

Results for the Three Months Ended June 30, 2007 (FY2007-1Q)

2007.7.24

Company name: Yahoo Japan Corporation

Share Listings: 1st section of TSE and JASDAQ

Code No. 4689

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

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(Amounts less than one million yen are omitted)

1. Results for FY2007-1Q (April 1, 2007-June 30, 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 (%)	
FY2007-1Q	56,687	(15.1)	29,670	(23.7)	28,527	(24.3)	16,204	(22.7)
FY2006-1Q	49,266	(26.7)	23,990	(30.3)	22,942	(28.8)	13,202	(28.1)
FY2006	212,552		106,232		102,824		57,963	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007-1Q	267.95	267.57
FY2006-1Q	218.40	217.93
FY2006	958.66	956.70

(2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-1Q	299,419	202,631	67.1	3,319.99
FY2006-1Q	261,682	151,203	57.3	2,479.19
FY2006	318,428	192,385	59.9	3,153.24

(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
FY2007-1Q	4,854	-28,135	-16,053	35,373
FY2006-1Q	9	-124,056	75,072	48,896
FY2006	72,710	-160,403	65,033	75,212

2. Business Outlook for FY2007-2Q (July 1, 2007-September 30, 2007) and Interim (April 1, 2007-September 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
FY2007-2Q	56,500~58,900	28,250~30,000	27,300~29,050	15,650~16,550	258.77~273.65
FY2007-Interim	113,187~115,587	57,920~59,670	55,827~57,577	31,854~32,754	526.69~541.57

3. Others

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

(2) Changes due to simplification of accounting methods: None

(3) Changes in accounting method from the latest consolidated fiscal year: Yes

[Note: For details, please refer to Page 6, Qualitative Information and Financial Statements, 4. Others.]

[For reference]

1. Non-consolidated Results for FY2007-1Q (April 1, 2007-June 30, 2007)

(1) Non-consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2007-1Q	52,212 (14.3)	29,451 (24.1)	29,349 (23.5)	17,317 (21.7)
FY2006-1Q	45,662 (33.7)	23,725 (28.3)	23,768 (27.6)	14,230 (26.4)
FY2006	197,230	105,121	105,412	61,592

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007-1Q	286.35	285.93
FY2006-1Q	235.39	234.89
FY2006	1,018.69	1,016.60

(2) Non-consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-1Q	297,434	208,915	70.2	3,453.59
FY2006-1Q	258,558	154,220	59.6	2,550.99
FY2006	315,506	197,677	62.6	3,268.24

2. Non-consolidated Business Outlook for FY2007-2Q (July 1, 2007-September 30, 2007) and Interim (April 1, 2007-September 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
FY2007-2Q	52,000~54,200	28,050~29,700	27,850~29,500	16,500~17,500	272.82~289.36
FY2007-Interim	104,212 ~ 106,412	57,501 ~ 59,151	57,199 ~ 58,849	33,817 ~ 34,817	559.15~575.69

Forward-looking Information Used in Performance Estimates

Performance estimates have been made based on the information available to Yahoo Japan Corporation (the "Company"), and the Company and its consolidated subsidiaries and affiliates (the "Group") at the current point in time. Readers are cautioned, however, that these performance estimates contain elements of risk and uncertainty.

For details regarding the previously mentioned performance estimates, please refer to Page 5, Qualitative Information and Financial Statements, 3. Performance Outlook.

【Qualitative Information and Financial Statements】

1. Qualitative Information regarding Consolidated Sales Performance

Highlights for the Three Months Ended June 30, 2007

■The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates was favorable in the first quarter. Net sales amounted ¥56.6 billion, down 1.5% from the previous quarter and up 15.1% year on year. Operating income amounted to ¥29.6 billion, increasing 0.5% from the previous quarter and 23.7% from a year earlier. Ordinary income totaled ¥28.5 billion, climbing 0.1% from the previous quarter and 24.3% from the same period last year. Net income increased to ¥16.2 billion, up 1.4% from the previous quarter and 22.7% year on year.

■In the Advertising Business, the overall market remained in a stagnant mood brought on by a curtailing of advertising by advertisers that began at the start of the previous fiscal year. Under these circumstances, the Group focused its sales efforts on display advertising (banner advertising, etc.), mainly on products with strong branding benefits and behavioral targeting products that target users according to their past history of usage. As a result, sales expanded favorably compared with the first quarter in the previous fiscal year. Sponsor Site sales also increased substantially year on year. Consequently, advertising sales amounted to ¥24.5 billion, rising 15.5% from a year earlier and decreasing 1.7% from the previous quarter.

■In the Business Services Business, sales of Yahoo! Real Estate increased 2.6 times year on year, reflecting the large growth in the number of listings and an increase in listing fees. Yahoo! Rikunabi sales also increased favorably. The number of merchant stores registered on Yahoo! Auctions and Yahoo! Shopping totaled 28,368 at the end of the quarter, expanding by 8,692 stores, or 44.2% year on year. Tenant fees and sales commissions advanced substantially and research-related sales also greatly expanded from a year earlier. As a result, sales of the Business Services Business in the first quarter rose 7.2% from the previous quarter and 30.8% year on year, to ¥14 billion.

■In the Personal Services Business, Yahoo! Auctions continued its measures to expand users, such as allowing users to bid for items with just a Yahoo! JAPAN ID. Reflecting these measures, transaction volume in the first quarter expanded favorably, amounting to about ¥181.5 billion, up approximately ¥9.2 billion, or 5.4% from the previous first quarter. The measures to increase use of Yahoo! Auctions again placed downward pressure on Yahoo! Premium member IDs, but this pressure was offset by various campaigns to promote new membership and measures to increase the value-added content for existing members. Consequently, the number of Yahoo! Premium member IDs rose to 6.16 million at the end of June, recovering to positive monthly growth for the first time in 9 months. Yahoo! BB's ISP fee income declined during the quarter,

because of the revision of the contract with SOFTBANK BB Corp., decreasing about ¥800 million year on year and about ¥900 million from the previous quarter. Overall, sales of the Personal Services Business in the first quarter were ¥18.1 billion, up 4.8% from the first quarter last year and down 7.1% from the previous quarter.

■In collaboration with Overture K.K., the Group completed the conversion to the new system for Sponsor Site and began to operate the new system to display advertising according to search results reflecting an item quality index and the bid price on July 12.

■Consolidated subsidiaries INFO PLANT CO., LTD., and Interscope Inc. merged on July 1, becoming Yahoo Japan Value Insight Corporation. The new subsidiary will aim to become No. 1 in terms of quality and sales in the Internet research market.

2. Qualitative Information on Consolidated Financial Conditions

Please refer to Page 8, Main Points Regarding Consolidated Balance Sheets for the First Quarter, and Page 13, Main Points Regarding Consolidated Statements of Cash Flows for the First Quarter.

3. 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.

The performance estimates for the interim period of the fiscal year ending March 2008 shown below have been estimated by adding the forecast for the second quarter to the actual results of the first quarter.

Consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-2Q) (July 1, 2007 to September 30, 2007)

Net sales	¥ 56,500 million ~ ¥ 58,900 million
Operating income	¥ 28,250 million ~ ¥ 30,000 million
Ordinary income	¥ 27,300 million ~ ¥ 29,050 million
Net income	¥ 15,650 million ~ ¥ 16,550 million

Consolidated Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2008 (FY2007-Interim) (April 1, 2007 to September 30, 2007)

Net sales	¥ 113,187 million ~ ¥ 115,587 million
Operating income	¥ 57,920 million ~ ¥ 59,670 million
Ordinary income	¥ 55,827 million ~ ¥ 57,577 million
Net income	¥ 31,854 million ~ ¥ 32,754 million

Non-consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-2Q) (July 1, 2007 to September 30, 2007)

Net sales	¥ 52,000 million ~ ¥ 54,200 million
Operating income	¥ 28,050 million ~ ¥ 29,700 million
Ordinary income	¥ 27,850 million ~ ¥ 29,500 million
Net income	¥ 16,500 million ~ ¥ 17,500 million

Non-consolidated Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2008 (FY2007-Interim) (April 1, 2007 to September 30, 2007)

Net sales	¥ 104,212 million ~ ¥ 106,412 million
Operating income	¥ 57,501 million ~ ¥ 59,151 million
Ordinary income	¥ 57,199 million ~ ¥ 58,849 million
Net income	¥ 33,817 million ~ ¥ 34,817 million

4. Others

(1) Reclassification of significant subsidiaries during the period

(Reclassification due to change in scope of consolidation): None

(2) Changes due to simplification of accounting methods: None

(3) Changes in accounting method from the latest consolidated fiscal year:

Since this consolidated fiscal year, tangible fixed assets that are acquired after April 1, 2007 use the depreciation method stipulated by the new corporate tax law. However, the impact on operating income, ordinary income and quarterly net income is minor.(3) Change in accounting methods in the current fiscal year: No

5. Consolidated Financial Results

1. Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2006	As of June 30, 2007	Comparison with the previous fiscal year		As of March 31, 2007
	Amount	Amount	Increase/ decrease	Change	Amount
Assets					
Current assets					
Cash and cash equivalents (*1)	48,900	55,373	6,472	13.2	75,212
Notes and accounts receivable-trade (*2)	26,415	28,372	1,957	7.4	30,244
Short-term loans receivable (*3)	2,514	-	-2,514	-100.0	-
Deferred tax assets	2,233	3,210	977	43.8	4,344
Other current assets (*4)	5,977	8,931	2,953	49.4	7,818
Allowance for doubtful accounts	-2,195	-2,455	-259	11.8	-2,299
Total current assets	83,845	93,431	9,586	11.4	115,320
Fixed assets					
Tangible fixed assets (*5)					
Buildings and structures	1,714	3,378	1,664	97.0	3,483
Machinery and equipment	12,467	12,829	361	2.9	13,004
Other tangible fixed assets	88	32	-56	-63.8	62
Total tangible fixed assets	14,270	16,240	1,969	13.8	16,551
Intangible fixed assets					
Software (*6)	8,145	10,798	2,653	32.6	10,589
Goodwill	4,359	3,687	-672	-15.4	4,061
Other intangible fixed assets	28	32	4	17.1	33
Total intangible fixed assets	12,532	14,518	1,985	15.8	14,684
Investments and other assets					
Investment securities (*7)	146,024	165,856	19,831	13.6	162,192
Deferred tax assets (*8)	127	3,411	3,283	-	2,990
Other assets	4,903	5,984	1,081	22.1	6,712
Allowance for doubtful accounts	-22	-23	-1	6.9	-23
Total investments and other assets	151,033	175,228	24,194	16.0	171,871
Total fixed assets	177,837	205,987	28,150	15.8	203,107
Total assets	261,682	299,419	37,736	14.4	318,428

(Millions of yen)

	As of June 30, 2006	As of June 30, 2007	Comparison with the previous fiscal year		As of March 31, 2007
	Amount	Amount	Increase/ decrease	Change	Amount
Liabilities					
Current liabilities					
Accounts payable-trade	761	915	153	20.2	1,022
Short-term bank loans	20,168	20,120	-48	-0.2	20,120
Accounts payable-other	10,072	10,888	816	8.1	13,345
Income taxes payable (*9)	9,355	11,429	2,073	22.2	28,371
Provision for Yahoo! Points(*10)	1,432	2,173	740	51.7	2,065
Other current liabilities (*11)	7,766	11,249	3,483	44.8	11,106
Total current liabilities	49,558	56,776	7,218	14.6	76,032
Long-term liabilities					
Long-term debt (*12)	60,090	40,000	-20,090	-33.4	50,000
Other	830	10	-819	-98.7	10
Total long-term liabilities	60,921	40,010	-20,910	-34.3	50,010
Total liabilities	110,479	96,787	-13,692	-12.4	126,043
Net assets					
Shareholders' equity					
Common stock (*13)	7,066	7,215	148	2.1	7,187
Capital surplus	2,147	2,296	148	6.9	2,268
Retained earnings (*14)	135,130	190,281	55,150	40.8	179,897
Treasury stock	-28	-28	-	-	-28
Total shareholders' equity	144,315	199,764	55,448	38.4	189,324
Unrealized gain on available-for-sale securities (*15)	5,564	1,025	-4,538	-81.6	1,368
Stock acquisition rights	0	44	44	-	30
Minority interests	1,322	1,796	474	35.9	1,662
Total net assets	151,203	202,631	51,428	34.0	192,385
Total liabilities and net assets	261,682	299,419	37,736	14.4	318,428

Main Points Regarding Consolidated Balance Sheets for the First Quarter

Assets

- *1 The increase in cash and cash equivalents compared with a year earlier was mainly due to revenue growth driven by greater sales activities.
- *2 The growth in notes and accounts receivable-trade year on year can be attributed to greater advertising revenues and an increase in the debt of individual customers.
- *3 The decrease in short-term loans receivable year on year is chiefly due to the recovery of loans made based on a finance scheme for Yahoo! BB's business.
- *4 The growth in other current assets from a year earlier was mainly due to the growth in debt related to credit card operations and the increase in payments receivable of Yahoo! ezPay.
- *5 The increase in tangible fixed assets compared with the first quarter in the previous fiscal year was primarily the result of a move by a portion of the office and expanded office floor

space.

- *6 Software increased year on year principally due to the increase in commissioned development of systems for the Company.
- *7 Investment securities expanded from a year earlier mainly because of the purchase of shares of The Japan Net Bank, Limited and other stocks.
- *8 The growth in deferred tax assets of investment and other assets year on year can mainly be attributed to the mark-to-market increases in investment securities.

Liabilities

- *9 The increase in income taxes payable year on year primarily can be attributed to growth in profits.
- *10 The provision for Yahoo! Points includes the full amount of the balance of points granted.
- *11 The increase in other current liabilities from a year earlier was due to an increase in the deposits of Yahoo! ezPay.
- *12 The decline in long-term debt from the same period in the previous fiscal year resulted from repayments.

Net Assets

- *13 The increase in common stock from the first quarter last year was due to the exercise of stock options.
- *14 The growth in retained earnings year on year can be attributed to the increase in net income.
- *15 The decrease in unrealized gain on available-for-sale securities from a year earlier was due to the delisting of the stock of Internet Research Institute, Inc.

2. Consolidated Statements of Income (April 1, 2007-June 30, 2007)

(Millions of yen)

	Three months ended June 30, 2006	Three months ended June 30, 2007	Comparison with the previous fiscal year		Fiscal year ended March 31, 2007
	Amount	Amount	Increase/ decrease	Change	Amount
Net sales	49,266	56,687	7,421	15.1	57,560
Cost of sales	2,036	2,406	370	18.2	2,205
Gross profit	47,230	54,281	7,050	14.9	55,355
Selling, general & administrative expenses	23,240	24,610	1,370	5.9	25,821
Personnel expenses (*1)	4,438	5,067	628	14.2	4,794
Business commissions (*2)	3,398	3,738	339	10.0	3,551
Sales commissions	2,514	2,665	151	6.0	2,923
Communication charges	1,973	2,067	94	4.8	1,975
Depreciation expenses (*3)	1,706	2,061	355	20.8	2,433
Royalties	1,387	1,610	222	16.1	1,622
Content provider fees	1,046	1,247	201	19.2	1,235
Payment commissions (*4)	810	1,104	293	36.2	1,030
Sales promotion costs (*5)	1,642	1,050	-592	-36.1	1,691
Lease and utility expenses (*6)	1,287	919	-367	-28.6	1,409
Administrative and maintenance expenses	339	604	265	78.4	497
Allowance for doubtful accounts	608	546	-62	-10.3	566
Amortization of goodwill	351	372	20	6.0	339
Taxes and public dues	210	257	46	22.3	269
Advertising costs	449	254	-195	-43.4	267
Others (*7)	1,074	1,042	-32	-3.0	1,213
Operating income	23,990	29,670	5,680	23.7	29,533
Non-operating expenses (income)	-1,047	-1,142	-94	-	-1,047
Ordinary income	22,942	28,527	5,585	24.3	28,486
Extraordinary gains (losses)	423	-0	-424	-	-751
Quarterly income before income taxes	23,365	28,527	5,161	22.1	27,735
Income taxes, inhabitants' taxes and enterprise taxes	8,961	11,215	2,254	25.2	13,321
Adjustment to income taxes	1,103	970	-132	-12.1	-1,660
Minority interests in gains of consolidated subsidiaries	98	137	38	38.8	90
Quarterly net income	13,202	16,204	3,001	22.7	15,984

Main Points Regarding Statements of Income for the First Quarter

Net Sales

The growth in net sales year on year can be mainly attributed to an increase in the sales of the Business Services and Advertising businesses.

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 3,419 up 471, or 16.0%, from the end of the same quarter in the previous fiscal year.

***2 Business commissions**

The main business commissions for the quarter were expenses for temporary and contract employees, the settlement operations of the Personal Services Business, and operations commission fees for the credit card business.

The increase in business commissions year on year can be attributed to increased expenses for operations commission fees for the credit card business and for temporary and contract employees.

***3 Depreciation expenses**

The increase in quarterly 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.

***4 Payment commissions**

The expansion in payment commissions year on year was mainly due to the increase in the transaction balance of Yahoo! ezPay.

***5 Sales promotion costs**

The decline in sales promotion costs from a year earlier was chiefly due to the elimination of sales promotion costs in Yahoo! BB operations as a result of the revision of the business alliance contract with SOFTBANK BB Corp.

***6 Lease and utility expenses**

The decline in quarterly lease and utility expenses compared with the first quarter in the previous fiscal year was principally due to reduced one-time expenses resulting from the move by a portion of the office.

***7 Others**

The major expenses in others were office supplies expenses, travel and transportation, and corporate communication expenses.

Non-Operating Expenses (Income)

The main components of non-operating expenses for the quarter were equity in loss under the equity method and interest expenses for borrowing.

Extraordinary Gains (Losses)

The major extraordinary gain recorded during the quarter was a reversal from doubtful accounts, while the major extraordinary loss was a loss on evaluation of investment securities.

Income Taxes, etc.

The effective income tax rate for the quarter was 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 ¥267.95 for the quarter.

3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three month ended June 30, 2006	Three months ended June 30, 2007	Fiscal year ended March 31, 2007
Cash flows from operating activities:			
Income before income taxes for the periods	23,365	28,527	101,768
Depreciation and amortization	1,808	2,192	8,576
Increase in accounts receivable-trade	-1,175	1,912	-4,730
Increase/decrease in accounts payable-trade	-126	-106	102
Other cash flows	-975	185	7,411
Subtotal	22,895	32,710	113,128
Payment of income taxes and other taxes	-22,886	-27,856	-40,417
Cash flows from operating activities	9	4,854	72,710
Cash flows from investing activities:			
Expenditures on time deposits	-	-20,000	-
Expenditures on tangible fixed assets	-3,142	-2,569	-10,204
Expenditures on intangible fixed assets	-1,400	-1,315	-5,052
Expenditures on investment securities	-120,050	-5,001	-146,600
Proceeds from collection on loans receivables	1,142	0	3,657
Other cash flows	-605	750	-2,203
Cash flows from investing activities	-124,056	-28,135	-160,403
Cash flows from financing activities:			
Proceeds from long-term debt	80,070	-	80,070
Redemption of long-term debt	-12	-10,000	-10,047
Expenditures on payments of dividends	-4,715	-5,805	-4,715
Other cash flows	-269	-248	-273
Cash flows from financing activities	75,072	-16,053	65,033
Net change in cash and cash equivalents	-48,975	-39,334	-22,659
Cash and cash equivalents at the beginning of the periods	98,035	75,212	98,035
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-163	-504	-163
Cash and cash equivalents at the end of the periods	48,896	35,373	75,212

Main Points Regarding Statements of Cash Flows for the First Quarter

Cash Flows from Operating Activities

Cash flows provided by operating activities for the first quarter amounted to ¥4,854 million, increasing due to growth in net income despite payment of income taxes.

Cash Flows from Investing Activities

Cash flows used in investing activities for the first quarter amounted to ¥28,135 million due to expenditures on increase in fixed term deposit and expenditures on investment securities.

Cash Flows from Financing Activities

Cash flows used in financing activities for the first quarter amounted to ¥16,053 million due to expenditures on redemption of long-term debt, payments of dividends, and other payments.

4. Segment Information

(1) Outline of Businesses

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

(2) Quarterly Results

FY2007-1Q (April 1, 2007-June 30, 2007)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	24,519 (43.3%)	14,066 (24.8%)	18,122 (32.0%)	56,709 -	-21 (-0.1%)	56,687 (100.0%)
Operating expenses	9,792	8,220	6,096	24,108	2,908	27,017
Operating income (Contribution)	14,727 (49.6%)	5,846 (19.7%)	12,026 (40.5%)	32,600 -	-2,930 (-9.8%)	29,670 (100.0%)

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%)

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

(Millions of yen)

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

Advertising Business**Quarterly Results**

During the first quarter, the overall market remained in a stagnant mood brought on by a curtailing of advertising by advertisers that began at the start of the previous fiscal year. Amid these circumstances, we redoubled our efforts to win advertising from all our corporate clients. As a result, Brand Panel and Large Square, which use megabanners and offer strong branding benefits, were products that were especially in high use by beverage, cosmetic, and movie-related advertisers in conjunction with their promotions aimed at the summer market.

During the quarter, recognition of the benefits of behavioral targeting advertising that target users according to their past history of usage, spread further in the advertising market, and the number of advertisers using these products increased especially among National Clients such as real estate and construction businesses and human resource service providers. Area targeting advertising was also popular with many regional banks, automobile dealers, and real estate businesses which focuses on specific regions. In addition, regional public bodies also started using targeting advertising in their election campaigns.

The Group completed the conversion to the new system for its Sponsor Site services in cooperation with Overture K.K., which provides a display of advertising based on search results that reflect an item quality index and the bid price and started its operation of the new system on July 12. Sponsor Site sales in the quarter significantly increased year on year, although conversion was under way. The Group's active efforts include commencement of displaying Sponsor Site according to search results on Yahoo! News, Yahoo! Maps, Yahoo! Keitai, and others. In mobile advertising, we received greater volumes of advertising from advertisers, resulting in positive sales growth.

Consequently, quarterly Advertising Business sales amounted to ¥24.5 billion.

[Advertising Products]

During the first quarter, sales of Large Square, Rectangle Box, and behavioral targeting advertising products increased from the same period in the previous fiscal year. In addition, special features created through tie-ups with specific advertisers also increased.

ORONAMIN C Kimochi Switch Project, a special feature sponsored by Otsuka Pharmaceutical Co., Ltd. drew a great deal of attention during the quarter. The special feature was created

with the cooperation of Yahoo! Videocast (beta version), Yahoo! Music, and other Yahoo! services. We also developed various advertising programs, mainly for beverage- and automobile-related advertising.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.17 to ¥0.70 per impression, rates for targeting-type banner ads varied from ¥0.20 to ¥3.60 per impression, and rates for the large-sized Super Banners varied from ¥0.17 to ¥3.60 per impression. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥3.50 to ¥8.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥8.5 million to ¥12 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

Business Services Business

During the first quarter, sales of Yahoo! Real Estate expanded 2.6 times year on year, reflecting the large growth in the number of listings and an increase in listing fees. Sales of Yahoo! Rikunabi also grew, resulting with information listing sales rising substantially compared with the first quarter in the previous fiscal year. We continued our efforts to acquire more merchant stores to register on Yahoo! Shopping and Yahoo! Auctions through such measures as running a special feature on store success stories on their introductory Web pages. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 28,368 at the end of the quarter, increasing 8,692 stores, or 44.2% year on year. Along with this growth, tenant fees and sales commissions also surged ahead from a year earlier. Yahoo! Shopping launched Mother's Day and Father's Day promotions and Chugen (Summer gift) and Summer Bonus special features as seasonal sales promotions. Other steps by Yahoo! Shopping to increase users included running special features on popular consumer products. Total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket amounted to ¥230.9 billion in the first quarter, rising 10.4% year on year. In other areas, Yahoo! Research-related sales expanded favorably, and Yahoo! Keitai Shop began full-scale online sales of SOFTBANK mobile phones, conducting various campaigns in a bid to expand sales.

Overall, sales of the Business Services Business amounted to ¥14.0 billion in the first quarter.

e-Commerce Related Performance Figures

Yahoo! Shopping Number of Stores, etc.

	June 2006	June 2007
Number of shopping unique browsers	16.26 million browsers	15.04 million browsers
Number of shopping store unique browsers	(Note)	16.93 million browsers
Number of stores (As of the end of each month)	11,280 stores	15,248 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. Yahoo! Shopping Store

began disclosing the number of shopping store unique browsers as of December 2006.

Shopping Related Transaction Volume

	April 2006-June 2006	April 2007-June 2007
Daily average transaction volume	¥ 404 million	¥ 543 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.

	June 2006	June 2007
Number of auction unique browsers	28.55 million browsers	31.45 million browsers
Number of total listed items (Monthly average)	10.61 million items	14.95 million items
Number of stores (As of the end of each month)	8,396 stores	13,120 stores

Yahoo! Auctions Transaction Volume etc.

	April 2006-June 2006	April 2007-June 2007
Daily average number of new listings	736 thousand items	899 thousand items
Daily average transaction volume	¥1,893 million	¥1,994 million
Average closing price per item	¥5,571	¥5,433
The average ratio of successful auctions per day	32%	24%

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

Personal Services Business

Quarterly Results

During the first quarter, Yahoo! Auctions continued its measures to expand users, such as allowing users to bid for items with just a Yahoo! JAPAN ID and running a free item listing campaign on the mobile version of Yahoo! Auctions. As a result, transaction volume in the first quarter amounted to about ¥181.5 billion, rising approximately ¥9.2 billion, or 5.4% from a year earlier. System-use fees also expanded favorably. The measures to boost use of Yahoo! Auctions again placed downward pressure on Yahoo! Premium member IDs in the first quarter. However, this influence was overcome through various campaigns to promote new membership, such as free Yahoo! Premium membership for the rest of the year for all users with past Yahoo! Auction bidding experience. We also took measures to increase the value of membership, such as offering a free iPod Shuffle to purchasers of a specific mobile phone models on Yahoo! Keitai

Shop. Consequently, the number of Yahoo! Premium member IDs rose to 6.16 million at the end of the quarter, recovering to positive monthly growth for the first time in 9 months. Yahoo! BB subscribers expanded to 5,134 thousand subscriber lines at the end of the quarter, up 0.9% from a year earlier. Yahoo! BB's ISP fee income declined during the quarter, because of the revision of the contract with SOFTBANK BB Corp., decreasing about ¥800 million year on year and about ¥900 million from the previous quarter. Among other services, sales of Yahoo! Partner expanded. We also concentrated on building the sales of Yahoo! Mail, Yahoo! Fortune Telling, Yahoo! Comics, and other pay content services. Consequently, sales of the Personal Services Business for the first quarter amounted to ¥18.1 billion.

5. Operating Review

(1) Search Business

Main Services:

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

In the first quarter, the Search Business continued its pursuit of making search services available “everywhere” and connecting everyone through social media, focusing on expanding points of contact for search engine services and other contact opportunities. We began offering our Yahoo! Search services as the standard search engine of the Internet browser of Wii[®], Nintendo Co., Ltd.’s, popular home video game console. We undertook a complete renewal of the functions and design of our Yahoo! Bookmark site, adding a social bookmark that users can share. During the quarter we converted the current advertising distribution system to a new one in collaboration with Overture K.K.

(2) Auction Business

Main Services:

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

In the first quarter, the Auction Business continued to improve the convenience of users. We also focused on implementing measures aimed at expanding users—expanding our target from personal computer users to mobile phone users as well. Yahoo! Auctions continued its campaign that enables users to bid in auctions with only a Yahoo! JAPAN ID, while the mobile phone version of Yahoo! Auctions ran a free item listing campaign. As part of our efforts to increase security on Yahoo! Auctions, we began offering a transaction navigation service that enables bidders and item listers to contact each other without revealing their e-mail addresses. In addition, we promoted the use of the Internet auctions by public bodies, hosting Internet auctions by the National Tax Agency as well as regional and municipal governments.

(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! Marriages, Yahoo! Partner, Yahoo! Keitai Shop, Yahoo! New Item Navigation

In the first quarter, the Member Services Business concentrated on expanding 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 free Yahoo! Premium membership for the rest of the year for users with bidding experience on Yahoo! Auctions. Among measures to increase the value of Yahoo! Premium membership, in a tie-up with Yahoo! Live Talk, we hosted Fumiya Fuji's Secret Live as a membership exclusive. We also offered membership discounts for Yahoo! Fortune Telling, Yahoo! Comics, and Yahoo! Games. Moreover, we presented an iPod Shuffle to all members purchasing specific SOFTBANK phone models from Yahoo! Keitai Shop covered by our campaign. During the period under review, we launched Yahoo! New Item Navigation, a service that streams news, weather forecasts, and other topical information to a screen saver. In addition, we sought to acquire new members for Yahoo! Partner by offering Yahoo! Premium discounts.

Number of Yahoo! Premium Member IDs

June 2006	June 2007
6.35 million IDs	6.16 million IDs

Total Subscriber Lines for Yahoo! BB

End of June 2006	End of June 2007
Approximately 5,089 thousand lines (including approximately 1,155 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,134 thousand lines (including approximately 1,094 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 first quarter to cover information related to regional activities. To offer services that can be used in all aspects of regional activities, we improved information coverage, provided enriched services based on submitted information, promoted support of user activities, and expanded and improved mobile versions of services. Among measures to improve convenience during the quarter, we added a periphery search function to Yahoo! Maps, began offering blog parts for a beta version of Wai Wai Map, a community-type service that uses maps, and added a destination guide function to the mobile version of Yahoo! Maps. Our measures to expand the number of users included strengthening our restaurant ranking function on Yahoo! Gourmet, allowing users to publish their own "Dining out journals," and conducting a Yahoo! Points lottery campaign.

(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. In our Yahoo! News service, we began displaying Sponsor Site advertising along with search results and added a bookmark ranking function. Continuing our pursuit of linking users through social media, we launched a beta version of Netarika, a news site that offers highly entertaining news topics, and added a My Streaming function on Yahoo! Streaming that allows users to make their own video clip playlists and include comments. As part of our focus on providing services "everywhere," we introduced a beta version of Yahoo! Streaming for SOFTBANK mobile phones. In addition, to further enhance our content, and with the intent of strengthening ties with our partner sites, we agreed to a capital and business alliance with ORICON DD Inc. during the first quarter.

(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 Mother's Day and Father's Day. Along with the start of Mobile Suica Net Settlement services, we collaborated with East Japan Railway Company, the issuer of Suica cards, to mutually raise name brand recognition and appeal through such promotions as selling items that could only be bought with a Suica card and presenting customers who bought the items with an exclusive Suica Penguin character bag. To increase convenience for users of the mobile version of Yahoo! Shopping, we made it possible for them to shop using a credit card registered with Yahoo! Wallet. As a result of these efforts, the total number of stores climbed to 15,248 at the end of June 2007, an increase of 3,968 stores, or 35.2% from June 2006.

(7) Lifestyle Business

Main Services:

Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Autos, Yahoo! Computers, Yahoo! Fortune Telling, Yahoo! Movies, Yahoo! Beauty, Yahoo! Comics, Yahoo! Games, Yahoo! Second Life, Yahoo! Consumer Electronics Navigator

In our Lifestyle Business, we continued to try to provide social media services in lifestyle related fields that require a high degree of expertise or interest. During the quarter, Yahoo! Music

strengthened collaboration with external specialty sites, starting Music Download on iTunes, a music distribution service that lets users access the iTunes Store with just one click from Yahoo! Music. ORONAMIN C Kimochi Switch Project hosted by Yahoo! Music also began auditions to discover new stars. As part of our efforts to expand social media services, we added a reputation function to Yahoo! Game and a word-of-mouth comment function to Yahoo! Fortune Telling.

(8) Social Net Business

Main Services:

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

Acting as the driver of the development of social media on Yahoo! JAPAN, the Social Net Business continued to work to increase the added value content of related services and to link up with various services of Yahoo! JAPAN with the goal of maximizing the networks that connect people. During the quarter, we began services of a beta version of Yahoo! Videocast, which enables users to publish video they have taken with video cameras or mobile phones on the Internet and to view such submissions by video streaming. In addition, we sought to stimulate community activities by establishing an official community site for Dreams Come True, a famous Japanese pop group, on a beta version of Yahoo! Days and listed many official blogs on Yahoo! Blogs, such as MAJOR.JP OFFICIAL BLOG and ITO EN LTD.'s Vegetan Blog.

(9) Mobile Business

Main Services:

Yahoo! Mobile, Yahoo! Content Store

During the first quarter, we continued to endeavor to increase the degree of customer satisfaction with our Yahoo! Ketai service for SOFTBANK mobile phones and our mobile version of Yahoo! JAPAN for i-mode and EZweb formats. As part of our focus on providing services "everywhere," we began offering Yahoo! MobameruTan, a service that allows mobile phone users to easily receive the results of searches on Yahoo! JAPAN by e-mail to their phone. In addition, we commenced Morning Read Magazine, a free service that sends the latest news by e-mail to users' mobile phones every morning. To expand the number of users, we provided services that allow mobile phone users to enjoy images or video in a variety of ways. We added compatibility with Yahoo! Image Search for the mobile version of Yahoo! JAPAN for i-mode and EZweb formats. Furthermore, we began distributing beta version of Yahoo! Streaming services

over Yahoo! Keitai.

Number of Page Views

	June 2006	June 2007
Yahoo! Mobile page views	1,476 million page views	2,718 million page views
Daily Average Yahoo! Mobile page views	49 million page views	90 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, Yahoo! Public Payment

Settlement Business

Commencing the Yahoo! Public Payment service during the quarter, the first use of the service was automobile tax payments for citizens of Miyazaki Prefecture. Among other activities to expand and improve the convenience of our services, we made it possible to contribute to Yahoo! Volunteer using Yahoo! Points. In collaboration with Yamato Transport Co., Ltd., Nippon Express Co., Ltd., and Seven-Eleven Japan Co., Ltd., we began preparations for offering Yahoo! Auctions users anonymous payment service and delivery, and another service called Do Now, Pay Later to send or receive items at Seven-Eleven convenience stores also on anonymous base, both by utilizing Yahoo! NetBanking capabilities.

Travel Business

During the quarter, we implemented several measures to expand our product line and acquire new users. We launched Travel Memo, a social net service that lets users record their travel memoirs and publish them on the Internet and share them. We also started its joint operation with Ikyu.com, an operator of a reservation system specializing in luxury Japanese Inns and hotels. Among other measures to increase use of our services, we ran seasonal special features on Okinawa Prefecture, Hokkaido Prefecture, and summer holidays.

Research Business

To further expand and improve Yahoo! Research, we merged consolidated subsidiaries INFO PLANT CO., LTD., and Interscope Inc., changed the company name to Yahoo Japan Value Insight Corporation, and began preparing to offer new services. We continued to work on increasing the number of monitors and diversifying demographics. At the end of June 2007, the total number of registered monitors amounted to 1.51 million, the largest organization of research monitors in Japan.

Other

During the quarter, we focused on providing our services “everywhere” by using an Internet

information content viewer function called Applicast on Sony Corp.'s flat screen television model Bravia to begin offering Yahoo! Auctions, Yahoo! Topics, and Yahoo! Image Search services.

(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 first quarter, we began receiving applications for Sports Support Project 2007, a project we are collaborating with Baseball Magazine Sha Co., Ltd., in co-hosting to promote sports culture and contribute to its development. For Yahoo! Kids, in commemoration of the 10th year of the release of a new Pokemon movie, we ran a special program showing all the previous Pokemon movies for free and offering Pokemon quizzes and card game information. Pokemon is a popular children's animation series. Among other efforts to provide services that allow children and their families to safely and enjoyably use the Internet, we ran a Let's Go See the Fireflies special feature, in which we introduced the best places in Japan to see fireflies and listed detailed information on the ecology of the firefly.

(Reference)

Yahoo! JAPAN Page Views etc.

	June 2006	June 2007
Total Monthly page views	32,999 million page views	39,013 million page views
Daily Average Total Monthly Page Views	1,099 million page views	1,300 million page views
Number of Yahoo! JAPAN Unique Browsers	118.58 million browsers	150.42 million browsers
Number of Active User IDs on Yahoo! JAPAN	16.24 million IDs	19.67 million IDs

Notes:

- From January 2007, we disclose the monthly page views calculated using CSC (Client Side Counting) method.
- Number of Yahoo! JAPAN unique browsers is the browsers which accessed Yahoo! JAPAN services each month.
- Number of active user IDs on Yahoo! JAPAN is the IDs which logged in each month.

New Services

Date	New services and service upgrades
April 3	• Launched Yahoo! Consumer Electronics Navigator, one of Japan's largest consumer electronics information sharing sites.
April 12	• Began offering Yahoo! Search as a search engine on Nintendo's home video game console, Wii®
April 12	• Launched video streaming submission service Yahoo! Videocast (beta version).
April 18	• Introduced Yahoo! Public Payment, a service enabling the payment of taxes and other fees to regional public bodies on Yahoo! JAPAN.
May 8	• Conducted an Internet auction with the National Tax Agency on Yahoo! Auctions.
June 6	• Began offering Yahoo! MobameruTan, which allows easy Internet searches over the mobile phone.
June 14	• Commenced a Music Download on iTunes download service in collaboration with the iTunes Store Japan on Yahoo! Music.

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 2007" (<http://csr.yahoo.co.jp/>, Japanese language only) posted on the previously mentioned site introduces our various CSR activities from three points of view—carrying out appropriate corporate activities, a good relationship with our customers, and making a social contribution.

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

Volunteer Activities

- People can now contribute to the Internet Charity Contributions through Yahoo! Volunteer using Yahoo! Points. For every point, Yahoo Japan Corporation will donate one yen to the support fund.
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
 - Japan for UNHCR's "Warm support for about 21 million refugees and displaced people in the world" campaign.
 - World Vision Japan's Reduce Poverty in Angola Fund.
 - Shanti Volunteer Association's Illustrated Books for Myanmar (Burma) Refugees campaign.
 - Amnesty International Japan's Until All the Child Soldiers Give up Their Guns campaign
 - FoE Japan's Make the Desert Green--Home Farming Support Fund.
 - Japan International Volunteer Center (JVC)'s Milk for Palestine's Children in Combat Zones campaign.

Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the first quarter, we again held many charity auctions featuring famous people. Among them, we auctioned a three-piece set of commemorative graduation goods and autograph of former Morning Musume, Hitomi Yoshizawa and Spin Cobra fishing gear signed by the famous fisherman Katsutaka Imae. In total, we held 703 charity auctions during the quarter, raising a total of approximately ¥26,507,384. The funds raised by such auctions are being donated to the following charities (not listed in any special order).

- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- NPO Japan Transplant Support Association, which supports people with dysfunctional organs who are undergoing transplants with an aim to replace organ or to recover their own organ function and their families.
- Make-A-Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.
- The ASHINAGA organization, a NPO that provides emotional and material supports to children who have lost their parents due to sickness, accidents or suicide.

Others

- We launched our Red Ribbon Campaign 2007, which promotes a proper perspective of HIV, introduces advisory services, collects charity funds, and provides a place to share messages. (June 1, 2007)
- We kicked off our Pink Ribbon Campaign 2007, which seeks to convey to people the importance of early discovery, diagnosis, and treatment of breast cancer. (June 20, 2007)

- We offered Security Special Feature Summer 2007 “Do you really know about your children and the Internet,” as special feature recommending measures to proactively to keep children from becoming Internet victimizers. (June 28, 2007)

July 24, 2007

Risk Factors

Major risk factors with regard to the businesses of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) as of the publication date of this document are discussed below. The Group proactively discloses those risk factors it deems necessary that potential 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 potential investors consider the issues below before assessing the position of the Group and its future performance. Please note that the risk factors 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. Impact of Internet Market 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, with particularly notable growth due to the recent spread of broadband communications. As the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are the continued expansion of Internet-based communications and commercial activity as well as a stable and secure infrastructure for Internet users.

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 capacity; the need for the development and application of technological standards and new protocols in response 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 Connection

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

If for any reason the connecting infrastructure should deteriorate and prevent easy use of the Internet, usage could decline, reducing site traffic and negatively

impacting Group performance.

c. Dependence on Internet connection devices

In recent years, the variety of information terminals that can access the Internet has increased, such as mobile phones, video game consoles, TVs, car navigation systems, and PDAs. This has improved the connection infrastructure that allows users to access to Internet through terminals other than PCs. Responding to this trend, the Company has adopted the “Yahoo! Everywhere” initiative, which promotes Internet usage via various devices including PCs, mobile phones, video game consoles, TVs, and car navigation systems, as a means to increase opportunities for users to access Yahoo! JAPAN services and usages of the services. In promoting the initiative, the following risks could occur.

- In order to allow users to access Yahoo! JAPAN services via various devices, the Company will have to adopt the information transmission standards of each device with the support of the company that developed it. If the Company cannot adopt those standards, it will not be able to provide services for that device.
- To enable users to easily connect to the Company’s services from their various devices is an important element of its competitiveness. For example, there is a Yahoo! Button on SOFTBANK mobile phones that provides easy and direct connection to the Company’s services. The Company also intends to work closely with the companies that develop devices other than mobile phones to ensure easy connectivity. If, however, the Company cannot ensure that these devices will be able to connect smoothly, it could undermine the Company’s competitiveness. Furthermore, should the Company incur greater costs than expected in ensuring connectivity, it could impact negatively on the Company’s performance.
- Each device has its own unique features, such as screen size and input system. Under the Yahoo! Everywhere initiative, the Company intends to optimize its services for each of these features in providing information. However, may take longer than expected to optimize the services or the Company’s services could be inferior to the services of other companies that customized their services for individual devices, resulting in an erosion of competitiveness. In addition, greater than expected expenses for this optimization could adversely affect the Company’s performance.

2) Building partnerships in the Internet market

The Group is actively working to build partnerships with both corporate and individual

Internet media to expand usage of the entire network, including partner sites. In doing so, we plan to increase access of the Group's sites by users of other companies' sites as well as access by our users.

In the advertising business, the Group is endeavoring to expand an advertising network called "AD Network" by incorporating other sites' ad space through tie-ups with those sites. This system allows other Internet sites with limited reach to increase their media value by networking with the Company's sites, while making it possible for advertisers to achieve a wider coverage by targeting their customer base through the entire AD Network. In the search business, the Company and its partner sites have jointly provided advertisers with the paid search service offered by Overture K.K. and achieved remarkable results and a dominant market share.

Partnerships (business tie-ups) have been concluded in such a way as for both parties to benefit from the relationship. However, partners could fail to achieve their sales or traffic goals, or competition with other companies could result in a delay in setting up the partnership or greater expenditures to acquire a partner, which could adversely affect the Group's performance.

3) The social network services market

The Internet has been mainly used as a type of mass media, via which users view and listen to information published by specific information providers (head content). Recently, however, more and more users have started to use Internet in an unconventional manner. They themselves publish and provide various information (tail content), and actively make use of Internet as a communication tool among themselves. The Group has worked to expand such user-generated media services and provided Yahoo! Blogs, Yahoo! Days (beta version) of SNS (Social Networking Service), and Yahoo! Videocast (beta version), which allows users to upload their own video. In addition to providing social networking services, the Group intends to improve the degree of user satisfaction and time spent on the Yahoo! sites by offering space for users to publish tail content to more than 100 head content services of the Group.

In the social networking sector, however, a type of virtuous circle is emerging (network externality), in which a service with more users attracts more users than services with fewer users. Therefore, it is uncertain whether the Group can secure a dominant position over existing services that already have a large number of users. Furthermore, in order to do so, the Group might have to incur additional development and advertising expenses.

4) Markets of individual business segments

a. Internet advertising business

i. Potential of the Internet Advertising Market

Since beginning operations in 1996, the Group has offered search engine and information-related services via its portal site, with advertising as its main source of income. It has grown to become the leading Internet service operator in Japan, with overwhelmingly dominant viewer rates.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations. Since that time, the Internet advertising market has grown significantly, accounting for 6.0% of the total advertising market in calendar year 2006, according to a recent DENTSU INC. report. During the same year, Internet advertising expenditures exceeded those for radio and nearly equaled those for magazines. The Internet advertising market is still far smaller than the advertising markets for television and newspapers, however. In the future, growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated income, which could negatively affect Group performance.

Although the Internet advertising market is attracting increasing expenditures from companies in various industries, the Internet's value as an advertising medium has not been adequately established among advertisers, advertising agencies, and consumers. Corporate use of Internet advertising, which has a relatively short history, is often done on a test basis with limited budgets. To promote greater understanding and appreciation of Internet advertising in the advertising industry, including both advertisers and advertising agencies, the Group regularly hosts seminars and other informational events. In addition, the Group is enhancing its advertising sales system and strengthening ties with advertising agencies with the goal of expanding and stabilizing the advertiser base. It is uncertain, however, whether the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, leading companies that conduct nationwide sales campaigns on relatively large budgets, will decide to use Internet advertising on a continual, large-volume basis, similar to their use of advertising in traditional media. If they do not, the Group might have difficulties in achieving stable advertising revenue.

The Group projects that advertising through Internet-enabled mobile terminals such as mobile phones will grow at a quickening pace and is therefore working to make its services available through such terminals in addition to personal computers. If the bulk of Internet access shifts from computers to mobile phones, however, the Group may see a fall in viewer rates and a corresponding reduction in its market share, which would slow down growth in advertising revenue and negatively impact earnings.

ii. 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 from advertisers for advertising space 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 lease and utility expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Group's earnings stream.

iii. 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 number of impressions. The Group also offers Sponsor Site services (paid search advertising) operated jointly with Overture K.K. and an affiliate ad program (results-based advertising) operated in cooperation with ValueCommerce Co., Ltd.

Recently, products are appearing that employ unconventional advertising methods; behavioral targeting product (see note), which can target users according to their past history of Internet usage; other targeting products that distribute advertising based on demographic information such as age and sex, and area information; "AD Network," which allows distribution by combining ad space of each medium and can reach much further than a single medium; and "Content Match Advertising," which can analyze content of the page and then distribute advertising that matches the content of the page. The Group intends to adapt to these new products in cooperation with partner companies and media, SOFTBANK CORP., and Yahoo! Inc. If the Group fails to properly handle the new approaches required by the evolution of advertising, however, it could decrease advertising revenue. In addition, costs could grow for developing new products and forming new partnerships with firms that deal with the new types of advertising. These circumstances might have a negative effect on Group performance.

Note: Past history of Internet usage is used by behavioral targeting advertising only for grouping users (browsers) with similar interest or concern and not for analyzing interest and concern of specific users. All information obtained is operated in

accordance with Yahoo! Japan's privacy policy.

b. Business Services

i. Trends in Corporate Internet Use and Market Change

In the business service, Group income is derived mainly from information listing services, such as Yahoo! Rikunabi, Yahoo! Autos, and Yahoo! Real Estate, as well as from tenant fees and sales commissions from e-commerce services, such as Yahoo! Auctions and Yahoo! Shopping.

To expand the market for information listing services, particularly Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT Co., Ltd., the Group is leveraging the convenience of its Web sites and its dominant brand strength to attract new customers. Using an enhanced sales infrastructure, the Group also continually works to attract stores to the Yahoo! Auctions and Yahoo! Shopping sites with the aim of expanding e-commerce income. Despite these efforts, the market might not expand for various reasons. Commercial use of the Internet by corporations might not expand as anticipated. The shift of information listing services to the Internet from traditional media, particularly paper media such as newspapers, magazines, and flyer inserts, might not advance further. The number of users of the Group's auction and shopping sites might not increase as anticipated. Transaction volumes of those sites might be less than expected, and the number of registered stores might be insufficient. Group performance could be influenced by these factors.

ii. Influence of Changes in the Broadband Market

Incentive fees received from SOFTBANK BB Corp. (SBB; see note, below) for each new Yahoo! BB account signed on via the Yahoo! JAPAN site constitute a portion of the Group's business services revenue.

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

The startup of the Group's Yahoo! BB service was a major stride for broadband communications in Japan. According to the 2007 White Paper on Telecommunication (Ministry of Internal Affairs and Communications), the broadband environment in Japan provides the fastest and most economical services in the world. The Group's Yahoo! BB service, chiefly the ADSL service, holds the top customer share in the domestic market.

Owing to rapid progress in telecoms technology, however, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which enables much faster data transfer via optical fiber. In line with this shift, the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By emphasizing sales promotions, leveraging the advantages of its

strengths in brand dominance and price-competitiveness, and undertaking various campaigns, the Group is working to attract new subscribers. Despite these efforts, it is possible that the Group will attract fewer new accounts than expected or lose customers to competing services, resulting in a failure to achieve its sales goals. At the same time, the Group might incur heavier costs than projected. As a result, Group performance could be negatively affected.

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 Gaisha as a modem rental specialist. (BB Modem Rental was subsequently sold to Yugen Gaisha Gemini BB.) On December 1, 2005, SBB further split up its operations, spinning off its ADSL operations into BB TECHNOLOGY Corp. (BBT) while retaining its FTTH, retail, and other non-ADSL businesses. On March 31, 2007, these businesses were recombined when SBB merged with BBT, with BBT remaining as the surviving company. Following the merger, BBT changed its name to SOFTBANK BB Corp.

c. Personal Services

The Group's primary income sources from personal services businesses include system-use fees for Yahoo! Auctions; membership fees for Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions; Internet service provider fees for Yahoo! BB service; and sales of individually priced content.

With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for personal services business is likely to continue expanding. Sooner or later, broadband proliferation in Japan will reach a saturation point and growth in the number of users will plateau. To prepare for that time, the Group is implementing various measures to boost customer satisfaction and promote greater use of the full range of its services. Growth in the numbers of Yahoo! Auctions participants, Yahoo! Premium members, and Yahoo! BB subscribers, however, might lose its early momentum, which could have a significant negative influence on Group earnings.

Yahoo! Auctions transaction volume has expanded in line with increases in the number of participants. With that growth, however, have come reports of incidents that were not considered at the time the service was created, including fraud and illegal listings. To create a safe auction site, the Group will continue implementing measures to comply with legal restrictions and social norms. If these measures fail to have the intended effects and instead discourage participation in Internet auctions, the market could shrink and then Group revenues from system-use fees for Yahoo!

Auctions and the number of Yahoo! Premium members could decrease, significantly influencing Group performance.

The spread of broadband communications has enabled the Group to deliver a variety of content to meet Internet users' needs, including high-volume services such as video and music. Demand for such content via the Internet is likely to expand as Internet users increase. If such content fails to become a regular part of the lives of users, or if access to content via devices other than personal computers becomes the norm, and if the Group fails to break into the non-PC market, the achievement of expected earnings could be difficult.

5) Competitors

The Group's services are centered around its flagship portal site, through which it offers a diverse range of services over the Internet. They include directory and other search engine services; various types of information services, such as news; Internet tool services, such as e-mail; shopping and other e-commerce services; and settlement services. The Group faces multiple competitors in all of these areas. At the same time, as a result of developing the previously mentioned Yahoo! Everywhere initiative, building partnerships, and offering social networking services, the Group has also formed partner relationships with many of those competitors.

Under such circumstances, the Group believes that its main competitor is Google (Google Inc.), which hold a large share in the market of the United States and Europe.

In this operating environment, there is a degree of uncertainty as to whether the Group will be able to exercise its superiority and maintain a fixed position in its industry. Moreover, as a result of competition, it is possible that profits could deteriorate because of price competition or increased costs for acquiring customers. The Group also might unavoidably have to pay higher advertising commissions or content provider fees to advertising agency companies and content providers, which could adversely affect the performance of the Group.

Another possibility in the Internet market is the sudden emergence of a start-up company with an innovative service that becomes popular with users and spreads rapidly through the market. Yahoo Japan Corporation fully intends to gauge the opinions and trends of users and offer services that they will support. However, it is possible that the start-up company or its service could compete with our Group services or that the Group will have to make significant expenditures to develop new services to maintain its competitive advantage. Both these situations could have a negative impact on the Group's business performance.

6) Revision of Business Forecasts

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

The Group bases its forecasts for sales and costs largely on assumptions regarding usage rates for each of its services. If these assumptions prove to be inaccurate owing to unforeseen drastic changes in the business environment surrounding the Group, then actual business results might differ considerably from announced forecasts.

When the likelihood of considerable differences between forecast and actual results is recognized, the Group will announce revisions to its forecasts in a timely manner.

2. 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 intermediates in distributing information via the Internet. Nevertheless, passage of a new law could start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business could be restricted owing to 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 was promulgated in order to prevent criminal misuse of Internet auctions. In addition to imposing a registration system on Internet auction operators, the revised

law requires operators to make efforts to confirm the identities of participants and maintain records of auctions. The law also stipulates that when an operator is ordered by an investigative body to remove an auction listing based on suspicion of fraud, the operator must comply. The scope of the revised law, however, is limited to areas where the Group is already compliant. Furthermore, because no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have a significant impact on its auction business.

On June 8, 2006, the Japanese government introduced its "Plan 2006 to Promote Intellectual Property Rights Strategy" to carry forward extensive measures to fight the infringement of intellectual property rights 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 and enhanced efforts by intellectual property owners and auction operators through the Conference on Anti-distribution of Pirated Intellectual Property on the Internet. Such measures have been further intensified under the Plan 2007 to Promote Intellectual Property Rights Strategy. When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves properly and will revoke their IDs if they do not comply. In collaboration with Internet auction operators DeNA and Rakuten, the Group has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Group is actively working to devise measures against violations. To help educate persons who list items for sale on Internet auctions as well as the potential buyers of those items, the Group has published on its Web site "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures do not bring about the expected results and reports of illegal listings and fraud continue, new legislation could restrict commercial activities carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could have a significant impact on the Group's auction services.

c. Possibility of legal restrictions on social network typed content

Social network services provide a space for users to communicate with each other by posting content and comments. Therefore, they could cause defamation, or infringement of ownership rights of others, intellectual property right, privacy, and other rights. From the standpoint of copyright protection, the Company prohibits any postings which could cause infringement of such rights and takes various measures such as checking illegal content using a patrol system, receiving reports of illegal content from users, and rapidly responding to any right holder's request to remove

any illegal content.

If these measures do not bring about the expected results, and reports of illegal postings continue and become an object of public concern, new legislation could restrict comment posting services on the Internet. Such legislation, depending on the degree of restriction it entails, could have a significant impact on the Company's social network services.

d. Potential Legal Restriction on Other Services

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

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which 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 money lender 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 specified in 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 intends 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 will be minor.

In its 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 Company 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 efforts, it should be found guilty of violating any of those laws and rules. Strengthening or revising the compliance system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

2) Potential Litigation

a. Illegal Acts by Auction Participants

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see note, below) for online auctions. In May 2001,

the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. In addition, the Group has set up a patrol team to eliminate illegal items from auctions in cooperation with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it is uncertain that illegal acts will not occur in the future. Therefore, the possibility of legal action being taken against the Group cannot be ruled out, whether or not the Group is responsible. In fact, groups of users have already filed a 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 ensure proper management could lead to increased costs and therefore negatively impact earnings.

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

Note: The escrow service consists of a company acting as an intermediate between the sell and buy sides of a transaction to ensure the smooth transfer of the item and payment. Provided by third parties and not the Company, this service varies according to the escrow company used. In general, however, the escrow company receives payment from the buyer and transfers it to the seller upon confirming the buyer's receipt of the correct item in good condition. This service eliminates concerns 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, below) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the securities houses, but the solicitation could mislead customers into losses. In such cases, the Company could be subject to demands for damage compensation from the securities houses, which temporarily pay damages to customers, depending on the situation.

Note: "Affiliated securities houses" refers to firms that have 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 its advertisement. The Group also maintains the right to list Web sites and remove Web sites listed on its Internet directory 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 creators for the content of their sites. For such services as message 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 users. The Group maintains the right to remove content and will do so upon discovering 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 damages 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, Web sites accessed through links on its sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

d. Third-Party Responsibility

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, measures are taken to ensure the understanding and agreement of customers through user rules or clauses posted on the Group's sites. Despite these efforts, it is possible that these measures will fail and that customers will demand compensation for damages from the Group that actually are the responsibility of a third party. This could result in additional costs to the Group or damage to its brand image, impacting negatively on performance.

The Group assigns all responsibility to the user and accepts no responsibility regarding Yahoo! Auctions, making no guarantees as to the selection,

display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services, or Web site 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 delay in the delivery of said goods. However, it remains possible that users of these services or other related parties will 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 will 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 might be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographic boundaries for the 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 be certain that such problems will not occur. In such cases, the Group might 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 made quick and appropriate changes to its accounting standards for severance and retirement benefits, financial instruments, and other categories. Even so, a significant change in accounting methods could have a material impact on the Group's profits or losses.

3. Information Security Management

1) Group Efforts to Promote Information Security

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of Internet technology has broadened the horizons of Internet users and boosted convenience, it has also turned the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group is obligated 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 customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures groupwide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1, below), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we established the Information Security Council, comprising information security members from each of our divisions. 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, below) 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, below). As of June 30, 2007, Yahoo Japan Corporation and nine of its subsidiaries had acquired the above 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 a 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 also to our customers, vendors, and business partners.

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

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

2. TRUSTe Certification Institution and the TRUSTe mark

TRUSTe is an independent, nonprofit institution established in 1997 in the United States. The institution issues the TRUSTe mark to 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 nonprofit organization, in recognition of the spreading use of 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 be used only 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, these certification systems focus 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 Efforts 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 urges users to be careful, specifically 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. The Group also handles internal information access rights with extreme care, granting only a limited number of persons access to users' personal information.

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, by companies with which business alliances have been concluded, or by companies to which the Group outsources work. 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 will fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ other methods such as phishing (see note, 1), whereby they illicitly obtain personal user information, resulting in damage to users. As of March 2007, to prevent against phishing attacks, the Company has introduced a log-in seal system (see note 2) whereby users register a seal that appears on the log-in screen into which they input their ID and password. If some problems happen against the effort of the Group, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

Regardless of whether or not the Group is legally responsible, its policy is to take measures to strengthen the management and monitoring of the security systems

of companies with which it has business alliances. Representatives of the Group are currently participating in the phishing e-mail countermeasures committees of the ministries of Economy, Trade and Industry, and of Internal Affairs and Communications, as well as a committee set up by the National Police Agency. By sharing information with related ministries, agencies, and industry associations, the Group is seeking to establish 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 1: Phishing fraud

Phishing fraud involves obtaining personal information by sending e-mails purportedly from a financial institution or other company that trick the recipients into accessing a fraudulent Web site, where they are asked to input such personal information as credit card numbers, log-in IDs, passwords, or other sensitive information. Damages from money theft resulting from phishing are mounting in Europe and the United States, and such cases have become common in Japan recently, as well. The National Police Agency has posted warnings about phishing fraud on its Web site.

Note 2: Log-in seal

A log-in seal is a validating image or characters on the log-in screen of Yahoo! JAPAN. Users register their favorite picture or a key word or characters as their log-in seal, easily building their own free designated log-in screen for the browser they use on their personal computer. By getting into the habit of checking for the seal whenever they sign on, it becomes easier to realize that there is a possibility that they are on a false log-in screen (phishing) when the log-in seal does not appear.

b. 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 in the manner 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 offered by the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its 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 alliance partners and of stores registered on Yahoo! Shopping and Yahoo! Auctions sites have a significant influence on the Group's efforts.

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

For Yahoo! Trading (securities brokerage services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by our securities-house partners. 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 the transfer and management of this information. If personal information is leaked from the Company or affiliated securities houses, the Company could be liable for damage compensation.

Previously, it was possible for stores on the Yahoo! Shopping and Yahoo! Auctions sites that had independent contracts with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we now intend to prevent personal information leaks by these stores. This is being achieved by eliminating the necessity for stores to handle credit card numbers by offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure for using store management tools, restricting downloading of order information including customer information, and broadening information security awareness. Nevertheless,

it is possible that information leaks may occur despite the implementation of these measures, resulting in a loss of Group credibility, regardless of whether or not it was responsible.

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. The Group does not hold sufficient insurance to compensate for potential losses arising from such events. Recently, there have been several cases of specific Web sites or networks being targeted by huge volumes of data sent over a short period of time for the purpose of paralyzing the Web site or network. Although the Group has implemented effective security programs and other measures as well as strengthened its monitoring system to deal with such attacks, there is no guarantee that all such 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. International Conflicts, Terrorist Attacks, and Natural Disasters

In the event of outbreaks of international conflicts, terrorist attacks, or large-scale natural disasters such as earthquakes and tidal waves, 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 operation of the Group's site, causing a disruption in planned advertising business. Or, for their own reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstances arise whereby 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, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and 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 duplicating and dispersing its systems and data centers.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, an incident might occur for unforeseen reasons, making it difficult to carry on normal operations or to 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 (Broadcasting Media, Technology Services, Media and Marketing, Overseas Funds, and Others). The Group plays a central role in the Internet Culture segment and is also involved in the Broadband Infrastructure segment through its collaboration with SOFTBANK BB Corp. in providing the comprehensive broadband service Yahoo! BB. In the Others segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly 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 business alliance contract and incentive agreement concerning Yahoo! BB with SOFTBANK BB Corp. (SBB), which is a subsidiary of SOFTBANK CORP.

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting subscribers for Yahoo! BB services

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

3) SBB's main responsibilities

- * Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks
- * Handling subscriber inquiries and providing technical support
- * From the ISP charge, the Company takes the following in exchange for services rendered:
 - Subscribers acquired by March 31, 2005: ¥100 per line per month
 - Subscribers acquired during the period from April 1, 2005, until March 31, 2007: ¥200 per line per month until the 36th month from the month of application. From the 37th month, ¥100 per line per month.
 - Subscribers acquired after April 1, 2007: ¥100 per line per month

Contract name: Incentive agreement
Contract date: October 7, 2005
Contract term: One year from October 1, 2004 (automatically renewed each year)
Contracted party: SOFTBANK BB Corp.
<ul style="list-style-type: none"> • Customer acquisition incentive fees <ul style="list-style-type: none"> Yahoo! BB basic service Approx. ¥15,000 per subscription Wireless double pack Approx. ¥11,000 per subscription • Long-term customer incentive fees <ul style="list-style-type: none"> Yahoo! BB basic service Approx. ¥225 per month per continuing subscriber Wireless double pack Approx. ¥280 per month per continuing subscriber

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

* SBB and the Company revised the above business alliance contract on March 31, 2007, to reflect a change in the value of the role taken by each company. The

Company had been paying ¥2,400 per line to SBB after the first subscription fee was charged, thereby sharing the cost of Yahoo! BB subscriber acquisition. However, together with the revision of the above business alliance contract, the provision to share the cost of Yahoo! BB 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. Failure to build infrastructure and problems with service quality could cause subscribers to cancel services quickly, thereby negatively impacting 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 CORP. to strengthen its streaming content business. The two partners have concentrated the necessary human resources and know-how into TV Bank and are proceeding with the procurement of streaming content, the development and operation of systems for transmitting or searching streaming content, and the creation and operation of streaming services. With the cooperation of content providers and advertising agencies, the Company intends to develop Yahoo! Streaming and other streaming content services into a core business in the years ahead.

Should TV Bank be unable to procure content as expected or the cost of content be greater than expected, or should the set-up of streaming content delivery and other systems take more time than anticipated, the Group's performance could be negatively impacted.

e. Investment in Mobile Phone Business

On April 27, 2006, SOFTBANK CORP. acquired Vodafone K.K. (now SOFTBANK MOBILE Corp.) through BB Mobile Corp., a subsidiary of SOFTBANK CORP. subsidiary Mobiletech Corp. Also on April 27, 2006, the Company made a ¥120 billion investment in BB Mobile Corp. comprising preferred shares with share acquisition rights. The investment was made with a full understanding of the risks involved based on adequate pre-investment investigations and due internal process.

The Group has expanded its mobile Internet services provided to SOFTBANK MOBILE in its capacity as the portal mobile site for its services, while also providing its services to carriers other than SOFTBANK MOBILE. The Group is providing SOFTBANK MOBILE's customers with an environment that facilitates the

use of a variety of Internet services via mobile phone. In the future, the Group aims to achieve integrated mobile Internet services fully accessible by subscribers of all mobile carriers.

Should SOFTBANK MOBILE fail to achieve the level of profits originally projected, or, in the worst case, should the Company be unable to recover its investment in the business, the Group's business performance and financial condition could be negatively impacted.

f. Possibility of Competition within the SOFTBANK Group

As stated above, the Group is working with SOFTBANK CORP. in strategically developing the Yahoo! BB, streaming content, mobile phone, and other businesses. If SOFTBANK should invest in or tie up with a company offering services similar to those offered by the Group, competition within the SOFTBANK Group could arise in the future. Although the Group intends to proactively deal with such an eventuality by collaborating, any resultant competition within the SOFTBANK Group could affect the performance of the Group in some manner.

g. Joint Directorships

As of June 30, 2007, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

- * 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

Mitsuo Sano, who became a corporate auditor of Yahoo Japan Corporation in December 1996, is also a standing corporate auditor of SOFTBANK CORP. Mr. Sano

was brought on board by the Company to strengthen its corporate auditing function.

2) Business Relationship with the Yahoo! Inc. Group

a. License Agreement with Yahoo! Inc.

The Group’s operations are based on a license 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 <i>Note:</i> 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.
<p>1) Licensing rights granted by Yahoo! Inc. to the Company:</p> <ul style="list-style-type: none"> * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services) * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services <p>2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company</p> <p>3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below)</p> <p><i>Note:</i> Royalty calculation method</p>

$\{((\text{Consolidated net sales}) - (\text{Advertising sales commissions on a consolidated basis}) - (\text{Cost of sales of consolidated subsidiaries with a different gross margin structure and others})) \times 3\%$
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b. The Yahoo! Brand and Cooperation Overseas

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

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

It is also possible that third parties will acquire domain names that the Group might find necessary to its business or will 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

Based on the business tie-up with Overture K.K., which is a subsidiary of Yahoo! Inc., the Group's paid search advertising sales have firmly expanded and become a larger proportion of overall advertising sales. In April 2007, Yahoo Japan Corporation concluded a non-binding memorandum of understanding with Yahoo! Inc. on the purchase of shares of Overture K.K. to make Overture K.K. a subsidiary of the Company in order to further expand advertising sales. Overture K.K. will become a wholly owned subsidiary of the Company in August 2007. The Overture's advertising delivery platform was developed in-house at Yahoo Inc. and Overture K.K. has been marketing the the advertising products with the platform (paid search advertising and

content match advertising) in Japan. Accordingly, should the Company's business relationship with Yahoo Inc. change or some type of obstruction to the smooth operation of Yahoo Inc. arise, 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 paid search advertising has become a problem. Some fraudsters, taking advantage of the fact that the cost of Sponsor Site is based on the number of clicks, have dishonestly increased the number of clicks and thereby excessively charged advertisers. In the United States, some advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering this type of advertising product. The Group cannot rule out the possibility that such legal action will be taken against the Group and Overture, thereby damaging the Group's brand image and negatively impacting its 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 above. For these reasons, it has been necessary to have him on the board to support the Company's startup and expansion.

3) SOFTBANK CORP. and Yahoo! Inc. Shareholder Agreement

SOFTBANK CORP. and Yahoo! Inc. concluded a shareholder agreement at the time of the Company's establishment, the main points of which are as follows:

- * The election of directors and corporate auditors shall be done according to law and the Company's articles of incorporation. However, as long as SOFTBANK and Yahoo! Inc. each maintains shareholdings equaling 5% or more of the Company's stock, SOFTBANK and Yahoo! Inc. shall each nominate its own representative to be a director. In addition, the number of directors shall be five, which number cannot be changed without first obtaining the approval 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 reduce the combined shareholdings of SOFTBANK and Yahoo! Inc. to less than 50%, or to sell major assets, it must first 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 will not approve any resolution by the Company to issue new share subscription rights without Yahoo! Inc.'s consent. (except in the case of stock options for employees). Moreover, SOFTBANK and the Company will determine 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

--Neither SOFTBANK nor Yahoo! Inc. will agree to any change 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 at least 20 days in advance of the intended selling date.

--When one party decides to purchase additional shares of Yahoo Japan Corporation on the market, it will first 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 that case, the other party will also participate as a seller in the transaction with the same third party also buying its 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. The Company, by principle, carries out its business in accordance with law and its articles of incorporation, and, moreover, 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 its 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 were a change in the Group's 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, the viability of the Group's services and its performance could be negatively impacted.

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 owing to a situation at a commissioned third party that the Group cannot manage, that some condition could arise where obstructed operation or some other event caused the stoppage of a third-party system to which the Group's service is linked. Such events could lead to a 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 aforementioned 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.

3) Dependence on third-party plug-in software for display of advertising

In providing its services, the Group relies on software extensions (plug ins) developed and distributed for free by third parties to enable a rich level of expression in its advertising or video clips. Generally, such software extensions are already installed on computers and functional or users are automatically prompted to install them. However, it is possible that users could erase such software extensions or change

their settings so that the software extensions cannot be used or the developing company could begin to charge for the software extension or render it unusable. In such cases, the quality of expression could decline or functions could be limited. Moreover, depending on the service, it might become impossible to even offer the service.

In recent years, software extensions that block the display of advertising have emerged. It is possible that the use of this type of software extension could limit the display of screen advertising as well as advertising linked to search results or other operations.

Any of these situations could be extremely detrimental to the Company's advertising business and services.

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 might also bear an increasing financial burden owing to original development in Japan, including a rising level of expenditures for localizing work and preparation for the possibility that technological innovation in Japan will at some point surpass that in the United States, with new technologies being 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 a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet customer needs. To support that process, the Group established a new research institution, Yahoo! JAPAN Research, on April 1, 2007. The Group is projecting substantial R&D expenses related to future business development. Actual R&D expenditures could rise beyond those projections and, depending on the time period required for development, the Group's competitiveness could actually diminish despite its efforts.

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to changing market needs, the Group is also focusing on organizational enhancement for service planning and for system development. Even so, the Group might fail to achieve targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than anticipated. Focusing investment on the development of these services might 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 via mobile phones and other mobile terminals, which could result in larger expenditures for service development, thereby 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 continue offering Internet users quality, appealing information, 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 might decline, possibly resulting in a failure of the Group to achieve its projected earnings.

b. Advertising Guarantee

As mentioned above, advertising contract periods and page views are guaranteed for many of our products, with advertising fees based on those two parameters. Failure to obtain the number of required page views due to problems with the Internet connection environment or to 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 might fail to provide services that meet the needs of advertisers, which could result in lost sales opportunities as well as reduced demand from advertisers, which would negatively impact Group advertising revenues.

c. Constant improvement of services

The pace of change in technology and services is very dynamic in the Internet market to which the Group belongs, resulting in a constant stream of new services. Therefore, the Group believes that constantly improving the user experience is important to maintaining its competitive advantage. To do so, the Group needs a diverse range of continuing upgrades, such as improving visibility or design regarding the display, which is the users' interface with the services, or operations; making the system easier to use, improving the precision of the information matching of searches and other operations by aiming to get results as close as possible to the information or preferences the user is looking for; and improving the response speed and feel.

To maintain and increase its competitive advantages, the Group must continue to invest in such improvements of the services. Should these capital investments not be appropriately made, the Group could experience a decline in its competitiveness or in its brand image. Moreover, the required level of improvement investments could rise to improve the services. Both these circumstances might affect the business performance of the Group adversely.

d. Equipment Investment for Quality Service

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group maintains a capital-investment program of comparatively large scale considering its current operations. To keep up with 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 the other to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short time 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 ensure that unnecessary cash outflows do not occur by closely considering costs and benefits and by 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.

e. Diversification and New Business

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

Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group's profitability could 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, which would significantly affect its performance.

f. The Group's intellectual property rights such as copyrights and patents

The Group believes that its intellectual property rights are an important facet of its ability to demonstrate competitive advantages in the market and that it is essential for the Group to produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names. Most of the Group's services provide contents to users that involve copyrights and other legal rights, and users are able to utilize that content within the scope of the user contract they have agreed to.

The rights attached to the content provided to users by the Group are protected under the law. However, it is possible that users will reuse the data in a manner that exceeds their permitted scope under the user contract, which could result in such drawbacks for the Group as a lower brand image. In addition, the increased costs of protecting against such eventualities could have a negative impact on Group business performance. Furthermore, expenditures to enable the Group to utilize those rights as competitive advantages could arise and the Group might not be able to receive sufficient benefit of the rights, because the expenditure is excessive compared with the benefit.

2) Internal Control System

a. Operations and Management

The Group has implemented stricter controls and operational standards for behavior to prevent or reduce the recurrence of problems related to improper employee conduct or human operational error. In April 2006, the Company established the Internal Control Office as an independent organization under the direct supervision of the President. The Internal Control Office will work to ensure effective and efficient business activities, accurate financial reporting, and full legal compliance, as well as maintain appropriate corporate governance. Despite these efforts, problems related to business management and control issues could occur in the future.

b. Human Resource Management as Business Expands

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, the Group must increase staff in response 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 operational efficiency.

Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses, and other fixed costs are likely to 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 fail 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, these stock- option plans might not motivate plan participants but rather could 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 the Group's operations and the ramping-up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of Group 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 for taking such steps as introducing a new system to improve business efficiency. Despite these measures, the Group might 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.

The nature and quantity of customer inquiries might broaden. Previously, most inquiries were related to service usage, but they might 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 customer inquiries, the Group is in the process of increasing staff, strengthening and expanding its management organization, and improving efficiency by standardizing and computerizing businesses. 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. Such a result could damage the Group's brand image and negatively impact Group performance.

e. Collection of Sales Credit Claims

In sales of advertising and other products, the Group follows a set of internal rules in carefully examining the credit standing of clients. It also exercises sufficient precautions so that the collection of receivables will not be delayed, 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. Even so, the Group might be unable to collect payments from cardholders owing to declines in cardholder creditworthiness.

3) Consolidated Group Operations

The Group has subsidiaries and affiliates of all sizes with varying degrees of in-house management. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand. If these measures are not implemented in a timely manner, however, the Group's performance could be negatively affected.

Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with

each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of the businesses of the Company and of its subsidiaries and affiliates, which could negatively impact the Group's performance.

Several 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. Currently, relationships with 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, the performance of each company could be damaged and, depending on the company, the continuation of operations could become impossible.

9. Funds Procurement and Changes in Interest Rates

1) Investment in Mobile Phone Business

As stated above, in tandem with SOFTBANK CORP.'s acquisition of Vodafone K.K. (now SOFTBANK MOBILE Corp.) through its subsidiary BB Mobile Corp., the Company made a ¥120 billion investment in BB Mobile Corp. comprising preferred shares with share acquisition rights. To raise funds for this investment, the Company borrowed ¥80 billion in the form of a syndicated loan arranged by Mizuho Corporate Bank, Ltd.

During the process of raising these funds, the Company fully considered the appropriateness of the size of the loan and its ability to repay it using cash flow, as well as other loan conditions. Nevertheless, interest rates might rise, causing an increase in the repayment amount, which could adversely influence the Company's performance.

2) 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 buyer of an item listed on Yahoo! Auctions Netrust acts as the intermediate in the settlement of the transaction.

Because Netrust reimburses the seller of an item one to three business days after the buyer 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 cycles with the credit-card companies' settlement banks as well as seeking methods

of diversifying its sources of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, the Group might 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) 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 merchants honoring the card. Because 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. Although the Group is considering diversifying its funding sources as the business expands, obtaining the necessary funding for reimbursements to merchants at a suitable cost could prove to be impossible.

10. Loans and Investments

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

Furthermore, although some companies in which the Group has invested 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 in which it invests are reflected appropriately in its own performance by operating in line with in-house rules in accordance with general accounting standards and by applying asset-impairment accounting. Nevertheless, depending on the direction of the performance of the companies in which the Group has invested, they could have an increasingly adverse effect on the Group's profit or loss in the future.

To maximize business synergies or to expand the Group's business, the Company expects to 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 adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risks 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 projected level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's future financial condition.