

Results for the Three Months Ended December 31, 2006 (FY2006-3Q) (Consolidated and Non-consolidated Basis)

2007.1.24

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

Contact persons: President and CEO Masahiro Inoue
Director and CFO Akira Kajikawa Tel: (03) 6440-6000

1. Significant Matters Concerning the Preparation of Quarterly Financial Information

- (1) Use of simplifications in accounting methods: No
(2) Change in accounting methods in the current fiscal year: No
(3) Change in scope of consolidation or application of equity method: Yes
- New consolidated subsidiary 0 Subsidiary removed from consolidation 3
Company newly accounted for by the equity method 0
Company no longer accounted for by the equity method 0

2. Results for FY2006-3Q (October 1, 2006-December 31, 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 (%)	
FY2006-3Q	54,522	(16.9)	27,699	(31.1)	26,630	(29.5)	15,172	(20.0)
FY2005-3Q	46,621	(50.6)	21,123	(36.6)	20,562	(32.9)	12,646	(36.7)
FY2006-9 months	154,992	(22.4)	76,699	(31.0)	74,337	(30.6)	41,979	(23.1)
FY2005-9 months	126,638	(54.6)	58,545	(37.3)	56,926	(33.0)	34,099	(30.1)
(For reference) FY2005	173,695		82,133		79,867		47,090	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-3Q	250.93	250.51
FY2005-3Q	418.60	417.47
FY2006-9 months	694.34	693.04
FY2005-9 months	1,128.91	1,125.94
(For reference) FY2005	1,536.40	1,532.38

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

FY2006-3Q:	60,464,142 shares	FY2005-3Q:	30,210,539 shares
FY2006-9 months:	60,458,808 shares	FY2005-9 months:	30,205,840 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 5-6 and 12-14 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
FY2006-3Q	287,547	177,547	61.2	2,910.57
FY2005-3Q	166,230	127,980	77.0	4,235.39
(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)

FY2006-3Q: 60,471,283 shares

FY2005-3Q: 30,216,873 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
FY2006-3Q	13,485	-2,679	-10,142	51,461
FY2005-3Q	11,098	-4,827	211	78,021
FY2006-9 months	41,282	-152,676	64,982	51,461
FY2005-9 months	35,985	-23,777	-3,178	78,021
(For reference) FY2005	59,604	-27,532	-3,028	98,035

* For detailed information regarding changes in financial status, please see Pages 9-10 and 16 of the Attached Materials.

3. Business Outlook for FY2006-4Q (January 1, 2007-March 31, 2007) and Full Fiscal year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-4Q	54,200~56,200	26,100~27,250	14,250~15,000
FY2006-full year	209,192~211,192	100,438~101,587	56,229~56,979

Estimated consolidated net income per share for the quarter: ¥235.65~¥248.05

Estimated consolidated net income per share for the full fiscal year: ¥929.85~¥942.25

(For reference) Non-consolidated Business Outlook for FY2006-4Q (January 1, 2007-March 31, 2007) and Full Fiscal Year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006-4Q	50,300~52,100	26,700~27,750	15,100~15,750
FY2006-full year	194,037~195,837	103,039~104,088	59,735~60,385

Estimated non-consolidated net income per share for the quarter: ¥249.71~¥260.45

Estimated non-consolidated net income per share for the full fiscal year: ¥987.82~¥998.57

	Estimated annual dividends per share	
	Year end	
FY2006-full year	Yen 92.00~95.00	Yen 92.00~95.00

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 7 of the Attached Materials.

The number of shares issued and outstanding (60,471,283 shares) used in the calculation of estimations above is as of December 31, 2006.

[For reference]**Non-consolidated Results for FY2006-3Q (October 1, 2006-December 31, 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 (%)			
FY2006-3Q	50,528 (25.3)	27,343 (30.8)	27,233 (29.6)	16,103 (21.1)
FY2005-3Q	40,339 (41.7)	20,900 (34.8)	21,020 (34.5)	13,293 (40.8)
FY2006-9 months	143,737 (29.9)	75,897 (30.4)	76,339 (30.2)	44,635 (24.3)
FY2005-9 months	110,657 (46.2)	58,189 (36.6)	58,624 (36.7)	35,923 (35.8)
(For reference) FY2005	154,460	81,588	82,111	49,725

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006-3Q	266.33	265.88
FY2005-3Q	440.02	438.83
FY2006-9 months	738.27	736.89
FY2005-9 months	1,189.28	1,186.15
(For reference) FY2005	1,622.67	1,618.42

Notes: 1. Average outstanding shares during the periods

FY2006-3Q:	60,464,142 shares	FY2005-3Q:	30,210,539 shares
FY2006-9 months:	60,458,808 shares	FY2005-9 months:	30,205,840 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
FY2006-3Q	284,380	181,995	64.0	3,009.34
FY2005-3Q	160,360	130,558	81.4	4,320.73
(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

FY2006-3Q:	60,471,283 shares	FY2005-3Q:	30,216,873 shares
FY2005:	30,225,105 shares		

Attached Materials

Highlights for the Three Months Ended December 31, 2006

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates rose in the third quarter. Net sales advanced 6.5% from the previous quarter and 16.9% year on year, to ¥54.5 billion. Operating income amounted to ¥27.6 billion, increasing 10.8% from the previous quarter and 31.1% from a year earlier. Ordinary income totaled ¥26.6 billion, climbing 7.5% from the previous quarter and 29.5% from the same period last year. After subtraction of sales of a former subsidiary, Seven and Y Corp., net sales for the quarter under review increased 25.9% year on year.
- In the Advertising Business, there continued to be a bit of a slump in the overall advertising market in the third quarter, with major advertisers curtailing their advertising expenditures somewhat. Nevertheless, as a result of focusing on advertising products that met advertisers' needs, such as targeting advertising and of efforts to acquire customers handling small-lot products, such as stores on Yahoo! Shopping, the number of advertisers expanded substantially. Sponsor Site sales increased, not greatly affected by the customary decline in the year-end holidays. As a result, overall Advertising Business sales amounted to ¥21.7 billion in the third quarter, rising 2.0% from the previous quarter and 20.2% year on year.
- In the Business Services Business, sales of Yahoo! Rikunabi and Yahoo! Real Estate expanded. As a result of efforts to increase the number of merchant stores on Yahoo! Auctions and Yahoo! Shopping, the number of merchant stores registered on these sites totaled 25,061 at the end of the quarter, expanding by 2,757 stores, or 12.4% from the previous quarter, and up by 13,040 stores, or 108.5% year on year. Tenant fees and sales commissions rose significantly, assisted by sales promotions conducted during the year-end sales campaign. Consequently, Business Services sales in the third quarter rose 12.8% from the second quarter and 37.9% year on year, to ¥12.8 billion.
- In the Personal Services Business, Yahoo! Auctions stepped up the measures implemented since the first quarter to expand the user base. As a result of the campaign started in October 2006 allowing users to bid for items with just a Yahoo! JAPAN ID, the number of new bidders on Yahoo! Auctions increased substantially. Thanks to robust transactions in winter fashion apparel, toys, and other items and assisted by the free item listing campaign and other sales promotions run during the quarter, daily transaction volume ballooned, rising sharply compared with the last quarter and year on year and breaking through the ¥2 billion mark for the first time. Overall, Personal Services sales climbed 7.8% from the previous quarter and 25.7% from a year earlier, to ¥19.9 billion.
- This October, Yahoo! NetBanking, our settlement and financial services, started a Yahoo!

Auctions settlement service called Auctions Cashbook. The new service enables users to easily and quickly invoice and pay for auction transactions. In addition, the service provides a high degree of convenience and security with such features as not having to use bank account numbers to make transactions. The Group will aim to expand the transaction volume of Yahoo! NetBanking by focusing on promotion activities.

- Total commerce transaction volume for the 2006 calendar year (January to December) amounted to ¥874.8 billion, increasing 14.7% compared with the previous calendar year. Total commerce transaction volume includes the transaction volumes of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, Yahoo! Tickets, and others.

Performance Outlook

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

The Company and its Group view the degree of service usage by its customers are an important factor in their business development. Specifically, we place great significance on the numbers of page views, which indicate overall access and access per service; unique browsers; and active user IDs, which signify the number of 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.

The following "Consolidated Performance Estimates for Fiscal Year Ending March 31, 2007 (FY2006)" is the aggregation of FY2006-4Q estimates together with accumulated actual results of FY2006-1Q to 3Q.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-4Q) (January 1, 2007 to March 31, 2007)

Net sales	¥54,200 million ~ ¥56,200 million
Ordinary income	¥26,100 million ~ ¥27,250 million
Net income	¥14,250 million ~ ¥15,000 million

Consolidated Performance Estimates for the Fiscal Year Ending March 31, 2007 (FY2006) (April 1, 2006 to March 31, 2007)

Net sales	¥209,192 million ~ ¥211,192 million
Ordinary income	¥100,438 million ~ ¥101,587 million
Net income	¥56,229 million ~ ¥56,979 million

Non-consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2007 (FY2006-4Q) (January 1, 2007 to March 31, 2007)

Net sales	¥50,300 million ~ ¥52,100 million
Ordinary income	¥26,700 million ~ ¥27,750 million
Net income	¥15,100 million ~ ¥15,750 million

Non-consolidated Performance Estimates for the Fiscal Year Ending March 31, 2007 (FY2006) (April 1, 2006 to March 31, 2007)

Net sales	¥194,037 million ~ ¥195,837 million
Ordinary income	¥103,039 million ~ ¥104,088 million
Net income	¥59,735 million ~ ¥60,385 million

1. Consolidated Balance Sheets

(Millions of yen)

	As of Dec. 31, 2006	As of Sep. 30, 2006	Comparison with the previous quarter		As of Dec. 31, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Assets							
Current assets							
Cash and cash equivalents	51,461	50,801	659	1.3%	78,025	-26,563	-34.0%
Notes and accounts receivable-trade (*1)	27,842	27,014	827	3.1%	22,386	5,455	24.4%
Short-term loans (*2)	148	1,344	-1,195	-88.9%	4,624	-4,475	-96.8%
Deferred tax assets	2,901	3,113	-212	-6.8%	2,598	302	11.7%
Other current assets (*3)	7,855	6,448	1,406	21.8%	3,707	4,148	111.9%
Allowance for doubtful accounts (*4)	-2,188	-2,382	194	-8.2%	-1,795	-392	21.9%
Total current assets	88,020	86,340	1,679	1.9%	109,546	-21,525	-19.7%
Fixed assets							
Tangible fixed assets							
Buildings and structures	1,490	1,560	-70	-4.5%	1,571	-80	-5.2%
Machinery and equipment	12,687	12,769	-81	-0.6%	11,631	1,056	9.1%
Other tangible fixed assets	390	152	237	155.7%	45	344	751.9%
Total tangible fixed assets	14,568	14,482	86	0.6%	13,248	1,319	10.0%
Intangible fixed assets							
Software (*5)	9,779	9,119	659	7.2%	6,417	3,361	52.4%
Goodwill	3,695	4,035	-339	-8.4%	3,567	127	3.6%
Other intangible fixed assets	32	27	5	18.5%	22	9	43.0%
Total intangible fixed assets	13,507	13,181	325	2.5%	10,008	3,499	35.0%
Investments and others							
Investment securities (*6)	165,304	166,505	-1,201	-0.7%	29,278	136,025	464.6%
Others	6,169	5,434	735	13.5%	4,171	1,998	47.9%
Allowance for doubtful accounts	-22	-22	0	-0.1%	-22	0	-0.1%
Total investments and others	171,451	171,917	-466	-0.3%	33,427	138,023	412.9%
Total fixed assets	199,527	199,581	-54	-0.0%	56,684	142,842	252.0%
Total assets	287,547	285,922	1,625	0.6%	166,230	121,316	73.0%

(Millions of yen)

	As of Dec. 31, 2006	As of Sep. 30, 2006	Comparison with the previous quarter		As of Dec. 31, 2005	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
Liabilities							
Current liabilities							
Accounts payable-trade	840	802	37	4.7%	2,652	-1,811	-68.3%
Short-term borrowings	20,120	20,199	-79	-0.4%	232	19,887	-
Accounts payable-other (*7)	11,648	11,222	426	3.8%	11,236	411	3.7%
Accrued income taxes (*8)	14,874	21,070	-6,195	-29.4%	12,836	2,038	15.9%
Reserve for point system (*9)	1,796	1,536	260	16.9%	1,158	637	55.0%
Other current liabilities (*10)	10,710	8,322	2,388	28.7%	6,670	4,040	60.6%
Total current liabilities	59,990	63,152	- 3,162	-5.0%	34,787	25,203	72.4%
Long-term liabilities							
Long-term borrowings	50,000	60,070	- 10,070	-16.8%	70	49,929	-
Other long-term liabilities	10	9	0	6.4%	2,193	- 2,183	-99.5%
Total long-term liabilities	50,010	60,079	- 10,069	-16.8%	2,264	47,745	-
Total liabilities	110,000	123,232	- 13,232	-10.7%	37,051	72,948	196.9%
Net assets							
Shareholders' equity							
Common stock (*11)	7,163	7,100	63	0.9%	6,906	257	3.7%
Additional paid-in capital	2,244	2,181	63	2.9%	1,987	257	12.9%
Retained earnings (*12)	163,913	148,734	15,179	10.2%	113,746	50,167	44.1%
Treasury stock	- 28	- 28	-	-	- 27	- 0	0.8%
Total shareholders' equity	173,293	157,987	15,306	9.7%	122,612	50,681	41.3%
Evaluation and exchange adjustments (*13)	2,711	3,295	- 583	-17.7%	5,368	- 2,656	-49.5%
Share subscription rights	17	4	12	298.2%	-	17	-
Minority interests in consolidated subsidiaries	1,524	1,402	121	8.7%	1,198	325	27.2%
Total net assets	177,547	162,689	14,857	9.1%	129,178	48,368	37.4%
Total liabilities and net assets	287,547	285,922	1,625	0.6%	166,230	121,316	73.0%

Note: The items in the Net Assets section of the same quarter in the previous fiscal year have been adjusted to match those of the current and previous quarter of the current fiscal year.

Main Points Regarding Consolidated Balance Sheets

Assets

- *1 The increase in notes and accounts receivable—trade compared with the previous quarter and year on year can principally be attributed to the growth in receivables from individuals.
- *2 The decrease in short-term loans compared with the previous quarter and year on year is chiefly due to the recovery of loans made based on a finance scheme for Yahoo! BB's business.
- *3 The growth in other current assets compared with the previous quarter and year on year was mainly due to the increase in accrued revenues of Yahoo! ezPay.
- *4 The decrease in allowance for doubtful accounts compared with the previous quarter was primarily due to the write off of accumulated bad debt of individuals in the current quarter.

- *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 declined compared with the previous quarter mainly because of mark-to-market adjustments.

Liabilities

- *7 The increase in accounts payable—other compared with the previous quarter and year on year was mainly due to the rise in operating expenses.
- *8 The decrease in accrued income taxes compared with the previous quarter can be attributed to the scheduled payment of income taxes.
- *9 The reserve for point system includes the full amount of the balance of points of Yahoo! Points granted.
- *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 (October 1, 2006-December 31, 2006)

(Millions of yen)

	Three months ended Dec. 31, 2006		Three months ended Sep. 30, 2006	Comparison with the previous quarter		Three months ended Dec. 31, 2005
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	54,522	100.0%	51,202	3,319	6.5%	46,621
Cost of sales	2,098	3.8%	2,146	-48	-2.2%	4,251
Gross profit	52,423	96.2%	49,056	3,367	6.9%	42,370
SG&A expenses	24,724	45.4%	24,046	678	2.8%	21,246
Personnel expenses (*1)	4,867	8.9%	4,679	188	4.0%	3,920
Business commissions (*2)	3,411	6.3%	3,442	-30	-0.9%	2,958
Sales commissions	2,491	4.6%	2,408	82	3.4%	2,261
Depreciation expenses (*3)	2,080	3.8%	1,906	173	9.1%	1,748
Communication charges	2,028	3.7%	1,942	85	4.4%	1,423
Sales promotion costs (*4)	1,982	3.6%	1,802	179	10.0%	1,910
Royalties	1,559	2.9%	1,455	103	7.1%	1,241
Lease and utility expenses	1,186	2.2%	1,241	-55	-4.4%	1,158
Content provider fees	1,156	2.1%	1,159	-3	-0.3%	929
Payment commissions (*5)	1,012	1.9%	803	208	25.9%	715
Allowance for doubtful accounts	606	1.1%	466	139	30.0%	360
Administrative and maintenance expenses	478	0.9%	463	15	3.3%	283
Amortization of goodwill	339	0.6%	353	-13	-3.9%	307
Compensation payments (*6)	273	0.5%	166	107	64.3%	157
Advertising costs (*7)	263	0.5%	729	-466	-63.9%	581
Others (*8)	987	1.8%	1,023	-36	-3.5%	1,288
Operating income	27,699	50.8%	25,009	2,689	10.8%	21,123
Non-operating expenses (income)	-1,069	-2.0%	-244	-824	-	-561
Ordinary income	26,630	48.8%	24,765	1,864	7.5%	20,562
Extraordinary losses (gains)	-52	-0.1%	-676	624	-	977
Quarterly income before income taxes	26,577	48.7%	24,089	2,488	10.3%	21,540
Income taxes, inhabitants' taxes and enterprise taxes	11,356	20.8%	11,584	-227	-2.0%	9,096
Adjustment to income taxes	-66	-0.1%	-1,183	1,117	-	-304
Minority interests in gains of consolidated subsidiaries	115	0.2%	85	30	35.7%	101
Quarterly net income	15,172	27.8%	13,603	1,568	11.5%	12,646

Cumulative Consolidated Statements of Income for Nine Months **(April 1, 2006-December 31, 2006)**

(Millions of yen)

	Nine months ended Dec. 31, 2006		Nine months ended Dec. 31, 2005	Comparison with the same period of the last fiscal year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	154,992	100.0%	126,638	28,353	22.4%
Cost of sales	6,281	4.1%	11,180	-4,899	-43.8%
Gross profit	148,710	95.9%	115,457	33,252	28.8%
SG&A expenses	72,011	46.4%	56,912	15,098	26.5%
Personnel expenses (*1)	13,985	9.0%	10,727	3,257	30.4%
Business commissions (*2)	10,252	6.6%	7,891	2,361	29.9%
Sales commissions	7,414	4.8%	5,946	1,468	24.7%
Depreciation expenses (*3)	5,692	3.7%	4,644	1,047	22.6%
Communication charges	5,944	3.8%	4,132	1,811	43.8%
Sales promotion costs (*4)	5,428	3.5%	4,826	602	12.5%
Royalties	4,402	2.8%	3,373	1,029	30.5%
Lease and utility expenses	3,714	2.4%	3,022	692	22.9%
Content provider fees	3,362	2.2%	2,330	1,031	44.3%
Payment commissions (*5)	2,626	1.7%	1,818	808	44.4%
Allowance for doubtful accounts	1,681	1.1%	1,025	656	64.0%
Administrative and maintenance expenses	1,280	0.8%	777	502	64.7%
Amortization of goodwill	1,044	0.7%	690	354	51.3%
Compensation payments (*6)	583	0.4%	699	-116	-16.6%
Advertising costs (*7)	1,443	0.9%	1,322	120	9.1%
Others (*8)	3,151	2.0%	3,682	-530	-14.4%
Operating income	76,699	49.5%	58,545	18,153	31.0%
Non-operating expenses (income)	-2,361	-1.5%	-1,618	-743	-
Ordinary income	74,337	48.0%	56,926	17,410	30.6%
Extraordinary losses (gains)	-304	-0.2%	1,292	-1,597	-
Interim income before income taxes	74,032	47.8%	58,219	15,813	27.2%
Income taxes, inhabitants' taxes and enterprise taxes	31,902	20.6%	25,048	6,853	27.4%
Adjustment to income taxes	-147	-0.1%	-1,127	979	-
Minority interests in gains of consolidated subsidiaries	299	0.2%	198	100	50.8%
Interim net income	41,979	27.1%	34,099	7,879	23.1%

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 Business Services Business.

Selling, General and Administrative Expenses

*1 Personnel expenses

The increase in personnel expenses compared with the previous quarter was due to the rise in bonuses.

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 2,961 up 487, or 19.7%, from the end of the same quarter in the previous fiscal year.

*2 Business commissions

The decline in business commissions compared with the second quarter was primarily a result of a decrease in expenses related to temporary and contract employees.

*3 Depreciation expenses

The increase in depreciation expenses compared with the previous quarter and year on year can mainly be attributed to the increased installation of servers and other network equipment.

*4 Sales promotion costs

The growth in sales promotion costs compared with the second quarter and a year earlier was chiefly due to the increase in incentive related to the acquisition of corporate clients and point expenses.

*5 Payment commissions

The expansion in payment commissions compared with the previous quarter and year on year was mainly due to the increase in bank commissions related to Yahoo! ezPay transactions.

*6 Compensation payments

The increase in compensation payments compared with the previous quarter was primarily the result of compensation payments made because of a problem that arose in a merchant store of Yahoo! Auctions.

*7 Advertising costs

The advertising costs decreased compared with the previous quarter because the costs associated with the production and running of TV commercials were incurred in the previous quarter but not in the quarter under review.

*8 Others

The major components of others were taxes and public dues, hiring expenses, and travel and transportation expenses.

Non-Operating Income (Expenses)

The main component of non-operating income for the quarter was interest received. The main components of non-operating expenses were equity in losses under the equity method and interest expenses.

Extraordinary Gains (Losses)

The major extraordinary gain recorded during the quarter was a gain on sale of shares of a subsidiary, while the major extraordinary loss was a deemed loss on decrease in equity of subsidiary.

Income Taxes, etc.

The effective income tax rate for the quarter was 42.5%.

Minority Interests in Gains of Consolidated Subsidiaries

Minority interest gains reflect 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 ¥250.93.

3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Dec. 31, 2006	Nine months ended Dec. 31, 2006
Cash flows from operating activities:		
Income before income taxes for the periods	26,577	74,032
Depreciation and amortization (*1)	2,198	6,026
Amortization of goodwill	339	1,044
Increase in allowance for doubtful accounts	-193	383
Additions to reserve for point system	260	459
Increase in reserve for director bonuses	41	125
Losses on disposal of fixed assets	47	114
Office relocation expenses	-	132
Losses on evaluation of investment securities	1	773
Gains/losses on sale of investment securities	-32	-284
Liquidation amount for cancellation of business tie up	-	-101
Equity in losses/gains under the equity method	951	2,728
Gains/losses on change in affiliate holding ratio	64	-259
Proceeds from interest and dividends	-28	-225
Interest expenses	135	326
Increase in inventory	-18	32
Increase in accounts receivable-trade	-856	-2,687
Increase/decrease in accounts payable-trade	39	-63
Increase in other receivables	-1,571	-4,427
Increase in other payables (*2)	2,561	3,979
Increase in consumption tax payable	501	236
Payment of bonuses to directors	-	-167
Other cash flows	-61	-603
Cash received for liquidation for cancellation of business tie up	-	101
Payment of income taxes and other taxes (*3)	-17,472	-40,396
Cash flows from operating activities	13,485	41,282
Cash flows from investing activities:		
Expenditures on tangible fixed assets (*4)	-1,734	-6,480
Expenditures on intangible fixed assets (*5)	-1,251	-3,952
Proceeds from sale of intangible fixed assets	-	29
Expenditures on investment securities	-880	-146,680
Proceeds from sale of investment securities	80	488
Expenditures on increase in equity funds	-43	-254
Proceeds from decrease in equity	7	1,013
Expenditures on acquisition of stock of subsidiaries	-	-15
Expenditure on sale of stock of subsidiaries	-39	-39
Proceeds from sale of stock of subsidiaries	-	80
Expenditures from additional acquisition of stock of subsidiary	-	-755
Expenditures on lending	-1	-1
Proceeds from recovery of lending (*6)	1,197	3,509
Expenditures on increase in guarantee deposit assets	-39	-423
Proceeds from decrease in guarantee deposit assets	0	612
Proceeds from interest and dividends	23	195
Other cash flows	3	-1
Cash flows from investing activities	-2,679	-152,676

(Millions of yen)

	Three months ended Dec. 31, 2006	Nine months ended Dec. 31, 2006
Cash flows from financing activities:		
Proceeds from short-term loan	-	30
Redemption of short-term loan	-30	-72
Proceeds from long-term loan	-	80,070
Redemption of long-term loan (*7)	-10,000	-10,047
Proceeds from issuance of shares	126	255
Proceeds from payments by minority interests	-	15
Expenditures on payments of dividends	-	-4,715
Interest expenses	-239	-267
Other cash flows	-	-285
Cash flows from financing activities	-10,142	64,982
Net change in cash and cash equivalents	663	-46,410
Cash and cash equivalents at the beginning of the periods	50,797	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	51,461	51,461

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 Payment of income taxes and other taxes
Was generated primarily by scheduled payment of income taxes.

Cash Flows from Investing Activities

- *4 Expenditures on tangible fixed assets
Expenditures were a result of purchase of servers and other network equipment.
- *5 Expenditures on intangible fixed assets
Can principally be attributed to commissioned system development.
- *6 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

- *7 Redemption of long-term loan
Mainly expenditures for repayment of loan for investment in BB Mobile Corp.

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

FY2006-3Q (October 1, 2006-December 31, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	21,720 (39.8%)	12,897 (23.7%)	19,953 (36.6%)	54,570 -	-48 (-0.1%)	54,522 (100.0%)
Operating expenses	9,635	7,550	7,042	24,229	2,594	26,823
Operating income (Contribution)	12,084 (43.6%)	5,346 (19.3%)	12,910 (46.6%)	30,341 -	-2,642 (-9.5%)	27,699 (100.0%)

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%)

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

	Advertising Business	Business Services Business	Personal Services Business	Other	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	18,075 (38.8%)	9,351 (20.1%)	15,876 (34.1%)	3,337 (7.2%)	46,640 -	-18 (-0.2%)	46,621 (100.0%)
Operating expenses	8,490	5,711	5,953	3,283	23,438	2,059	25,498
Operating income (Contribution)	9,585 (45.4%)	3,639 (17.2%)	9,922 (47.0%)	54 (0.3%)	23,201 -	-2,077 (-9.9%)	21,123 (100.0%)

(3) Cumulative Total for the Nine-Month Periods**FY2006 (April 1, 2006-December 31, 2006)****(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	64,258 (41.5%)	35,091 (22.6%)	55,766 (36.0%)	155,115 -	-123 (-0.1%)	154,992 (100.0%)
Operating expenses	28,720	21,193	20,468	70,381	7,910	78,292
Operating income (Contribution)	35,537 (46.3%)	13,897 (18.1%)	35,298 (46.0%)	84,733 -	-8,034 (-10.4%)	76,699 (100.0%)

FY2005 (April 1, 2005-December 31, 2005)**(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Other	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	47,828 (37.8%)	24,881 (19.6%)	45,029 (35.6%)	8,946 (7.1%)	126,686 -	-47 (-0.1%)	126,638 (100.0%)
Operating expenses	21,816	14,121	17,126	8,873	61,937	6,155	68,093
Operating income (Contribution)	26,011 (44.4%)	10,760 (18.4%)	27,903 (47.7%)	73 (0.1%)	64,748 -	-6,202 (-10.6%)	58,545 (100.0%)

Advertising Business

The sluggishness of the advertising market in the second quarter carried over into the third quarter. Although activity was up heading into the year-end sales campaign, overall, companies seemed to be curtailing their advertising expenses slightly.

Under these circumstances, the Group solidified its cooperative ties with advertising agencies and worked to expand advertising revenue by developing and offering new products that meet the needs of advertisers. Among advertising products, Brand Panel and Large Square have started to apply megabanners, which distribute advertising via an advanced flash technology. Thus, use of highly creative advertising continued to spread throughout Internet advertising.

Many advertisers, especially National Clients in the automotive, entertainment, and real estate related industries, used activity targeting advertising during the quarter, and sales of such products grew sharply. Activity targeting advertising can target a user according to past history of Internet usage. Demand was also high for regional targeting advertising, and sales to companies targeting specific regions increased. In addition, the overall number of advertisers grew substantially due the expansion and improvement of advertising products for stores on Yahoo! Shopping and aggressive efforts to sell advertising to those stores.

Sponsor Site sales increased, not greatly affected by the customary decline in the year-end holidays. Despite the prolonged voluntary restraint in advertising by certain industries, we increased mobile advertising sales by working to spread mobile advertising to a broad range of other industries.

Consequently, quarterly advertising business sales amounted to ¥21.7 billion.

Advertising Products

During the third quarter, sales of targeting advertising, such as activity targeting and demographics targeting, rose from the previous quarter. Several of our advertising planning and development activities attracted a great deal of attention during the quarter. Before the DVD release of the first episode of FREEDOM, an animation series sponsored by Nissin Food Products Co., Ltd., that became highly popular because of its use in TV commercials, we ran a 4-day exclusive FREEDOM 1 Special Feature on Yahoo! Streaming. Our Doraemon for Adults Special Feature, a collaboration with Toyota Motor Corporation, was another highlight of the third quarter.

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 ¥10.00 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.

During the quarter, we chose winners of the Yahoo! JAPAN Internet Creativity Awards 2006, which aims to raise the level of artistic expression in Internet advertising, and held an awards ceremony.

Business Services Business

During the third quarter, at Yahoo! Rikunabi, employment of non-full-time employees by companies in particular continued to be favorable. In addition, demand for the short-term, one-off temporary employment services of Shotworks expanded and sales of Yahoo! Real Estate increased substantially. Yahoo! Auctions implemented a campaign aimed at corporate and proprietary business owners, offering them up to four months of no system-use fees if they opened up auction stores. Yahoo! Shopping also strove to expand its number of stores during the third quarter. As a result, the number of merchant stores registered on Yahoo! Auctions and Yahoo! Shopping totaled 25,061 at the end of the quarter, increasing 2,757 stores, or 12.4%

from the previous quarter. Along with the growth in the number of registered stores, tenant fees and sales commissions firmly increased. Yahoo! Shopping worked to expand transaction volume through special features and sales promotions. Its Oseibo & Winter Gourmet Orders Special Feature offered a collection of the most appropriate items for year-end gift or personal consumption during the year-end and new year seasons. Total transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, Yahoo! Ticket, and others amounted to ¥248.2 billion in the third quarter, climbing 18.4% from the second quarter and 16.3% year on year. On an annual basis, commerce sales for the calendar year from January to December 2006 totaled ¥874.8 billion, up 14.7% from the same period in the previous fiscal year.

Overall, business service sales amounted to ¥12.8 billion in the third quarter.

e-Commerce Related Performance Figures

Yahoo! Shopping Number of Stores, etc.

	October 2006	November 2006	December 2006
Number of shopping unique browsers	17.07 million browsers	16.46 million browsers	16.70 million browsers
Number of stores (As of the end of each month)	13,124 stores	13,305 stores	13,535 stores

Shopping Related Transaction Volume

	July 2006-September 2006	October 2006-December 2006
Daily average transaction volume	¥ 461 million	¥ 510 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.

	October 2006	November 2006	December 2006
Number of auction unique browsers	30.36 million browsers	29.73 million browsers	30.21 million browsers
Number of total listed items (Monthly average)	11.73 million items	12.52 million items	12.76 million items
Number of stores (As of the end of each month)	10,328 stores	10,992 stores	11,526 stores

Yahoo! Auctions Transaction Volume etc.

	July 2006-September 2006	October 2006-December 2006
Daily average number of new listings	725 thousand items	914 thousand items
Daily average transaction volume	¥1,817 million	¥2,187 million

Average closing price per item	¥5,603	¥5,884
The average ratio of successful auctions per day	28%	28%

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

Personal Services Business

In the third quarter, we implemented various measures to expand our Yahoo! Auctions business. We undertook sales promotion activities, such as sales promotions for the year-end sales campaign as well as in tune with the season. One of the sales promotions was a campaign to commemorate breaking through the 10,000-store mark for Yahoo! Auctions stores. In addition, commencing October 2006, we began a campaign allowing users to bid on auction items with only a Yahoo! JAPAN ID. As a result, the number of new bidders on Yahoo! Auctions rose substantially during the quarter. Moreover, quarterly transaction volume expanded substantially from the previous quarter and year on year, with daily transaction volume exceeding the ¥2 billion level for the first time. Contributing to growth were robust transactions for winter fashion apparel, toys, and others and a free item listing campaign. Yahoo! BB membership expanded to 5,161 thousand subscriber lines at the end of the quarter, up 0.3% from the previous quarter and 3.1% from a year earlier, leading to firm growth in ISP fee revenue. We also concentrated on sales of pay content, such as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling. Because we opened up the qualifications for participation in Yahoo! Auctions to users other than Yahoo! Premium members—a major campaign to expand auction users—we expected a huge decline in the number of Yahoo! Premium members. However, the decline in membership was limited, assisted by a variety of measures introduced to raise the value of Yahoo! Premium membership, such as Premium Member Discount and online movie premieres in collaboration with Yahoo! Movies. Consequently, the number of member IDs was 6.30 million at the end of the third quarter, down 2.0% from the previous quarter and up 7.1% year on year, resulting in strong sales growth compared with the same period a year earlier.

Reflecting these factors, personal service sales for the third quarter amounted to ¥19.9 billion.

5. Operating Review

(1) Auction Business

Main Services:

Yahoo! Auctions, Yahoo! Delivery

In the Auction Business, during the third quarter we planned sales promotions for the season and for the year-end sales campaign as well as a sales campaign to commemorate breaking through the 10,000 store mark in the number of Yahoo! Auctions stores. Progressing with measures to expand the market, we worked to increase the number of users, such as beginning a campaign in October 2006 that allowed people to bid on Yahoo! Auctions items with only a Yahoo! JAPAN ID. We also focused on increasing the degree of convenience, handling Auction Cashbook. This service utilizes Yahoo! NetBanking to enable easy and convenient settlement of Yahoo! Auctions transactions. We also held campaigns to promote use of the mobile version of Yahoo! Auctions, such as running a free item listing campaign. Aiming to improve customer's confidence in our site as safe, we implemented the requirement of Delivery Authentication, which requires the disclosure of documentation to prove the identity of someone receiving the Yahoo! Auctions Item Lister Certificate we send users who newly list items on Yahoo! Auctions. Furthermore, we again 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 141. We also held the third and fourth Internet auctions by Ministry of Finance of modern coins minted in Japan.

(2) Search Business

Main Services:

Yahoo! Search, Yahoo! Category, Yahoo! Blog Search, Yahoo! Product Search, Yahoo! Dictionary, Yahoo! Translation, Yahoo! Answers

In the third quarter, the Search Business focused on making it easy and convenient for users to get more detailed search results related to their search objectives. To promote the use of searches on mobile phones, we strengthened the functions offered. We launched a mobile version of Yahoo! Search for Yahoo! Keitai, a service for SOFTBANK mobile terminals. Also, we substantially renewed our mobile versions of Yahoo! Search for i-mode and EZweb, beginning a personal computer site search service for all three mobile phone carriers. For the quarter, our search service started to be listed on the upper line among the iMenu search engine list of NTT DoCoMo. In November 2006, Yahoo! Answers celebrated the first year of operations of the official service, exceeding 10 million questions asked. In December 2006, we renewed the service, adding such functions as a voting function to enable users to vote on the best answers to questions and a "life" function that promotes appropriate use by participants. The best answers used to be determined only by questioners. Moreover, we took other steps to improve

the convenience of use, such as allowing users to view a slide show of their image search results on Yahoo! Search.

(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 third 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. In addition to such member acquisition measures as a prize program for introducing friends for Yahoo! Premium and Yahoo! BB subscribers, we sold tickets to members for concerts of Ayaka Hirahara and other famous artists on a lottery basis before being available to the public. In collaboration with Yahoo! Movies, we held online premieres of new releases, such as OH-OKU and Welcome to Dongmakgol, about twice a month. Moreover, we worked to raise the value of membership by introducing a variety of plans for members, such as a free anti-fraud software campaign. In addition, we commenced our Yahoo! Free LAN Spot service, which allows Yahoo! Premium members to access public hotspots when away from their home or office for ¥210 per month.

Number of Premium Member IDs

October 2006	November 2006	December 2006
6.39 million IDs	6.33 million IDs	6.30 million IDs

Total Subscriber Lines for Yahoo! BB

End of September 2006	End of December 2006
Approximately 5,146 thousand lines (including approximately 1,157 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,161 thousand lines (including approximately 1,139 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 third quarter to offer services that enrich regional lifestyles by fusing Yahoo! JAPAN's services with local information from regions throughout Japan. We improved information coverage, provided enriched services based on submitted information, and expanded and improved mobile versions of services. During the quarter, we also worked to expand use of our services. For Yahoo! Gourmet, we introduced Blog Parts, a service that enables individuals to easily display detailed information on restaurants and stores and scrollable maps in their blogs or on their sites. In our Yahoo! Developer Network service, we posted the application program interface (API) of our Yahoo! Maps Information Web Service on the site, allowing developers to launch their own original map services and to construct sites combining the APIs and functions of other services.

(5) Media Business

Main Services:

Yahoo! News, Yahoo! Everybody's Topics, 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. We ran special features on popular U.S. TV shows, such as the second season of Lost and Twenty Four. We strove to expand and improve the content of Yahoo! Streaming by offering viewers lots of high profile video, including an exclusive online premiere of Freedom 1, the animation video made popular by the Nissin Food Products TV commercial. We also sought to expand use of our services by launching a beta version of Yahoo! Everybody's Topics, a social news service.

(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 related to winter sales campaigns on such topics as Christmas, winter bonuses, and year-end and new year sales. The total number of stores climbed to 13,535 at the end of December 2006, an increase of 1,128 stores, or 9.1% from September 2006. Among other measures, we renewed search result display on the top page of Yahoo! Shopping, improving the system to display products more appropriately. We also made it possible to add a JAN code to individual products, allowing us to substantially increase the funneling of customers from the affiliate sites of other companies. In addition, we took steps to improve the degree of convenience of our services, such as enabling the use of credit card information stored in Yahoo! Wallet in the purchase of and payment for items on Yahoo! Shopping.

(7) Lifestyle Business

Main Services:

Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Autos, Yahoo! Computers, Yahoo! Fortune Telling, Yahoo! Movies, Yahoo! Beauty, Yahoo! Comics, 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, Yahoo! Movies launched My Movie, a service that allows users to post their favorite movies and actors and actresses on a personal homepage and exchange information with others. Yahoo! Comics and Yahoo! Fortune Telling endeavored to expand the use and sales of pay content by offering Hatarakiman Fortune Telling, which was linked to Kodansha Ltd.'s special feature on the 25th anniversary of the publication of the magazine Morning. They also ran a special feature on the 20th anniversary of the publication of the magazine Afternoon. Yahoo! Second Life began offering a service that enables users to do a comprehensive search all at once for information on the pay nursing care facilities in Japan. The information is taken from Oasis Navi, a search site for pay nursing care homes and housing for senior citizens operated by PROTO Corporation.

(8) 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, Yahoo! Podcast

Acting as the driver of the development of social media on Yahoo! JAPAN, the Social Business focused on increasing the added value content of related services and linking up with various services of Yahoo! JAPAN with the goal of maximizing the networks that connect people. During the quarter, we worked to further expand use of services and improve the degree of convenience of users. On Yahoo! Days, we made it possible for Yahoo! Keitai users to register and participate even without an invitation from a member. In addition, we added such functions as the ability to change the community administrator. In line with the number portability introduced for mobile phones, we made all the functions of the mobile version of Yahoo! Photo, which is compatible with all three mobile phone carriers, completely free and expanded and improved its functions. For Yahoo! Mail, we introduced Sender Policy Framework (SPF) technology that allows users to certify the domain of an email sender, further strengthening our security against phishing fraud and junk mail and preventing abusive use of Yahoo! Mail.

(9) Mobile Business

Main Services:

Yahoo! Mobile, Yahoo! Content Store

During the third quarter, in conjunction with the start of Yahoo! Keitai services, we worked with SOFTBANK MOBILE Corp., focusing on the development of specialized services for SOFTBANK mobile phones. Through the creation of operating tools and a user manual, we sought to further solidify our operating base. Along with the start of number portability for mobile phone, we undertook promotion activities, such as special feature articles. These efforts were aimed at promoting the growth of mobile commerce transaction volume and the use of Yahoo! Mobile by mobile phone users of each mobile phone carrier.

Number of Page Views

	October 2006	November 2006	December 2006
Yahoo! Mobile page views	1,979 million page views	2,046 million page views	2,109 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 worked to increase the number of monitors and diversify categories by running research monitor registration campaigns and taking other measures. As of the end of December 2006, the total number of registered monitors amounted to 1.43 million, up 130 thousand monitors, or 9.9%, from the end of September 2006.

Settlement Related

We implemented several measures to increase the degree of convenience of our services. For Yahoo! NetBanking, we made our bank account service that links The Japan Net Bank, Ltd., with Yahoo! JAPAN ID, available to mobile phones users. We launched Auction Cashbook, settlement service linked with Yahoo! Auctions. We also made it possible to pay for auctions items won using Yahoo! Points by using Auction Cashbook. On Yahoo! Card, we started to issue ETC cards. We also began to issue IC credit cards to strengthen security. Yahoo! Points also added Ogaki Kyoritsu Bank, Ltd., to its service network. Moreover, we strove to expand our acquisition of customers by revising the price structure for Yahoo! ezPay.

Travel Related

During the quarter, we took steps to sharply stimulate our overseas travel business and expand usage of our services. We added more price-competitive products to the line up of our overseas airline ticket online reservation service that we offered on the Yahoo! Travel, and formed a business alliance with Skygate Co., Ltd. We also worked to increase transaction volume by making our services compatible with Yahoo! Keitai and promoting those services as well as adding new functionality.

(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, Yahoo! Developer Network

As part of our social contribution activities, during the third quarter, the Service Supervising Division chose the winners of the 3rd Yahoo! JAPAN Sports Support Project and held an awards ceremony. We changed the top page design for our Yahoo! Kids site, and took steps to increase the degree of convenience for users and expand and improve content. Among these efforts, we launched Yahoo! Kids Future Jobs, which provides a description of occupations that children might want to have in the future as well as interviews with people in various occupations.

(Reference)

Yahoo! JAPAN Page Views etc.

	October 2006	November 2006	December 2006
Monthly page views	34,721 million page views	32,922 million page views	32,444 million page views
Number of Yahoo! JAPAN Unique Browsers	127.45 million browsers	126.89 million browsers	125.71 million browsers
Number of Active User IDs on Yahoo! JAPAN	17.93 million IDs	18.18 million IDs	18.28 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
October 1	Launched Yahoo! Keitai, a portal site for SOFTBANK mobile terminals.
October 5	Held campaign to celebrate breaking through the 10,000-store mark on Yahoo! Auctions.
October 5	Conducted substantial renewal of the mobile version of Yahoo! Search, renewing the display of search results, enabling searching and viewing PC sites, and others.
October 25	Introduced Auction Cashbook, a Yahoo! Auctions payment settlement service.
November 1	Made all the functions of the mobile version of Yahoo! Photo completely free.
November 14	Introduced more strict identification of new users listing items on Yahoo! Auctions based on Delivery Authentication.
November 15	Launched a beta version of Yahoo! Everybody's Topics, a social news service.
November 20	The number of questions asked on Yahoo! Answers, a knowledge search service, exceeded 10 million.
November 29	Yahoo! Second Life launched search services for nursing care facilities throughout Japan.
December 12	Introduced Sender Policy Framework (SPF), which allows confirmation of domain of sender of email, to Yahoo! Mail to prevent phishing fraud and junk mail.

December 19	Introduced public wireless LAN service, Yahoo! Wireless LAN Spot.
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Yahoo! JAPAN CSR Activities

As an Internet service company group, our Group carries out a variety of activities to contribute to the healthy development of the emerging Internet society. A report on our views and record regarding corporate social responsibility (CSR) activities can be viewed at <http://forgood.yahoo.co.jp/>

The “Yahoo! JAPAN Sustainability Report 2006” (<http://csr.yahoo.co.jp/>, Japanese language only) posted on the previously mentioned site 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.

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

1. Volunteer Activities

- Yahoo! Volunteer raises funds by having people purchase computer screen wallpaper, and the total sum of purchases is donated to the Internet Charity Contributions. The consumption tax on the purchases is separated out and paid to the tax office, and Yahoo Japan Corporation donates an amount equivalent to the tax to the fund. The total amount of contributions is then donated to support the activities of various charity groups. Starting with the quarter under review, the options for amount of donations were increased. In addition, we newly introduced a fixed monthly donation system.
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
 - The Japan Guide Dog Association’s “ Let’s Help Train Guide Dogs ” fund
 - The Japan Marrow Donor Program’s “Marrow Donor Program Operational Support” fund
 - The Drug Abuse Prevention Center’s “Let’s Protect the Children of the World From Drugs! No, Absolutely No! United Nation Support Fund”
 - World Vision Japan’s “Sudan Emergency Relief Fund”

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 third quarter, we again held many charity auctions featuring famous people. Among them, we auctioned a full-sized panel of Hideo Nomo signed by the baseball star himself. We also auctioned replica uniforms autographed by 16 members of the Real Madrid professional soccer team. In total, we held 749 charity auctions

during the quarter, raising a total of approximately ¥28.55 million. The funds raised by such auctions are being donated to the following charities (no particular order).

- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International
- The Japan Paralympic Support Council (JPC), a non-profit organization, which supports sports events for disabled people
- The Japan Committee Vaccines for the World's Children, which provides charity funds to acquire vaccines and help fully protect children from disease as well as carrying out supply activities and collecting and distributing information and enlightening people
- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true
- WWF Japan, the Japanese chapter of the world's largest conservation NGO

3. Others

- We participated in the "Team Minus 6%," a national project to fight against global warming. With Home Ecology as our password, we have launched a special feature proposing what people can do right now about preventing global warming called Let's All Stop Global Warming, Winter Home Ecology Special Feature. This represents one use of the Internet that is useful to society. (December 8, 2006 to February 28, 2007)
- Aiming to create an environment in which people can use the Internet safely, we launched a special feature on Securities Measures the Family Can Use. The site introduces harmful sites the family should be careful with, examples of children becoming victims, measures for Internet problems, and other items. (December 21, 2006 to January 31, 2007)
- When natural disasters, such as earthquakes, typhoons, and tsunamis, strike, Yahoo! Disaster Information provides an information service allowing people to check the latest disaster-related information nationwide. During the quarter, we distributed prompt disaster information related to 38 disasters.

January 24, 2007

Risk Factors

A number of factors could substantially impact future performance. Major factors considered to contribute to the business risk of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") at the time of presentation of this document 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 intermediaries. 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 Rights 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 (IRR) Law. Under the former, the Company is registered as a moneylender with the Kanto Local Finance Bureau. Since the authorities have decided to make a revision to the Money-Lending Business Control and Regulation Law to reduce the interest rate ceiling on loans to the same maximum interest rate given by the IRR Law, it is possible for customers to claim that interest paid in excess of the amount allowed under the IRR Law represents unfair profits, and demand repayment. The Company is preparing for any future interest repayment claims by booking all interest received in excess of the IRR Law's interest rate ceiling into a reserve. In addition, the Company is scheduled to lower its interest rates before the revised law is enforced. Based on these actions, the Company believes that the impact of the revised law on its business should be minor.

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 an Advertisement Review Standard that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of 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 December 31, 2006, Yahoo Japan Corporation and nine 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.
1) The Company, SBB, and BBT will jointly provide Internet access services using FTTH and DSL technology.
2) The Company's main responsibilities <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
3) Main responsibilities of SBB and BBT <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.
Incentive Fees <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 set up of streaming content delivery and other systems take more time than anticipated, such conditions could have a serious negative impact on the performance of the Group.

e. Investment in Mobile Phone Business

On April 27, 2006, SOFTBANK CORP. acquired Vodafone K.K. (currently SOFTBANK MOBILE Corp.) through BB Mobile Corp. which is a subsidiary of SOFTBANK’s subsidiary, Mobiletech Corp. Along with this action, the Company made a ¥120 billion investment in BB Mobile Corp., comprising preferred shares with share acquisition rights, also on April 27, 2006. The investment was made with a full understanding of the risks involved based on adequate before-the-fact investigations and due internal process.

The Group intends to expand its mobile Internet services for SOFTBANK MOBILE by becoming the portal mobile site for its services, while continuing to provide its services to carriers other than SOFTBANK MOBILE. The Group will begin

by providing SOFTBANK MOBILE's customers with an environment that will make it easier for them to use a variety of Internet services through their mobile phones. In the future, the Group will aim to achieve open mobile Internet services that are not limited to dedicated services of individual carriers.

Despite this strategy, if SOFTBANK's mobile phone business does not achieve the level of profits originally planned or in the worst case, if Yahoo Japan Corporation cannot recover its investment in the business, it is possible that these situations could have a negative impact on the business performance and financial condition of the Group.

f. Possibility of Competition within the SOFTBANK Group

As mentioned previously, the Group is working with SOFTBANK CORP. in strategically developing Yahoo! BB, streaming content, mobile phone, and other businesses. If SOFTBANK should invest in or tie up with a company with services that compete with those of the Group, it is possible that competition within the SOFTBANK Group could arise in future. The Group is prepared to deal with such situations by exploring such possibilities as collaborating with such companies, but competition within the SOFTBANK Group could affect the performance of the Group in some manner.

g. Joint Directorships

As of December 31, 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.

h. Joint Auditors

The Company's non-standing statutory auditor, Mitsuo Sano, who became a statutory auditor of Yahoo Japan Corporation in December 1996, is also a full-time statutory auditor of SOFTBANK CORP. Mr. Sano was brought on board by the Company to strengthen its corporate auditing function.

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

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

b. The Yahoo! Brand and Cooperation Overseas

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

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

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

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

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

performance of the Group and the viability of the related services being offered.

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

d. Other Joint Directorships

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

3) Shareholder Agreements with SOFTBANK CORP. and Yahoo! Inc.

SOFTBANK CORP. and Yahoo! Inc. concluded a shareholder agreement at the time of establishment of the Company. The main points are as follows.

* The election of directors and statutory auditors shall be done according to law and the Company's articles of incorporation. However, as long as SOFTBANK and Yahoo! Inc. hold 5% or more of the Company's stock, both SOFTBANK and Yahoo! Inc. shall nominate their own representative to be a director. In addition, the number of directors shall be five, and this number cannot be changed without the agreement of both SOFTBANK and Yahoo! Inc.

* The Company shall conduct its business according to law and its articles of incorporation. However, should the Company wish to undertake a merger that would lower the combined share holdings of SOFTBANK and Yahoo! Inc. below 50% or sell major assets, it must obtain the approval of Yahoo! Inc.

* The Company shall increase its capital, raise funds, and take other financial actions according to law and its articles of incorporation. SOFTBANK and Yahoo! Inc. will not vote for a resolution by the Company to issue new share subscription rights without the approval of Yahoo! Inc. (except in the case of stock options for employees). Moreover, SOFTBANK and Yahoo! Inc. will decide the range allowed for granting stock options to employees before this agreement becomes valid.

* The right of SOFTBANK and Yahoo! Inc. as shareholders to inspect the

Company's books shall be in accordance with law and the Company's articles of incorporation.

* Other points of agreement

- SOFTBANK and Yahoo! Inc. will not agree to any changes to the Company's articles of incorporation that would be detrimental to the other party.
- When one party decides to sell shares of Yahoo Japan Corporation, it will inform the other party 20 days in advance.
- When one party decides to purchase more shares of Yahoo Japan Corporation on the market, it will obtain the consent of the other party.
- When one party decides to sell shares of Yahoo Japan Corporation on the market, it must offer the shares to the other party first. Should the other party not wish to buy the shares, they will be sold to a third party. In this case, however, the other party will also participate as a seller in the transaction with the third party buying the shares, and may sell shares held in Yahoo Japan Corporation to the third party as well in accordance with the proportion of shares held by SOFTBANK and Yahoo! Inc.

The Company is not the central party in this shareholder agreement. In addition, the Company makes it a principle to carry out its business in accordance with law and its articles of incorporation and the agreement does not significantly fetter the Company's operations or its pursuit of business. From this point of view, the Company believes that the agreement does not represent an invasion of the rights of other shareholders.

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. However, should the Group not be able

to acquire information and content as expected or the costs of acquiring the information and content be higher than anticipated, use of the Group's services by Internet users may decline, possibly resulting in the Group not achieving the expected level of earnings.

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

As mentioned previously, the Company made a ¥120 billion investment in BB Mobile Corp., comprising preferred shares with share acquisition rights, along with SOFTBANK CORP.'s acquisition of Vodafone K.K. (currently SOFTBANK MOBILE Corp.) through its subsidiary BB Mobile Corp. in order to carry out a mobile phone business. 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 December 31, 2006, the outstanding balance of the mezzanine loans is approx. ¥148 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.