

Results for the Interim Period and the Three Months Ended September 30, 2006 (FY2006-2Q) (Consolidated and Non-consolidated Basis)

2006.10.23

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: Yes
(3) Change in scope of consolidation or application of equity method: Yes
New consolidated subsidiary 1 Subsidiary removed from consolidation 1
Company newly accounted for by the equity method 7
Company no longer accounted for by the equity method 0

2. Results for FY2006-2Q (July 1, 2006-September 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 (%)	
FY2006-2Q	51,202	(24.5)	25,009	(31.5)	24,765	(33.5)	13,603	(22.1)
FY2005-2Q	41,140	(55.4)	19,014	(38.6)	18,545	(34.1)	11,143	(28.9)
(For reference) FY2005	173,695		82,133		79,867		47,090	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-2Q	225.01	224.60
FY2005-2Q	707.08	705.25
(For reference) FY2005	1,536.40	1,532.38

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

FY2006-2Q: 60,459,185 shares FY2005-2Q: 15,759,477 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 financial results, please see Pages 4-5 and 11-13 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
FY2006-2Q	285,922	162,689	56.4	2,667.54
FY2005-2Q	151,314	114,648	75.8	7,590.44
(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)

FY2006-2Q: 60,461,244 shares

FY2005-2Q: 15,104,373 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
FY2006-2Q	27,787	-25,940	53	50,797
FY2005-2Q	21,636	-3,632	170	71,539
(For reference) FY2005	59,604	-27,532	-3,028	98,035

* For detailed information regarding changes in financial status, please see Pages 8-9 and 15 of the Attached Materials.

3. Business Outlook for FY2006-3Q (October 1, 2006-December 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-3Q	51,700~55,200	24,000~26,500	13,650~15,200

Estimated consolidated net income per share for the quarter: ¥225.76~ ¥251.40

(For reference) Non-consolidated Business Outlook for FY2006-3Q (October 1, 2006-December 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-3Q	47,800~50,800	24,500~26,800	14,500~15,900

Estimated non-consolidated net income per share for the quarter: ¥239.82~ ¥262.98

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 Page 6 of the Attached Materials.

The number of shares issued and outstanding (60,461,244 shares) used in the calculation of estimations above is as of September 30, 2006.

[For reference]**Non-consolidated Results for FY2006-2Q (July 1, 2006-September 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 (%)			
FY2006-2Q	47,546 (31.5)	24,828 (32.1)	25,336 (33.5)	14,301 (25.7)
FY2005-2Q	36,156 (48.1)	18,794 (37.6)	18,973 (37.9)	11,375 (31.9)
(For reference) FY2005	154,460	81,588	82,111	49,725

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-2Q	236.55	236.13
FY2005-2Q	721.84	719.97
(For reference) FY2005	1,622.67	1,618.42

Notes: 1. Average outstanding shares during the periods

FY2006-2Q:	60,459,185 shares	FY2005-2Q:	15,759,477 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 assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2006-2Q	283,606	166,332	58.6	2,750.99
FY2005-2Q	147,960	116,586	78.8	7,718.73
(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

FY2006-2Q:	60,461,244 shares	FY2005-2Q:	15,104,373 shares
FY2005:	30,225,105 shares		

Attached Materials

Highlights for the Three Months Ended September 30, 2006

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates expanded again during the second quarter. Net sales climbed 3.9% from the previous quarter and 24.5% year on year, to ¥51.2 billion. Operating income amounted to ¥25.0 billion, rising 4.3% from the previous quarter and 31.5% from a year earlier. Ordinary income totaled ¥24.7 billion, increasing 7.9% from the previous quarter and 33.5% from the same period last year.
- Advertising Business sales were under pressure in the second quarter. In addition to the seasonal summer slow down, surging oil prices and stagnant stock prices caused companies to curtail their advertising expenses. In response, the Group sought to provide advertising products that closely matched client needs and worked to develop new demand. Supported by large new advertising orders from such industries as the automobile, cosmetics and toiletries, and real estate and construction industries, branding advertising grew substantially compared with the previous second quarter. Sponsor Site also recorded a significant year-on-year increase in sales. Overall Advertising Business sales in the second quarter stood at ¥21.2 billion, edging up 0.3% from the previous quarter and 35.9% year on year.
- In the Business Services Business, 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 22,304 at the end of the quarter, expanding by 2,628 stores, or 13.4% from the previous quarter, and up by 12,747 stores, or 133.4% year on year. The sales of Yahoo! Rikunabi and Yahoo! Real Estate also grew substantially compared with the second quarter in the prior fiscal year. Consequently, Business Services sales grew 6.3% from the previous quarter and 42.0% year on year, to ¥11.4 billion.
- In the Personal Services Business, the Group pursued further measures to expand the Internet auction market, such as running new TV commercials and introducing affiliate services following last quarter's change in the qualifications for participation in auctions. The increase in the system-use fee for winning bids to 5% from 3% made in the latter half of the first quarter began to fully contribute to revenues in the second quarter, supporting firm growth in system-use fee revenue. Because we partially opened up the qualifications for participation in Yahoo! Auctions to users other than Yahoo! Premium members, there was a decline in the growth of new Yahoo! Premium members. Nevertheless, membership cancellations were limited, and the number of member IDs increased to 6.43 million at the end of the second quarter, rising 80,000 IDs, or 1.3%, from the previous quarter. Overall, Personal Services sales increased 7.0% from the previous quarter and 26.1% from a year

earlier, to ¥18.5 billion.

- We launched Yahoo! Keitai, a service for SOFTBANK mobile terminals, on October 1, 2006. As a result, there was a dramatic surge in page views via SOFTBANK mobile terminals, which rose to about 6 times page views at the end of June 2006. Among many functions of Yahoo! Keitai, the service offers Yahoo! JAPAN searches, easy to access content, and an even higher degree of compatibility between mobile terminals and Yahoo! JAPAN ID-based services. Yahoo! Keitai represents the first step toward a real open mobile Internet service.

- In August 2006, Yahoo! Streaming became the No. 1 Web site for distribution of streaming content in Japan*. During the quarter, Yahoo! Streaming utilized its advanced distribution technology to supply high-quality video to many viewers. One example was the distribution of live broadcasts of the second stage playoffs of Japanese Professional Baseball's Pacific League, which attracted a total of approximately 200,000 viewers.

* According to NetRatings Japan, Inc.

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 as an important factor in their business development. Specifically, we place great significance on the numbers of page views, which indicate overall access and access per service; unique browsers; and active user IDs, which signify the number of Yahoo! JAPAN IDs that log on monthly. In addition, the numbers of Yahoo! Premium IDs, indicating paid 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.

Consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-3Q) (October 1, 2006 to December 31, 2006)

Net sales	¥51,700 million ~ ¥55,200 million
Ordinary income	¥24,000 million ~ ¥26,500 million
Net income	¥13,650 million ~ ¥15,200 million

Non-consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-3Q) (October 1, 2006 to December 31, 2006)

Net sales	¥47,800 million ~ ¥50,800 million
Ordinary income	¥24,500 million ~ ¥26,800 million
Net income	¥14,500 million ~ ¥15,900 million

1. Consolidated Balance Sheets

(Millions of yen)

	As of Sep. 30, 2006	As of June 30, 2006	Comparison with the previous quarter		As of Sep. 30, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Assets							
Current assets							
Cash and cash equivalents	50,801	48,900	1,900	3.9%	71,542	-20,741	-29.0%
Notes and accounts receivable-trade	27,014	26,415	599	2.3%	19,665	7,349	37.4%
Short-term loans (*1)	1,344	2,514	-1,169	-46.5%	4,517	-3,173	-70.2%
Deferred tax assets (*2)	3,113	2,233	880	39.4%	2,565	548	21.4%
Other current assets (*3)	6,448	5,977	470	7.9%	2,762	3,685	133.4%
Allowance for doubtful accounts	-2,382	-2,195	-186	8.5%	-1,577	-805	51.1%
Total current assets	86,340	83,845	2,495	3.0%	99,476	-13,135	-13.2%
Fixed assets							
Tangible fixed assets							
Buildings and structures	1,560	1,714	-154	-9.0%	1,584	-24	-1.5%
Machinery and equipment(*4)	12,769	12,467	301	2.4%	10,883	1,885	17.3%
Other tangible fixed assets	152	88	64	72.4%	56	96	170.6%
Total tangible fixed assets	14,482	14,270	211	1.5%	12,525	1,957	15.6%
Intangible fixed assets							
Software (*5)	9,119	8,145	973	12.0%	5,144	3,974	77.3%
Goodwill	4,035	4,359	-324	-7.4%	1,509	2,525	167.3%
Other intangible fixed assets	27	28	-0	-2.4%	20	6	30.7%
Total intangible fixed assets	13,181	12,532	648	5.2%	6,675	6,506	97.5%
Investments and others							
Investment securities (*6)	166,505	146,024	20,481	14.0%	27,538	138,967	504.6%
Long-term loans	-	-	-	-	1,344	-1,344	-100.0%
Others (*7)	5,434	5,031	403	8.0%	3,780	1,653	43.7%
Allowance for doubtful accounts	-22	-22	-0	2.1%	-26	3	-14.9%
Total investments and others	171,917	151,033	20,884	13.8%	32,637	139,279	426.7%
Total fixed assets	199,581	177,837	21,744	12.2%	51,838	147,743	285.0%
Total assets	285,922	261,682	24,239	9.3%	151,314	134,607	89.0%

(Millions of yen)

	As of Sep. 30, 2006	As of June 30, 2006	Comparison with the previous quarter		As of Sep. 30, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Liabilities							
Current liabilities							
Accounts payable-trade	802	761	40	5.3%	1,146	-343	-30.0%
Short-term loans	20,199	20,168	31	0.2%	239	19,960	-
Accounts payable-other (*8)	11,222	10,072	1,149	11.4%	10,216	1,005	9.8%
Accrued income taxes (*9)	21,070	9,355	11,714	125.2%	16,242	4,827	29.7%
Reserve for point system	1,536	1,432	103	7.2%	934	601	64.3%
Other current liabilities (*10)	8,322	7,766	556	7.2%	5,086	3,235	63.6%
Total current liabilities	63,152	49,558	13,594	27.4%	33,865	29,287	86.5%
Long-term liabilities							
Long-term loans	60,070	60,090	-20	-0.0%	-	60,070	-
Long-term deferred taxes	-	816	-816	-100.0%	1,963	-1,963	-100.0%
Other long-term liabilities	9	13	-4	-32.0%	210	-200	-95.5%
Total long-term liabilities	60,079	60,921	-841	-1.4%	2,173	57,906	-
Total liabilities	123,232	110,479	12,753	11.5%	36,039	87,193	241.9%
Net assets							
Shareholders' equity							
Common stock (*11)	7,100	7,066	33	0.5%	6,803	296	4.4%
Additional paid-in capital	2,181	2,147	33	1.6%	1,884	296	15.7%
Retained earnings (*12)	148,734	135,130	13,603	10.1%	101,100	47,633	47.1%
Treasury stock	-28	-28	-	-	-27	-0	0.8%
Total shareholders' equity	157,987	144,315	13,671	9.5%	109,761	48,226	43.9%
Evaluation and exchange adjustments (*13)	3,295	5,564	-2,268	-40.8%	4,887	-1,592	-32.6%
Share subscription rights	4	0	3	-	-	4	-
Minority interests in consolidated subsidiaries	1,402	1,322	80	6.1%	626	775	123.8%
Total net assets	162,689	151,203	11,486	7.6%	115,275	47,414	41.1%
Total liabilities and net assets	285,922	261,682	24,239	9.3%	151,314	134,607	89.0%

Main Points Regarding Consolidated Balance Sheets

Assets

- *1 The decrease in short-term loans compared with the previous quarter and year on year is due to the recovery of loans made based on a finance scheme for Yahoo! BB's business.
- *2 The growth in deferred tax assets compared with the previous quarter and year on year can be mainly attributed to the booking of enterprise taxes.
- *3 The main components of other current assets were prepaid expenses and accrued revenues.
- *4 The increase in machinery and equipment compared with the previous quarter and year on year was mainly due to the installation of servers and other network equipment.
- *5 Software increased compared with the previous quarter and year on year principally due to the increase in commissioned development of systems for the Company.

- *6 Investment securities increased during the quarter compared with the previous quarter primarily because of the investment in The Japan Net Bank, Limited.
- *7 The primary component of others in investment and others was guarantee deposits.

Liabilities

- *8 The increase in accounts payable—other compared with the previous quarter and year on year was mainly due to the rise in operating expenses and the purchase of tangible fixed assets.
- *9 The increase in accrued income taxes compared with the previous quarter and year on year can be attributed to the expansion in income taxes along with growth in net income.
- *10 The main components of other current liabilities were deposits payable related to the business of Netrust, Ltd. and accrued consumption tax.

Net Assets

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

2. Consolidated Statements of Income (July 1, 2006-September 30, 2006)

(Millions of yen)

	Three months ended Sep. 30, 2006		Three months ended June 30, 2006	Comparison with the previous quarter		Three months ended Sep. 30, 2005
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	51,202	100.0%	49,266	1,936	3.9%	41,140
Cost of sales	2,146	4.2%	2,036	110	5.4%	3,440
Gross profit	49,056	95.8%	47,230	1,825	3.9%	37,699
SG&A expenses	24,046	47.0%	23,240	805	3.5%	18,685
Personnel expenses (*1)	4,679	9.1%	4,438	240	5.4%	3,466
Business commissions (*2)	3,442	6.7%	3,398	43	1.3%	2,654
Sales commissions	2,408	4.7%	2,514	-105	-4.2%	1,877
Communication charges	1,942	3.8%	1,973	-30	-1.5%	1,333
Depreciation expenses (*3)	1,906	3.7%	1,706	199	11.7%	1,537
Sales promotion costs (*4)	1,802	3.5%	1,642	159	9.7%	1,561
Royalties	1,455	2.8%	1,387	68	4.9%	1,096
Lease and utility expenses	1,241	2.4%	1,287	-45	-3.5%	1,004
Content provider fees	1,159	2.3%	1,046	113	10.8%	734
Payment commissions	803	1.6%	810	-6	-0.8%	545
Advertising costs (*5)	729	1.4%	449	279	62.2%	385
Allowance for doubtful accounts	466	0.9%	608	-142	-23.4%	445
Administrative and maintenance expenses (*6)	463	0.9%	339	124	36.6%	255
Amortization of goodwill	353	0.7%	351	1	0.4%	191
Office supplies expenses (*7)	250	0.5%	61	188	303.5%	147
Others (*8)	939	2.0%	1,222	-282	-23.1%	1,446
Operating income	25,009	48.8%	23,990	1,019	4.3%	19,014
Non-operating expenses (income)	-244	-0.4%	-1,047	803	-	-468
Ordinary income	24,765	48.4%	22,942	1,822	7.9%	18,545
Extraordinary losses (gains)	-676	-1.4%	423	-1,099	-	351
Quarterly income before income taxes	24,089	47.0%	23,365	723	3.1%	18,896
Income taxes, inhabitants' taxes and enterprise taxes	11,584	22.6%	8,961	2,623	29.3%	8,829
Adjustment to income taxes	-1,183	-2.3%	1,103	-2,287	-	-1,145
Minority interests in gains of consolidated subsidiaries	85	0.1%	98	-13	-13.7%	69
Quarterly net income	13,603	26.6%	13,202	400	3.0%	11,143

Consolidated Statements of Income (April 1, 2006-September 30, 2006)

(Millions of yen)

	Interim period ended Sep. 30, 2006		Interim period ended Sep. 30, 2005	Comparison with the same period of the last fiscal year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	100,469	100.0%	80,016	20,452	25.6%
Cost of sales	4,182	4.2%	6,928	-2,746	-39.6%
Gross profit	96,286	95.8%	73,087	23,198	31.7%
SG&A expenses	47,286	47.0%	35,666	11,620	32.6%
Personnel expenses (*1)	9,118	9.1%	6,807	2,310	33.9%
Business commissions (*2)	6,841	6.8%	4,932	1,908	38.7%
Sales commissions	4,923	4.9%	3,684	1,238	33.6%
Communication charges	3,916	3.9%	2,709	1,206	44.5%
Depreciation expenses (*3)	3,612	3.6%	2,896	715	24.7%
Sales promotion costs (*4)	3,445	3.4%	2,915	530	18.2%
Royalties	2,842	2.8%	2,131	711	33.4%
Lease and utility expenses	2,528	2.5%	1,864	663	35.6%
Content provider fees	2,206	2.2%	1,401	804	57.4%
Payment commissions	1,614	1.6%	1,103	511	46.3%
Advertising costs (*5)	1,179	1.2%	741	438	59.1%
Allowance for doubtful accounts	1,075	1.1%	664	410	61.8%
Administrative and maintenance expenses (*6)	802	0.8%	494	308	62.3%
Amortization of goodwill	705	0.7%	382	322	84.2%
Office supplies expenses (*7)	311	0.3%	207	104	50.7%
Others (*8)	2,162	2.1%	2,727	-565	-20.7%
Operating income	49,000	48.8%	37,421	11,578	30.9%
Non-operating expenses (income)	-1,292	-1.3%	-1,057	-235	-
Ordinary income	47,707	47.5%	36,364	11,343	31.2%
Extraordinary losses (gains)	-252	-0.3%	314	-567	-
Interim income before income taxes	47,454	47.2%	36,679	10,775	29.4%
Income taxes, inhabitants' taxes and enterprise taxes	20,545	20.4%	15,952	4,593	28.8%
Adjustment to income taxes	-80	-0.1%	-823	742	-
Minority interests in gains of consolidated subsidiaries	183	0.2%	97	86	89.2%
Interim net income	26,806	26.7%	21,453	5,353	25.0%

Main Points Regarding Statements of Income

Net Sales

The growth in net sales from the previous quarter can be mainly attributed to increased sales of the Personal Services Business.

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 2,999 up 785, or 35.5%, 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 Depreciation expenses

The increase in depreciation expenses compared with the previous quarter and year on year was due to the increased installation of servers and other network equipment.

*4 Sales promotion costs

Sales promotion costs for the second quarter rose compared with the first quarter chiefly due to the increase in member acquisition cost for Yahoo! BB.

*5 Advertising costs

The growth in advertising costs compared with the first quarter and a year earlier was chiefly due to the production and running of TV commercials during the second quarter.

*6 Administrative and maintenance expenses

Administrative and maintenance expenses increased compared with the previous quarter and year on year chiefly due to the increase in maintenance cost for software.

*7 Office supplies expenses

The expansion in office supplies expenses compared with the previous quarter and year on year can be primarily attributed to the renewal of a comprehensive licensing contract for office administration software.

*8 Others

The major points of others were an increase in taxes and public dues, and compensation payments, and a decrease in travel and transportation expenses and hiring expenses.

Non-Operating Income (Expenses)

The main component of non-operating income for the quarter was profit distribution from an investment partnership. The main components of non-operating expenses were equity in loss on investment and expenses for loans.

Extraordinary Gains (Losses)

The major extraordinary gain recorded during the quarter was a deemed gain on change in equity holdings, while the major extraordinary loss was loss on evaluation of shares of affiliate.

Income Taxes, etc.

The effective income tax rate for the quarter was 43.2%.

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 ¥225.01.

3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Sep. 30, 2006	Interim period ended Sep. 30, 2006
Cash flows from operating activities:		
Income before income taxes for the periods	24,089	47,454
Depreciation and amortization (*1)	2,019	3,828
Amortization of goodwill	353	705
Increase in allowance for doubtful accounts	187	577
Additions to reserve for point system	103	199
Increase in reserve for director bonuses	83	83
Losses on disposal of fixed assets	62	67
Office relocation expenses	132	132
Losses on evaluation of investment securities	771	771
Gains/losses on sale of investment securities	-69	-251
Liquidation amount for cancellation of business tie up	-101	-101
Equity in losses/gains under the equity method	729	1,777
Gains/losses on change in affiliate holding ratio	-216	-323
Proceeds from interest and dividends	-89	-196
Interest expenses	118	190
Decrease in inventory	4	50
Increase in accounts receivable-trade	-654	-1,830
Increase/decrease in accounts payable-trade	23	-103
Increase in other receivables	-252	-2,855
Increase in other payables (*2)	1,144	1,417
Increase/decrease in consumption tax payable	299	-265
Payment of bonuses to directors	-167	-167
Other cash flows (*3)	-848	-541
Cash received for liquidation for cancellation of business tie up	101	101
Payment of income taxes and other taxes	-37	-22,923
Cash flows from operating activities	27,787	27,796
Cash flows from investing activities:		
Expenditures on tangible fixed assets (*4)	-1,602	-4,745
Expenditures on intangible fixed assets (*5)	-1,299	-2,700
Proceeds from sale of intangible fixed assets	29	29
Expenditures on investment securities (*6)	-25,750	-145,800
Proceeds from sale of investment securities	16	408
Expenditures on increase in equity funds	-136	-210
Proceeds from decrease in equity	1,006	1,006
Expenditures from acquisition of stock of subsidiaries	-15	-15
Proceeds from sale of stock of subsidiaries	80	80
Expenditures from additional acquisition of stock of subsidiary	-	-755
Proceeds from recovery of lending (*7)	1,169	2,311
Expenditures on increase in guarantee deposit assets	-118	-384
Proceeds from decrease in guarantee deposit assets	602	611
Proceeds from interest and dividends	77	172
Other cash flows	0	-5
Cash flows from investing activities	-25,940	-149,997

(Millions of yen)

	Three months ended Sep. 30, 2006	Interim period ended Sep. 30, 2006
Cash flows from financing activities:		
Proceeds from short-term loan	30	30
Redemption of short-term loan	-6	-42
Proceeds from long-term loan	-	80,070
Redemption of long-term loan	-35	-47
Proceeds from issuance of shares (*8)	65	128
Proceeds from payments by minority interests	-	15
Expenditures on payments of dividends	-	-4,715
Interest expenses	-1	-27
Other cash flows	-	-285
Cash flows from financing activities	53	75,125
Net change in cash and cash equivalents	1,900	-47,074
Cash and cash equivalents at the beginning of the periods	48,896	98,035
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-	-163
Cash and cash equivalents at the end of the periods	50,797	50,797

Main Points Regarding Statements of Cash Flows

Cash Flows from Operating Activities

- *1 Depreciation and amortization
The increase resulted mainly from an increase in the installation of servers and other network equipment.
- *2 Increase in other payables
The increase was chiefly attributable to growth in accounts payable-other.
- *3 Other cash flows
The other cash flows were generated primarily by profit distribution from an investment partnership.

Cash Flows from Investing Activities

- *4 Expenditures on tangible fixed assets
The expenditures were mainly for the purchase of servers and other equipment.
- *5 Expenditures on intangible fixed assets
The amount can principally be attributed to commissioned system development.
- *6 Expenditures on investment securities
This amount chiefly resulted from the investment in The Japan Net Bank, Limited.
- *7 Proceeds from recovery of lending
Proceeds resulted mainly from the recovery of loans made based on a finance scheme for Yahoo! BB's business.

Cash Flows from Financing Activities

- *8 Proceeds from issuance of shares
This amount resulted from the exercise of stock options.

4. Segment Information

(1) 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 BtoC 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.

(2) Quarterly Results

FY2006-2Q (July 1, 2006-September 30, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	21,299 (41.6%)	11,436 (22.3%)	18,516 (36.2%)	51,252 -	-49 (-0.1%)	51,202 (100.0%)
Operating expenses	9,552	7,129	6,808	23,489	2,703	26,192
Operating income (Contribution)	11,747 (47.0%)	4,307 (17.2%)	11,708 (46.8%)	27,762 -	-2,752 (-11.0%)	25,009 (100.0%)

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%)

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

	Advertising Business	Business Services Business	Personal Services Business	Other	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	15,672 (38.1%)	8,053 (19.6%)	14,684 (35.7%)	2,744 (6.7%)	41,155 -	-15 (-0.1%)	41,140 (100.0%)
Operating expenses	7,007	4,504	5,950	2,713	20,176	1,950	22,126
Operating income (Contribution)	8,665 (45.6%)	3,548 (18.7%)	8,734 (45.9%)	31 (0.2%)	20,979 -	-1,965 (-10.4%)	19,014 (100.0%)

(3) First-half Results**FY2006 First-half (April 1, 2006-September 30, 2006)****(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	42,537 (42.3%)	22,193 (22.1%)	35,813 (35.6%)	100,544 -	-75 (-0.0%)	100,469 (100.0%)
Operating expenses	19,085	13,642	13,425	46,152	5,316	51,469
Operating income (Contribution)	23,452 (47.9%)	8,551 (17.5%)	22,388 (45.7%)	54,392 -	-5,392 (-11.1%)	49,000 (100.0%)

FY2005 First-half (April 1, 2005-September 30, 2005)**(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Other	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	29,752 (37.2%)	15,530 (19.4%)	29,153 (36.4%)	5,609 (7.0%)	80,045 -	-28 (-0.0%)	80,016 (100.0%)
Operating expenses	13,325	8,410	11,173	5,589	38,499	4,096	42,595
Operating income (Contribution)	16,426 (43.9%)	7,120 (19.0%)	17,980 (48.1%)	19 (0.1%)	41,546 -	-4,124 (-11.1%)	37,421 (100.0%)

Advertising Business

The overall advertising market was somewhat sluggish in the second quarter. Companies curtailed their advertising expenses due to surging oil prices and stagnant stock prices in addition to the seasonal summer slow down. Among other factors, advertisers, especially National Clients, were taking a break following the end of such major advertising events as the Torino Olympics and the 2006 FIFA World Cup™.

Under these circumstances, the Group strengthened its cooperative sales organization with advertising agencies and worked to develop new demand and to provide advertising products that closely matched client needs. The Group actively sold mega banner products such as Billboard Super Banner and Large Square, which distribute advertising by advanced flash technology, in an effort to promote highly creative advertising over the Internet.

Utilizing the special features of the Internet, the Group took steps to develop new demand based on various campaigns that primarily targeted regional markets. As a result, Yahoo! JAPAN was able to demonstrate a strong advertising presence despite the summer seasonal downturn.

Demand was high, particularly among National Clients, for advertising that can target a user according to past history of Internet usage, and the proportion of such products in advertising sales grew. In addition, the Group carried out aggressive sales activities, winning large-scale advertising from companies in the automobile, cosmetics and toiletries, and housing related industries that had previously been reluctant to advertise on the Internet.

Seasonal factors impacted on SP advertising, with sales of the text and e-mail advertising service Yahoo! Delivers and other products softening slightly. Sponsor Site sales, however, improved over the previous quarter. Along with the increase in the number of users of Yahoo! Mobile, mobile advertising expanded as the scope of advertisers broadened.

Consequently, quarterly sales of the Advertising Business amounted to ¥21.2 billion.

Advertising Products

During the second quarter, sales improved compared with the last quarter for branding-type products, such as East Square and Middle Square. In addition, our Curry Special Feature 2006, jointly planned with FamilyMart Co., Ltd., attracted a great deal of attention.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.18 to ¥0.60 per impression*, rates for targeting-type banner ads varied from ¥0.25 to ¥3.60 per impression, and rates for the large-sized Super Banners varied from ¥0.25 to ¥4.20 per impression. 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.

*The "page view" method that has previously been used as the unit for measuring advertisement viewing has been changed to a new method called "impression."

Business Services Business

Yahoo! Shopping and Yahoo! Auctions aggressively focused on adding new stores during the second quarter. Yahoo! Shopping ran a campaign targeting proprietary business owners offering them up to six months of no system-use fees if they signed up during the campaign period. As a result, the number of merchant stores registered on Yahoo! Auctions and Yahoo! Shopping totaled 22,304 at the end of the quarter, increasing 2,628 stores, or 13.4% from the previous quarter. Along with the growth in the number of registered stores, tenant fees and sales commissions rose solidly. Reflecting increase in recruit information listings by companies as yearly recruiting activities warmed up for their start in the second half, listing sales of Yahoo! Rikunabi and the short-term, one-off temporary employment service Shotworks rose substantially compared with the second quarter last year. Yahoo! Real Estate also demonstrated firm sales expansion. In addition to Yahoo! BB posting a strong growth in new members, Yahoo! Research and Yahoo! Travel also recorded significant year-on-year sales increases.

Supported by these efforts, sales of the Business Services Business amounted to ¥11.4 billion in the second quarter.

e-Commerce Related Performance Figures

Yahoo! Shopping Number of Stores, etc.

	July 2006	August 2006	September 2006
Number of shopping unique browsers	16.09 million browsers	15.97 million browsers	16.70 million browsers
Number of stores (As of the end of each month)	11,534 stores	11,848 stores	12,407 stores

Shopping Related Transaction Volume

	April 2006-June 2006	July 2006-September 2006
Daily average transaction volume	¥404 million	¥461 million

Note: Transaction volume represents the combined sales transaction volumes of Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket. Transactions from fraudulent orders and cancellations have been removed from the above amounts.

Yahoo! Auctions Number of Total Listed Items, etc.

	July 2006	August 2006	September 2006
Number of auction unique browsers	28.76 million browsers	28.46 million browsers	29.29 million browsers
Number of total listed items (Monthly average)	11.14 million items	10.92 million items	11.16 million items
Number of stores (As of the end of each month)	8,953 stores	9,423 stores	9,897 stores

Yahoo! Auctions Transaction Volume etc.

	April 2006-June 2006	July 2006-September 2006
Daily average number of new listings	736 thousand items	725 thousand items
Daily average transaction volume	¥1,893 million	¥1,817 million
Average closing price per item	¥5,571	¥5,603
The average ratio of successful auctions per day	32%	28%

Note: Daily average transaction volume is before cancellations or adjustments.

Personal Services Business

In the second quarter, we took steps to further expand the Internet auction market. Following the last quarter's change in the qualifications for participation in Yahoo! Auctions which partially opened it up to users other than Yahoo! Premium members, we ran TV commercial campaigns and introduced affiliate services, using marketing based on consumer-generated distribution media. The increase of the system-use fee for winning bids to 5% from 3% made in the latter part of the first quarter began to fully contribute to revenues in the second quarter, supporting firm growth in system-use fee revenue. Because we opened up the qualifications for participation in Yahoo! Auctions to users other than Yahoo! Premium members, we expected a decline in the number of Yahoo! Premium members. However, the increase in membership cancellations was limited, and the number of member IDs increased to 6.43 million at the end of the second quarter, rising 80,000 IDs, or 1.3%, from the previous quarter. Yahoo! BB membership expanded to 5,146 thousand subscriber lines at the end of the quarter, up 1.1% from the previous quarter and 3.5% year on year, leading to a firm growth in ISP fee revenue. In addition, we introduced an affinity engine that makes recommendations based on a user's purchase history and trends among purchases of other users, concentrating on expanding sales of paid content of such services as Yahoo! Streaming and Yahoo! Fortune Telling.

Overall, sales of the Personal Services Business for the second quarter amounted to ¥18.5 billion.

5. Operating Review

(1) Auction Business

Main Services:

Yahoo! Auctions, Yahoo! Delivery

In the Auction Business, we endeavored to acquire new users and to expand use of our services during the second quarter. In addition to the Free Participation Campaign launched in the first quarter, we developed sales campaigns and promotions, and services that attracted great attention. We ran our first Yahoo! Auctions TV commercial, introduced Yahoo! Auctions Affiliate, which allows users to advertise the items listed, conducted a free item listing campaign, and held a bargain sale jointly with Yahoo! Shopping to commemorate our 7th anniversary. We also started the relay system charity auction “Wa,” in which celebrities refer another celebrity to list items for the next session, aiming to further expand our social contribution activities. Moreover, we stepped up our promotion of use of the Internet by public bodies, increasing the number of regional and municipal governments using our Internet auction services to 56.

(2) 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

The Search Business focused on making it easy and convenient for users to get more detailed search results related to their search objectives. In Yahoo! Knowledge Search, the mobile version of the service launched in the first quarter steadily grew in use. We also formed a business tie-up with Kenko.com, Inc., which sells such items as health foods, healthcare products, and cosmetics, beginning to offer a user-participation help function service. Moreover, we have continued to expand the user base of our Yahoo! Blog Search service, which maintains the No. 1 share of the market in Japan according to a survey by Video Research Ltd. We also improved the convenience of Yahoo! Product Search, expanding its search scope to include such stores as the iTunes Store. As a result, Yahoo! Product Search now covers more than 25 million items.

(3) 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 second 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. Aiming to expand the membership of Yahoo! BB, in collaboration with SOFTBANK BB Corp., we sold such services as Yahoo! BB 8M (no BB Phone) and Yahoo! BB ADSL No Telephone Line Required, special services for first time members sold through Yahoo! JAPAN. Linking up with other services of Yahoo! JAPAN, we sold tickets to a Kumi Koda concert tour exclusively to members of Yahoo! Premium and Yahoo! BB before being available to the public. Among the measures taken to increase the value of our membership services, we broadcast online special viewing events of such newly released movies as Tokyo Friends as well as a variety of video streaming and ran a number of gift campaigns. Yahoo! Insurance expanded its product line up during the quarter, adding such products as Japan's first pet insurance. It also endeavored to expand its services, running a range of tie-up campaigns with different types of insurance companies.

Number of Premium Member IDs

July 2006	August 2006	September 2006
6.38 million IDs	6.40 million IDs	6.43 million IDs

Total Subscriber Lines for Yahoo! BB

End of June 2006	End of September 2006
Approximately 5,089 thousand lines (including approximately 1,155 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,146 thousand lines (including approximately 1,157 thousand lines marketed by Yahoo! JAPAN)

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

(4) Regional Services Business

Main Services:

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

The Regional Services Business endeavored during the second 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 information submitted by consumers, and expanded and improved mobile versions of services. During the quarter we launched our mobile version of Yahoo! Real Estate, which enables mobile phone users to search approximately one million rental properties nationwide using the positioning services of the three mobile carriers in Japan. In our Yahoo! Internet Certification service, we also began offering a new type of certification service called "Everybody's

Certification” in which users can invent their own original certifications or try to do original certification tests set by other users. Among our progressive introduction of services that match the lifestyle needs of users, we unveiled Yahoo! Partner, a service to help people seriously looking for a partner in life. By having users register their criteria for a partner, this service enables users to increase their chances of meeting someone with the same tastes and interests and includes function to improve their level of communication.

(5) Media Business

Main Services:

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

During the quarter under review, the Media Business continued to emphasize planning and development of content and services that would be supported by users and advertisers. In our Yahoo! Streaming service, the number of users rose sharply along with the upgrade in content, and in August it has become the No. 1 Web site for distribution of streaming content in Japan according to a survey by NetRatings Japan, Inc. During the quarter, Yahoo! Streaming utilized its advanced distribution technology to supply high-quality video to many viewers. One example was the distribution of live broadcasts of the second stage playoffs of Japanese Professional Baseball's Pacific League, which attracted a total of approximately 200,000 viewers. Moreover, we introduced an affinity engine to such services as Yahoo! Steaming and Yahoo! Finance that makes item recommendations, leading to an increase in browsing of our services and in sales of paid content.

(6) Shopping Business

Main Services:

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

In our Shopping Business, we worked to expand use of shopping services by running special features in preparation for summer sales drives for the Ochugen (summer gift giving) and summer bonus periods. We also collaborated with Yahoo! Auctions on a bargain sale to commemorate the 7th anniversary of the start of services. As a result of our continued effort to solicit new stores, the total number of stores climbed to 12,407 at the end of September 2006, an increase of 1,127 stores, or 10.0% from June 2006. We took various steps to further improve our support for stores during the quarter. We developed advertising products in tune with their needs, offering such advertising products as HTML email and ranking ads, and held summer conferences. Among other campaigns to commemorate our 7th anniversary, our Yahoo! GroupBuy service endeavored to acquire customers by distributing Yahoo! GroupBuy Selection, its biweekly recommendation of items, for a limited period.

(7) Social Net Business

Main Services:

Yahoo! Days, Yahoo! Avatar, Yahoo! Blogs, Yahoo! Message Boards, Yahoo! Messenger, Yahoo! Greetings, Yahoo! Mail, Yahoo! Calendar, Yahoo! Notepad, Yahoo! 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 continued to work to maximize the networks that connect people and to increase the added value of related services, linking up with various services of Yahoo! JAPAN. Following a naming campaign for our Yahoo! 360° service, we officially named it Yahoo! Days. We also enabled Yahoo! BB and Yahoo! Premium members to participate in Yahoo! Days without an introduction from a participant. Moreover, we added a range of convenient functions, such as allowing public access to be set for each separate diary and to display comments on diaries. In our Yahoo! Avatar service, we targeted further growth in usage by adding a function that enables users to give items to friends. We also added Disney character items. To promote the social media aspect of Yahoo! JAPAN, we developed an affinity engine that displays optimal product recommendations based on a user's purchase history and the purchase trends of other users. The affinity engine has been introduced on various Yahoo! JAPAN services, such as Yahoo! Music, Yahoo! Travel, Yahoo! Streaming, Yahoo! Avatar, Yahoo! Finance, and Yahoo! Fortune Telling and has contributed to growth in browsing of our services and sales of paid content.

(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 continued to try to promote our social media aspect in lifestyle related fields that require a high degree of expertise or interest. During the quarter, we endeavored to increase the convenience and to expand use of our services. We optimized the search engines for Yahoo! Fortune Telling and Yahoo! Comics and introduced My Movie, a service that enables users to collect their favorite movies or to register their favorite star on Yahoo! Movies. Aiming to increase use and sales of paid content on Yahoo! Fortune Telling, we added a menu for various fortune telling services and introduced an affinity engine.

(9) Mobile Business

Main Services:

Yahoo! Mobile, Yahoo! Content Store

During the second quarter, the Mobile Business continued to promote further collaboration with Vodafone K.K. (currently, SOFTBANK MOBILE Corp.) We concentrated on the development of services, such as a portal site for SOFTBANK mobile terminals, in preparation for the launch of Yahoo! Keitai in October 2006. At the same time, we worked to improve and expand the services and content for all types of mobile terminals. The upgraded version of our mobile search service gives the same search results as a user would receive on a personal computer for the mobile terminals of all three carriers.

Number of Page Views

	July 2006	August 2006	September 2006
Yahoo! Mobile page views	1,563 million page views	1,519 million page views	1,570 million page views

(10) New Business Office

Main Services:

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

Research Related

Collaborating with INFO PLANT CO., LTD., and INTAGE Interactive Inc., we continued to focus on marketing Yahoo! Research services. We increased the number of monitors by renewing our Web site and running monitor registration campaigns among other measures.

Settlement Related

Through our tie-up with The Japan Net Bank, Limited., we launched Yahoo! NetBanking, a service that provides more convenient, safer, and more reliable settlement and other financial services through Yahoo! JAPAN.

Travel Related

On Yahoo! Travel, we launched a luxury travel service Yahoo! Travel Special Selection, which proposes and provides genuine high-quality travel packages and information, aiming to improve and expand our services.

Others

We are proceeding with research and development aimed at the realization of our Yahoo! Everywhere concept, which targets the establishment of an environment in which users can access Yahoo! JAPAN services anytime and any place.

(11) Service Supervising Division

Main Services:

Yahoo! JAPAN Top Page, Yahoo! Safety Net, Yahoo! Kids, My Yahoo!, Yahoo! Toolbar, Yahoo! Newsletter, Yahoo! eMail Magazine, Yahoo! JAPAN Help Center, Yahoo! Widgets

During the second quarter, the Service Supervising Division launched the 3rd Yahoo! JAPAN Sports Support Project as part of our social contribution activities. We also began offering Yahoo! eMail Magazine, a service that allows users to search for email magazines and to publish email magazines on their own, and an Internet-linked desktop tool Yahoo! Widgets. Furthermore, our Yahoo! Kids services continued to offer a fun and safe Internet environment for children, adding such special features as Pokemon Super Special Feature 2006 and Oshare Majo Love and Berry during the quarter.

(Reference)

Yahoo! JAPAN Page Views etc.

	July 2006	August 2006	September 2006
Monthly page views	34,083 million page views	33,624 million page views	33,305 million page views
Number of Yahoo! JAPAN Unique Browsers	119.56 million browsers	113.80 million browsers	117.24 million browsers
Number of Active User IDs on Yahoo! JAPAN	16.73 million IDs	16.81 million IDs	17.05 million IDs

Notes:

- 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
July 6	• Launched Yahoo! Partner, a service for searching for life partners.
July 31	• Full-scale launch of the social networking service Yahoo! Days.
August 2	• Commenced Yahoo! Auctions Affiliate service.
August 8	• Began Yahoo! eMail Magazine, a service enabling easy and convenient registration and publication of email magazines. Mobile version site also up.
September 4	• Introduced Everybody's Certification, a service that allows users to create their own original certifications on Yahoo! Internet Certification.
September 4	• Commenced Yahoo! Widgets, an Internet-linked desktop tool service.
September 5	• Launched Yahoo! Travel Special Selection, a travel service specializing in accommodation reservations at luxury Japanese inns and hotels.
September 20	• Started Yahoo! NetBanking, a service that offers settlement and other financial services to facilitate use of Yahoo! JAPAN services.

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—a good relationship with our customers, carrying out appropriate corporate activities, 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 Old Man’s Little Volunteering Special Feature, which introduces the regional, corporate, and global volunteer activities of “the old man” (fathers). (September 4 to October 31).
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
 - GREEN STYLE Fund’s “ Let’s Stop Global Warming Together TOKYO Solar City Project ”
 - Yahoo! Charity Fund’s Safe and Health Development of an Internet Society and Emergency Disaster Assistance
 - The Japanese Red Cross Society’s Cooperating in Funding the Activities of the Japanese Red Cross
 - The Special Olympics Nippon’s Special Olympics Support Fund
 - NPO Asian Green Forest Network’s “Create Life-Giving Forests Project”
 - retired weapons’ “Let’s Make a Peace Art Monument!”

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 second quarter, we again held many charity auctions featuring famous people. Among them, we auctioned an autographed illustration drawn by artist Nobuhiro Watsuki, the creator of the comic series Rurouni Kenshin, and a paper fan autographed by TV celebrity Nozomi Tsuji. In total, we held 695 charity auctions during the quarter, raising a total of approximately ¥34.53 million. The funds raised by such auctions are being donated to the following charities (no particular 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 Committee for Vaccines for the World’s Children, which provides charity funds to acquire vaccines and provide disease prevention support for children as well as carrying out supply activities, collecting and distributing information, and enlightening people
- The Ashinaga Scholarship Foundation, an NGO that provides financial support and emotional care to children who have lost their parents due to sickness, accidents, or suicide

- The Japanese Red Cross Society, the Japanese chapter of the Red Cross, which boasts the world's largest network of humanitarian activists built on the seven universal principles of humanity, impartiality, neutrality, independence, voluntary service, unity, and universality

3. Others

- As part of our social contribution activities aimed at contributing to the promotion and development of sports in Japan, we began accepting applications for the 3rd Yahoo! JAPAN Sports Support Project "Let's Try for the Dream Together." (July 18, 2006 to August 31, 2006)
- We established the Yahoo! JAPAN Literary Awards, which are conducted entirely over the Internet from applications to announcement of the winners. The 2nd Yahoo! JAPAN Literary Awards aim to discover new literary talent under a new system. (August 16, 2006 to February 16, 2007)

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 impressions, 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 (So-net Entertainment Corporation), 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, 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 September 30, 2006 Yahoo Japan Corporation and 10 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 the information held by the Group and its 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 virus-infected personal computers of users of file sharing software called Winny. There is also a possibility that third parties may fraudulently obtain passwords, etc., to gain unauthorized access to 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 circumstances 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 September 30, 2006, SOFTBANK CORP. was the parent company of the Company, holding 41.3% of voting shares. As a holding company, SOFTBANK CORP. has a variety of companies operating under its umbrella that are active in a range of fields and areas. The SOFTBANK Group’s business segments include Internet Culture, Broadband Infrastructure, e-Commerce, Mobile Communications, Fixed-line Telecommunications, and Others (Broadmedia, Technology Services, Media & Marketing, Overseas Funds and Others). The Group plays a central role in the Internet Culture segment. The Group is also involved with Broadband Infrastructure segment, collaborating with SOFTBANK BB Corp. and BB TECHNOLOGY Corp. in providing the comprehensive broadband service Yahoo! BB. In the Other Business segment, jointly with SOFTBANK CORP., Yahoo Japan Corporation has established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

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.
<p>1) The Company, SBB, and BBT will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main responsibilities</p> <ul style="list-style-type: none"> * 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 <p>3) Main responsibilities of SBB and BBT</p> <ul style="list-style-type: none"> * 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.
<p>Incentive Fees</p> <ul style="list-style-type: none"> * 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

As stated above, the Company has established and commenced operations of TV Bank Corporation (“TV Bank”) jointly with SOFTBANK, 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 September 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 September 30, 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.

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

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

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 operation is obstructed, 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 of development peculiar to Japan, 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 States, 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 cycle 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 impressions 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 impressions 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 is 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

On April 27, 2006, SOFTBANK acquired Vodafone K.K. through BB Mobile Corp. which is a subsidiary of SOFTBANK's subsidiary, 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 September 30, 2006, the outstanding balance of the mezzanine loans is approx. ¥1,345 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.