

Results for the Three Months Ended June 30, 2006 (FY2006-1Q) (Consolidated Basis)

2006.7.21

Company name **Yahoo Japan Corporation** (code number: 4689 TSE 1st 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 1 Subsidiary removed from consolidation 7

Company newly accounted for by the equity method 0

Company no longer accounted for by the equity method 0

*The Company removed from consolidation the companies which are not in actual operation and are not necessary for rational evaluation of the Group's financial position and performance.

2. Results for FY2006-1Q (April 1, 2006-June 30, 2006)

(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 (%)	
FY2006-1Q	49,266	(26.7)	23,990	(30.3)	22,942	(28.8)	13,202	(28.1)
FY2005-1Q	38,876	(58.7)	18,407	(36.6)	17,818	(31.8)	10,310	(24.1)
(For reference) FY2005	173,695		82,133		79,867		47,090	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-1Q	218.40	217.93
FY2005-1Q	682.76	680.92
(For reference) FY2005	1,536.40	1,532.38

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

FY2006-1Q: 60,453,036 shares FY2005-1Q: 15,100,701 shares
FY2005: 30,541,230 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 4~5 and 11~12 of the Attached Materials.

(2) Consolidated Financial Position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2006-1Q	261,682	151,203	57.3	2,501.07
FY2005-1Q	129,847	103,731	79.9	6,869.19
(For reference) FY 2005	190,974	142,455	74.6	4,707.60

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

FY2006-1Q: 60,455,318 shares

FY2005-1Q: 15,101,016 shares

FY2005 30,225,105 shares

(3) Consolidated Cash Flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the periods
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2006-1Q	9	-124,056	75,072	48,896
FY2005-1Q	3,250	-15,316	-3,560	53,365
(For reference) FY2005	59,604	-27,532	-3,028	98,035

* For detailed information regarding changes in financial status, please see Pages 8~10 and 14 of the Attached Materials.

3. Business Outlook for FY2006-2Q (July 1, 2006-September 30, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-2Q	51,000~54,900	22,600~25,900	13,100~14,900
FY2006-Interim	100,267~104,167	45,542~48,842	26,303~28,103

Estimated consolidated net income per share for the quarter: ¥216.70~ ¥246.47

Estimated consolidated net income per share for the interim period: ¥435.10~ ¥464.87

(For reference) Non-Consolidated Business Outlook for FY2006-2Q (July 1, 2006-September 30, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-2Q	47,000~50,600	23,200~26,600	14,000~15,900
FY2006-Interim	92,662~96,262	46,969~50,369	28,230~30,130

Estimated non-consolidated net income per share for the quarter: ¥231.58~ ¥263.01

Estimated non-consolidated net income per share for the interim period: ¥466.97~ ¥498.40

Forward-Looking Information Used in Performance Estimates

Performance estimates have been made based on the information available to Yahoo Japan Corporation (the "Company"), and the Company and its consolidated subsidiaries and affiliates (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 6 of the Attached Materials.

The average number of outstanding shares (60,453,036 shares) used in the calculation of estimations above is the average for the three month ended June 30, 2006.

【For reference】 Non-Consolidated Results for FY2006-1Q (April 1, 2006-June 30, 2006)

(1) Non-consolidated Financial Results

(Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2006-1Q	45,662 (33.7)	23,725 (28.3)	23,768 (27.6)	14,230 (26.4)
FY2005-1Q	34,161 (49.8)	18,495 (37.7)	18,630 (38.0)	11,254 (34.2)
(For reference) FY2005	154,460	81,588	82,111	49,725

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-1Q	235.39	234.89
FY2005-1Q	745.27	743.25
(For reference) FY2005	1,622.67	1,618.42

Notes: 1. Average outstanding shares during the periods

FY2006-1Q: 60,453,036 shares FY2005-1Q: 15,100,701 shares
 FY2005: 30,541,230 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

(Amounts less than one million yen are omitted)

	Total assets	Net asset	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2006-1Q	258,558	154,220	59.6	2,550.99
FY2005-1Q	126,430	105,445	83.4	6,982.66
(For reference) FY2005	187,268	145,853	77.9	4,820.02

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

FY2006-1Q: 60,455,318 shares FY2005-1Q: 15,101,016 shares
 FY2005: 30,225,105 shares

Attached Materials

Highlights for the Three Month Ended June 30, 2006

- Net sales rose 4.7% from the previous quarter and 26.7% year on year, to ¥49.2 billion. Operating income was ¥23.9 billion, increasing 1.7% from the previous quarter and 30.3% from a year earlier. Ordinary income amounted to ¥22.9 billion, remaining the same level as in the previous quarter, but rising 28.8% year on year.
- Overall advertising business sales growth was lower than expected in the first quarter. The seasonal effects of the start of the new fiscal year and the Golden Week holidays affected our advertising sales. Also, the slow down in business sentiment and advertising restraint, including Internet advertising, being practiced by some companies had a negative impact on sales. Under these circumstances, in an effort to promote branding advertising, we strengthened the development of various types of advertising products reflecting advertisers' needs. The Group also actively proposed highly creative advertising campaigns using advertising linked to TV and magazine advertising. In addition, Vodafone K.K. (SOFTBANK MOBILE Corp.) ran advertising campaign along with the release of new models. As a result, advertising sales to National Clients posted firm growth. Sponsor Site sales were flat in the first quarter compared with the previous quarter because of the seasonal downturn in the market. As a result, the sales of advertising business were rising 3.4%* from the previous quarter and 50.8%* year on year, to ¥21.2 billion.
- In the Group's business services business, the sales of Yahoo! Rikunabi were relatively low compared with the previous quarter because of the end to annual corporate recruiting campaigns, but were still up substantially year on year. As a result, revenues from information listing fees were firm. Tenant fees and sales commissions for Yahoo! Auctions and Yahoo! Shopping rose in line with growth in registered merchant stores. The number of merchant stores registered on these sites totaled 19,676 at the end of the quarter, increasing 3,353 stores, or 20.5% from the end of previous quarter and 9,939 stores or 102.1% up from the end of the same quarter in the previous fiscal year. Consequently, the sales of business services business grew 2.7%* from the previous quarter and 42.9%* year on year, to ¥10.7 billion.
- In the Group's personal services business, despite an increase of the system-use fees for transactions to 5% from 3%, there was no large decline in use, and revenues from system-use fees increased favorably. With the goal of acquiring new users, we changed the qualifications for participation in Yahoo! Auctions, and ran various promotions in the first quarter. Although these efforts demonstrated some positive results, such as the daily number of items listed topping the 10 million mark for the first time, some of our planned measures were late in getting started, preventing us from reaching our targeted growth in transaction volume. The number of Yahoo! Premium member IDs rose to 6.35 million at the

end of June, up 0.2 million IDs or 3.2% from the end of the previous quarter, supporting firm growth in Yahoo! Premium revenue. Yahoo! BB's ISP revenue also advanced during the quarter. Overall, personal services business sales increased 7.6%* from the previous quarter and 20.1%* from a year earlier, to ¥17.2 billion.

- As described previously, the sales of advertising business did not meet the expectations of the Group during the first quarter. Also, the measures to acquire new Yahoo! Auctions users, such as the change in the qualifications for participation and the promotional campaigns, did not pushed up the Yahoo! Auctions transaction volume at the anticipated speed. Therefore, net sales fell below the range of our business outlook. Thanks to efforts to slow the growth of the overall business expenses, however, profits were within the range.

* Because of the changes in segmentation method made in the new fiscal year, comparative percentage figures for the previous quarter and same period in the previous year are not exact percentages, and included only as approximate figures for comparative purposes.

- Based on an agreement in the mobile communications business alliance reached with SOFTBANK CORP., the Company invested ¥120.0 billion in the business through the purchase of preferred shares and share acquisition rights of BB Mobile Corp. a subsidiary of SOFTBANK. The Company raised ¥80 billion through a syndicated loan arranged by Mizuho Corporate Bank, Ltd.
- In May 2006, the Company agreed to form a comprehensive business alliance with JR East (East Japan Railway Company) and began preparations to offer users more convenient services, such as settlement method for Yahoo! JAPAN services using JR East's mobile Suica. In June 2006, the Company also concluded a business and capital alliance agreement with the Sumitomo-Mitsui Banking Corporation (SMBC) Group. As the first step in the agreement, the partners will introduce a new service that boosts the convenience of settlements between users of Yahoo! Auctions. The partners plan to introduce the new service in November 2006.
- The total page views of the official 2006 FIFA World Cup™ site operated by the Group up to July 10, 2006 (Japan time), the last day of the event, surpassed 1 billion page views. Moreover, the Japanese version official mobile 2006 FIFA World Cup™ site recorded the highest page views among other official mobile site operated in 9 languages of the world.

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 degree of service usage by its customers are 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 commerce 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 "Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2007 (FY2006-Interim)" is the aggregation of FY2006-2Q estimates together with the actual result of FY2006-1Q.

Consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-2Q) (July 1, 2006 to September 30, 2006)

Net sales	¥51,000 million ~ ¥54,900 million
Ordinary income	¥22,600 million ~ ¥25,900 million
Net income	¥13,100 million ~ ¥14,900 million

Consolidated Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2007 (FY2006-Interim) (April 1, 2006 to September 30, 2006)

Net sales	¥100,267 million ~ ¥104,167 million
Ordinary income	¥45,542 million ~ ¥48,842 million
Net income	¥26,303 million ~ ¥28,103 million

Non-consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-2Q) (July 1, 2006 to September 30, 2006)

Net sales	¥47,000 million ~ ¥50,600 million
Ordinary income	¥23,200 million ~ ¥26,600 million
Net income	¥14,000 million ~ ¥15,900 million

Non-Consolidated Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2007 (FY2006-Interim) (April 1, 2006 to September 30, 2006)

Net sales	¥92,662 million ~ ¥96,262 million
Ordinary income	¥46,969 million ~ ¥50,369 million
Net income	¥28,230 million ~ ¥30,130 million

1. Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2006	As of March 31, 2006	Comparison with the previous quarter		As of June 30, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Assets							
Current assets							
Cash and cash equivalents (*1)	48,900	98,038	-49,138	-50.1%	53,365	-4,464	-8.4%
Accounts receivable-trade (*2)	26,415	25,213	1,201	4.8%	18,884	7,530	39.9%
Short-term loans (*3)	2,514	3,656	-1,142	-31.2%	3,375	-861	-25.5%
Deferred tax assets	2,233	3,472	-1,239	-35.7%	1,669	563	33.8%
Other current assets (*4)	5,977	3,613	2,364	65.4%	2,734	3,243	118.6%
Allowance for doubtful accounts (*5)	-2,195	-1,805	-389	21.6%	-1,378	-817	59.3%
Total current assets	83,845	132,188	-48,343	-36.6%	78,651	5,194	6.6%
Fixed assets							
Tangible fixed assets							
Buildings and structures	1,714	1,518	196	12.9%	1,624	90	5.6%
Machinery and equipment	12,467	12,414	53	0.4%	10,730	1,736	16.2%
Other tangible fixed assets	88	82	6	7.3%	51	36	71.5%
Total tangible fixed assets	14,270	14,015	255	1.8%	12,406	1,864	15.0%
Intangible fixed assets							
Software (*6)	8,145	7,545	599	7.9%	4,135	4,009	97.0%
Goodwill (*7)	4,359	4,128	230	5.6%	1,765	2,594	147.0%
Other intangible fixed assets	28	28	-0	-0.6%	21	6	27.6%
Total intangible fixed assets	12,532	11,702	830	7.1%	5,922	6,610	111.6%
Investments and others							
Investment securities (*8)	146,024	28,700	117,324	408.8%	26,922	119,101	442.4%
Long-term loans (*3)	-	-	-	-	2,514	-2,514	-100.0%
Others (*9)	5,031	4,389	641	14.6%	3,439	1,591	46.3%
Allowance for doubtful accounts	-22	-21	-0	0.8%	-9	-12	126.1%
Total investments and others	151,033	33,067	117,965	356.7%	32,867	118,166	359.5%
Total fixed assets	177,837	58,785	119,051	202.5%	51,196	126,641	247.4%
Total assets	261,682	190,974	70,707	37.0%	129,847	131,835	101.5%

(Millions of yen)

	As of June 30, 2006	As of March 31, 2006	Comparison with the previous quarter		As of June 31, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Liabilities							
Current liabilities							
Accounts payable-trade	761	889	-127	-14.3%	1,299	-537	-41.3%
Short-term loans (*10)	20,168	208	19,960	-	349	19,819	-
Accounts payable-other (*11)	10,072	12,418	-2,346	-18.9%	7,916	2,156	27.2%
Accrued income taxes (*12)	9,355	23,484	-14,128	-60.2%	7,284	2,071	28.4%
Reserve for point system	1,432	1,336	95	7.2%	703	729	103.7%
Other current liabilities (*13)	7,766	7,151	614	8.6%	5,414	2,351	43.4%
Total current liabilities	49,558	45,489	4,069	8.9%	22,967	26,591	115.8%
Long-term liabilities							
Long-term loans (*10)	60,090	30	60,060	-	43	60,047	-
Long-term deferred taxes	816	1,618	-802	-49.6%	2,482	-1,665	-67.1%
Reserve for retirement allowances	-	-	-	-	14	-14	-100.0%
Other long-term liabilities	13	13	-0	-0.5%	153	-140	-91.0%
Total long-term liabilities	60,921	1,663	59,258	-	2,693	58,227	-
Total liabilities	110,479	47,152	63,327	134.3%	25,660	84,818	330.5%
Net assets							
Shareholders' equity							
Common stock (*14)	7,066	7,032	33	0.5%	6,724	341	5.1%
Additional paid-in capital	2,147	2,113	33	1.6%	1,805	341	18.9%
Retained earnings (*15)	135,130	126,737	8,392	6.6%	89,957	45,173	50.2%
Treasury stock	-28	-28	-	-	-27	-0	0.8%
Total shareholders' equity	144,315	135,856	8,459	6.2%	98,459	45,856	46.6%
Evaluation and exchange Adjustments (*16)	5,564	6,598	-1,034	-15.7%	5,272	291	5.5%
Share subscription rights	0	-	0	-	-	0	-
Minority interests in consolidated subsidiaries	1,322	1,367	-44	-3.3%	454	867	190.7%
Total Net assets	151,203	143,822	7,380	5.1%	104,186	47,016	45.1%
Total liabilities and net assets	261,682	190,974	70,707	37.0%	129,847	131,835	101.5%

Main Points Regarding Consolidated Balance Sheets for the First Quarter

Assets

- *1 The decrease in cash and cash equivalents compared with the previous quarter and year on year despite earnings growth based on sales activities was chiefly due to the acquisition of investment securities and the payment of taxes and public dues.
- *2 The increase in accounts receivable-trade compared with the previous quarter and year on year is chiefly due to increase in personal services and advertising business sales.

- *3 The decrease in short-term loans compared with the previous quarter is chiefly due to the recovery of loans made based on a finance scheme for Yahoo! BB's business. All such long-term loan amounts have now been transferred to short-term loans.
- *4. The main components of other current assets were prepaid expenses and accrued revenues.
- *5. The increase in allowance for doubtful accounts compared with the previous quarter and year on year was mainly due to a rise in claims against individuals.
- *6. Software increased compared with the previous quarter and year on year principally due to the development of in-house system.
- *7. Although there were amortization expenses booked during the quarter, goodwill increased compared with the previous quarter due to the additional acquisition of shares of INFOPLANT CO., LTD.
- *8. Investment securities increased during the quarter compared with the previous quarter and year on year primarily because of the investment in BB Mobile Corp.
- *9. The primary component of others in investment and others was guarantee deposits.

Liabilities

- *10. The increase in short-term loans and long-term loans compared with the previous quarter and year on year can principally be attributed to the loan made along with the investment in BB Mobile Corp.
- *11. The decline in accounts payable—other compared with the previous quarter was mainly due to payment for servers and other equipment purchased in the previous quarter.
- *12 The decrease in accrued income taxes compared with the previous quarter can primarily be attributed to the payment of income taxes and public dues.
- *13 The main components of other current liabilities were deposits payable related to the business of Netrust, Ltd and accrued consumption tax.

Net Assets

- *14 The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.
- *15 The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.

*16 The decrease in the evaluation and exchange adjustment compared with the previous quarter and increase compared with the previous fiscal year was mainly due to the mark-to-market of investment securities.

2. Consolidated Statements of Income (April 1, 2006-June 30, 2006)

(Millions of yen)

	Three months ended June 30, 2006		Three months ended March 31, 2006	Comparison with the previous quarter		Three months ended June 30, 2005
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	49,266	100.0%	47,056	2,209	4.7%	38,876
Cost of sales	2,036	4.1%	1,662	373	22.5%	3,487
Gross profit	47,230	95.9%	45,394	1,836	4.0%	35,388
SG&A expenses	23,240	47.2%	21,806	1,433	6.6%	16,981
Personnel expenses (*1)	4,438	9.0%	4,002	436	10.9%	3,341
Business commissions (*2)	3,398	6.9%	3,013	385	12.8%	2,278
Sales commissions	2,514	5.1%	2,430	83	3.4%	1,807
Communication charges (*3)	1,973	4.0%	1,541	431	28.0%	1,376
Depreciation expenses (*4)	1,706	3.5%	2,017	-311	-15.4%	1,358
Sales promotion costs (*5)	1,642	3.3%	1,895	-252	-13.3%	1,353
Royalties	1,387	2.8%	1,335	51	3.9%	1,034
Lease and utility expenses	1,287	2.6%	1,229	58	4.7%	860
Content provider fees	1,046	2.1%	1,015	30	3.0%	666
Payment commissions	810	1.6%	718	92	12.8%	557
Allowance for doubtful accounts (*6)	608	1.2%	368	240	65.3%	219
Advertising costs	449	0.9%	442	7	1.7%	355
Amortization of goodwill	351	0.7%	301	50	16.8%	191
Administrative and maintenance expenses	339	0.7%	310	28	9.1%	238
Tax and public dues	210	0.4%	232	-22	-9.6%	161
Others (*7)	1,074	2.4%	950	123	13.0%	1,179
Operating income	23,990	48.7%	23,587	402	1.7%	18,407
Non-operating expenses (income)	-1,047	-2.1%	-647	-400	-	-588
Ordinary income	22,942	46.6%	22,940	2	0.0%	17,818
Extraordinary gains (losses)	423	0.8%	-1,196	1,619	-	-36
Quarterly income before income taxes	23,365	47.4%	21,744	1,621	7.5%	17,782
Income taxes, inhabitants' taxes and enterprise taxes	8,961	18.2%	10,661	-1,700	-16.0%	7,122
Adjustment to income taxes	1,103	2.2%	-1,990	3,093	-	321
Minority interests in gains of consolidated subsidiaries	98	0.2%	81	17	21.5%	27
Quarterly net income	13,202	26.8%	12,991	211	1.6%	10,310

Main Points Regarding Statements of Income for the First Quarter

Net Sales

The growth in net sales from the previous quarter can be mainly attributed to increased sales of the personal services business.

Cost of Sales

Cost of sales decreased from the same quarter in the previous fiscal year, primarily because Seven and Y Corp. was removed from the consolidation in the previous quarter due to the partial sale of shares.

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 2,948 up 879, or 42.5%, 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 contract employees, the settlement operations of the Personal Services Business, and Yahoo! BB's call center.

***3 Communication charges**

Communication charges increased compared with the previous quarter and year on year primarily because of the expansion of data center.

***4 Depreciation expenses**

Despite the addition of servers and other equipments, a clean up of book values at the beginning of the fiscal year resulted in depreciation expenses decreasing compared with the previous quarter.

***5 Sales promotion costs**

Sales promotion costs decreased compared with the previous quarter because of the decrease in Yahoo! Points expenses and in subscriber acquisition expenses related to Yahoo! BB's operations.

***6 Allowance for doubtful accounts**

The allowance for doubtful accounts increased compared with the previous quarter and year on year principally due to the expansion in claims against individuals.

*7 Others

The major points of others were an increase in compensation payments and travel and transportation expenses and a decrease in fixtures and fittings and hiring expenses.

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 components of non-operating expenses were equity in loss on investment and loan interest.

Extraordinary Gains (Losses)

The major extraordinary gain recorded during the quarter was a gain on sale of investment securities, while the major extraordinary loss was loss on sales of investment securities.

Income Taxes, etc.

The effective income tax rate for the quarter was 43.1%.

Minority Interests in Gains of Consolidated Subsidiaries

Minority interest gains 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 ¥218.40.

3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2006	Three months ended March 31, 2006	Three months ended June 30, 2005
Cash flows from operating activities:			
Income before income taxes for the periods	23,365	21,744	17,782
Depreciation and amortization	1,808	2,102	1,399
Losses on impairment	-	60	-
Amortization of goodwill	351	349	262
Increase/decrease in allowance for doubtful accounts	390	11	-27
Additions to reserve for point system	95	178	225
Decrease/increase in reserve for retirement allowances	-	-28	0
Losses on disposal of fixed assets	4	87	42
Losses on sale of fixed assets	-	0	21
Losses on evaluation of investment securities	-	1,087	-
Gains/losses on sale of investment securities	-182	-500	-37
Cost for dissolution of business alliance	-	597	-
Equity in losses/gains under the equity method	1,047	703	705
Gains/losses on change in affiliate holding ratio	-106	25	-
Proceeds from interest and dividends	-106	-128	-181
Interest expenses	72	0	1
Decrease/increase in inventory	46	-43	12
Increase in accounts receivable-trade (*1)	-1,175	-2,649	-504
Decrease/increase in accounts payable-trade	-126	162	70
Increase in accounts receivable-other (*2)	-2,602	-625	-1,022
Increase in accounts payable-other	272	1,171	1,246
Decrease/increase in consumption tax payable	-564	230	-547
Other cash flows	307	-159	54
Payment for dissolution of business alliance	-	-597	-
Payment of income taxes and other taxes (*3)	-22,886	-159	-16,254
Cash flows from operating activities	9	23,618	3,250
Cash flows from investing activities:			
Expenditures on tangible fixed assets (*4)	-3,142	-2,092	-1,979
Expenditures on intangible fixed assets	-1,400	-1,413	-1,023
Expenditures on investment securities (*5)	-120,050	-1	-11,833
Proceeds from sale of investment securities	391	906	37
Expenditures on increase in equity funds	-74	-56	-60
Proceeds from decrease in equity	-	0	-
Expenditures from acquisition of stock of subsidiaries	-	-1,061	-376
Expenditures from sale of stock of subsidiaries	-	-865	-
Expenditures from additional acquisition of stock of subsidiary	-755	-	-
Proceeds from recovery of lending	1,142	1,115	30
Expenditures on increase in guarantee deposit assets	-265	-430	-279
Proceeds from decrease in guarantee deposit assets	9	35	1
Proceeds from interest and dividends	94	104	167
Other cash flows	-6	5	-0
Cash flows from investing activities	-124,056	-3,755	-15,316

(Millions of yen)

	Three months ended June 30, 2006	Three months ended March 31, 2006	Three months ended June 30, 2005
Cash flows from financing activities:			
Proceeds from short-term loan	-	20	240
Redemption of short-term loan	-36	-102	-200
Proceeds from long-term loan (*6)	80,070	-	-
Redemption of long-term loan	-12	-	-
Proceeds from issuance of shares	62	248	64
Proceeds from payments by minority interests	15	-	-
Expenditures on treasury stock	-	-0	-
Expenditures on payments of dividends (*7)	-4,715	-0	-3,654
Interest expenses	-26	-0	-1
Other cash flows	-285	-14	-9
Cash flows from financing activities	75,072	150	-3,560
Net change in cash and cash equivalents	-48,975	20,013	-15,627
Cash and cash equivalents at the beginning of the periods	98,035	78,021	68,992
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-163	-	-
Cash and cash equivalents at the end of the periods	48,896	98,035	53,365

Main Points Regarding Statements of Cash Flows for the First Quarter

Cash Flows from Operating Activities

- *1 Accounts receivable-trade
The increase was chiefly attributable to growth in personal services business and advertising business sales.
- *2 Accounts receivable-other
The increase was chiefly attributable to growth in prepaid expenses and accrued revenues.
- *3 Payment of income taxes and other taxes
This amount resulted from regular periodic payment of income taxes and other taxes.

Cash Flows from Investing Activities

- *4 Expenditures on tangible fixed assets
Expenditures were a result of purchase of servers and other equipment.
- *5 Expenditures on investment securities
This amount chiefly resulted from the investment in BB Mobile Corp.

Cash Flows from Financing Activities

- *6. Proceeds from long-term loan
This amount mainly resulted from the loan taken out for the investment in BB Mobile Corp.
- *7. Expenditures on payments of dividends
This amount resulted from dividends paid from the allocation of profits.

4. Segment Information

Outline of Businesses

Type of Business	Sales Content
Advertising	<p>Sales of banner, e-mail advertising, and other advertising listed on the sales sheet as well as related sales.</p> <ul style="list-style-type: none"> • Sales of banner, text, and e-mail advertising and cost for planning and production of advertising. • Paid search services (Sponsor Site)
Business Services	<p>Sales to corporations other than advertising.</p> <ul style="list-style-type: none"> • Information listing fees for Yahoo! Rikunabi, Yahoo! Real Estate, Yahoo! Autos, and others. • Tenant fees and sales commissions for B to C auctions at Yahoo! Auctions and Yahoo! Shopping. • Yahoo! BB customer acquisition and continual incentive fees • Yahoo! Research, Business Express, Yahoo! WebHosting, and other sales.
Personal Services	<p>Sales from services for individuals.</p> <ul style="list-style-type: none"> • System-use fees for Yahoo! Auctions. • Yahoo! Premium revenues. • Yahoo! BB ISP fees, content fees and others.

Note:

The Company reclassified its business segments from FY2006-1Q into the advertising business, business services business, personal services business, and elimination or corporate, in contrast to the classification of six business divisions and corporate common business- elimination or corporate used prior to FY2006-1Q.

FY2006-1Q (April 1, 2006-June 30, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	21,238 (43.1%)	10,757 (21.8%)	17,297 (35.1%)	49,292 -	-25 (-0.0%)	49,266 (100.0%)
Operating expenses	9,532	6,513	6,616	22,662	2,613	25,276
Operating income (Contribution)	11,705 (48.8%)	4,243 (17.7%)	10,680 (44.5%)	26,629 -	-2,639 (-11.0%)	23,990 (100.0%)

Advertising Business

The advertising market weakened in the first quarter due to slack demand at the start of the new fiscal year, the seasonal effect of the Golden Week holidays, and a slow down in business sentiment. Expectations of benefits from the 2006 FIFA World Cup™ dissipated when Japan was eliminated in the preliminary round. In addition, summer bonus sales campaigns were less robust than usual in June. These trends were also evident in Internet advertising causing business growth to be limited compared with the previous quarter, which had the advantage of the fiscal year-end demand. Moreover, the seasonal lull in advertising by the real estate and

automobile industries and advertising restraint, including Internet advertising, being practiced by some companies had a negative impact on sales.

Under these circumstances, the Group strengthened its cooperative sales organization with advertising agencies and worked to develop new demand and win larger scale advertising with a variety of advertising products designed for specific needs of advertisers, mainly of National Clients. For advertisers desiring to strengthen the impact of their branding advertising, the Group actively proposed mega banner advertising, which distributes advertising using advanced flash technology, resulting in an increase in the number of highly creative advertising campaigns being run using links with TV and magazine advertising. Demand is even greater than before for mega banner advertising because it is being heavily used with such advertising products as Billboard Super Banner, exposure of which is determined based on reach, and Large Square. In addition, Vodafone K. K. (SOFTBANK MOBILE Corp.) ran advertising campaign along with the release of new models. As a result, demand for advertising from National Clients increased, and Yahoo! JAPAN is now recognized as an essential media for advertising campaigns among major advertisers.

Sales of targeting advertising that uses the special features of the Internet continued to grow in popularity, reflecting high demand among National Clients for behavioral advertising that can target a user according to past history of Internet usage. In addition, regional targeting advertising that can distribute advertising according to where the viewer is located has allowed the Group to attract regional advertisers that had been difficult to acquire before.

SP advertising was also affected by the weak advertising market, and sales of text and e-mail advertising of Yahoo! Delivers were not so strong. Sponsor Site sales were flat in the first quarter because of the seasonal downturn in the market. On the other hand, advertising on Yahoo! Mobile expanded as National Clients began to do more mobile advertising along with the increase in the number of users of Yahoo! Mobile.

Based on these efforts, quarterly Advertising Business sales climbed to ¥21.2 billion, registering another record high.

Advertising Products

During the first quarter, sales continued to be strong for high-impact products, and sales of such large-sized products as Large Square, Monster, and Large East Module increased over the previous quarter. Among major projects conducted during the quarter, the use of Yahoo! JAPAN's top page as a base for a promotion campaign by Coca-Cola (Japan) Co., Ltd., linked to the 2006 FIFA World Cup™ attracted a great deal of attention. In addition, Vodafone K. K. (SOFTBANK MOBILE Corp.) ran a large-scale campaign.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.18 to ¥0.60 per page view, rates for targeting-type banner ads varied from ¥0.25 to ¥4.20 per page view, and rates for the large-sized Super Banners varied from ¥0.25 to ¥4.20 per page view. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥4.00 to ¥12.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥8.5 million to ¥15.0 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

Business Services Business

The Business Services Business sales were increased significantly from the previous fiscal year and revenues from information listing fees centered on Yahoo! Rikunabi were firm though the sales of Yahoo! Rikunabi were relatively low compared with the previous quarter because of the end to the recruiting season for corporations. Yahoo! Shopping and Yahoo! Auctions took proactive steps to acquire new stores on their sites. Yahoo! Shopping ran a special bargain free monthly system-use fees campaign for stores while Yahoo! Auctions tried to make individual sellers to become a merchant store by strengthening a link from my auction page, which is used by individual sellers, to the merchant store guide page. As a result, the number of merchant stores registered on Yahoo! Auctions and Yahoo! Shopping totaled 19,676 at the end of the quarter, increasing 3,353 stores, or 20.5% from the previous quarter and 9,939 stores or 102.1% up from the end of same quarter in the previous fiscal year. Along with the growth in the number of registered stores, tenant fees and sales commissions rose solidly. In addition, the Group continued to focus on expanding sales of Yahoo! Research based on the tie-up between INFO PLANT CO., LTD., and INTAGE Interactive Inc.

Supported by these efforts, the sales of Business Services Business amounted to ¥10.7 billion in the first quarter.

Personal Services Business

In the first quarter, on May 21, Yahoo! Auctions increased the system-use fees for transactions to 5% from 3%, but there was no significant fall off in usage. In fact, revenues from system-use fees increased favorably, with June revenues from system-use fees for transactions in auctions between individuals rising about 60% from the previous month. With the goal of acquiring new users of Yahoo! Auctions, we allowed some users who are not Yahoo! Premium members to participate in Yahoo! Auctions, and ran a variety of promotions. Although these efforts demonstrated some positive results, such as the daily number of items listed topping the 10 million mark for the first time and good growth in the number of unique users, including the users of B to C auctions, some planned measures were late in getting started, preventing the achievement of targeted growth in transaction volume. We expected that the change in the qualifications for participation in Yahoo! Auctions would result in a decline in the number of Yahoo! Premium members, but there was little impact during the quarter. The number of Yahoo! Premium member IDs rose 3.2% from the previous quarter to 6.35 million at the end of June, supporting firm growth in Yahoo! Premium revenue. The number of members of Yahoo! BB was 5,089 thousand at the end of June, edging forward 0.8% from the previous quarter and 4.1% year on year. Despite a slow down in the pace of growth, expanding membership contributed to growth in ISP fees. Among other activities, we focused on building sales of paid content services, such as Yahoo! Finance and Yahoo! Streaming.

Overall, Personal Services Business sales for the first quarter amounted to ¥17.2 billion.

5. Operating Review

(1) Member Services Business

Main Services:

Yahoo! BB, Yahoo! Premium, Yahoo! Trading, Yahoo! Insurance, Yahoo! Tickets, Yahoo! LiveTalk, Yahoo! Member Directory, Yahoo! Delivers, Yahoo! Wallet

In the first quarter, the Member Services Business focused on increasing the number of members of Yahoo! Premium, Yahoo! BB, and other membership services, as well as the value of membership. We ran an exclusive campaign for Yahoo! Premium members offering six-months free services for new subscribers to Yahoo! BB. Among the measures taken to increase the value our membership services, we broadcast a variety of streaming content and online special viewing event exclusively for Yahoo! Premium and Yahoo! BB members, including music videos of a special live performance by Kaoru Kishitani, lead vocal of the rock band PRINCESS PRINCESS. To expand usage of our services, we implemented such incentives as offering Yahoo! Points to Yahoo! Premium, Yahoo! BB, and Yahoo! JAPAN card members who opened new accounts on Yahoo! Trading.

Number of Premium Member IDs

April 2006	May 2006	June 2006
6.23 million IDs	6.30 million IDs	6.35 million IDs

Total Subscriber Lines for Yahoo! BB

End of March 2006	End of June 2006
Approximately 5,049 thousand lines (including approximately 1,157 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,089 thousand lines (including approximately 1,155 thousand lines marketed by Yahoo! JAPAN)

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

(2) Auction Business

Main Services:

Yahoo! Auctions, Yahoo! Delivery

In the Auction Business, we put on a strong drive to acquire new users during the first quarter. We conducted a Free Participation Campaign that allowed users who have had a Yahoo! JAPAN ID for three years or more and Yahoo! BB members to participate in Yahoo! Auctions without having to become Yahoo! Premium members. We also ran promotions that attract a great deal of attention, such as tie-ups with magazines and other media and charity auctions linked to the 2006 FIFA World Cup™ event. We made further progress with public-sale auctions during the first quarter. Now a public entities can chose the style of public-sale auction between tendering and bidding and it became possible to offer real estate and non-real estate items at

the same time. Consequently, the number of regional and municipal governments using our public-sale auction services increased to 38.

Yahoo! Auctions Number of Total Listed Items, etc.

	April 2006	May 2006	June 2006
Number of auction unique browsers	25.92 million browsers	27.99 million browsers	28.55 million browsers
Number of total listed items (Monthly average)	9.64 million items	10.10 million items	10.61 million items
Number of stores (As of the end of each month)	7,388 stores	7,776 stores	8,396 stores

Yahoo! Auctions Transaction Volume etc.

	January 2006-March 2006	April 2006-June 2006
Daily average number of new listings	722 thousand items	736 thousand items
Daily average transaction volume	¥1,912 million	¥1,893 million
Average closing price per item	¥5,809	¥5,571
The average ratio of successful auctions per day	34%	32%

Notes:

- Daily average transaction volume does not include cancellations or adjustments.
- The average ratio of successful auctions per day is calculated excluding the ratio for the final days of free listing campaign.

(3) Search Business

Main Services:

Yahoo! Search, Yahoo! Category, Yahoo! Streaming Content Search, Yahoo! Blog Search, Yahoo! Product Search, Yahoo! Dictionary, Yahoo! Translation, Yahoo! Knowledge Search

In the first quarter, the Search Business concentrated on making it easy and convenient for users to get more detailed search results related to their search objectives. For Yahoo! Search, we targeted expanded use and upgraded convenience of use. We made the spell check and the canonicalization, which had only been an option up to now, a normalized setting of Yahoo! Search Technology (YST), and included in a search function as a default setting. During the quarter, we introduced a mobile version of Yahoo! Knowledge Search, enabling mobile users to search and browse the content of questions and answers posted from the personal computer version of Yahoo! Knowledge Search using their mobile phones. Moreover, we created a new design for and improved the convenience of Yahoo! Dictionary, displaying a tabs and search

result index in the text body, and adding an RSS function that distributes “Finding New Words”, a column that introduces new words. We made Yahoo! Blog Search, which was introduced last March, easier to use by including a function enabling users to search for blogs related to each news item listed in the topics on Yahoo! News. According to a major survey company, Yahoo! Blog Search is the most used Internet blog search service in Japan.

(4) Regional Services Business

Main Services:

Yahoo! Area Search, Yahoo! Education, Yahoo! Maps, Yahoo! Rikunabi, Yahoo! Real Estate, Yahoo! Transit, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Healthcare, Yahoo! Coupons, Yahoo! Traffic Information, Yahoo! Phone Book, Yahoo! Internet Certification, Yahoo! Politics, Yahoo! Volunteer, Yahoo! Wedding, Yahoo! Marriage

The Regional Services Business made efforts during the first quarter to offer services that enrich regional lifestyles by fusing Yahoo! JAPAN's services with local information from regions throughout Japan. We improved information coverage, provided enriched services based on submitted information, and expanded and improved mobile versions of services. We linked Yahoo! Gourmet restaurant information services to Yahoo! Phone Book services, increasing the number of restaurants listed by about 15 times, to approximately 600 thousand outlets nationwide. We also added an information submission function to Yahoo! Gourmet to allow users to spread information by word of mouth and improved mobile versions offering the restaurant search services using GPS mobile function. Our Yahoo! Traffic Information service began offering a mobile version that enables users to easily view information on traffic jams or use-restrictions for major highways and roads.

(5) Media Business

Main Services:

Yahoo! Disaster Information, Yahoo! News, Yahoo! Finance, Yahoo! Sports, Yahoo! Weather, Yahoo! TV, Yahoo! Streaming

During the quarter under review, the Media Business emphasized planning and development of content and services that would be supported by users and advertisers. Yahoo! Sports attracted a great deal of attention during the quarter by distributing streaming content of the game highlights of the 2006 FIFA World Cup™ and operating the Japanese version of the official Web site. Along with the start to the major leaguer baseball season, we also launched an official site jointly with Dentsu Inc., and commenced distributing streaming content, such as flash reports on game results. Along with these services, we completely renewed Yahoo! Streaming. In addition, we improved functions for mobile version of Yahoo! Finance, Yahoo! Weather, and Yahoo! News during the first quarter.

(6) Shopping Business

Main Services:

Yahoo! Shopping, Yahoo! GroupBuy, Yahoo! Books, Yahoo! Prize Competition

The Shopping Business targeted expanded use of shopping services by running special features on Mother's Day, Father's Day, Ochugen (summer gift giving), and summer bonus 2006. The total number of stores rose to 11,280 at the end of June 2006, an increase of 1,835 stores, or 19.4% from March 2006. We actively implemented strategies to improve the repeater ratio by conducting a Yahoo! Shopping Points Lottery that ran daily lotteries in which shoppers could win up to 10,000 Yahoo! Points. In addition, during the summer sales drive we conducted campaigns offering shoppers two to four times the usual number of Yahoo! Points for purchases.

Yahoo! Shopping Number of Stores, etc.

	April 2006	May 2006	June 2006
Number of shopping unique browsers	15.31 million browsers	16.33 million browsers	16.26 million browsers
Number of stores (As of the end of each month)	10,773 stores	11,051 stores	11,280 stores

Shopping Related Transaction Volume

	January 2006-March 2006	April 2006-June 2006
Daily average transaction volume	¥397 million	¥424 million

Note:

Yahoo! Travel and Yahoo! Ticket were transferred to another business in the reorganization of the Company in April 2006. However, their transactions are included in the above amounts as shopping-related transaction volume. Transactions from fraudulent orders have been removed from the above amounts.

(7) Social Net Business

Main Services:

Yahoo! 360°, Yahoo! Avatar, Yahoo! Blogs, Yahoo! Message Boards, Yahoo! Messenger, Yahoo! Greetings, Yahoo! Mail, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Chat, Yahoo! Address Book, Yahoo! GeoCities, Yahoo! Groups, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert, Yahoo! Bookmark

Acting as the driver of the development of social media on Yahoo! JAPAN, the Social Net Business endeavored during the quarter to increase the added value content of related services and to link up with various services of Yahoo! JAPAN with the goal of maximizing the networks that connect people. We released a community function and a profile search function of Yahoo! 360° (temporary name), a social network system (SNS) launched last February as beta version. We established an official community for the 2006 FIFA World Cup™ that drew a great deal of

attention. Yahoo! Messenger introduced a new version of its service that includes a voice mail function. Yahoo! GeoCities began offering a new paid service for Web site creation, Yahoo! GeoLite. Yahoo! Mail increased mailbox storage space to 1 GB even on free accounts. We also took steps during the quarter to further improve the reliability, security, and enjoyment of our mail services. As a measure against Phishing fraud, we began attaching a “Y!” mark on all e-mail from Yahoo! JAPAN services verifying that the e-mail is from us.

(8) Lifestyle Business

Main Services:

Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Autos, Yahoo! Computers, Yahoo! Fortune Telling, Yahoo! Movies, Yahoo! Beauty, Yahoo! Comics, Yahoo! Podcast, Yahoo! Games, Yahoo! Second Life

In our Lifestyle Business, we aim to provide social media services in lifestyle related fields that are dealing with highly specialized or individualistic services during the quarter under review. Jointly with the Social Net Business, we launched a beta version of Yahoo! Podcast, an Internet radio program. We drew a great deal of attention in the first quarter by offering original Yahoo! JAPAN Internet radio programs and by including a search function and a function to enable users to register their favorite program. We also began offering Yahoo! Second Life services that help people enjoy their retirement years. We endeavored to expand and improve this service’s content by including special features and columns by experts in specific fields in such categories as politics and economy, lifestyle, health, and nursing care.

(9) Mobile Business

Main Services:

Yahoo! Mobile, Yahoo! Content Store

During the first quarter, the Mobile Business collaborated with SOFTBANK, which purchased Vodafone K.K., in developing Vodafone-dedicated services. We also worked on expanding and improving the mobile services and content for all mobile phones and took various steps to increase usage of our mobile services. We expanded a Disney Collection, from which users can now download such Disney mobile content as call-waiting display flash programs or a sound menu. We ran gift campaigns offering original Disney soundtracks or character goods. We also operated the official mobile 2006 FIFA World Cup™ site. Cooperating with the Regional Services Business, we launched a mobile version of Yahoo! Traffic Information that enables users to easily view information on traffic jams or use-restrictions for major highways and roads on their mobile phones.

	April 2006	May 2006	June 2006
Yahoo! Mobile page views	1,408 million page views	1,488 million page views	1,476 million page views

(10) New Business Office

Main Services:

Yahoo! Research, Yahoo! WebHosting, Yahoo! ezPay, Yahoo! Travel, Yahoo! Business Travel, Yahoo! Points, Yahoo! Card, Yahoo! Benefits, Business Express

During the first quarter, the New Business Office formed a comprehensive business alliance with JR East and concluded a business and capital alliance with The Japan Net Bank, Ltd. and Sumitomo Mitsui Banking Corporation. We also expanded our services, introducing Yahoo! Benefits, a joint service with Benefit One Inc., offering benefit plans for small and medium-sized enterprises and sole proprietor. Furthermore, we strove to expand the number of monitors for Yahoo! Research, and at the end of June, had increased the total of PC and mobile monitors to 1.18 million. Yahoo! Travel targeted increased use of its services by expanding and improving its content and running special features on spas, recommended resorts, and summer vacation picks by travel professionals.

(11) Service Supervising Division

Main Services:

Yahoo! JAPAN Top Page, Yahoo! Safety Net, Yahoo! Kids, My Yahoo!, Yahoo! Toolbar, Yahoo! Newsletter, Yahoo! JAPAN Help Center, Yahoo! Charity Fund

During the first quarter, the Service Supervising Division began offering Yahoo! Safety Net, a filtering service that restricts children from viewing Web sites including inappropriate content, to Yahoo! Premium and Yahoo! BB members free of charge. As part of our social contribution activities to commemorate the 10th anniversary of the start of Yahoo! JAPAN services, we established the non-profit voluntary organization Yahoo! Charity Fund for the purpose of developing a sound and safe Internet society and supporting needy victims in times of disasters.

(Reference)

Yahoo! JAPAN Page Views etc.

	April 2006	May 2006	June 2006
Monthly page views	31,355 million page views	33,252 million page views	32,999 million page views
Number of Yahoo! JAPAN Unique Browsers	110.18 million browsers	116.96 million browsers	118.58 million browsers
Number of Active User IDs on Yahoo! JAPAN	15.87 million IDs	16.20 million IDs	16.24 million IDs

Note:

- Number of Yahoo! JAPAN unique browsers is the browsers which accessed Yahoo! JAPAN services each month.
- Number of active user IDs on Yahoo! JAPAN is the IDs which logged in each month.

New Services

Date	New services and service upgrades
April 1	• Launched Yahoo! Second Life, a service that supports after-retirement lifestyles by proposing ideas and encourages participation.
May 24	• Introduced a beta version of Yahoo! Podcast, an Internet radio program service that can be listened to on personal computers or portable memory players at the listener's own leisure.
June 6	• Began offering Yahoo! Safety Net, a filtering services that prevents children from viewing sites with harmful or inappropriate content.
June 8	• Established Yahoo! Charity Fund, a non-profit voluntary organization for the purpose of the development of a sound and safe Internet society and supporting needy victims in times of disaster.
June 29	• Launched Yahoo! Benefits, a benefit package service for small and medium-sized enterprises and solo proprietor that enables the employee of the member companies to use approximately 15,000 facilities and their services nationwide at low cost.

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 2006."

The report introduces our various CSR activities from three points of view—"good relationship with our customers", "our corporate governance policies" and "making a social contribution"

* "Yahoo! JAPAN Sustainability Report 2006" 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. Volunteer Activities

- Launched the Pink Ribbon Campaign, which aims to heighten awareness of the importance of early discovery, diagnosis, and treatment of breast cancer (May 14 to November 30).
- Launched a Special Feature on 2006 FIFA World Cup™ Volunteers that focused on volunteer activities for soccer (May 23 to July 31).
- Launched Red Ribbon Campaign, which provides basic information on HIV/AIDS and HIV testing (May 29 to November 20).
- Launched “Let’s Work Together to Stop Global Warming Special Feature.” which introduced the global warming issue and impact, energy conservation points, and the Be Friendly to the Earth Project (June 1 to August 31).
- Launched Volunteer Holiday Special Feature introducing “Volunteer Holiday,” a movement that promotes a new type of exchange between cities and countryside where volunteers can take part in activities while residing in rural areas (June 15 to August 20).
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter.
 - Aid for the victims of the earthquake in central Java Island.
 - GREEN STYLE Fund’s “TOKYO Solar City Project.”
 - Surfrider Foundation Japan’s “Protect the Waves and Environment of Hawaii’s North Shore.”
 - The Japanese Foundation for AIDS Prevention’s “AIDS (HIV) Infection State of Emergency in Japan Fund.”
 - Sarajevo Football Project’s “Overcoming Walls between Peoples with Soccer.”
 - The Japan Committee for “Vaccines for the World’s Children.”
 - The Association for Aid and Relief, Japan’s “Let’s Get Rid of Land Mines” Fund.
 - WWF Japan’s “Far East Russia and Maritime Provinces Forest Protection Aid.”

2. 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 first quarter, we held many charity auctions featuring famous people. Among them, we auctioned color illustrations drawn by manga artist Mitsuru Adachi and a Fender guitar strap used by singer Yutaka Ozaki. In total, we held 715 charity auctions during the quarter, raising a total of approximately ¥32.45 million. The funds raised for such charities are being donated to the following charities (not listed in any special order).

- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true
- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- The Japanese Paralympic Committee (JPC), which supports sports events for disabled people.

- The Japan Committee for UNICEF, which works to spread children's rights and understanding of UNICEF's policies and work, and carries out necessary enlightenment and policy recommendation activities.
- NPO Japan Transplant Support Association, which supports people with dysfunctional organs who are undergoing transplants or people donating organs and their families.

3. Others

- To nurture excellence in Internet creativity or related creativity, we held Internet Creative Award 2006 to support expression of ideas that unveil new potential for the Internet (June 1 to November 30).

Risk Factors

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

1. Influence of Internet Markets and Competition

1) Influence of Internet Markets and Infrastructure

a. Dependence on the Growth of Internet Usage

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995, and particularly with the recent spread of broadband communications. As the Group is dependent on the Internet indirectly or 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 backbones 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 almost the entire catalog of Group services is dependent on the Internet, business operations require a stable environment 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 environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and

negatively impacting advertising revenue.

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. Since then the market has grown to the point that, according to the announcement of DENTSU INC., Internet advertising accounted for 4.7% of the total advertising market in 2005, surpassing radio advertising in the same period. 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 Web sites 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 Business

a. Market Shifts Due to Increasing Individual Internet Use

The Group's primary income from personal services business 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 personal services business 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 has 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's personal services business are companies offering electronic commerce, like auctions, ISP 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 ISP services such as @nifty (Nifty Corp.), So-net (Sony Communication Network Corp.), BIGLOBE (NEC BIGLOBE, Ltd.) 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 Business

a. Trends in Corporate Internet Use and Market Change

In business services business, Group income comes mainly from information 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 information listing services, particularly Yahoo! Rikunabi, an employment information listing site jointly operated with Recruit Co., Ltd., making the most of the convenience of its Web sites 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 information 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 BB TECHNOLOGY Corp. (see note) for each new Yahoo! BB account represents important income for the Group's business services business.

The entire Group promotes Yahoo! BB, a comprehensive broadband service

provided jointly by the Company and BB TECHNOLOGY Corp.

It is thought that the start of the Group's Yahoo! BB was a major stride for broadband communications. According to the 2005 White Paper on Telecommunication (Ministry of Internal Affairs and Communications), Japan is No. 2 in the world in terms of number of broadband accounts, with the 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: SOFTBANK BB Corp. ("SBB") underwent a reorganization of its businesses to further strengthen its broadband operations. As part of this process, SBB spun off its modem rental business on November 1, 2005, establishing BB Modem Rental Yugen Kaisha as a modem rental specialist (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 business are companies operating ADSL business, commerce services such as auction and shopping sites, or information listing services via the Internet, etc. in Japanese or mainly for Japanese users.

Information 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 information 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

Distribution of information over the Internet and electronic commerce are under review by the Japanese government. Although, no regulations governing the advertising operations of the Group exist, a number of other countries are now considering regulating Internet use and publishing legal opinions on the subject.

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

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

b. Potential Legal Restrictions on Yahoo! Auctions

There have been recent reports of illegal or fraudulent merchandise bought and sold

via Yahoo! Auctions services.

Effective September 1, 2003, a revision of legislation concerning the sale of used goods to prevent crimes abusing Internet auctions was enforced. In addition to imposing a registration system on Internet auction operators, the reformed 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 8, 2006 the Japanese government introduced its "Plan 2006 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, enhanced efforts by the owners of intellectual property and auction operators through Conference on Anti-distribution of Pirated Intellectual Property on the Internet. When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves that way and will delete their IDs if they do not comply. In collaboration with Internet auction operators, DeNA Co., Ltd. and Rakuten Inc., the Company has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair-company of Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Company is actively working to devise measures against violations. 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 Services

The Group offers Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (securities brokerage service) as membership 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, legal reforms are moving in the direction of reducing the interest rate ceiling stipulated in the Money-Lending Business Control and Regulation Law to the same interest rate ceiling given in the Interest Rate Restriction Law. However, the Company believes that such an action would have little impact on its operations.

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 intermediate 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, the service varies according to the company used.

However, the escrow company receives payment from the purchaser and transfers it to the seller upon 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 payments not made.

b. Solicitation of Securities Transactions

In providing its Yahoo! Trading (securities brokerage service), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated securities houses (see note) 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 on the Internet, both to ban the distribution of illegal or harmful content and to protect the privacy of individuals.

To avoid conflict with Japanese legal restrictions, the Group established a Banner Advertisement Presentation Standard that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Group also maintains the right to list Web sites and remove Web sites 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 Web sites with clauses indicating the full responsibility of the creator for the content of their sites. For such services as bulletin boards, blogs and auctions, where users can exchange information freely, the Group indicates clearly in its contracts with users that illegal or harmful content is prohibited and that full responsibility lies with the 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 during Web-browsing or information posting. To protect minors from harmful

content, the Group is implementing such programs as Yahoo! Kids and Yahoo! Safety Net. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The Group could be subject to claims, reprimands or damage suits from users, related parties or government agencies in regard to the content of advertisements, Websites accessed through links on its sites, contributions to community message boards and/or trading on its auction business. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

d. Third-Party Responsibility

To prevent its customers from misunderstanding or being confused about the scope of services provided by third parties through an agreements with the Group and those provided by the Group itself, it takes measures to ensure their understanding and agreement through user rules or clauses posted on the Group’s sites. Despite these efforts, there is the possibility that these measures will fail and customers will demand compensation for damages from the group that actually are the responsibility of the third party. This could result in additional costs to the Group or hurt 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, it is possible that the Group may be involved in legal disputes with users of these services outside Japan because of the treaty regarding the jurisdictions of international courts.

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

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent

patents and patent applications cover not only technology but also business models. As such, the possibility exists that third parties in possession of these patents will make claims or file suit against the Group and that the Group will be forced to pay large royalties to acquire said patents or have to cease providing certain services.

In addition, the extent to which patent rights can be applied remains unclear. As such, to avoid potential conflicts the Group 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 in addition to in Japan.

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

4) Changes in Accounting Standards

Against the backdrop of the recent trend to establish international accounting standards, the Group has taken action appropriately and quickly to change its accounting standards for severance and retirement benefits, financial instruments, and other categories. However, a significant change in accounting methods could have a material impact on the Group's profits or losses.

3. Information Security Management

1) Group Effort to Achieve Information Security

Due to the rapid growth of the Internet, we have become a society where a variety of information spread quite easily. While the development of this technology has broadened the horizons of Internet users and boosted convenience, it has also turned the importance of the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group needs to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently we are working to protect 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 Security Management Systems (ISMS) certification, which was developed by BSI British Standards. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). As of June 30, 2006 Yahoo Japan Corporation and 11 of its subsidiaries have acquired ISMS certifications. The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

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

Notes:

1. Information Security Declaration

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

The customer and other information held by the Company and its subsidiaries and affiliates, hereinafter referred to as the "Group," is our most important asset. Protecting this information is extremely important not only to us, but 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, non-profit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Web sites based on examinations of their personal information-protection systems, guaranteeing that the site is being monitored on this issue by a third party. As of April 2001, a TRUSTe Certification Institution was established as part of the Japan Engineers Federation, a non-profit organization, in recognition of the spreading use the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms to the privacy-protection policies of TRUSTe and meets the license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree with and follow the guidelines of TRUSTe for the processing of consumer complaints.

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

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

2) Personal Information

a. Group 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 examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. It also handles information access rights within the Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, either deliberately or through negligence, by persons related to the Group, to companies with which business alliances have been concluded, or to companies to which the Group outsources work, etc. Recently, there have been multiple cases of personal information stored on personal computers

being unknowingly leaked onto networks by a virus-infected personal computers of users of file sharing software called Winny. There is also a possibility that third parties may use passwords, etc., to fraudulently access the system, or pretend to be someone else, 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 or not, 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 went into force. However, the Group had already implemented in advance 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 fraud

This type of fraud involves obtaining personal information by sending e-mail pretending to be a financial institution or a company, that tricks people into accessing a fraudulent Web site, where they are asked to input such personal information as credit card numbers, login IDs and passwords or other sensitive information. Damages from money theft using this system are mounting in Europe and the United States, and such cases have become common in Japan as well recently. The National Police Agency has posted warnings about phishing fraud on its Web site.

b. Risk of Fraudulent Use of Credit Cards

In providing services such as Yahoo! Wallet and Yahoo! ezPay, the Group has taken all practical precautions in protecting itself from such problems as the fraudulent use of credit cards as well as the leakage of 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. Furthermore, in order to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater than anticipated costs.

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

Personal information obtained through Group services is held within the Group in principle, and the Group is committed to taking all possible information protection measures as stated above. However, there are cases where the personal information management systems of business partners or stores registered on 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 Web sites or networks being targeted by sending huge volumes of data over a short period of time for the purpose of paralyzing the Web site 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 outbreaks of international conflicts, terrorist attacks or large-scale natural disasters, such as earthquake or tidal wave, the Group expects that its businesses would also be substantially affected.

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operations of the Group's site, causing a disruption in planned advertising business. Or, for their own reasons, the advertising company might stop, reduce, or request extension of advertising period. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstance arise where users would no longer be able to use the Group's paid services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, the Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and its related companies or SBB, BBT and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

In addition, Group operations are vulnerable to fire, power outage, damage to

telephone networks and other phenomena. Its network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other disasters. To cope with accidents and surges in Internet access, the Group intends to continue improving the infrastructure by making systems redundant and duplicating and dispersing its data center.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, 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 March 31, 2006, SOFTBANK CORP. (“SOFTBANK”) was the parent company of the Company, holding 41.3% of the Company’s voting shares. As a holding company, SOFTBANK has a variety of companies operating under its umbrella that are active in a range of business fields and geographic regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecom, e-commerce, media and marketing, broadcasting media, technology services, and an overseas fund investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

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

The Company has signed the following contracts concerning Yahoo! BB with SOFTBANK BB Corp. (“SBB”) and BB TECHNOLOGY Corp. (“BBT”), both of which are subsidiaries of SOFTBANK CORP.

Contract name: Business alliance contract
Contract date: March 8, 2006 (Original contract signed on June 20, 2001)
Contract term: March 8, 2006 ~ (Contract is valid until terminated)
Contracted party: SOFTBANK BB Corp., BB TECHNOLOGY Corp.
1) The Company, SBB, and BBT. will jointly provide Internet access services using FTTH and DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting subscribers of Yahoo! BB services

- * Operating the Yahoo! BB portal site
- * Providing mail and Web site services
- * Providing a fee-collection platform

3) Main responsibilities of SBB and BBT

- * Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks
- * Handling subscriber inquiries and providing technical support
- * From the ISP charge, the Company takes ¥200 per line in exchange for services rendered.

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: BB TECHNOLOGY Corp.
Incentive Fees
* Acquisition incentive fees (100% upon verification of operational subscriber lines) Approx. ¥5,000~¥15,000 per application
* Continuing incentive fees Approx. ¥30~¥280 per month per continuing subscriber

Notes:

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

c. Dependence on SOFTBANK BB Corp. and BB TECHNOLOGY Corp.

The portion of Yahoo! BB business handled by SBB and BBT could indirectly but significantly influence Group performance. If SBB and BBT 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 Venture for Streaming Content

Jointly with SOFTBANK, the Company has established and commenced operations of TV Bank Corporation (“TV Bank”) to strengthen its streaming content business. The partners have collected the necessary human resources and know-how into TV Bank and are proceeding with procurement of streaming content, development and operation of systems for transmitting or searching streaming content, and creation and operation of streaming services. With the cooperation of content providers and advertising firms, the Company intends to develop Yahoo! Streaming and other streaming content services as one of the Company’s core business in the years ahead.

However, should TV Bank not be able to procure content as expected or the cost of the content be greater than expected or should the construction of transmission or search system take more time than anticipated, such conditions could have a serious negative impact on the performance of the Group.

e. Joint Directorships

As of June 30, 2006, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK, as follow:

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

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

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

2) Business Relationship with Yahoo! Inc. Group

a. Licensing Agreements with Yahoo! Inc.

The Group’s operations are based on a licensing agreement with Yahoo! Inc., one of the founding partners of the Company and owner of 33.5% of voting shares as of March 31, 2006. The Yahoo! trademark, software and tools (hereinafter referred to as

"the trademark") used in the operation of the Group's Internet search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License name: YAHOO! JAPAN LICENSE AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
1) Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"> * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! search services") * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! search services 2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3) Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: Royalty calculation method $\{((\text{Consolidated net sales}) - (\text{Advertising sales commissions on a consolidated basis}) - (\text{Cost of sales of consolidated subsidiaries with a different gross margin structure and others})) \times 3\%$

b. The Yahoo! Brand and Cooperation Overseas

The establishment and proliferation of the Yahoo! brand are considered extremely important to the Group, both for attracting users and advertisers and for expanding its

business. The importance of brand recognition is increasing rapidly with the explosive increase in Internet sites and low barriers to entry in the Internet business. Especially given the intensifying competition among Internet companies, expenditures for establishing the Yahoo! brand and boosting brand recognition could increase substantially.

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

It is also possible that third parties 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.

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

d. Other Joint Directorships

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

3) Share Distribution

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

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

6. Dependence on Specific Customers and Third Parties

1) Dependence on Specific Customers

In each of its businesses, the Group has a degree of dependence on sales to specific customers or by specific agencies other than the involved parties described above.

In terms of advertising sales, the revenue of the Group from sales agents, such as certain advertising companies and media reps, provides a high proportion of advertising sales. In 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 there was a change in our business relationships with or sales to or by these customers or agents, or deterioration in their business conditions, or a problem with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

2) Dependence on Third Parties

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken, or for some other reason these providers were unable to continue handling large volumes of access, the Group's

business and operating results could suffer substantial negative effects. In addition, the Group depends on hardware suppliers for rapid delivery, installation and servicing of servers and other equipment necessary for providing information services. Error or delay on the part of these companies could damage the Group's relationship with users, hurt its brand image or impair its operations.

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party's system. These third parties are selected using standards based on suitable technical and operating capabilities, judged by past performance. In addition, the relevant sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise where obstructed operation, or 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 the Group's performance or in the worst case resulting in the termination of the service.

The Group not only relies on the previously mentioned Internet providers, but also many of its services rely on third parties that the Group has consigned operations to or receives information or support from. It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in a negative impact on performance.

7. Technological Innovation and Research and Development

1) Keeping Up with Technology

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

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States, the center of innovation in Internet technologies. With this, the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group may also bear an

increasing load from original development, including a rising level of expenditures for localizing work and preparation for the possibility that technological innovation in Japan will be ahead of that in the United State, and new technologies need to be developed in Japan, instead of in the United States.

2) Research and Development

To respond to the growth and diversification of Internet use and maintain 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 the life cycles of service is 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 on which an advertisement appears are guaranteed for many of our products, and advertising fees are based on them. However, failure to obtain the number of required page views during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or to devise some other type of compensation, which could negatively impact Group advertising revenues.

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

c. Equipment Investment for Quality Service

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group has a capital-investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after 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 its facilities, and carry out research and development.

Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group's profitability 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 its 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. In April 2006, the Company established an Internal Control Office directly under the president of the Company as an independent organization. The new office will improve the effectiveness and efficiency of business administration, increase the reliability of financial reporting, ensure strict legal compliance, and further strengthen the implementation of legal and proper corporate governance. 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 the organization for greater advertising sales and technology development, the Group must increase staff to respond to business diversification: to support the large number of new Web sites created by the recent surge in Internet use; to carry out the operation and management of its community and shopping services; and to control billing and offer customer support 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

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

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

d. Doing Business with a Large Pool of Unspecified Customers

Along with the expansion of its operations and the ramping up of its e-commerce business mainly through subsidiaries and affiliates, the proportion of the Group's revenues stemming directly from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team responsible for strengthening management of this pool of customers and to taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems and the costs of receivables collection.

It is also possible that the 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 payment, the return or exchange of services and goods, and matters related to commissioned third parties, such as distribution or settlement. In order to properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing and computerizing businesses. It is possible that the costs of these measures and improvements could negatively affect the Group's profits. In addition, these measures do not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

e. Collection of Sales Credit Claims

In sales of advertising and other products, the Group carefully examines the credit

standing of clients, following a set of internal rules. It also undertakes sufficient precautions so 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 fluctuations and deterioration of customer business could increase delays in collections and the occurrence of defaults.

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

3) Consolidated Group Operations

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

Tie-ups with the Company's services or network or personnel support are essential to the operations 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 businesses of the Company, its subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several of the subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partners, especially in the areas of sales, supplies, distribution and systems. At this time, relationships with the joint-venture partners are excellent, and the cooperative relationships with these partners contribute strongly to the performance of these Group companies. However, if for some reason a situation occurred that created an obstruction to the business cooperation or the tie-up between the partners, it could be damaging 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) Procurement of Funds for Investment in Mobile Phone Business

In April 27, 2006, SOFTBANK acquired Vodafone K.K. through its subsidiary BB Mobile Corp. which is the subsidiary of Mobiletech Corp. In response to this acquisition, the Company made a ¥120 billion investment in BB Mobile Corp. and undertook the preferred shares and acquired subscription rights. To raise funds for this investment, the Company borrowed ¥80 billion in the form of a syndicated loan arranged by Mizuho Corporate Bank, Ltd.

During the process of raising these funds, the Company fully considered the appropriateness of the size of the loan and its ability to repay the loan from cash flow as well as other loan conditions. Nevertheless, there is a possibility that interest rates could rise causing an increase in the amount of the repayments to financial institutions, which could have an adverse influence on the performance of the Company.

2) Funds Procurement for Yahoo! ezPay Service

Yahoo! ezPay is a payment service provided by the Company's subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust, Ltd., acts as the intermediate in the 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 amount of reimbursement funds by shortening settlement cycle 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 a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a significant negative impact on the Group's business and performance.

3) 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 once a month while reimbursements to merchants will be made about three times a month, it will be necessary to finance those reimbursements. The Group is considering diversification of its funding sources as the business expands,

but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

10. Risk Related to Loans and Investments

1) Loans and Investments

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

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

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

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

2) Participation in Finance Scheme for Yahoo! BB

In a meeting of the Board of Directors held on July 17, 2003, based on the following finance scheme the Group decided to make a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of 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 ¥5.7 billion that will mature in 42 months after that date.

Finance Scheme Summary

* The SPC raises a total of ¥19.14 billion from several lenders as loans and as

investments. This amount is structured as senior and mezzanine loans and a Tokumei Kumiai (TK), an anonymous partnership.

* The SPC acquires modems and a modem-rental agreement from SBB and pays SBB for them using the funds raised.

* The SPC operates a modem-rental business and pays principal and interest to lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fee revenues).

* In the case that modem rental fees are not paid using underlying assets, SBB will provide credit compensation under the terms outlined in the guarantee agreement.

The scheme is based on the assumption that originally estimated rental fees will be paid from the underlying assets and that SBB will provide credit compensation if the rental fees are not paid from 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 finance scheme on a separate basis and make a decision on whether to extend loans based on the merits of each case.

As of June 30, 2006, the outstanding balance of the mezzanine loans is approx. ¥2,515 million, and the SPC has been making its payments without delay.

Note: As a result of the previously mentioned reorganization of the operations of SBB, 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.