volumes may not increase as anticipated, and there may be insufficient tenants. Group performance could be influenced by these factors.

##### **b. Influence of Changes in the Broadband Market**

Incentives from SOFTBANK BB Corp. (SBB) ( see note ) for each new Yahoo! BB account represents important income for the Group's business services.

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

It is thought that the start of the Group's Yahoo! BB service was a major stride for broadband communications. According to the latest White Paper on Telecommunication (Ministry of Internal Affairs and Communications), Japan is No. 2 in the world in terms of number of broadband accounts, with the lowest costs and highest speed in the world. Within this market environment, the Group's Yahoo! BB

service, mainly its ADSL service, holds the top customer share in the domestic market.

Nevertheless, due to rapid progress in telecoms technology, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which allows much faster data transfer using optical fiber. So the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By putting effort into sales promotion, taking advantage of its strengths in brand dominance, price-competitiveness and various kinds of campaigns, the Group is working to attract new subscribers. It is possible, however, that the Group will attract fewer accounts than hoped, or see customers switch to competing services and fail to achieve its sales goals, or have to bear heavier costs than projected. Performance could be harmed as a result.

Note: SBB underwent a reorganization of its businesses to further strengthen its broadband operations. As part of this process, SBB spun off its modem rental business on November 1, 2005, establishing BB Modem Rental Yugen Kaisha as a modem rental specialist (the company has now been sold to Yugen Kaisha Gemini BB ). In addition, on December 1, 2005 SBB also split up its broadband operations, transferring ADSL operations to BB TECHNOLOGY Corp. (surviving company), which will specialize in ADSL operations while SBB specializes in FTTH, Retail Business, and other non-ADSL operations.

### **c. Trends among Competitors**

Competitors for Group business services are companies operating ADSL business, commerce services such as auction and shopping sites, or listing services via the Internet, etc. in Japanese or mainly for Japanese users.

Listing services are thought to be an important arena for competition among previously mentioned operators of portal sites and highly specialized information sites. In commerce, there are competitors such as Rakuten Ichiba (Rakuten, Inc.) and BIDDERS (DeNA Co., Ltd.). Competing ADSL services include FLET'S (NTT East and West Corps.), eAccess (eAccess Ltd.) and ACCA (ACCA Networks Co., Ltd.).

In this competitive environment, it is not certain that the Group will be able to exercise superiority and maintain its dominant position in the industry. Competition might result in a decline in listing business or a decrease in retailer participation in Group auction and shopping sites. On top of these factors, increased costs to attract new customers may affect Group performance.

## **5) Revision of Business Forecasts**

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

The Group determines its forecasts for sales and costs based on the assumption of specific rates for use of each of its services, etc. However, the business environment surrounding the Group could change drastically, and actual business results may differ considerably from announced forecasts.

When it recognizes such differences, the Group will announce revisions of its forecasts in a timely manner.

## **2. Influence of Legal and Institutional Changes**

### **1) Potential Legal Restrictions**

#### **a. Legal Restrictions Related to the Internet**

The distribution of information via the Internet and electronic commerce are under review by the Japanese government. While there are currently no regulations governing the advertising operations of the Group, some other countries are considering regulating Internet use and publishing legal opinions on the subject.

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

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

#### **b. Potential Legal Restrictions on Auction Business**

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

Since September 1, 2003, a revision of legislation concerning the sale of used goods to prevent criminal abuse of Internet auctions is in force. In addition to imposing a registration system on Internet auction operators, the revised law requires operators to make effort to confirm the identities of participants and maintain records of auctions. The law also requires that when an investigative body orders an operator to remove an item from auction based on suspicion of fraud, the operator must do so. However, the scope of the revised law is limited to areas where the Group is already compliant.

Further, since no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have significant impact on its auction business.

On June 10, 2005 the Japanese government introduced its "Plan 2005 to Promote Intellectual Property Right Strategy" to carry forward extensive measures to fight the infringement of intellectual property via the Internet. To help prevent damage to consumers and the owners of intellectual property, the plan includes such measures as compliance with the obligation to indicate the business operators subject to the Specified Commercial Transactions Law, instituting of voluntary rules requiring compliance by auction houses, and closer linkage among the concerned government divisions and auctioneers. When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves that way and will delete their IDs if they do not comply. In partnership with Internet auction houses DeNA Co., Ltd. and Rakuten, Inc., the Group has begun discussion toward making and enforcing voluntary restrictions, and will gradually seek cooperation from related government divisions. To help educate users, it has published on the Web its "Intellectual Property Protection Guide," which defines and explains copyrights, image rights and trademarks, informing potential buyers as well as those who list products for sale.

If these measures do not bring about the expected results, and reports of illegal listings and fraud continue, new legislation could restrict commercial activities using the Internet. Such legislation, depending on the degree of restriction it entails, could have a significant impact on the Company's auction services.

### **c. Potential Legal Restriction on Other Business**

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

For its Yahoo! JAPAN Card program, the Group issues credit cards on its own and offers loans, including cash advances. This brings it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction Law. Under the former, the Company is registered as a moneylender with the Kanto Local Finance Bureau. Recently, there are more cases where debtors demand refunds of interest paid in excess of the legal limit, claiming the interest to be undue profit to creditors. In our service, the Company intends to set interest rates within the range specified in Interest Rate Restriction Law. However, in the case that the interest rates of our service go beyond the legal limit for some reason, possible demands for refund of the excess amount could impact the Company's earnings.

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

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

## **2) Potential Litigation**

### **a. Illegal Acts by Auction Participants**

The Group has taken multiple measures to improve the security of its systems to build a stronger and safer auction environment. In September 2000 the Group opened a new escrow service (see note below) for online auctions. In May 2001 the Group introduced a fee-based personal identification system. In July 2004 the Group initiated a system that verifies by mail the postal addresses of users posting items on the auction site. In addition, the Group has set up a patrol team to eliminate illegal items from auctions and cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group, whether or not it is responsible for such actions. In fact, groups of users filed suit for damage compensation against the Company. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and subsequent negative impact on earnings.

The Group has instituted a system for compensating users that have suffered damage due to illegal activity. This could raise expenditures for the Group.

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

### **b. Solicitation of Securities Transactions**

In providing its Yahoo! Trading service (securities brokerage service), the Company complies with its own solicitation policies and guidelines under the supervision of its

affiliated securities houses (see note) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the securities house, but the solicitation could mislead customers into losses. In such cases Group could be subject to demands for damage compensation from the securities house, which temporarily pays damages to customers, depending on the situation.

Note: "Affiliated securities house" is a firm that has signed a consignment agreement with the Company for securities brokerage.

### **c. Information Distribution via the Internet**

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

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

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

#### **d. Third-Party Responsibility**

To prevent customers from misunderstanding or being confused about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, the Group takes measures to help clarify their understanding and agreement through user rules and clauses posted on Group sites. Despite these efforts, there remains the possibility that these measures will fail and customers will demand compensation from the Group for damage that is actually the responsibility of a third party. This could result in additional costs to the Group or harm its brand image, impacting negatively on performance.

The Group assigns all responsibility to the user and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display, or bidding of goods or services offered or the formation or honoring of contracts agreed to while using this service. Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Website content of the many retailers employing these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss or difficulty in the delivery of said goods. However, it remains possible that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image. Further, if the proposed treaty regarding the jurisdictions of international courts is approved, it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

### **3) Patents, Copyrights, and Other Intellectual Assets of Third Parties**

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover business models as well as technology. As such, it is possible that third parties in possession of these patents will make claims or file suit against the Group and that the Group will be forced to pay large royalties to acquire said patents or have to cease providing certain services.

In addition, the extent to which patent rights can be applied remains unclear. As such, to avoid potential conflicts the Group may be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographical boundaries for application of patent rights also remain unclear.

Consequently, the Group cannot rule out the possibility of patent issues arising overseas as well as in Japan.

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to say that such problems could not occur. In such cases, the Group may be sued for compensation, required to pay substantial royalty fees or have to cease providing certain services.

#### **4) Changes in Accounting Standards**

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

### **3. Information Security Management**

#### **1) Group Effort to Achieve Information Security**

Due to the rapid growth of the Internet, a wide variety of information spreads easily through our society. While the development of this technology has broadened the horizons of Internet users and boosted convenience, the other side of the coin is that the security of personal and other information has become a major societal concern. As providers of a range of services over the Internet, the Group must address this issue extremely carefully.

Based on this understanding, the Group has taken proactive steps to ensure information security. Currently we are working to protect the personal information of our customers and other sensitive management information by quickly and effectively implementing necessary measures companywide. This process has been facilitated by the appointment of a Chief Security Officer (CSO) and the establishment of an Information Security Office and giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our Information Security Declaration (see Note 1), setting out the Group's overall information-security efforts. Based on the declaration, we established Information Security Basic Regulations and other in-house rules, clarifying our rules for handling personal information and other important information. At the same time, we set up an organization to manage information security management by establishing the Information Security Council, comprised of information security members from each of our divisions, to promote

adherence to our in-house rules. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems and access to stored data is tightly restricted. In April 2002, the Company obtained the right to use the TRUSTe mark (see Note 2) of the nonprofit privacy-protection licensing institution TRUSTe. In August 2004 the Group acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). As of December 31, 2005 Yahoo Japan Corp. and twelve subsidiaries have acquired ISMS certifications. The Group has used these third-party certification systems to implement a third-party check on its operations using global standards to continue to strengthen its information-security regime and fulfill its social responsibility regarding this issue.

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

Notes:

#### 1. Information Security Declaration

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

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

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

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

#### 2. TRUSTe Certification Institution and the TRUSTe mark

TRUSTe is an independent nonprofit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Websites based on examinations of their personal information-protection systems, guaranteeing that the site is being monitored on this issue by a third party. As of April 2001 a TRUSTe Certification Institution was established as part of the Japan Engineers Federation, a nonprofit organization, in recognition of the spreading use the TRUSTe mark in Japan. The TRUSTe mark

indicates that the Group conforms with the privacy-protection policies of TRUSTe and meets its license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree to and follow the guidelines of TRUSTe for the processing of consumer complaints.

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

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

## **2) Personal Information**

### **a. Group Effort to Protect Personal Information**

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

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

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, deliberately or through negligence, by persons related to the Group, to companies with which business alliances have been concluded, to companies to which the Group outsources work, etc. There is also a possibility that a third party may use passwords, etc., to fraudulently access the system, impersonate an authorized person, or use some other method such as Phishing (see note below), whereby they illicitly obtain personal user information resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible, its policy is to take measures to strengthen the management and monitoring of the security systems of companies with which it has business alliances. Representatives of the Group are

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

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

Note: Phishing

This type of fraud involves acquiring personal information by sending email purporting to be from a financial institution or a company, and tricking people into accessing a fraudulent Website, where they are asked to input personal information such as credit card numbers, login IDs and passwords or other sensitive information. Damage from theft using this system is mounting in Europe and the United States, and recently such cases have become common in Japan as well. The National Police Agency has posted warnings about phishing fraud on its Website.

**b. Risk of Fraudulent Use of Credit Cards**

In providing services such as Yahoo! Wallet and Yahoo! ezPay, the Group has taken all practical precautions in protecting itself from such problems as the fraudulent use of credit cards as well as the leakage of personal information of individuals online as indicated above. However, there can be no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in a suit against the Group seeking compensation for losses, preventing the recovery of the funds reimbursed through Yahoo! ezPay and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on other services of the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its own issuing credit cards (Yahoo! JAPAN Card) since the related services began. However, if such acts exceed those expectations, damages in excess of the anticipated level could be incurred. Further, to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater than anticipated costs.

### **c. Personal Information Management of Business Alliance Partners and of Stores Registered on Yahoo! Shopping and Yahoo! Auctions**

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

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

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

Previously, it was possible for stores on the Yahoo! Shopping and Yahoo! Auctions sites that had an independent contract with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we now intend to avoid personal information leaks by these stores. This is being achieved by eliminating the necessity for stores to handle credit card numbers, offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure of store management tools, restricting downloading of order information including customer information, and standardizing information security awareness. Nevertheless, it is possible that incidents regarding information leaks, etc. may occur despite the implementation of these measures. Such cases may result in a loss of the credibility of the Group, regardless of whether it was responsible or not.

### **3) Network Security**

Although the Group has established appropriate security systems to ensure the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. In particular, there have been several cases recently of specific Websites or networks being

targeted by sending huge volumes of data over short periods to paralyze the Website or network. Although the Group has introduced effective security programs and other measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results and financial condition.

#### **4. Risk Due to Natural Disaster, Accident and the Like**

In the event of the outbreak of international conflict, terrorist attack or large-scale natural disaster, such as earthquake or tidal wave, the Group expects that its businesses would also be substantially affected.

Specifically, the impact of such events could cause the Group's revenues to decline or the Group could incur extraordinary costs. These conditions might occur due to disruptions in scheduled advertising as a result of temporary restrictions on the operations of the Group's sites. Or, for their own reasons, advertisers might stop or reduce advertising, or request extension of advertising period. Further, the access infrastructure for Yahoo! BB might be interrupted or some other circumstance might arise where subscribers would no longer be able to use the Group's pay services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and related companies or SBB and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

In addition, Group operations are vulnerable to fire, power outage, damage to telephone networks and other phenomena. Its network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other disasters. To cope with accidents and surges in Internet access, the Group intends to continue improving the infrastructure by making systems redundant and duplicating and dispersing its data center, but it does not presently have multiple site capacity outside Tokyo.

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

## 5. Business with Involved Parties

### 1) Relationship with the SOFTBANK Group

#### a. Positioning within the SOFTBANK Group

As of September 30, 2005, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of voting shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and areas, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecoms, e-commerce, media and marketing, broadcasting media, technology services, and an overseas fund-investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

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

The Company has signed the following contracts with SOFTBANK BB Corp. (SBB), subsidiary of SOFTBANK CORP., concerning Yahoo! BB business. Yahoo! BB business accounted for 10.6% of Group sales in the three months ended December 31, 2005. Therefore the following contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: June 20, 2001
Contract term: Indefinite from June 20, 2001~(Perpetual contract)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities <ul style="list-style-type: none"><li>* To promote Yahoo! BB services</li><li>* To recruit subscribers of Yahoo! BB services</li><li>* To operate the Yahoo! BB portal site</li><li>* To provide mail and Website services</li><li>* To provide a fee-collection platform</li></ul>
3) SBB's main responsibilities <ul style="list-style-type: none"><li>* To provide ADSL service between subscribers and phone offices, install network infrastructure between phone-office buildings, and provide connections to Internet networks</li><li>* To handle subscriber inquiries and provide technical support</li><li>* Use charges are ¥990 per month for ADSL and ¥1,290 per month for ISP service. From the ISP charge, the Company takes ¥200 in exchange for service.</li></ul>

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004 (Automatically renewed every one year)
Contracted party: SOFTBANK BB Corp.
<p>Incentive fees</p> <ul style="list-style-type: none"> <li>* Lump-sum incentive fees (100% upon verification of operational subscriber lines) <ul style="list-style-type: none"> <li>BB Phone services: approx. ¥7,000 per application</li> <li>Yahoo! BB services: approx. ¥15,000 per application</li> <li>Yahoo! BB services + LAN Pack: approx. ¥20,000 per application</li> </ul> </li> <li>* Continuing incentive fees <ul style="list-style-type: none"> <li>BB Phone services: approx. ¥150 per month per continuing subscriber</li> <li>Yahoo! BB services: approx. ¥200 per month per continuing subscriber</li> <li>Yahoo! BB services + LAN Pack: approx. ¥250 per month per continuing subscriber</li> </ul> </li> </ul>

Notes:

1. The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT became SOFTBANK BB Corp. (SBB) with the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All the merged companies had the same parent company, SOFTBANK CORP.
2. Although the counterparty to the business alliance contract and the incentive agreement mentioned above was in both cases SBB, as indicated in a previous note, SBB's operations were reorganized and split between SBB and BB TECHNOLOGY Corp. on December 1, 2005. Therefore, the contracts are being adjusted to reflect these changes.
3. The details of the incentive agreement were changed to those shown above as of April 1, 2004.
4. As of April 1, 2005, the Company pays ¥2,400 per line to SBB after the first subscription fee is charged, sharing the cost of Yahoo! BB subscriber acquisition.

**c. Dependence on SOFTBANK BB Corp.**

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

**d. Joint Directorships**

As of December 31, 2005, two of the five directors of the Company also held

directorships on the board of the parent company, SOFTBANK CORP., as follow:

- \* Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK CORP. part-time Director)
- \* Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK CORP. President)

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

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

**2) Business Relationship with Yahoo! Inc. Group**

**a. Licensing Agreements with Yahoo! Inc.**

Group operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.5% of voting shares as of September 30, 2005. 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 under a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License name: YAHOO! JAPAN LICENSE AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
1) Licensing rights granted by Yahoo! Inc. to the Company:

\* Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! search services")

\* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark

\* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan

\* Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! search services

2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company

3) Royalties to be paid by the Company to Yahoo! Inc. (see Note)

Note:

Royalty calculation method

{(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

### **b. The Yahoo! Brand and Cooperation Overseas**

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

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

not registered trademarks necessary to the Group's business in Japan.

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

#### **c. Business Tie-up with Overture K.K.**

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

#### **d. Other Joint Directorships**

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

### **3) Share Distribution**

As of December 31, 2005 the major shareholders of Yahoo Japan Corp. held a very high stake in the Company, with over 75% of equity owned by SOFTBANK CORP. and Yahoo! Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares. However, if these efforts fail to make progress, it is possible in a worst-case scenario that the Company could violate the listing standards of the exchanges on which its shares are listed.

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

## **6. Dependence on Specific Customers and Third Parties**

### **1) Sales Dependence on Specific Customers**

In each of its businesses, the Group has a degree of dependence on sales to specific

customers or by specific agencies other than the involved parties described above.

In terms of advertising sales, Group revenue from sales agents, such as certain advertising companies and media reps, provides a high proportion of advertising sales. In the other businesses also, the Group has major business transactions with specific companies among its sales customers, and these transactions account for a growing percentage of the Group's sales.

If change occurs in the business relationships with or sales to or by these customers or agents, or if their business health deteriorates, or problems arise with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

## **2) Dependence on Third Parties**

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken or these providers were unable to continue handling large volumes of access, the Group's business and operating results could suffer substantial negative effects. In addition, the Group depends on hardware suppliers for rapid delivery, installation and servicing of servers and other equipment necessary for providing information services. Error or delay on the part of these companies could damage the Group's relationship with users, hurt its brand image or impair its operations.

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

The Group not only relies on the previously mentioned Internet providers, but many of its services depend as well on third parties to which the Group has consigned operations or from which it receives information or support. It is possible that worsening business conditions for these third parties could hinder the operations of the Group, resulting in negative impact on performance.

## **7. Technological Innovation and Research and Development**

### **1) Keeping Up with Technology**

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. Group services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and maintaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States, the center of innovation in Internet technologies. With this, the Group is constantly making engineering efforts to apply new technology to its services. However, the failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including rising expenditures for localizing work and preparation for new technologies that could be developed in Japan, instead of the United States as anticipated.

### **2) Research and Development**

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

The market is crowded with entrants and highly competitive; technological innovation is the norm; the pace of change is rapid; and service life cycles are short. For that reason, the Group intends to improve operating efficiency by hiring specialists and technically skilled staff and undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to the changing market needs, organizational enhancement for service planning and for system development is also our focus. However, there is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

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

## **8. Group Business Operations**

### **1) Maintenance and Control of Service Quality**

#### **a. Acquisition of Quality Information and Content**

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

#### **b. Advertising Guarantee**

As already mentioned, advertising contract periods and page views ("hits") are guaranteed for many of our products, and advertising fees are based on them. However, failure to obtain the number of required hits during problems with the Internet connectivity environment and/or problems with the system could force the Group to extend advertising contract periods or devise some other type of compensation that could negatively impact Group advertising revenues.

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

#### **c. Equipment Investment for Quality Service**

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

In making these capital investments, the Group will take care to ensure that unnecessary cash outflows do not occur by closely considering costs and benefits, focusing on keeping system-development and equipment expenses reasonable.

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

#### **d. Diversification and New Business**

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

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

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

## **2) Internal Control System**

### **a. Operations and Management**

The Group has undertaken measures such as stricter controls and operational standards for behavior so that problems related to improper conduct by employees or human operational errors are prevented or do not recur. Still, there remains the possibility that such problems can occur in the future in terms of business management and control.

### **b. Human Resource Management as Business Expands**

In addition to the enhancement of personnel and organization for advertising sales activities and technological development work necessary for business expansion, the Group must increase staff to respond to business diversification: to support the large number of new Websites created by the recent surge in Internet use; to carry out the operation and management of its community and shopping services; and to control billing and offer customer support for fee-based services.

Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems

with users and tenants, and affect the efficiency of operations.

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

**c. Continued Support from Senior Management, etc.**

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

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

**d. Risk of Business Growth with a Large Pool of Unspecified Customers**

Along with the expansion of its operations and the ramping-up of its e-commerce business etc. mainly through subsidiaries and affiliates, the proportion of Group business composed of direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to take responsibility for strengthening management of this pool of customers and to take steps such as introducing new systems to improve business efficiency. Despite these measures, it is possible that the Group will be exposed to increased risks related to the settlement and collection of receivables due to rises in the amount of small receivables and uncollected receivables, credit-card settlement problems and the costs of receivables collection.

It is also possible that the nature and quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of services, but they may now shift to inquiries about payments, the return or exchange of services and goods, and matters related to commissioned third parties, such as distribution or settlements. To properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing business practices and computerizing them. It is possible that the costs of these measures and improvements could negatively affect Group profits. In addition, it does not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

#### **e. Risk of Customer Creditworthiness**

In sales of advertising and other products, the Group carefully examines the credit standing of clients, following a set of internal rules. It also undertakes sufficient precautions so the collection of receivables will not be delayed by taking measures such as making sales through advertising agencies or using credit-card settlements. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the incidence of defaults.

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

### **3) Operating a Consolidated Group**

The Group has subsidiaries and affiliates of all sizes, and the degree of in-house management varies by size. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect Group performance.

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

Several subsidiaries and affiliates were established and are operating as joint ventures with third parties. Operations of these subsidiaries and affiliates depend substantially on the outside partners, especially in the areas of sales, supply, distribution and systems. At this time, relationships with the joint-venture partners are excellent, and the cooperative relationships with these partners contribute much to the performance of these Group companies. However, if for some reason a situation occurs that obstructs business cooperation or ties with the partners, it could damage the performance of each company and, depending on the company, it may become impossible to continue operations.

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

### **1) Funds Procurement for Yahoo! ezPay Service**

Yahoo! ezPay is a payment service provided by Company subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust, Ltd., mediates settlement of the auction transaction.

Since Netrust, Ltd. reimburses the seller of the item one to three business days after the purchaser has made settlement by credit card or Internet bank transfer, the subsidiary must 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 volume of reimbursement funds by shortening settlement cycles with the credit-card companies' settlement banks as well as seeking methods of diversifying its sources of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible the Group will not be able to raise the required funds at reasonable cost. Moreover, the volume of reimbursement funds could increase to a level where, if interest rates rise higher, interest payments to banks or other financial institutions could have a significant negative impact on Group business and performance.

### **2) Funds Procurement for Yahoo! JAPAN Card Service**

The Yahoo! JAPAN Card differs from the joint cards that the Group has offered in the past in that the Group is the credit-card issuer and will be providing credit to those who are issued the card. The Group will also be reimbursing payments made by cardholders to the merchants honoring the card. Since payments will be collected from cardholders monthly while reimbursements to merchants will be made about three times per month, it will be necessary to finance those reimbursements. The Group is considering diversification of its funding sources as the business expands, but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

## **10. Risk Related to Loans and Investments**

### **1) Loans and Investments**

As of December 31, 2005, the companies or organizations in which the Group has invested pursuant to business ties or forming business ties in the future are as shown below. The Group cannot guarantee that these investments will be recovered.

Further, although there are companies in which the Group has invested that have already publicly listed and produced unrealized gains, these unrealized gains could decline or turn to unrealized losses in the future.

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

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

## **2) Participation in the Finance Scheme for Yahoo! BB**

In the July 17, 2003 meeting of the Board of Directors, based on the following finance scheme, the Group decided to provide a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental Plc., and it is registered in the Cayman Islands. On July 31, 2003 the Group made a loan of ¥5,700 million that would mature in 42 months.

### Finance Scheme Summary

- \* The SPC raises a total of ¥19,140 million from several lenders as loans and as investments in a Tokumei Kumiai (TK), an anonymous partnership. This amount is structured as senior and mezzanine loans and a TK investment.
- \* The SPC acquires modems and a modem-rental agreement from SBB, and pays SBB for them using the funds raised.
- \* The SPC operates a modem-rental business and pays principal and interest to lenders and dividends to TK investors using cash flow generated from the underlying assets (rental fee revenues).
- \* In cases where modem-rental fees are not paid using underlying assets, SBB will provide credit compensation under terms outlined in the guarantee agreement.

The scheme is based on the assumption that estimated rental fees would be paid from underlying assets and that SBB would provide credit compensation if the rental fees are not paid from underlying assets. If for some reason a situation arises

where SBB cannot adequately perform on its pledge to provide credit compensation, it could prevent the recovery of the principal and interest on the Company's portion of the financing.

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

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

Furthermore, as of December 31, 2005, the outstanding balance of the mezzanine loans is approx. ¥4,773 million, and the SPC has been making its payments without delay.

Note: As a result of the previously mentioned reorganization of the operations of SOFTBANK BB CORP., BB TECHNOLOGIES Corp. is now the company that will be making any necessary credit compensation. However, this change has no actual effect on the above-mentioned risks of the Group.

## Main Companies Invested in by Yahoo Japan Corporation

(As of December 31, 2005)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	7.9	6,362	Internet technical-support service		
2	Vector Inc.	OSE Hercules	99/03/26	10.7	1,724	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	Yes
3	SOFTBANK Internet Technology Fund No. 1	—	00/02/21	—	927			
4	Aozora Trust Bank, Ltd.	—	05/04/28	14.9	875	Banking and trust services	Alliance for online banking operations	
5	Oricon Inc.	OSE Hercules	00/03/30	1.5	381	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping	
6	Weathernews Inc.	TSE 1st Section	99/06/01	3.8	351	Weather observation, data collection and analysis, weather forecast, and related information services		
7	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	207	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping/Auctions tenant	
8	DigiOn, Inc.	—	05/08/23	7.5	200	Multimedia software for PCs, platform software, enterprise business solution		
9	e-Seikatsu Co., Ltd.	—	05/07/14	5.5	155	ASP Solution, network solution	Alliance for Yahoo! Real Estate	Yes
10	CyberMap Japan Corp.	—	98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes

Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan	
Shares in affiliated companies								
1	ValueCommerce Co., Ltd.	—	05/04/11	49.6	9,407	Affiliate program, Internet advertising distribution and management, Internet marketing consulting, server rental, hosting, and domain purchasing services	Alliance for affiliate marketing	Yes
2	All About, Inc.	Jasdaq	04/09/08	35.7	2,138	General information site based on expert guides, Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
3	CREO. CO., LTD.	Jasdaq	05/01/26	36.9	1,579	System development; planning, development and sale of software packages; and others	Business alliance for system development	Yes
4	FashionWalker Inc.	—	05/08/25	33.6	1,279	Operation of a fashion goods shopping site	Alliance for shopping business etc.	Yes
5	TV Bank Corporation	—	05/12/19	40.0	1,200	Streaming content services	Alliance for Yahoo! Streaming	Yes
6	JWord Inc.	—	05/01/28	33.4	712	“JWord” (Japanese keyword search) service	Alliance for Yahoo! JAPAN search services	Yes
7	YUME NO MACHI SOUZOUINKAI CO., LTD.	—	04/10/20	28.4	357	Internet-based home delivery store information services centered on “Demae Kan” site and planning, development, and operation of e-commerce services	Alliance for Yahoo! Gourmet	Yes
8	Tavigator, Inc.	—	00/03/07	30.0	179	Internet travel agent and travel information services	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
9	INTAGE Interactive Inc.	—	02/10/01	49.0	135	Internet-based research services	Alliance for Yahoo! Research	Yes
Investments								
1	Other investments	—	—	—	186			

Notes:

1. In principle, the date of acquisition is the day that the Company became a shareholder.
2. B/S accounting amounts are shown on a consolidated basis in units of millions of yen. As reference, the subsidiaries' non-consolidated B/S accounting amounts are shown in the following table.

Company	B/S accounting amount (¥M)	Line of business
INFO PLANT CO., LTD.	3,012	Internet-based research services
Firstserver, Inc.	1,971	Information processing services (Server rental, domain registration, and other Internet-related services)
ALPS MAPPING K.K.	810	Planning and creating regional maps, and providing regional map data and regional information services and others
VACS Corporation	240	Development and sale of PC software
BridalNet, Inc.	229	Web-based marriage matchmaking service
NETGENE Co., Ltd.	168	Development of applications for mobile devices
Tricle Inc.	150	Mobile commerce services
Netrust, Ltd.	120	Online settlement-related services
Indival, Inc.	120	Web-based recruiting services
UniCept, Inc.	50	Consulting for Internet business and planning, development and operation of a range of services
Y's Insurance Inc.	30	Life/non-life insurance agency business
Surfmonkey Asia Inc.	26	Inappropriate Internet content blocking/censorship service for homes and schools
Seven and Y Corp.	18	Internet-based sale of publications, CDs, DVDs, etc. and related services
GeoCities Japan Corporation	10	Maintaining domain names ( for maintaining services being offered by the Company )
broadcast.com japan k.k.	10	Maintaining domain names ( for maintaining services being offered by the Company )
Y's Agencies Inc.	10	Planning and sale of ad products
CURIOCITY CORP.	0	Currently, not in actual operation.
Y's Sports Inc.	0	Collecting sports information and producing articles and content
BridalConcierge Corp.	0	Maintaining domain names ( for maintaining services being offered by the Company )
INFO PLANT CHINA CO., LTD.	-	Wholly owned subsidiary of INFO PLANT CO., LTD. Offers marketing and research services in China.
NETGENE SOLUTIONS CO., LTD.	-	Wholly owned subsidiary of NETGENE Co., Ltd. Currently, not in actual operation.
eS!Books Research CORP.	-	Wholly owned subsidiary of Seven and Y Corp. Maintaining domain names.