

# Results for the Fiscal Year and Three Months Ended March 31, 2007 (FY2006-4Q) (Consolidated Basis)

2007.4.24

Company name: Yahoo Japan Corporation

Share Listings: 1<sup>st</sup> section of TSE and JASDAQ

Code No. 4689

(URL: <http://www.yahoo.co.jp>)

Representative: Masahiro Inoue, President and CEO

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Scheduled Ordinary Shareholders' Meeting Date: June 21, 2007

Scheduled Securities Report Submission Date: June 21, 2007

Scheduled Dividend Payment Date: June 22, 2007

(Amounts less than one million yen are omitted)

## 1. Consolidated Results for FY2006 (April 1, 2006-March 31, 2007)

### (1) Consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2006	212,552 (22.4)	106,232 (29.3)	102,824 (28.7)	57,963 (23.1)
FY2005	173,695 (47.5)	82,133 (36.5)	79,867 (32.5)	47,090 (28.9)

	Net income per share-primary	Net income per share-diluted	ROE	Ratio of ordinary income to total assets	Operating margin
	Yen	Yen	%	%	%
FY2006	958.66	956.70	34.8	40.4	50.0
FY2005	1,536.40	1,532.38	39.5	49.7	47.3

(For reference) Equity in earnings of affiliated companies: FY2006 (¥-3,522 million) FY2005 (¥-2,689 million)

### (2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2006	318,428	192,385	59.9	3,153.24
FY2005	190,974	142,455	74.6	4,707.60

(For reference) Equity capital: FY2006 (¥190,692 million) FY2005 (¥ - )

### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the periods
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2006	72,710	-160,403	65,033	75,212
FY2005	59,604	-27,532	-3,028	98,035

## 2. Cash Dividends

(Record date)	Dividends per share			Total amount (Full year)	Payout ratio (Consolidated)	Dividend on net assets ratio (Consolidated)
	Interim	Year end	Full year			
	Yen	Yen	Yen	Millions of yen	%	%
FY2005	-	156.00	156.00	4,715	10.2	4.0
FY2006	-	96.00	96.00	5,805	10.0	3.5
FY2007 (Estimates)	To be determined	To be determined	To be determined	To be determined	To be determined	To be determined

## 3. Consolidated Business Outlook for FY2007-1Q (April 1, 2007-June 30, 2007)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-1Q	55,600 ~ 58,200	28,150 ~ 30,050	27,000 ~ 28,900	14,750 ~ 16,650	243.90 ~ 275.32

## 4. Others

(1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): None

(2) Changes in accounting principles, procedures, disclosure methods, etc., used in the preparation of the consolidated financial statements (Changes in significant accounting items upon which the preparation of the consolidated financial statements is based)

a. Changes due to revisions in accounting standards: Yes

b. Changes other than those in a.: None

(3) Number of shares outstanding (common shares)

a. Shares issued and outstanding at end of period (incl. treasury stocks):

FY2006 60,477,014 shares      FY2005 30,226,068 shares

b. Treasury stocks at end of period:

FY2006 1,925 shares      FY2005 962 shares

[For reference]

## 1. Non-consolidated Results for FY2006 (April 1, 2006-March 31, 2007)

### (1) Non-consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2006	197,230 (27.7)	105,121 (28.8)	105,412 (28.4)	61,592 (23.9)
FY2005	154,460 (43.8)	81,588 (35.3)	82,111 (34.8)	49,725 (33.8)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2006	1,018.69	1,016.60
FY2005	1,622.67	1,618.42

### (2) Non-consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2006	315,506	197,677	62.6	3,268.24
FY2005	187,268	145,853	77.9	4,820.02

(For reference) Equity capital: FY2006 (¥197,646 million) FY2005 (¥ - )

## 2. Non-consolidated Business Outlook for FY2007-1Q (April 1, 2007-June 30, 2007)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-1Q	51,300 ~ 53,700	28,000 ~ 29,800	27,750 ~ 29,550	15,800 ~ 17,600	261.26 ~ 291.03

[Caution regarding forward-looking statements]

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. Readers are cautioned, however, that these performance estimates contain elements of risk and uncertainty.

## Attached Materials

### Highlights for the Fiscal Year Ended March 31, 2007

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates continued to improve. Net sales rose 22.4% year on year, to ¥212.5 billion. Operating income amounted to ¥106.2 billion, increasing 29.3% from a year earlier. Ordinary income totaled ¥102.8 billion, climbing 28.7% from the same period last year. Net income amounted to ¥57.9 billion, up 23.1% year on year.
- During the fiscal year, there was somewhat of a slump in the overall advertising market due to advertisers curtailing their advertising expenditures right from the start of the fiscal year. Under these circumstances, the Advertising Business strove to capture new demand, while focusing on advertising products that met advertisers' needs, such as advanced flash technology-based megabanners and targeting advertising. Sponsor Site sales also increased, and the Group's Advertising Business performed better than the overall annual growth of Japan's Internet advertising market as stated in DENTSU INC.'s report on "2006 Advertising Expenditures in Japan." As a result, Advertising Business sales for the fiscal year amounted to ¥89.2 billion, rising 30.5% from the previous fiscal year.
- In the Business Services Business, sales of information listing services, such as Yahoo! Rikunabi and Yahoo! Real Estate posted good growth. 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 27,044 at March 31, 2007, expanding by 10,721 stores, or 65.7% year on year. Making further progress with development of the mobile business, mobile phone-based transactions on Yahoo! Shopping grew 2.6 times during the fiscal year. Research-related sales also expanded, helping the sales of the Business Services Business for the fiscal year rise 36.4% year on year, to ¥48.2 billion.
- In the Personal Services Business, Yahoo! Auctions carried out various measures to expand the user base. These measures included a campaign allowing users to bid for items with just a Yahoo! JAPAN ID and running Yahoo Auctions' first television commercial. As a result, the number of first time bidders on Yahoo! Auctions increased considerably. In addition, revenues from system-use fees rose substantially, boosted by a hike in the system-use fees for winning bids from 3% to 5%. The measures to increase use of Yahoo! Auctions placed downward pressure on Yahoo! Premium member IDs, but steps were taken to promote new membership, such as measures to boost the value-added content of membership. Consequently, the number of Yahoo! Premium member IDs rose to 6.19 million at the end of March, up 0.6% year on year, and the sales of the Personal Services Business climbed 23.2% from a year earlier, to ¥75.2 billion.
- Total commerce transaction volume for the fiscal year rose 14.4%, to ¥899.9 billion. This

figure includes the transaction volumes of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets.

- Through continuous efforts to eliminate illegal copies and pirated version of business software listed on Yahoo! Auctions, in collaboration with Business Software Alliance (BSA), the number of improper items of the auction site significantly decreased in the second half of the fiscal year by 96% from the first half of the fiscal year.

#### **Fourth Quarter Highlights for the Fiscal Year Ended March 2007**

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates moved ahead in the fourth quarter. Net sales climbed 5.6% from the previous quarter and 22.3% year on year, to ¥ 57.5 billion. Operating income amounted to ¥29.5 billion, rising 6.6% from the previous quarter and 25.2% from a year earlier. Ordinary income totaled ¥28.4 billion, increasing 7.0% from the previous quarter and 24.2% from the same period last year.
- In the Advertising Business, we accurately determined fiscal year-end demand of major advertisers. As a result of active efforts to win advertising business, the business achieved a high growth rate. Automobile manufacturers started to aggressively utilize the Internet for branding advertising, not only campaigns for new models, but also for regular promotion activities, and as a result, sales of branding advertising increased. Sales of the Sponsor Site were also favorable, supporting Advertising Business sales to achieve a 14.8% increase from the previous quarter and a 21.5% increase year on year, to ¥ 24.9 billion.
- In the Business Services Business, sales of Yahoo! Real Estate surged ahead, reflecting the seasonal increase in demand for new homes due to moving or school graduates starting their first jobs. Various measures, such as the holding of events for merchant stores, were taken to increase store sales, while making continued effort to expand the number of merchant stores on Yahoo! Auctions and Yahoo! Shopping. As a result, the number of merchant stores registered on these sites totaled 27,044 at the end of the quarter, expanding by 1,983 stores, or 7.9% from the previous quarter. Tenant fees and sales commissions rose significantly year on year. Sales of INFO PLANT CO., LTD., and other research-related sales also expanded, contributing to sales of the Business Services Business in the fourth quarter growing 1.8% from the third quarter and 25.3% year on year, to ¥13.1 billion.
- In the Personal Services Business, sales of Yahoo! Partner expanded as full-scale pay-content service got underway. Pay-content sales of Yahoo! Streaming and Yahoo! Comics also increased. On the other hand, revenues from system-use fees of Yahoo! Auctions declined compared with the third quarter in reaction to the high consumption

typically occurring at year end. Moreover, Yahoo! Premium revenues also decreased slightly from the previous quarter, reflecting Yahoo! Auctions' measures to expand auction users. Overall, sales of the Personal Services Business totaled ¥19.5 billion, down 2.2% from the third quarter and up 21.4% year on year.

- On April 1, 2007, the Group established the Yahoo! JAPAN Research, a research institution to contribute to the sound and abundant development of the Internet. The institution will carry out research in the two domains of “user needs” and “technological seeds.”

## 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 forecasts for the next fiscal year with a high degree of reliability.

The Company and its Group view the degree of usage of each of their services by customers as important management indicators in determining estimations of income and expenses. However, 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.

Therefore, changes in conditions could result in the possibility of actual performance varying significantly from announced estimates. In such cases, we are committed to quickly announcing revisions in our estimates.

### Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-1Q) (April 1, 2007 to June 30, 2007)

Net sales	¥55,600 million ~ ¥58,200 million
Operating income	¥28,150 million ~ ¥30,050 million
Ordinary income	¥27,000 million ~ ¥28,900 million
Net income	¥14,750 million ~ ¥16,650 million

### Non-consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-1Q) (April 1, 2007 to June 30, 2007)

Net sales	¥51,300 million ~ ¥53,700 million
Operating income	¥28,000 million ~ ¥29,800 million
Ordinary income	¥27,750 million ~ ¥29,550 million
Net income	¥15,800 million ~ ¥17,600 million

# 1. Consolidated Balance Sheets

(Millions of yen)

	As of Mar. 31, 2007	As of Dec. 31, 2006	Comparison with the previous quarter		As of Mar. 31, 2006	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
<b>Assets</b>							
Current assets							
Cash and cash equivalents (*1)	75,212	51,461	23,751	46.2	98,038	-22,826	-23.3
Notes and accounts receivable-trade (*2)	30,244	27,842	2,402	8.6	25,213	5,031	20.0
Deferred tax assets	4,344	2,901	1,443	49.8	3,472	872	25.1
Other current assets	7,818	8,004	-185	-2.3	7,270	548	7.5
Allowance for doubtful accounts	-2,299	-2,188	-111	5.1	-1,805	-493	27.4
Total current assets	115,320	88,020	27,299	31.0	132,188	-16,868	-12.8
Fixed assets							
Tangible fixed assets (*3)							
Buildings and structures	3,483	1,490	1,993	133.7	1,518	1,965	129.4
Machinery and equipment	13,004	12,687	317	2.5	12,414	590	4.8
Other tangible fixed assets	62	390	-327	83.9	82	-19	-23.6
Total tangible fixed assets	16,551	14,568	1,983	13.6	14,015	2,536	18.1
Intangible fixed assets							
Software	10,589	9,779	810	8.3	7,545	3,043	40.3
Goodwill	4,061	3,695	366	9.9	4,128	-66	-1.6
Other intangible fixed assets	33	32	1	3.8	28	5	19.4
Total intangible fixed assets	14,684	13,507	1,177	8.7	11,702	2,982	25.5
Investments and others							
Investment securities (*4)	162,192	165,304	-3,111	-1.9	28,700	133,492	465.1
Others (*5)	9,702	6,169	3,532	57.3	4,389	5,312	121.0
Allowance for doubtful accounts	-23	-22	-1	5.3	-21	-1	8.2
Total investments and others	171,871	171,451	420	0.2	33,067	138,803	419.8
Total fixed assets	203,107	199,527	3,580	1.8	58,785	144,321	245.5
<b>Total assets</b>	<b>318,428</b>	<b>287,547</b>	<b>30,880</b>	<b>10.7</b>	<b>190,974</b>	<b>127,453</b>	<b>66.7</b>



(Millions of yen)

	As of Mar. 31, 2007	As of Dec. 31, 2006	Comparison with the previous quarter		As of Mar. 31, 2006	Comparison with the previous fiscal year	
	Amount	Amount	Increase/ decrease	Change	Amount	Increase/ decrease	Change
<b>Liabilities</b>							
Current liabilities							
Accounts payable-trade	1,022	840	182	21.7	889	132	14.9
Short-term borrowings (*6)	20,120	20,120	-	-	208	19,911	-
Accounts payable-other (*7)	13,345	11,648	1,697	14.6	12,418	926	7.5
Accrued income taxes (*8)	28,371	14,874	13,497	90.7	23,484	4,887	20.8
Reserve for point system	2,065	1,796	268	15.0	1,336	728	54.5
Other current liabilities	11,106	10,710	396	3.7	7,151	3,955	55.3
Total current liabilities	76,032	59,990	16,041	26.7	45,489	30,543	67.1
Long-term liabilities							
Long-term borrowings (*6)	50,000	50,000	-	-	30	49,969	-
Other long-term liabilities	10	10	0	9.3	1,632	-1,621	-99.3
Total long-term liabilities	50,010	50,010	0	0.0	1,663	48,347	-
<b>Total liabilities</b>	<b>126,043</b>	<b>110,000</b>	<b>16,042</b>	<b>14.6</b>	<b>47,152</b>	<b>78,890</b>	<b>167.3</b>
<b>Net assets</b>							
Shareholders' equity							
Common stock (*9)	7,187	7,163	23	0.3	7,032	154	2.2
Additional paid-in capital	2,268	2,244	23	1.0	2,113	154	7.3
Retained earnings (*10)	179,897	163,913	15,983	9.8	126,737	53,159	41.9
Treasury stock	-28	-28	-	-	-28	-	-
Total shareholders' equity	189,324	173,293	16,030	9.3	135,856	53,467	39.4
Evaluation and exchange adjustments (*11)	1,368	2,711	-1,343	-49.5	6,598	-5,230	-79.3
Share subscription rights	30	17	13	76.3	-	30	-
Minority interests in consolidated subsidiaries	1,662	1,524	138	9.1	1,367	295	21.6
<b>Total net assets</b>	<b>192,385</b>	<b>177,547</b>	<b>14,838</b>	<b>8.4</b>	<b>143,822</b>	<b>48,562</b>	<b>33.8</b>
<b>Total liabilities and net assets</b>	<b>318,428</b>	<b>287,547</b>	<b>30,880</b>	<b>10.7</b>	<b>190,974</b>	<b>127,453</b>	<b>66.7</b>

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 for the Fourth Quarter and Full Year

### Assets

- \*1. The increase in cash and cash equivalents compared with the previous quarter was mainly due to revenue growth driven by greater sales activities. The decrease in cash and cash equivalents compared with the same quarter in the previous fiscal year was primarily due to expenditures on investment securities.
- \*2. The growth in notes and accounts receivable-trade compared with the previous quarter and year on year can principally be attributed to greater advertising revenues.
- \*3. The increase in tangible fixed assets compared with the previous quarter was primarily the result of a move by a portion of the office and expanded office floor space. The

year-on-year growth was mainly due to the installation of servers and other network equipment.

- \*4. Investment securities declined compared with the previous quarter mainly because of mark-to-market of investment securities. The increase in investment securities year on year can be attributed to the purchase of stocks.
- \*5. The growth in others in investments and others compared with the previous quarter and year on year was principally due to deposits related to the move by a portion of the office and the expansion of office floor space.

### **Liabilities**

- \*6. The growth in short-term and long-term borrowings compared with the same period in the previous fiscal year resulted mainly from loans taken out in order to invest in BB Mobile Corp.
- \*7. The increase in accounts payable—other compared with the previous quarter was mainly due to the purchase of fixed assets.
- \*8. The increase in accrued income taxes compared with the previous quarter and year on year primarily can be attributed to growth in profits.

### **Net Assets**

- \*9. The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.
- \*10. The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.
- \*11. The decrease in the evaluation and exchange adjustments compared with the previous quarter and the previous fiscal year was due to the mark-to-market of investment securities.

## 2. Consolidated Statements of Income (January 1, 2007-March 31, 2007)

(Millions of yen)

	Three months ended Mar. 31, 2007		Three months ended Dec. 31, 2006	Comparison with the previous quarter		Three months ended Mar. 31, 2006
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	57,560	100.0	54,522	3,038	5.6	47,056
Cost of sales	2,205	3.8	2,098	106	5.1	1,662
Gross profit	55,355	96.2	52,423	2,931	5.6	45,394
SG&A expenses	25,821	44.9	24,724	1,096	4.4	21,806
Personnel expenses (*1)	4,794	8.3	4,867	-73	-1.5	4,002
Business commissions (*2)	3,551	6.2	3,411	139	4.1	3,013
Sales commissions (*3)	2,923	5.1	2,491	431	17.3	2,430
Depreciation expenses (*4)	2,433	4.2	2,080	353	17.0	2,017
Communication charges	1,975	3.4	2,028	-52	-2.6	1,541
Sales promotion costs (*5)	1,691	2.9	1,982	-290	-14.7	1,895
Royalties	1,622	2.8	1,559	62	4.0	1,335
Lease and utility expenses (*6)	1,409	2.4	1,186	223	18.8	1,229
Content provider fees	1,235	2.1	1,156	79	6.8	1,015
Payment commissions	1,030	1.8	1,012	18	1.8	718
Allowance for doubtful accounts (*7)	566	1.0	606	-40	-6.7	368
Administrative and maintenance expenses	497	0.9	478	19	4.0	310
Fixtures and fittings expenses (*8)	453	0.8	63	389	610.6	143
Amortization of goodwill	339	0.6	339	0	0.0	301
Taxes and public dues	269	0.5	248	21	8.7	232
Others	1,027	1.9	1,212	-184	-15.2	1,249
Operating income	29,533	51.3	27,699	1,834	6.6	23,587
Non-operating expenses (income)	-1,047	-1.8	-1,069	21	-	-647
Ordinary income	28,486	49.5	26,630	1,856	7.0	22,940
Extraordinary losses (gains)	-751	-1.3	-52	-699	-	-1,196
Quarterly income before income taxes	27,735	48.2	26,577	1,157	4.4	21,744
Income taxes, inhabitants' taxes and enterprise taxes	13,321	23.1	11,356	1,964	17.3	10,661
Adjustment to income taxes	-1,660	-2.9	-66	-1,593	-	-1,990
Minority interests in gains of consolidated subsidiaries	90	0.2	115	-25	-21.8	81
Quarterly net income	15,984	27.8	15,172	811	5.3	12,991

## Consolidated Statements of Income (April 1, 2006-March 31, 2007)

(Millions of yen)

	Fiscal year ended Mar. 31, 2007		Fiscal year ended Mar. 31, 2006	Comparison with the previous fiscal year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	212,552	100.0	173,695	38,856	22.4
Cost of sales	8,486	4.0	12,843	-4,356	-33.9
Gross profit	204,065	96.0	160,852	43,213	26.9
SG&A expenses	97,832	46.0	78,719	19,113	24.3
Personnel expenses (*1)	18,780	8.8	14,730	4,049	27.5
Business commissions (*2)	13,804	6.5	10,904	2,899	26.6
Sales commissions (*3)	10,338	4.9	8,377	1,961	23.4
Depreciation expenses (*4)	8,126	3.8	6,662	1,463	22.0
Communication charges	7,920	3.7	5,674	2,245	39.6
Sales promotion costs (*5)	7,120	3.4	6,721	398	5.9
Royalties	6,024	2.8	4,708	1,315	27.9
Lease and utility expenses (*6)	5,124	2.4	4,251	872	20.5
Content provider fees	4,597	2.2	3,346	1,251	37.4
Payment commissions	3,657	1.7	2,537	1,119	44.1
Allowance for doubtful Accounts (*7)	2,248	1.1	1,393	854	61.3
Administrative and maintenance expenses	1,778	0.8	1,088	689	63.3
Fixtures and fittings expenses (*8)	712	0.3	625	86	13.9
Amortization of goodwill	1,384	0.7	991	392	39.6
Taxes and public dues	961	0.5	786	174	22.2
Others	5,255	2.4	5,918	-662	-11.2
Operating income	106,232	50.0	82,133	24,099	29.3
Non-operating expenses (income)	-3,408	-1.6	-2,265	-1,142	-
Ordinary income	102,824	48.4	79,867	22,956	28.7
Extraordinary losses (gains)	-1,056	-0.5	96	-1,152	-
Income before income taxes	101,768	47.9	79,963	21,804	27.3
Income taxes, inhabitants' taxes and enterprise taxes	45,223	21.3	35,486	9,736	27.4
Adjustment to income taxes	-1,808	-0.9	-2,894	1,085	-
Minority interests in gains of consolidated subsidiaries	389	0.2	279	110	39.3
Net income for the period	57,963	27.3	47,090	10,872	23.1

### Main Points Regarding Consolidated Statements of Income for the Fourth Quarter and Full Year

#### Net Sales

The growth in net sales from the previous quarter and year on year can be mainly attributed to an increase in the sales of the Advertising Business. In addition to the above, the higher fiscal net sales compared with the previous fiscal year resulted from growth in the sales of the Personal Services Business.

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

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

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 3,078 up 502, or 19.5%, from the end of the same quarter in the previous fiscal year. The rise in fiscal personnel expenses compared with the previous fiscal year was due to an increase in the number of directors and employees.

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

The main business commissions for the quarter and for the fiscal year were expenses for temporary and contract employees, the settlement operations of the Personal Services Business, and Yahoo! BB's call center. The increase in fiscal business commissions year on year can be attributed to a growth in expenses for temporary and contract employees.

### **\*3 Sales commissions**

The growth in quarterly sales commissions compared with the previous quarter and year on year and in fiscal sales commissions compared with the previous fiscal year was principally the result of increased advertising sales.

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

The increase in quarterly depreciation expenses compared with the previous quarter and year on year and in fiscal depreciation expenses year on year can mainly be attributed to the increased purchase of software and of fixed assets in conjunction with the move of a portion of the office and expanded office floor space.

### **\*5 Sales promotion costs**

The decline in sales promotion costs compared with the third quarter was chiefly due to a reduction in costs to acquire Yahoo! BB subscribers. On the other hand, the increase in fiscal sales promotion costs compared with the previous fiscal year was mainly due to an annual increase in sales promotion costs to acquire Yahoo! BB subscribers.

### **\*6 Lease and utility expenses**

The expansion in quarterly lease and utility expenses compared with the previous quarter and in fiscal lease and utility expenses compared with the previous fiscal year was due to additional general service expenses resulting from the move by a portion of the office and the office floor space expansion.

### **\*7 Allowance for doubtful accounts**

The Company began to conservatively account for allowance for doubtful accounts for credit card business in the previous quarter. Consequently, allowance for doubtful accounts in the quarter under review decreased from the previous quarter.

### **\*8 Fixtures and fittings expenses**

The increase in quarterly fixtures and fittings expenses compared with the previous quarter and year on year was the result of the purchase of office supplies related to the move by a portion of the office and the office floor space expansion.

## **Non-Operating Expenses (Income)**

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

non-operating income for the fiscal year was profit distribution from an investment partnership, while the main component of non-operating expenses for the fiscal year was equity in losses under the equity method.

### **Extraordinary Losses (Gains)**

The major extraordinary gain recorded during the quarter was a gain on sale of investment securities, while the major extraordinary loss was a loss on disposal of assets and office restoration expenses related to the move of a portion of the office and the expansion of office floor space. In addition to the previously mentioned factors for the fourth quarter, the principal extraordinary gain posted for the fiscal year included a gain on changes in equity holdings, while the principal extraordinary loss for the fiscal year included loss on evaluation of investment securities.

### **Income Taxes, etc.**

The effective income tax rate for the quarter was 42.0% and for the fiscal year, 42.7%.

### **Minority Interests in Gains of Consolidated Subsidiaries**

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

### **Quarterly Net Income**

Net income per share amounted to ¥258.61 for the quarter and ¥958.66 for the fiscal year, respectively.

### **3. Consolidated Statements of Cash Flows**

(Millions of yen)

	Three months ended Mar. 31, 2007	Fiscal year ended Mar. 31, 2007
<b>Cash flows from operating activities:</b>		
Income before income taxes for the periods	27,735	101,768
Depreciation and amortization	2,549	8,576
Increase in accounts receivable-trade	-2,042	-4,730
Increase in accounts payable-trade	166	102
Other cash flows	3,041	7,411
Sub total	31,449	113,128
Payment of income taxes and other taxes	-21	-40,417
Cash flows from operating activities	31,427	72,710
<b>Cash flows from investing activities:</b>		
Expenditures on tangible fixed assets	-3,723	-10,204
Expenditures on intangible fixed assets	-1,100	-5,052
Expenditures on investment securities	-	-146,600
Proceeds from sale of investment securities	19	427
Expenditures on increase in guarantee deposit assets	-2,378	-2,802
Other cash flows	-543	3,828
Cash flows from investing activities	-7,726	-160,403
<b>Cash flows from financing activities:</b>		
Proceeds from long-term loan	-	80,070
Redemption of long-term loan	-	-10,047
Expenditures on payments of dividends	-	-4,715
Other cash flows	50	-273
Cash flows from financing activities	50	65,033
Net change in cash and cash equivalents	23,751	-22,659
Cash and cash equivalents at the beginning of the periods	51,461	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	75,212	75,212

#### **Main Points Regarding Consolidated Statements of Cash Flows for the Fourth Quarter and Full Year**

##### **Cash Flows from Operating Activities**

Cash flows provided by operating activities for the fourth quarter and fiscal year amounted to ¥31,427 million and ¥72,710 million respectively, increasing due to growth in net sales and net income.

##### **Cash Flows from Investing Activities**

Cash flows used in investing activities for the fourth quarter amounted to ¥7,726 million due to expenditures on tangible fixed assets related to the move of a portion of the office and expanded office floor space and expenditures on increase in guarantee deposit assets. Cash flows used in investing activities for the fiscal year totaled ¥160,403 million, including expenditures on investment securities in addition to the previously mentioned factors for

the fourth quarter.

**Cash Flows from Financing Activities**

Cash flows provided by financing activities for the fourth quarter amounted to ¥50 million due to proceeds from exercise of stock options and others. Cash flows provided by financing activities for the fiscal year totaled ¥65,033 million, as proceeds from long-term loan more than offset expenditures on repayment of long-term borrowings and on payments of dividends.



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

### (2) Quarterly Results

#### FY2006-4Q (January 1, 2007-March 31, 2007)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	24,944 (43.3%)	13,123 (22.8%)	19,515 (33.9%)	57,583 -	-23 (-0.0%)	57,560 (100.0%)
Operating expenses	10,176	7,719	6,839	24,735	3,291	28,026
Operating income (Contribution)	14,767 (50.0%)	5,404 (18.3%)	12,675 (42.9%)	32,848 -	-3,314 (-11.2%)	29,533 (100.0%)

#### 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%)

**FY2005-4Q (January 1, 2006-March 31, 2006)****(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	20,536 (43.6%)	10,471 (22.3%)	16,079 (34.2%)	47,087 -	-30 (-0.1%)	47,056 (100.0%)
Operating expenses	9,282	6,238	5,988	21,509	1,959	23,469
Operating income (Contribution)	11,253 (47.7%)	4,233 (17.9%)	10,090 (42.8%)	25,577 -	-1,990 (-8.4%)	23,587 (100.0%)

**Advertising Business****Quarterly Results**

Due to aggressive efforts to win advertising business based on an accurate grasp of the fiscal year-end demand of major advertisers, the Group recorded high advertising sales growth.

Opportunities to use high-branding-power megabanners in such spaces as Brand Panel, Large Square, and Super Banner, have further expanded. In the past, Internet advertising was mainly used by corporations for new product launch campaigns. Nowadays, however, automobile manufacturers are aggressively using it for regular promotional activities. Furthermore, advertisers have highly evaluated Rectangle Box, an advertising product that the Group has begun selling principally for Yahoo! Topics and Yahoo! News. Many advertisers, especially National Clients, used behavioral targeting product during the quarter, and sales of such products grew. Behavioral targeting product can target a user according to past history of Internet usage. Demand for geographical targeting product was also high among companies conducting advertising campaign aimed at a specific region. The geographical targeting product focuses on specific regions, leading to advertising by such new advertisers as regional banks. Moreover, other projects, such as content-sponsored special features and advertising planning and development activities, also expanded especially among automobile- and real estate-related industries, including a rise in the number of major project proposals.

Sales of the Sponsor Site increased, supported by greater use of the sites due to the end of the fiscal year and the lead up to the spring holidays and to heightened fiscal year-end demand among some industry sectors. In mobile advertising, we took active steps to develop the market, such as starting to sell new advertising space, which resulted in continued favorable sales growth.

Consequently, sales of the Advertising Business for the quarter amounted to ¥24.9 billion.

**Advertising Products**

During the fourth quarter, sales of targeting products, such as behavioral targeting and geographical targeting, rose from the previous quarter. Several of our advertising planning and development activities attracted a great deal of attention during the quarter. For the special feature, A New Touch of Class for Adults, sponsored by Toyota Motor Corporation, we used

full-page flash advertising. In Sony Corporation's VAIO promotion, we ran a tie-up special feature with Yahoo! Music featuring streaming content using the Japanese hip hop group, Rip Slyme.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.15 to ¥0.70 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 ¥6.50 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 ¥14.5 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

## **Fiscal Year Results**

During the first half of the fiscal year, large-scale events, such as the 2006 FIFA World Cup™ provided a positive boost to advertising sales. In the second half, however, advertisers, especially National Clients, began to restrain their advertising expenditures in reaction to the end of the major events as well as the rising price of oil and a softening of stock prices. These influences produced a slight slump in the advertising market overall. This trend was also seen in the Internet advertising market. Among other negative factors in the market, there were some companies that were voluntarily curtailing their advertising, including Internet advertising, for certain legal and ethical reasons.

Under these circumstances, the Group strengthened its cooperative ties with advertising agencies and worked to offer products that meet the needs of advertisers and to develop new demand. Among advertising products, the use of megabanners, which distribute advertising via an advanced flash technology, further expanded in such spaces as Brand Panel, Large Square, and Super Banner, as the 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 behavioral targeting product during the quarter, and sales of such products grew sharply. Behavioral targeting product can target a user according to past history of Internet usage. Demand for geographical targeting product was also high among companies conducting advertising campaign aimed at a specific region. The geographical targeting product focuses on specific regions, leading to advertising by such new advertisers as regional banks.

In addition to substantial growth in sales of the Sponsor Site, mobile advertising sales expanded. An increase in the number of users of Yahoo! Mobile due to the launch of Yahoo! Keitai in October 2006 resulted in greater use of mobile advertising by National Clients, which in turn produced positive sales expansion.

Consequently, sales of the Advertising Business for the fiscal year under review amounted to ¥89.2 billion, accounting for 42.0% of consolidated net sales.

## **Business Services Business**

### **Quarterly Results**

During the fourth quarter, the Business Services Business benefited from the seasonal growth

in demand due to school graduates starting new jobs and people moving. As a result, sales of Yahoo! Real Estate increased substantially. In addition, Yahoo! Rikunabi's Shotworks, which provides short-term, one-off temporary employment services, performed well compared with the same period in the previous fiscal year. Yahoo! Shopping and Yahoo! Auctions jointly held a Commerce Conference 2007 Advance for merchant stores on their sites with the aim of achieving better store management. A total of 1,707 representatives from 1,200 stores participated in the event. Efforts to increase the number of merchant stores continued, with Yahoo! Shopping running a campaign offering newly registering stores no initial set up charge as well as two months of free system-use. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 27,044 at the end of the quarter, increasing 1,983 stores, or 7.9% from the previous quarter. Steps were also taken to increase the number of users. Yahoo! Shopping launched Valentine's Day and White Day special features as seasonal sales promotions. Yahoo! Auctions commenced a Yahoo Auction Store service on an official i-mode mobile website that offer auctions limited to the items of merchant stores. In other areas, Yahoo! Travel continued its efforts to increase name recognition through such activities as campaign on its business trip accommodation reservation service. Total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets amounted to ¥232.9 billion in the fourth quarter, down 4.1% from the third quarter and up 12.1% year on year. Sales of INFO PLANT CO., LTD., and other research-related sales also expanded favorably.

Overall, sales of the Business Services Business amounted to ¥13.1 billion in the fourth quarter.

### **Fiscal Year Results**

During the fiscal year, revenues from information listing services, particularly the employment and real estate information services of Yahoo! Rikunabi and Yahoo! Real Estate, increased substantially against the backdrop of the further progression of the shift from printed media to the Internet as a way of gathering information. Yahoo! Shopping and Yahoo! Auctions both focuses on actively acquiring more stores. Yahoo! Shopping conducted a campaign aimed at sole proprietors that offered up to six months of free system use. Similarly, Yahoo Auctions ran a campaign targeting corporations and sole proprietors offering up to four months of free system use for newly registering stores as well as strengthening its efforts to induce people to access its Web page on opening a merchant store. As a result, the number of merchant stores registered on Yahoo! Auctions and Yahoo! Shopping totaled 27,044 at the end of the fiscal year, increasing 10,721 stores, or 65.7% from the previous fiscal year. Along with the growth in the number of registered stores, tenant fees and sales commissions significantly increased. Progress was made in developing mobile business, with mobile phone-related transactions of Yahoo! Shopping growing a substantial 2.6 times year on year. As a result of the aggressive seasonal sales promotion activities, the total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets amounted to ¥899.9 billion during the fiscal year, expanding 14.4% from the previous fiscal year. In addition, the Group continued to focus on expanding research-based sales utilizing tie-ups with INFO PLANT CO., LTD., and INTAGE Interactive Inc., as well as with Interscope Inc., which became a consolidated subsidiary in the

fiscal year under review.

Overall, sales of the Business Services Business for the fiscal year amounted to ¥48.2 billion, accounting for 22.7% of consolidated net sales.

## e-Commerce Related Performance Figures

### Yahoo! Shopping Number of Stores, etc.

	January 2007	February 2007	March 2007
Number of shopping unique browsers	16.47 million browsers	15.85 million browsers	16.76 million browsers
Number of shopping store unique browsers	17.00 million browsers	15.86 million browsers	16.98 million browsers
Number of stores (As of the end of each month)	13,812 stores	14,015 stores	14,699 stores

Note: Number of shopping unique browsers is the number of browsers which accessed Yahoo! Shopping (shopping.yahoo.co.jp, etc.) each month while the number of shopping store unique browsers is the number of browsers which accessed Yahoo! Shopping Store (store.yahoo.co.jp) each month.

### Shopping Related Transaction Volume

	October 2006-December 2006	January 2007-March 2007
Daily average transaction volume	¥ 510 million	¥ 511 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.

	January 2007	February 2007	March 2007
Number of auction unique browsers	29.93 million browsers	28.00 million browsers	28.65 million browsers
Number of total listed items (Monthly average)	11.40 million items	13.24 million items	13.34 million items
Number of stores (As of the end of each month)	11,711 stores	12,017 stores	12,345 stores

### Yahoo! Auctions Transaction Volume etc.

	October 2006-December 2006	January 2007-March 2007
Daily average number of new listings	914 thousand items	953 thousand items
Daily average transaction volume	¥2,187 million	¥2,076 million

Average closing price per item	¥5,884	¥5,694
The average ratio of successful auctions per day	28%	26%

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

## **Personal Services Business**

### **Quarterly Results**

In addition to sales of the fully launched pay-content service Yahoo! Partner being favorable, we also focused on expanding pay-content sales from such services as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling. During the quarter, Yahoo! Auctions saw some decline in revenues from system-use fees in reaction to the high activity common at the end of the year. Nevertheless, the Group endeavored to increase the number of users through such measures as continuing the campaign enabling users to bid on auction items with only a Yahoo! JAPAN ID, introducing a program that awarded Yahoo! Points based on a lottery to bidders in auctions, and conducting the Auction Debut Campaign, which presented Yahoo! Points to first-time listers of auction items. Thanks to steps taken to boost the value of Yahoo! Premium membership, such as online movie premieres in collaboration with Yahoo! Streaming, the reduction in the number of Yahoo! Premium members was held to a slight decline. Yahoo! Premium IDs totaled 6.19 million at the end of the fourth quarter, dropping 1.8% from the previous quarter, but rising 0.6% year on year. The number of Yahoo! BB subscribers expanded to 5.164 million subscriber lines at the end of the quarter, up 0.0% from the previous quarter and 2.3% from a year earlier, and ISP fee revenues were flat.

Reflecting these factors, sales of the Personal Services Business for the fourth quarter amounted to ¥19.5 billion.

### **Fiscal Year Results**

During the fiscal year, Yahoo! Auctions initiated various measures to expand the number of users. It lifted the requirement that users of auction services be Yahoo! Premium members and made it possible to participate in auctions with only a Yahoo! JAPAN ID. Yahoo! Auctions undertook sales promotion activities, including running television commercials and carrying out a campaign to commemorate breaking through the 10,000-store mark for Yahoo! Auctions stores. In addition, in May 2006, it raised the system-use fees for winning bids from 3% to 5%, which contributed substantially to a large increase in system-use fee revenues. Assisted by a free item listing campaign and other measures, the daily average transaction volume on Yahoo! Auctions exceeded ¥2 billion for the first time. During the fiscal year, the Group saw a decline in the number of Yahoo! Premium IDs because of the measures taken to increase participation in Yahoo! Auctions. Nevertheless, due to various measures taken to promote new membership by increasing the value of members, such as Premium Member Discount and online movie premieres in collaboration with Yahoo! Streaming, the number of Yahoo! Premium IDs totaled 6.19 million at March 31, 2007, expanding 0.6% year on year. The number of Yahoo! BB

subscribers expanded to 5.164 million subscriber lines at the end of the fiscal year, rising 2.3% from a year earlier and supporting growth in ISP fee revenues. The Group also focused on increasing the pay-content revenues of such services as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling.

Consequently, sales of the Personal Services Business for the fiscal year totaled ¥75.2 billion, accounting for 35.4% of consolidated net sales.

## **5. Operating Review**

### **(1) Auction Business**

Main Services:

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

During the fourth quarter we took various steps aimed at expanding users. We continued our campaign that enables users to bid in auctions with only a Yahoo! JAPAN ID. Among other campaigns, we ran a Bidding Point Campaign, which granted Yahoo! Points to bidders by lottery, and an Auction Debut Campaign, which awarded Yahoo! Points first-time listers of auction items. As a new service, we launched Yahoo! Classified (beta version), which allows participants to easily share information and carry out transactions. In addition, we promoted the use of the Internet by public bodies through such auctions as Japan's first auction of publicly owned assets. Based on these efforts, the total transaction value of Internet auctions by regional and municipal governments using our services for the fiscal year under review amounted to ¥3,106.32 million.

### **(2) Search Business**

Main Services:

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

In the fourth quarter, the Search Business focused on making it easy and convenient for users to get more detailed search results related to their search objectives. Among actions to increase convenience for users, we allowed users of Yahoo! Search to view maps along with the search results, by entering words like "maps" in addition to other key words, such as regional names and station names. For Yahoo! Blog Search, we added a Reputation Information Search that enables users to see at a glance whether opinions expressed on blogs, concerning the keyword entered, are mostly positive or negative. We also added a Collective Search function that displays blogs with similar content. According to a survey by NetRatings Japan Inc. during the fourth quarter, Yahoo! Answers became the service with the top number of users among similar Q&A services for the first time.

### **(3) Member Services Business**

Main Services:

Yahoo! BB, Yahoo! Premium, Yahoo! Trading, Yahoo! Insurance, Yahoo! Tickets, Yahoo! LiveTalk, Yahoo! Delivers, Yahoo! Wallet, Yahoo! Wedding, Yahoo! Marriage, Yahoo! Partner, Yahoo! Keitai Shop

In the fourth quarter, the Member Services Business focused on increasing the number of members of Yahoo! Premium, Yahoo! BB, and other membership services, as well as boosting the degree of satisfaction of members. For Yahoo! Premium members, we ran a campaign offering Yahoo! Mail's security pack free of charge. Jointly with Yahoo! Music, Yahoo! Streaming, and Yahoo! Tickets, we offered members pre-distribution tickets for a concert by the Japanese group Dreams Come True. In collaboration with Yahoo! Movies, we again held online premieres of new releases, such as Mushishi and Aoki-Ookami, about twice a month. Furthermore, to meet spring demand arising from students graduating and starting their first job, in collaboration with Yahoo! Keitai Shop, we offered an iPod Shuffle to all members purchasing phone models covered by Softbank Mobile's new subscribers campaign. During the period under review, we also offered Yahoo! Points to members asking for an auto insurance estimate from Yahoo! Insurance. In addition, we worked to provide more pay-content to members, such as Yahoo! Partner, which was previously a free content service.

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

January 2007	February 2007	March 2007
6.26 million IDs	6.22 million IDs	6.19 million IDs

#### **Total Subscriber Lines for Yahoo! BB**

End of December 2006	End of March 2007
Approximately 5,161 thousand lines (including approximately 1,139 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,164 thousand lines (including approximately 1,124 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



The Regional Services Business endeavored during the fourth quarter to offer services that enrich regional lifestyles by fusing Yahoo! JAPAN's services with local information from regions throughout Japan. To do so, 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! Maps, we launched a beta version of Wai Wai Map, a community-type service that enables participants to easily make and share their own original maps. We also introduced Yahoo! JAPAN's first service for car navigation systems. The service transmits information on restaurants from Yahoo! Gourmet for use with Car Wings, an information service for car navigation system offered by Nissan Motor Co., Ltd. In other areas, we launched a new pay-content service on Yahoo! Healthcare. In collaboration with Ask Doctors, a medical Q&A site offering consultation with doctors operated by So-net M3, Inc., we started up Body Advisory, a service that enables users to ask for health advice from active doctors.

## **(5) Media Business**

Main Services:

Yahoo! News, Yahoo! Finance, Yahoo! Sports, Yahoo! Weather, Yahoo! TV, Yahoo! Streaming, Yahoo! Disaster Information, Yahoo! Politics, Yahoo! Everybody's Topics, Yahoo! Trend Word

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 promoted Yahoo! News as a service that users can participate in, strengthening functions that allow users to submit their opinions and vote on issues. At the same time, we conducted a major renewal of the site, adding links to underlying information providers and strengthening our advertising networking. On Yahoo! Everybody's Politics, we added Why We Go to Elections within a special feature on the nationwide regional elections. To make it easy and interesting to view, Why We Go to Elections was done through a tie-up with Shinchosha's Weekly Comic Bunch. We began a Home Theater service on Yahoo! Streaming that enables users to enjoy free of charge movies before they are released in theaters. We also launched the MAJOR.JP, a Japanese official website of Major League Baseball as well as Yahoo! Trend Word, a service that displays a ranking of words that have suddenly become popular and are used frequently in blogs and Internet news. Furthermore, for Yahoo! Finance, we introduced a beta version of Stock Comment Book, which enables users to post comments for each stock.

## **(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 seasonal special features on Valentine's Day, White Day, and other events. Jointly with the Auction Business, we held a Commerce Conference 2007 Advance for merchant stores to help improve their management. Events included seminars on improving transaction volume and management-assistance consulting booths. A total of 1,707 representatives from 1,200 stores participated in the event. We also worked to improve the convenience of our stores, preparing to add Mobile Suica Net Settlement, Convenience Store Settlement, and Pay-easy Settlement to the settlement menu on Yahoo! Shopping. As a result, the total number of stores climbed to 14,699 at the end of March 2007, an increase of 1,164 stores, or 8.6% from December 2006.

## **(7) Social Net Business**

Main Services:

Yahoo! Days, Yahoo! Avatar, Yahoo! Blogs, Yahoo! Message Boards, Yahoo! Messenger, Yahoo! Greetings, Yahoo! Mail, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! GeoCities, Yahoo! Groups, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert, Yahoo! Podcast, Yahoo! Member Directory

Acting as the driver of the development of social media on Yahoo! Japan, the Social Net Business continued to work to maximize the networks that connect people, to increase the added value content of related services, and to link up with various services of Yahoo! JAPAN. During the quarter, for Yahoo! Avatar, we focused on sales of pay content through such activities as preparing limited items to celebrate the public showing of the new Doraemon animation movie, Nobita's New Devil World Adventure—7 Magicians. We strengthened functions for Yahoo! Blogs, enabling the selection of banner advertising under the affiliates program and RSS feeds for category pages. Yahoo! Blogs has been providing its services for approximately 2 years, during which time, it has hosted more than one million blogs. Among other actions taken to improve the degree of convenience of users, we added the display of weather notices and news topics on the top page following the log on to Yahoo! Mail.

## **(8) 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, Yahoo! Consumer Electronics Navigator

In our Lifestyle Business, we continued to try to promote our social media aspect in lifestyle related fields that require a high degree of expertise or interest. During the quarter, we launched Yahoo! Consumer Electronics Navigator, one of the largest consumer electronics information

sharing sites in Japan. Among improvements during the quarter, we added a reputation function on Yahoo! Music. For Yahoo! Beauty, we made it possible to make and search for user posts and launched My Cosmetic Page, a service that enables users to manage posts and information about their favorite cosmetics. Moreover, we commenced a service on Yahoo! Second Life that allows members to post blog-like notes and comments, providing a new place for members enjoying their retirement years to express their thoughts and feelings. We also took steps to increase the use of pay content and its sales, running a 20<sup>th</sup> anniversary full special feature on Shogakukan Inc.'s Young Sunday comics on Yahoo! Comics.

## **(9) Mobile Business**

Main Services:

Yahoo! Mobile, Yahoo! Content Store

During the fourth quarter, we continued to endeavor to increase the degree of customer satisfaction with our Yahoo! Keitai service for SOFTBANK mobile phones and our mobile version of Yahoo! JAPAN for i-mode and EZweb formats based on surveys and analysis of trends. We made various efforts to increase the use of our services. Yahoo! Mobile ran a special feature of the new spring mobile phone models of the three mobile phone carriers, as well as a special feature on new free content services of Yahoo! Keitai. Furthermore, we renewed the top page of our mobile version of Yahoo! JAPAN for i-mode and EZweb formats. To increase the convenience of this site, we made it possible for users to see search rankings and added a location information function, which provides current weather reports and maps.

### **Number of Page Views**

	January 2007	February 2007	March 2007
Yahoo! Mobile Page Views	2,386 million page views	2,254 million page views	2,506 million page views
Daily Average Yahoo! Mobile Page Views	76 million page views	80 million page views	80 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 market Yahoo! Research services. We acquired Interscope Inc. during the quarter and made it a subsidiary for the purpose of expanding our customer base and product lineup and of further

strengthening our Internet research capabilities. We continued to work on increasing the number of monitors and diversifying demographics. At the end of March 2007, the total number of registered monitors amounted to 1.44 million.

#### Settlement Related

During the quarter, we implemented several measures to expand our services and increase the degree of convenience of services. We expanded the point exchange network for Yahoo! Points. Through Netrust Ltd., we prepared to add Mobile Suica Net Settlement, Convenience Store Settlement, and Pay-easy Settlement to the settlement menu of our Internet stores.

#### Travel Related

During the quarter, we implemented several measures to increase use of our services. We added 100 luxury hotels to Luxury Travel of Yahoo! Travel, doubling the number of listings. Luxury Travel is a service that uses a lot of rich content, such as pictures and flash files, to introduce luxury Japanese inns. In addition, Yahoo! Business Travel conducted a campaign for new corporate members that awarded Yahoo! Points.

#### Others

During the quarter, we made efforts to acquire new customer bases through such activities as starting SimpleNetShop. An extension of the function of Yahoo! WebHosting, SimpleNetShop provides a shopping cart management service that can be set up just by pasting in a link.

### **(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 , Yahoo! Volunteer

During the fourth quarter, we offered Yahoo! Safety Net, a service that prevents viewing of harmful sites, free of charge to all users with a Yahoo! JAPAN ID. We continued our efforts to provide services that allow children to safely and enjoyably use the Internet. Yahoo! Kids explored the theme of the popular animation show, Sergeant Keroro, presenting a special feature including voting for characters and fortune telling. We also ran special features for the spring school break before the start of the new school year, recommending movies, animation, and educational games. In addition, we introduced a Log In Seal setting function as a measure against phishing fraud. By installing a favorite picture or keyword into the function, users can utilize it as a security function on their log in screen.

## (Reference)

### Yahoo! JAPAN Page Views etc.

	January 2007	February 2007	March 2007
Total Monthly Page Views	38,013 million page views	34,759 million page views	37,297 million page views
Daily Average Total Monthly Page Views	1,226 million page views	1,241 million page views	1,203 million page views
Number of Yahoo! JAPAN Unique Browsers	129.09 million browsers	124.06 million browsers	130.25 million browsers
Number of Active User IDs on Yahoo! JAPAN	18.73 million IDs	18.53 million IDs	19.23 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
January 24	Yahoo! Auctions holds Japan's first Internet auction of public assets.
February 1	Yahoo Autos commences offering information on motorcycles for sale (new and used) throughout Japan.
February 14	Released beta version of Yahoo! Trend Word, a ranking of trendy words used in blogs, etc.
March 6	Launched beta version of Wai Wai Map, a service on Yahoo! Maps that enable users to make and share their own original maps.
March 7	Announced introduction of Mobile Suica Net Settlement Service for Yahoo! Shopping.
March 9	Launched Yahoo! Keitai Shop, which sells SOFTBANK mobile phones online.
March 22	Launched beta version of Yahoo! Classified, a service that allows participants to share information and carry out transactions.
March 29	Launched Body Advisory, a service on Yahoo! Healthcare that enables users to seek advice from doctors anonymously anytime.

## **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.
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
  - The Japanese Red Cross Society’s Noto Peninsula Earthquake Relief Fund.
  - Make-A-Wish Japan’s “Helping Children Fighting Serious Illness Realize their Dreams” program.
  - The Nature Conservation Society of Japan’s “Protecting a Rich Diversity of Life in which both Insects and Human Beings Can Live” program.
  - The Medecins Sans Frontieres Japan’s “Saving Lives—Medecins Sans Frontieres” program.
  - Shapla Neer’s “Street Children Relief Fund.”
  - Save the Children Japan’s “Educate Children in Conflict Regions!” program.

### **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 fourth quarter, we again held many charity auctions featuring famous people. Among them, we auctioned the “full-sized 100t hammer!” that appeared in the animation film, City Hunter, and a guitar used on tour by music artist Kazuya Yoshii. In total, we held 721 charity auctions during the quarter, raising a total of approximately ¥41.81 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.

- Conservation International Japan, an NGO active in the protection of fauna and flora worldwide for the purpose of solving environmental problems with an eye to maintaining harmony between wildlife and human beings.
- Life & Live Project Charity Executive Committee, which comprises volunteers from such diverse organizations as the Sapporo Chamber of Commerce and Industry and the Hokkaido Jazz Dance Association and fights for the preservation of the historical Hokkaido Health and Welfare Hall.
- The Yubari Tourist Association, a volunteer organization of private citizens who take care of the town's tourism facilities and act as local guides following the town's bankruptcy.
- The Japan Paralympic Support Council (JPSC), a specified nonprofit organization, which supports sports events for disabled people.

### **3. Others**

- We announced the establishment of the Yahoo! JAPAN Research, an institution for the purpose of the sound and abundant development of the Internet. (March 26, 2007)
- As relief funds for the victims of the Noto Peninsula earthquake, Yahoo! Charity Fund donated ¥1 million to the Noto Peninsula Earthquake Disaster Relief Fund at the Ishikawa Prefectural Headquarters. (March 29, 2007)
- Sixty associations nationwide applied for the Yahoo! Charity Fund NPO Assistance Program, of which two associations were selected for assistance by Yahoo! Charity Fund. (March 26, 2007)
- We began offering our Yahoo! Safety Net service, which previously had been offered free of charge to Yahoo! BB subscribers and Yahoo! Premium members, free of charge to users with Yahoo! JAPAN IDs. (January 29, 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 an announcement by DENTSU INC., Internet advertising accounted for 6.0% of the total advertising market in 2006, surpassing radio advertising and almost equaling magazine advertising in the same period. But this market is still far smaller than those for advertising via leading media like television and newspaper. 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 SOFTBANK BB Corp. (see note ) for each new Yahoo! BB account

signed in through Yahoo! JAPAN site represent a part of income for the Group's business services business.

The entire Group promotes Yahoo! BB, a comprehensive broadband service provided jointly by the Company and SOFTBANK BB 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). On December 1, 2005, SBB further split up its operations, spinning off its ADSL operations into BB TECHNOLOGY Corp. (surviving company) while retaining its FTTH, Retail, and other non-ADSL businesses. However, on March 31, 2007, these businesses were recombined when SBB underwent a merger with BB TECHNOLOGY, with BB TECHNOLOGY remaining as the surviving company. Following the merger, BB TECHNOLOGY changed its name to SOFTBANK BB Corp.

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

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

Information listing services are thought to be an important arena for competition among previously mentioned operators of portal sites and highly specialized information sites. In commerce, there are competitors such as Rakuten Ichiba (Rakuten, Inc.) and BIDDERS (DeNA Co., Ltd.). Competing ADSL services

include FLET'S (NTT East and West Corps.), eAccess (eAccess Ltd.) and ACCA (ACCA Networks Co., Ltd.).

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

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

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

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

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

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

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

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

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

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

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

business.

#### **b. Potential Legal Restrictions on Yahoo! Auctions**

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

Effective September 1, 2003, a revision of legislation concerning the sale of used goods to prevent crimes abusing Internet auctions was enforced. In addition to imposing a registration system on Internet auction operators, the reformed law requires operators to make effort to confirm the identities of participants and maintain records of auctions. The law also requires that when an investigative body orders an operator to remove an item from auction based on suspicion of fraud, the operator must do so. However, the scope of the revised law is limited to areas where the Group is already compliant. Further, since no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have significant impact on its auction business.

On June 8, 2006 the Japanese government introduced its "Plan 2006 to Promote Intellectual Property Right Strategy" to carry forward extensive measures to fight the infringement of intellectual property via the Internet. To help prevent damage to consumers and the owners of intellectual property, the plan includes such measures as compliance with the obligation to indicate the business operators subject to the Specified Commercial Transactions Law, enhanced efforts by the owners of intellectual property and auction operators through Conference on Anti-distribution of Pirated Intellectual Property on the Internet. When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves that way and will delete their IDs if they do not comply. In collaboration with Internet auction operators, DeNA Co., Ltd. and Rakuten Inc., the Company has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair-company of Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Company is actively working to devise measures against violations. To help educate users, it has published on the Web its "Intellectual Property 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. 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 it opened a new escrow service (see note below) for online auctions. In May 2001 it introduced a fee-based personal identification system. Commencing in July 2004, the Group introduced a system that verifies by mail the postal addresses of users positing items on the auction site. Further reinforcing security, the Group introduced an Internet auction fraud-detecting model in November 2005. 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 March 31, 2007, 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. The Group's handling of personal information is in accordance with the provisions of this law.

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. or SOFTBANK CORP. and their related companies 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**

Our parent 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. 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.**

The Company has signed the following contracts concerning Yahoo! BB with SOFTBANK BB Corp. (“SBB”), which is a subsidiary 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.
<p>1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company’s main responsibilities</p> <ul style="list-style-type: none"> <li>* Promoting Yahoo! BB services</li> <li>* Recruiting subscribers of Yahoo! BB services</li> <li>* Operating the Yahoo! BB portal site</li> <li>* Providing mail and Web site services</li> <li>* Providing a fee-collection platform</li> </ul> <p>3) Main responsibilities of SBB</p> <ul style="list-style-type: none"> <li>* Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>* Handling subscriber inquiries and providing technical support</li> <li>* From the ISP charge, the Company takes the followings in exchange for services rendered. <ul style="list-style-type: none"> <li>• Subscribers applied by March 31, 2005: ¥100 per line per month</li> <li>• Subscribers applied during the period from April 1, 2005 to March 31, 2007: ¥200 per line per month until the 36<sup>th</sup> month from the month of application. After the 37<sup>th</sup> month, ¥100.</li> <li>• Subscribers applied after April 1, 2007: ¥100 per line per month</li> </ul> </li> </ul>

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004 (Automatically renewed every one year)
Contracted party: SOFTBANK BB Corp.

## Incentive Fees

\* Acquisition incentive fees (100% upon verification of operational subscriber lines)

Approx. ¥5,000~¥15,000 per application

\* Continuing incentive fees

Approx. ¥30~¥280 per month per continuing subscriber

### Notes:

1. Although the counterparties to the business alliance contract and the incentive agreement mentioned above were previously SBB and BB TECHNOLOGY Corp. in both cases, a merger was carried out on March 31, 2007 in which SBB was adsorbed by BBT, which then changed its name to SOFTBANK BB Corp.

2. SBB and the Company revised the "Business alliance contract" on March 31, 2007, according to the change of the value of role taken by each company. The Company had been paying ¥2,400 per line to SBB after the first subscription fee is charged, sharing the cost of Yahoo! BB subscriber acquisition. However, together with the revision of the "Business alliance contract" mentioned above, the contract to share the cost of subscriber acquisition was cancelled.

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

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

### **d. Joint 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 March 31, 2007, 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. 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: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the

Yahoo! search services")

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

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

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

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

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

Note:

Royalty calculation method

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

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

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

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Group is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Group in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are 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 support that process, the Group established the Yahoo! JAPAN Research, a research institution, on April 1, 2007. The Group is projecting substantial R&D expenses for its future development, 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**

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.