Results for the Fiscal Year and Three Months Ended March 31, 2011

April 22, 2011

Company Name: Yahoo Japan Corporation
Code No.: 4689
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Scheduled Ordinary Shareholder's Meeting Date: June 23, 2011

Scheduled Dividend Payment Date: –

Quarterly Results Supplementary Briefing Materials to Be Created: Yes

Quarterly Results Investors Meeting to Be Held: Yes (for Financial Analysts)

(Amounts less than one million yen are omitted)

1. Consolidated Results for FY2010 (April 1, 2010 - March 31, 2011)

(1) Consolidated Financial Results (April 1, 2010 - March 31, 2011) (Figures in parenthesis are % change YoY)

	Revenue		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2010	292,423	(4.5)	159,604	(11.0)	160,218	(11.8)	92,174	(10.4)
FY2009	279,856	(5.3)	143,825	(6.8)	143,360	(7.9)	83,523	(11.8)

Note: Comprehensive income FY2010 ¥91,893 million (7.2%) FY2009 ¥85,691 million (-%)

	Net income per share-primary	Net income per share-diluted	ROE	Ratio of ordinary income to total assets	Operating margin
	Yen	Yen	%	%	%
FY2010	1,589.53	1,588.43	26.6	36.0	54.6
FY2009	1,438.23	1,437.03	30.7	39.3	51.4

(For reference) Equity in earnings of affiliated companies: FY2010 ¥381 million FY2009 ¥-222 million

(2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2010	471,745	385,105	81.1	6,593.20
FY2009	418,262	312,273	74.0	5,335.79

(For reference) Equity capital: FY2010 ¥382,384 million FY2009 ¥309,555 million

(3) Consolidated Cash Flows Status

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash & cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2010	67,580	11,630	-28,924	186,687
FY2009	140,095	-7,356	-31,381	138,238

2. Cash Dividends

	Dividends per share					Total amount (Full year)	Payout ratio (Consolidated)	Dividend on net assets ratio (Consolidated)
(Record date)	1Q	2Q	3Q	Year end	Full year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2009	–	0.00	–	288.00	288.00	16,708	20.0	6.2
FY2010	–	0.00	–	318.00	318.00	18,443	20.0	5.3
FY2011 (Estimates)	–	–	–	–	–		–	

Note: Payment of dividends for FY2011 is not determined at this time.

3. Consolidated Business Outlook for FY2011 - First Quarter (April 1, 2011 - June 30, 2011)

(Figures in parenthesis are % change YoY)

	Revenue		Operating income		Ordinary income		Net income		Net income per share-primary
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Yen
FY2011-1Q	70,400 - 73,900	(-0.2 - 4.8)	37,300 - 39,600	(-0.8 - 5.3)	37,700 - 40,000	(0.3 - 6.5)	22,200 - 23,600	(2.5 - 9.0)	382.83 - 406.98

* 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.

4. Others

(1) Changes in significant subsidiaries during the period (changes in significant subsidiaries causing changes in scope of consolidation): None

(2) Changes in the accounting principles, procedures and presentation methods for preparing quarterly consolidated (changes in significant items that form the basis of producing quarterly consolidated financial statements)

1) Changes due to accounting standards revisions: Yes

2) Changes other than 1): None

(3) Number of stocks issued (common stock)

1) Number of stocks issued at the end of fiscal year (including treasury stocks)	FY2010	58,177,294	FY2009	58,118,909
2) Number of treasury stocks at the end of fiscal year	FY2010	180,433	FY2009	103,955
3) Average number of stocks	FY2010	57,988,737	FY2009	58,073,889

5. Business Results

(1) Business Performance Analysis

■ **Performance Highlights for Full Year (April 1, 2010 – March 31, 2011)**

• Listing and display advertising revenue grew substantially over the previous fiscal year, marking the 14th consecutive year of revenue and profit growth since the beginning of the services

	FY2009	FY2010	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥279.8 billion	¥292.4 billion	+¥12.5 billion	+4.8%
Operating Income	¥143.8 billion	¥159.6 billion	+¥15.7 billion	+11.0%
Ordinary Income	¥143.3 billion	¥160.2 billion	+¥16.8 billion	+11.8%
Net Income	¥83.5 billion	¥92.1 billion	+¥8.6 billion	+10.4%

In the fiscal year under review, the domestic advertising market steadily headed toward recovery despite lingering uncertainty in business conditions caused by such factors as the sharp appreciation of the yen and the severe employment situation. Reflecting the conditions in the advertising market, the Group posted large increases in advertising revenue for both listing and display advertising. Despite the decrease in revenue resulting from the transfer of the research business to MACROMILL, INC., growth in the transaction value of Yahoo! Shopping and expansion in revenue from Yahoo! Real Estate and other information listing services contributed to increased revenue compared with the previous fiscal year. Cost of sales also declined. Among selling, general & administrative expenses, aggressive sales promotion activities resulted in higher advertising expenses, but communications charges decreased due to greater operating efficiencies enabled by the Group's acquisition of its own data center. Consequently, all three profit figures rose more than 10% and the company recorded its 14th consecutive year of revenue and profit growth since the beginning of the services.

Revenue and Operating Income by Segment (April 1, 2010 - March 31, 2011)

	FY2009	FY2010	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Media Business				
Revenue	¥102.2 billion	¥110.2 billion	+¥7.9 billion	+7.8%
Operating income	¥49.5 billion	¥59.0 billion	+¥9.5 billion	+19.2%
BS Business				
Revenue	¥71.4 billion	¥76.7 billion	+¥5.3 billion	+7.5%
Operating income	¥32.3 billion	¥38.5 billion	+¥6.2 billion	+19.3%
Consumer Business				
Revenue	¥105.3 billion	¥104.9 billion	-¥0.4 billion	-0.4%
Operating income	¥70.0 billion	¥68.2 billion	-¥1.8 billion	-2.7%
Adjustments				
Revenue	¥0.7 billion	¥0.5 billion	–	–
Operating income	-¥8.1 billion	-¥6.2 billion	–	–
Total				
Revenue	¥279.8 billion	¥292.4 billion	+¥12.5 billion	+4.5%
Operating income	¥143.8 billion	¥159.6 billion	+¥15.7 billion	+11.0%

Notes: 1. As of this fiscal year, the Company has changed the method of presentation of segment information. Figures for revenue and operating income of the same cumulative period in the previous fiscal year have been adjusted to reflect this change in presentation.

2. Figures of Adjustments represent the revenues from consolidated subsidiaries not belonging to any reporting segment, inter-segment transactions and wholly corporate expenses.

■ **Media Business**

• In listing advertising through advertising agencies, revenues of paid search advertising and interest-based advertising expanded
• In display advertising, revenue from Brand Panel rose sharply
• Mobile advertising also grew substantially, with notable expansion of mobile advertising for smartphones in particular

In the Media Business, revenue from listing advertising through advertising agencies increased markedly compared with a year earlier. Paid search advertising expanded due to a greater volume of advertising from travel, transportation/leisure, mail orders, cosmetics, and health food businesses. These sales gains coupled with continued expansion in interest-based advertising resulted in an overall increase in listing advertising revenue.

Display advertising revenue also grew on the strength of increased advertising by finance/insurance, automobile, and Internet information service and other companies and by companies handling consumables, such as food products. Looking at a breakdown by advertising product, there was sharp growth in revenue from Brand Panel advertising while revenue from Prime Display advertising improved year on year. Furthermore, revenue from targeting advertising rose compared with the previous fiscal year. Mobile advertising revenue also increased year on year for both paid search and display advertising, with notable expansion of mobile advertising by automobile- and fashion-related companies for smartphones in particular. GyaO Corporation, a subsidiary offering a video distribution service, moved into the black in the fiscal year under review.

As a result, fiscal revenue of the Media Business amounted to ¥110.2 billion, up 7.8% from a year earlier. Operating income increased 19.2%, to ¥59.0 billion, accounting for 37.7% of total operating income.

■ **BS Business**

• Revenue from listing advertising (through online orders) agencies rose sharply
• Real estate and employment markets continued to recover, pushing up information listing revenue
• Among data center-related revenues, cloud computing service revenue expanded

In the BS Business, advertising-related revenue of the listing advertising (through online orders) business soared despite downward pressure on revenue due to the elimination of inappropriate listing pages from our advertising inventory. Besides the holding of promotion seminars in major cities throughout Japan, advertising from medium- and small-sized companies expanded, partially due to an increase in the number of online agencies that support this business. Information listing services continued their recovery trend throughout the fiscal year, registering year on year revenue growth. Contributing to the increase in information listing services, revenues were an increase in custom-built and new housing information listings for Yahoo! Real Estate and an increase in career change and part-time job information listings for Yahoo! Rikunabi. Among data center-related revenues, revenue from IDC Frontier Inc.'s NOAH Platform Service expanded. The full-fledged service was launched in April 2010.

Consequently, fiscal revenue of the BS Business grew 7.5% year on year to ¥76.7 billion. Operating income climbed 19.3%, to ¥38.5 billion, accounting for 26.2% of total operating income.

■ **Consumer Business**

• Transaction value of Yahoo! Shopping recorded high. In particular, mobile transaction value jumped significantly
• Expanded earnings opportunities by launching a Yahoo! Mobage service and the Sengoku IXA online game

In the Consumer Business, Yahoo! Shopping transaction value hit a record high because of efforts to expand usage through sales promotions linked to Yahoo! Points and other measures. In particular, mobile transaction value, including transactions through smartphones, soared compared with last year, jumping significantly. In other areas, campaigns to acquire new members and other efforts resulted in the number of Yahoo! Premium membership IDs increasing by 90,000 IDs year on year, to 7.68 million IDs, supporting growth in revenue. In Yahoo! Auctions operations, although the overall transaction value declined slightly year on year, Yahoo! Auctions' mobile transaction value grew more than 10%, with use of smartphones increasing significantly. In game-related services, we expanded earnings opportunities by launching a Yahoo! Mobage service and the Sengoku IXA online game. During the fiscal year, the number of users of Yahoo! Mobage service, a social game platform for personal computers, exceeded three million.

As a result, fiscal revenue of the Consumer Business amounted to ¥104.9 billion, declining 0.4% from fiscal 2009. Operating income decreased 2.7%, to ¥68.2 billion, accounting for 35.9% of total operating income.

Other Topics

• The Group strengthened its services for smartphones and tablets, providing optimized service compatibility and new applications

• We optimized compatibility with iPhones and Androids for the main services and Yahoo! JAPAN's top page, and started offering a Yahoo! Headline application for iPhones, as well as Yahoo! Comics and GyaO! applications for iPads and iPhones.

• In November 2010, monthly replays of video clips on GyaO! exceeded 100 million for the first time.

• Through a business tie-up with Taobao of the Alibaba Group, we launched a Yahoo! China Mall service.

• The Group introduced a point collaboration system with Culture Convenience Club Co., Ltd.'s T Point system.

• The Group began a business collaboration with START TODAY CO., LTD., which operates the ZOZOTOWN fashion shopping website.

■ Performance highlights for the Fourth Quarter (January 1, 2011 - March 31, 2011)

• Revenue from listing and display advertising particularly expanded. Although revenue growth was dampened by the impact of the Great East Japan Earthquake that occurred in March, quarterly revenue, operating income, and ordinary income reached record highs

	2009 4Q	2010 4Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥73.2 billion	¥75.7 billion	+¥2.5 billion	+3.5%
Operating Income	¥38.7 billion	¥42.3 billion	+¥3.6 billion	+9.5%
Ordinary Income	¥38.6 billion	¥42.7 billion	+¥4.0 billion	+10.4%
Quarterly Net Income	¥23.3 billion	¥24.3 billion	+¥1.0 billion	+4.3%

During the fourth quarter, listing and display advertising revenue swung upward. Listing advertising revenue rose along with an increase in advertising by human resource-related and travel/transportation/leisure companies. On the other hand, display advertising revenue surged on the strength of record high revenue from Brand Panel. Information listing fees of Yahoo! Real Estate and revenue of pay digital content also grew steadily. Moreover, up to the occurrence of the major earthquake, growth in the transaction value of Yahoo! Shopping was firm. All these factors served to boost the Group's fourth quarter revenue.

Cost of sales also declined. Among selling, general & administrative expenses, although advertising and other expenses expanded, communications charges and other expenses decreased, resulting in operating and ordinary income both increasing by about 10%.

The impact of the Great East Japan Earthquake which occurred in March dulled growth in listing advertising revenue and restrained growth in the transaction value of Yahoo! Shopping. In addition, a hold-off in listing of some display advertising, a temporary suspension in sending March invoices to stores and Yahoo! Wallet users in the disaster regions, and other factors had a negative impact on the overall revenue.

Revenue and Operating Income by Segment (January 1, 2011 - March 31, 2011)

	2009 4Q	2010 4Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Media Business				
Revenue	¥28.2 billion	¥30.0 billion	+¥1.7 billion	+6.2%
Operating income	¥14.7 billion	¥16.5 billion	+¥1.8 billion	+12.4%
BS Business				
Revenue	¥18.7 billion	¥19.9 billion	+¥1.2 billion	+6.7%
Operating income	¥9.2 billion	¥10.6 billion	+¥1.4 billion	+16.2%
Consumer Business				
Revenue	¥26.0 billion	¥25.7 billion	-¥0.3 billion	-1.3%
Operating income	¥16.8 billion	¥15.6 billion	-¥1.2 billion	-7.4%
Adjustments				
Revenue	¥0.2 billion	¥0.1 billion	–	–
Operating income	-¥2.1 billion	-¥0.5 billion	–	–
Total				
Revenue	¥73.2 billion	¥75.7 billion	+¥2.5 billion	+3.5%
Operating income	¥38.7 billion	¥42.3 billion	+¥3.6 billion	+9.5%

■ Service Expansion

• Added a variety of applications for iPhone, including the SHUEISHA e-Bunko iPhone Application offered in collaboration with SHUEISHA Inc., a Yahoo! Comics application that features over 12,000 titles, and a Yahoo! Travel Domestic Accommodations Reservations application that enables making accommodation reservations at more than 18,000 hotel, Japanese inn, and other accommodation plans throughout Japan.

• Started offering Ehon-no-jikan, an illustrated book distribution service optimized for the iPad.

• Began offering a Yahoo! Search widget for Android smartphones that can be placed on the home display of the phone and provides a short cut button to the smartphone version of Yahoo! JAPAN in addition to a search function.

• Launched the Yahoo! Search Application Search service that enables users to search the approximately 350,000 applications for iPhones and iPads on Apple's iTunes Store.
• Commenced offering Yahoo! News Topics on the top page of mixi's web site.
• Started introducing Yahoo! Wallet services for GROUPON, Shareee, and other sites.
• Formed a business alliance with Ooyala, Inc., which supplies sophisticated online video content management system (CMS) services mainly to the United States market. In collaboration with Ooyala, we decided to market a state-of-the-art video distribution platform using the know-how developed in our GyaO! operations.

■ **Major Activities Implemented in Response to the Great East Japan Earthquake**

• Immediately after the Great East Japan Earthquake, we committed all our efforts to support activities over the Internet, such as providing accurate information and collecting relief fund donations
• Going forward, in cooperation with the government, municipalities and NPO bodies, the Company will participate in relief and rebuilding activities in the disaster regions

• Immediately after the earthquake, we set up a special website for comprehensive information related to the disaster.
• Began collecting donations over the Internet (Emergency Relief Fund) that has received over ¥1.3 billion in donations from more than 870,000 people, the Company added ¥300 million to these donations and decided to give them to the Japan Red Cross and other relief and charity organizations (as of April 15).
• Collaborated in simultaneously distributing NHK's disaster news TV shows over the Internet.
• Formed a special team to gather information on the disaster on a 24-hour basis. Using this information, we sought to post accurate information as quickly as possible through the top page of Yahoo! JAPAN and on Yahoo! Emergency Information, Yahoo! News and other sites.
• We supported public bodies and highly public-related web sites by offering cached site service and also placed on the Yahoo! JAPAN's top page a banner linking to the Countermeasures for the Great East Japan Earthquake page on the Prime Minister of Japan and His Cabinet website.
• On Yahoo! JAPAN's top page and on our Power Saving page, we placed an Electric Power Meter that shows the amount of electric power capacity being consumed in the region served by Tokyo Electric Power Co., Ltd. The information is updated on an hourly basis.
• On Yahoo! Shopping, we began offering a Support Gift Service that delivers goods to the disaster regions.
• On Yahoo! Comics, we offered a free distribution service for SHUEISHA Inc.'s Shukan Shonen Jump publication.
• On Yahoo! Auctions, we held Great East Japan Earthquake charity auctions for items donated by sports organizations and celebrity production companies. In addition, we started a Charity Showcase service enabling users to make a donation to the relief fund by choosing it as an option when listing their item.
• We launched Yahoo! JAPAN By-Area Disaster Support Information and its mobile version of Yahoo! JAPAN Disaster Region Area Guide. These services provide information categorized by area, including meals, medical treatment, accommodation, transportation, and other available services.
• On GyaO!, we started distributing video from the charity project REPLAY JAPAN—Let's take courage from the power of videos.

■ **Other Social Contribution Activities**

• Started collecting Internet donations on Yahoo! Volunteer for Relief Funds for Overseas Flood Victims (Sri Lanka, Australia, and Brazil) and for Relief Funds for victims of the New Zealand Earthquake.
• In conjunction with the Internet Security Month campaign announced by the Cabinet Secretariat of Japan, we set up a Internet Security Special Feature Spring 2011 that aims to enlighten users about safe use of the Internet. In addition, in cooperation with SOFTBANK MOBILE Corp., we offered Yahoo! Kids Learn the ABCs of Internet Manners Using iPhone, a workshop for elementary school students learning how to use the Internet for the first time.

■ Yahoo! JAPAN Usage Data (Quarterly Disclosure Information)

Up to this points, we have disclosed our "Yahoo! JAPAN Corporation Monthly Data" report on a monthly basis. However, starting with the fiscal year ending March 31, 2012, we will be providing this information only on a quarterly basis.

[Reasons for quarterly disclosure of usage data]

• To enable readers to gain a proper understanding of business conditions by disclosing data along with earnings performance.

• Monthly disclosure indicator figures have low correlation with earnings.

• Monthly changes in indicators only marginally affect business trends.

Indicator (Quarterly average)	FY2009-4Q	FY2010-4Q
Number of Yahoo! JAPAN total monthly page views (millions)	44,785	49,564
Number of Monthly mobile phone page views (millions)	6,801	9,273
Number of Yahoo! JAPAN monthly unique browsers (millions) (*1)	201.09	222.40
Number of Yahoo! JAPAN monthly active users IDs (millions) (*2)	24.09	25.11
Number of Yahoo! Premium member IDs (quarter-end) (millions)	7.59	7.68
Yahoo! Auctions		
Number of monthly unique browsers (millions)	36.81	36.79
Number of stores (quarter-end) (stores)	17,093	17,344
Transaction value (quarterly total) (billions of yen)	170.2	165.7
Unit price of winning bid (yen)	4,812	4,876
Winning bid ratio (%)	15	13
Shopping Related		
Number of monthly unique browsers (millions)	33.97	37.47
Number of stores (quarter-end) (stores)	17,352	20,290
Transaction value (quarterly total) (billions of yen) (*3)	63.7	67.1
Yahoo! Auctions + Shopping Related		
Transaction value (quarterly total) (billions of yen)	234.0	232.8
Mobile transaction value (quarterly total) (billions of yen) (*4)	39.4	52.0

(*1) Number of browsers that accessed Yahoo! JAPAN services each month

(*2) Number of Yahoo! JAPAN IDs that logged in each month

(*3) Including Yahoo! Shopping, Yahoo! Ticket and Yahoo! Travel

(*4) Previously, transactions were only counted in Yahoo! Auctions mobile transaction value if the final bid was mobile. However, as of January 1, 2011, the definition was changed to include all mobile bids. Past data has not been retroactively adjusted.

(2) Consolidated Financial Results

(i). Consolidated Statements of Income

Results for the Full Year (April 1, 2010 - March 31, 2011)

(Millions of yen)

	Fiscal year ended Mar. 31, 2010	Fiscal year ended Mar. 31, 2011	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	279,856	292,423	12,566	4.5
Cost of sales	32,645	29,293	-3,351	-10.3
Gross profit	247,211	263,129	15,918	6.4
Selling, general & administrative expenses	103,385	103,525	140	0.1
Personnel expenses	30,348	31,809	1,461	4.8
Business commissions	12,792	13,439	647	5.1
Depreciation expenses	8,950	8,543	-406	-4.5
Royalties	8,059	8,460	401	5.0
Communication charges	9,399	8,356	-1,043	-11.1
Sales promotion costs	7,253	7,538	284	3.9
Content provider fees	6,778	6,393	-384	-5.7
Lease and utility expenses	6,163	6,245	82	1.3
Sales commissions	4,308	4,652	343	8.0
Advertising expenses	1,164	2,522	1,358	116.6
Administrative and maintenance expenses	2,326	2,061	-265	-11.4
Taxes and public dues	1,482	1,353	-129	-8.7
Allowance for doubtful accounts	674	617	-57	-8.5
Compensation	271	420	148	54.8
Office supplies	221	327	106	47.9
Others	3,188	781	-2,406	-75.5
Operating income	143,825	159,604	15,778	11.0
Non-operating income	349	1,224	874	250.3
Non-operating expenses	814	610	-204	-25.1
Ordinary income	143,360	160,218	16,857	11.8
Extraordinary gains	420	1,153	732	174.3
Extraordinary losses	3,105	3,939	833	26.9
Net income before income taxes	140,676	157,432	16,756	11.9
Income taxes	56,770	64,740	7,969	14.0
Income taxes, inhabitants' taxes and enterprise taxes	59,625	60,430	805	1.4
Additional tax payment or rebate	—	27,391	27,391	—
Adjustment to income taxes	-2,854	-23,081	-20,227	—
Net income before minority interests	83,905	92,692	8,786	10.5
Minority interests in gains of consolidated subsidiaries	382	517	135	35.4
Net income	83,523	92,174	8,651	10.4

Results for the Fourth Quarter (January 1, 2011 - March 31, 2011)

(Millions of yen)

	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2011	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	73,236	75,790	2,553	3.5
Cost of sales	7,885	7,396	-488	-6.2
Gross profit	65,351	68,393	3,042	4.7
Selling, general & administrative expenses	26,639	26,011	-627	-2.4
Personnel expenses *1	7,818	7,524	-294	-3.8
Business commissions *2	3,206	3,549	342	10.7
Sales promotion costs *3	2,075	2,382	306	14.8
Depreciation expenses	2,334	2,313	-20	-0.9
Royalties	2,123	2,191	67	3.2
Communication charges *4	2,305	1,895	-410	-17.8
Lease and utility expenses	1,508	1,569	61	4.1
Content provider fees	1,584	1,490	-94	-6.0
Sales commissions	1,301	1,267	-33	-2.6
Advertising expenses *5	523	1,199	676	129.2
Administrative and maintenance expenses	583	526	-57	-9.8
Taxes and public dues	335	386	50	15.2
Office supplies	72	134	61	85.7
Allowance for doubtful accounts	163	118	-45	-27.6
License fees	43	105	61	140.8
Others *6	658	-642	-1,300	—
Operating income	38,711	42,382	3,670	9.5
Non-operating income	175	679	503	287.7
Non-operating expenses	189	344	155	82.3
Ordinary income	38,697	42,716	4,018	10.4
Extraordinary gains	403	164	-239	-59.3
Extraordinary losses	903	456	-447	-49.5
Quarterly income before income taxes	38,198	42,424	4,226	11.1
Income taxes	14,703	17,925	3,221	21.9
Income taxes, inhabitants' taxes and enterprise taxes	16,108	18,338	2,229	13.8
Additional tax payment or rebate	—	941	941	—
Adjustment to income taxes	-1,405	-1,354	51	—
Quarterly net income before minority interests	23,494	24,499	1,004	4.3
Minority interests in gains of consolidated subsidiaries	136	126	-10	-7.3
Quarterly net income	23,358	24,372	1,014	4.3

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

Revenue

Revenue for the fourth quarter increased year on year mainly because of growth in advertising sales. The transfer of part of the business of consolidated subsidiary VIPS Corporation (formerly Yahoo Japan Value Insight Corporation) to a company accounted for by the equity method resulted in an approximately ¥1.1 billion decrease in revenue.

Cost of Sales

The decrease in the quarterly cost of sales compared with a year earlier can mainly be attributed to a reduction in costs due to the transfer of part of the business of VIPS Corporation.

Selling, General and Administrative Expenses

*1 Personnel expenses

At the end of the quarter, the total number of employees of the Group amounted to 4,748, down 134 employees, or 2.7%, from the same quarter in the previous fiscal year. The transfer of part of the business of VIPS Corporation, which resulted in the loss of 331 employees, was primarily responsible for this decline.

*2 Business commissions

The rise in business commissions compared with a year earlier resulted primarily from expenses related to maintenance and operations.

*3 Sales promotion costs

The year-on-year increase in quarterly sales promotion costs can be mainly be attributed to an increase in sales promotion costs related to paid search advertising.

*4 Communications charges

Communications charges fell compared with the fourth quarter last year mainly because of greater operating system efficiencies arising from proprietary ownership of a data center.

*5 Advertising expenses

The year-on-year increase in quarterly advertising expenses was principally due to television commercials.

*6 Others

The major reason behind the decline in others compared with the fourth quarter of the previous fiscal year was a reduction in amortization of goodwill amount due to a downward revision in the amount of goodwill. For more details, please see the comment in Income taxes, etc.

Non-Operating Income (Expenses)

The main components of non-operating income for the fourth quarter were interest received and equity method investment gain. The main components of non-operating expenses for the quarter were a loss on disposal of fixed assets and a provision to the allowance for doubtful accounts.

Extraordinary Gains (Losses)

The major extraordinary gain for the quarter was gain on sales of investment securities, while the major losses were the donation made related to the Great East Japan Earthquake and the loss on retirement of software.

Income Taxes, etc.

The effective income tax (including income tax adjustments) burden ratio for quarterly income before income tax was 42.3% for the fourth quarter and 41.1% for the full year.

An additional amount of tax was included in the “Additional Tax Payment or Rebate” for the quarter. The additional tax was related to a revision of the tax assessment on acquisition of shares of IDC Frontier Inc. (IDCF) made as part of a series of transactions that occurred when Yahoo Japan Corporation absorbed SOFTBANK IDC Solutions Corp. (IDC) through a merger. In addition, because an amount equivalent to the additional tax was paid to the Company based on a related contract, the goodwill arising from the merger was revised downward.

Minority Interests in Gains of Consolidated Subsidiaries

Minority interests in gains reflects the interests of shareholders other than the Company in the profit and losses of the consolidated subsidiaries.

Quarterly Net Income

Net income per share amounted to ¥420.32 for the quarter and ¥1,589.53 for the full year.

(ii). Consolidated Balance Sheets and Main Points for the Fourth Quarter

(Millions of yen)

		As of Mar. 31, 2010	As of Mar. 31, 2011	Increase/decrease		As of Dec. 31, 2010
		Amount	Amount	Amount	Change (%)	Amount
Assets						
Current assets						
Cash and cash equivalents	*1	139,238	188,687	49,449	35.5	147,574
Notes and accounts receivable-trade		37,391	36,945	-445	-1.2	36,137
Inventory assets		201	158	-43	-21.7	159
Deferred tax assets		6,687	5,522	-1,165	-17.4	4,135
Other current assets	*2	21,279	22,807	1,528	7.2	26,996
Allowance for doubtful accounts		-1,455	-1,570	-114	7.9	-1,574
Total current assets		203,342	252,550	49,208	24.2	213,428
Fixed assets						
Tangible fixed assets						
Buildings and structures		6,631	6,806	174	2.6	6,944
Machinery and equipment		5,702	5,980	277	4.9	6,074
Tools, furniture and fixtures		9,220	10,179	959	10.4	9,480
Land		5,002	5,425	423	8.5	5,002
Other tangible fixed assets		562	466	-96	-17.1	316
Total tangible fixed assets		27,120	28,859	1,738	6.4	27,817
Intangible fixed assets						
Software		10,026	9,410	-615	-6.1	9,206
Goodwill	*3	4,896	1,349	-3,546	-72.4	4,734
Other intangible fixed assets		28	416	388	—	435
Total intangible fixed assets		14,950	11,176	-3,774	-25.2	14,376
Investments and other assets						
Investment securities	*4	159,993	43,035	-116,957	-73.1	163,874
Long-term receivables-other	*5	—	122,646	122,646	—	—
Deferred tax assets		6,313	6,667	353	5.6	6,264
Others		6,615	6,965	349	5.3	6,444
Allowance for doubtful accounts		-72	-155	-83	115.0	-47
Total investments and other assets		172,849	179,159	6,310	3.7	176,535
Total fixed assets		214,920	219,194	4,274	2.0	218,729
Total assets		418,262	471,745	53,483	12.8	432,158

(Millions of yen)

		As of Mar. 31, 2010	As of Mar. 31, 2011	Increase/decrease		As of Dec. 31, 2010
		Amount	Amount	Amount	Change (%)	Amount
Liabilities						
Current liabilities						
Accounts payable-trade		7,502	7,124	-377	-5.0	6,067
Short-term bank loans	*6	10,000	―	-10,000	-100.0	―
Accounts payable-other	*7	13,099	15,585	2,486	19.0	15,103
Income taxes payable	*8	47,107	33,407	-13,700	-29.1	15,132
Provision for Yahoo! Points		3,919	3,591	-328	-8.4	3,846
Other current liabilities		23,940	24,287	346	1.4	28,787
Total current liabilities		105,569	83,997	-21,572	-20.4	68,938
Total long-term liabilities	*9	419	2,642	2,223	530.1	2,294
Total liabilities		105,988	86,639	-19,348	-18.3	71,233
Net assets						
Shareholders' equity						
Common stock	*10	7,521	7,925	404	5.4	7,795
Capital surplus	*10	2,602	3,007	405	15.6	2,877
Retained earnings	*11	300,496	375,850	75,354	25.1	351,430
Treasury stocks	*12	-3,068	-5,604	-2,535	82.7	-5,604
Total shareholders' equity		307,550	381,179	73,628	23.9	356,499
Accumulated other comprehensive income		2,004	1,205	-799	-39.9	1,761
Valuation difference on available-for-sale securities	*13	1,978	1,208	-769	-38.9	1,761
Deferred gains or losses on hedges		25	-3	-29	―	―
Stock acquisition rights		450	563	113	25.1	590
Minority interests		2,267	2,157	-110	-4.9	2,074
Total net assets		312,273	385,105	72,832	23.3	360,925
Total liabilities and net assets		418,262	471,745	53,483	12.8	432,158

<Main Points Regarding Consolidated Balance Sheets for the Fourth Quarter>

Assets

*1 The principal cause of the increase in cash and cash equivalents compared with the same quarter in the previous fiscal year was an increase in cash flow from operating activities.

*2 The expansion in other current assets from the same period a year earlier can be mainly attributed to the increase in credit related to the settlement services for Yahoo! Shopping and Yahoo! JAPAN card.

*3 The decline in goodwill from the fourth quarter last year was primarily due to a revised assessment of the goodwill of IDCF.

*4 Although there were purchases of investment securities during the quarter, the total balance declined compared with a year earlier because of the sales of shares of BB Mobile Corp., to SOFTBANK Corp.

*5 Fourth quarter long-term receivables-other increased compared with the same quarter a year earlier because of the sales of shares of BB Mobile Corp., to SOFTBANK Corp.

Liabilities

*6 The decline in short-term bank loans compared with the same period in the previous fiscal year resulted from repayments.

*7 The increase in accounts payable-other from the fourth quarter last fiscal year can mainly be attributed to increases in uncollected pledges to the Great East Japan Earthquake relief funds and in advertising and promotion expense debts.

*8 Income tax payable fell compared with the previous fiscal year because the Company's interim tax payment was larger than in the previous fiscal year.

*9 The increase in other long-term liabilities from a year earlier primarily resulted from application of the Accounting Standard for Asset Retirement Obligations, and booking the obligations.

Net Assets

*10 The rise in common stock and capital surplus compared with the same period in the previous fiscal year was due to the exercise of stock options.

*11 Growth in net income supported an increase in retained earnings year on year despite the decline caused by the payment of dividends.

*12 The increase in treasury stock compared with one year earlier primarily resulted from meeting the requirement of purchasing stock related to the conversion of Firstserver, Inc., into a wholly owned subsidiary based on a share exchange.

*13 The year-on-year decrease in valuation difference on available-for-sale securities can be mainly attributed to a decline in the market prices of investment securities.

(iii). Consolidated Statements of Cash Flows and Main Points for the Fourth Quarter

(Millions of Yen)

	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2011	Fiscal year ended Mar. 31, 2011
	Amount	Amount	Amount
Cash flows from operating activities:			
Income before income taxes for the periods	38,198	42,424	157,432
Depreciation and amortization	2,664	2,664	9,843
Increase/decrease in accounts receivable-trade	-1,409	-766	131
Increase/decrease in accounts payable-trade	495	1,057	70
Payment of income taxes and other taxes	-61	-1,255	-101,276
Other cash flows	2,016	-220	1,378
Cash flows from operating activities	41,903	43,903	67,580
Cash flows from investing activities:			
Expenditures on time deposits	—	—	-1,000
Expenditures on tangible fixed assets	-1,077	-2,615	-7,902
Expenditures on intangible fixed assets	-349	-1,275	-2,679
Expenditures on investment securities	-39	-29	-2,031
Proceeds from sales of investment securities	119	155	469
Proceed from adjustment of stock acquisition price	—	939	25,731
Other cash flows	-461	-196	-957
Cash flows from investing activities	-1,808	-3,023	11,630
Cash flows from financing activities:			
Redemption of long-term debt	—	—	-10,000
Income on issue of new shares	70	260	809
Expenditures on purchase of treasury stock	-204	—	-2,540
Dividends paid	-3	-5	-16,671
Other cash flows	-27	-22	-521
Cash flows from financing activities	-164	231	-28,924
Net change in cash and cash equivalents	39,930	41,112	50,286
Cash and cash equivalents at the beginning of the periods	98,307	145,574	138,238
Decrease in cash and cash equivalents from company split	—	—	-1,837
Cash and cash equivalents at the end of the periods	138,238	186,687	186,687

At the end of this fiscal year, cash and cash equivalents amounted to ¥186.6 billion, up ¥48.4 billion from a year earlier.

The following are the movements in the main components of cash flow and the factors contributed to those changes for the fiscal year under review.

Cash flows from operating activities amounted to a cash inflow of ¥67.5 billion, mainly because of an increase in net income.

Cash flows from investing activities amounted to a cash inflow of ¥11.6 billion, primarily due an adjustment in the purchase price of shares.

Cash flows from financing activities amounted to a cash outflow of ¥28.9 billion, attributed mainly to the payment of dividends.

<Main Points Regarding Consolidated Statements of Cash Flows for the Fourth Quarter and Full Year>

Cash Flows from Operating Activities

Cash flows from operating activities for the fourth quarter amounted to ¥43.9 billion, mainly because of cash inflows from quarterly net income.

Cash Flows from Investing Activities

Cash flows used in investing activities for the fourth quarter amounted to ¥3 billion, primarily due to outlays for the purchase of tangible fixed assets.

Cash Flows from Financing Activities

Cash flows from financing activities for the fourth quarter amounted to ¥0.2 billion and can be attributed mainly to proceeds from the issue of new shares.

As a result, the net change in cash and cash equivalents for the fourth quarter amounted to ¥41.1 billion and cash and cash equivalents at the end of the period was ¥186.6 billion, up 35.0% from a year earlier.

(Reference) Transition of Cash Flow-Related Indexes

	FY2008	FY2009	FY2010
Equity capital ratio	75.2%	74.0%	81.1%
Market value equity capital ratio	482.5%	472.3%	365.9%
Interest-bearing debt to cash flow ratio	34.2%	7.4%	0.3%
Interest coverage ratio (times)	190.0	710.3	3,243.4

Equity capital ratio: Total shareholders' equity/ Total assets

Market value equity capital ratio: Market capitalization/ Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt/ cash flow

Interest coverage ratio: Cash flow/ interest on debt

* All figures calculated on a consolidated basis. subsidiary
* Market capitalization calculated on the basis of the number of issued shares not including treasury stocks.
* The above cash flow is an operating cash flow.
* Interest-bearing debt includes all the debts booked on consolidated balance sheets for which interest is paid.

(3) Performance Outlook

The Group believes that in its performance estimates, the calculation of fiscal performance figures with a high degree of reliability is extremely difficult because of the large fluctuations in the Group's business environment.

The Group views the degree of usage of each of their services by customers as important management indicators in determining estimations of income and expenses. However, in the rapidly changing environment of the Internet, it is difficult to establish a specific rate of growth or change in these indicators. Accordingly, we limit our performance estimates announced with each quarter report to estimates of performance for the next quarter.

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

Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2012 (FY2011-1Q) (April 1, 2011 to June 30, 2011)

Revenue	¥ 70,400 million ~ ¥ 73,900 million
Operating income	¥ 37,300 million ~ ¥ 39,600 million
Ordinary income	¥ 37,700 million ~ ¥ 40,000 million
Quarterly net income	¥ 22,200 million ~ ¥ 23,600 million

6. 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 them 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 following is not an exhaustive discussion of all risk factors that should be considered before investing in the shares of Yahoo Japan Corporation.

1. Impact of Internet Markets and Competition

1) Macroeconomic Trends, Internet Markets, and Users

a. The Group's business development depends on the growth of Internet-based markets.

Internet usage in terms both of user numbers and usage times has grown steadily in Japan since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the recent spread of broadband communications and the proliferation of mobile phones. Because the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its business development are the continued expansion of Internet-based communications and commercial activities in line with increased Internet usage, as well as a stable and secure infrastructure for Internet users.

A number of factors contribute to uncertainty in the outlook for continued expansion of Internet-based markets: (1) user numbers might eventually peak or Internet usage times slump; (2) new Internet regulations or fees might constrict Internet usage; and (3) improper development and application of new protocols and technological standards in response to growing user numbers and increasingly advanced applications could result in reduced Internet usage.

b. The Internet's continued progress as an advertising media is uncertain.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations in 1996. Since that time, the Internet advertising market has grown significantly, accounting for 13.3% of the total domestic advertising market in calendar year 2010, according to a recent DENTSU INC. report. Internet advertising is now the second largest advertising market in Japan, following the television advertising market.

The Group engages in a range of activities aimed at enhancing its advertising media value. In the area of display advertising, for example, the Group is endeavoring to expand and stabilize its client base of corporate advertisers and advertising agencies through various means, including periodic seminars aimed at promoting a greater understanding and appreciation of Internet advertising within the advertising industry. In the area of listing advertising, meanwhile, the Group is working to improve the match between advertisements and the interests of each user, thereby becoming a more valuable media for both users and advertisers.

However, further progress in this regard could be hindered by such factors as extremely slow growth in the Internet advertising market or a premature tapering-off of growth in the market. As a result, the Group might not achieve anticipated levels of advertising revenues, which would negatively impact its business performance.

c. Short-term economic trends could affect Internet advertising and information listing services.

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first that companies reduce. 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 stream.

Similarly, Internet information listing services are directly influenced by macroeconomic trends. In recruitment-related services, especially, client companies tend to calibrate recruitment activities to anticipated trends in the labor market. Such macroeconomic trends, therefore, strongly influence revenues from recruitment information listing services.

Furthermore, because the Group's cost structure includes a high proportion of fixed costs, such as personnel, lease, and utilities expenses, expenditures cannot be adjusted easily according to revenues, contributing to underlying volatility in the Group's earnings stream.

d. Advertising budget allocations of advertisers and advertising agencies could affect the Internet advertising business.

Generally, major corporate advertisers outsource their advertising activities to advertising agencies. In addition to how the advertising budget is allocated among the various media, for example, Internet, television, and newspapers, the amount of advertising the Group receives mainly depends on the inclinations of major advertisers and the amount of discretion granted to advertising agencies. While the Group has implemented various measures to boost Yahoo! JAPAN's appeal as an advertising media as well as to boost the effectiveness of its advertising products, trends in advertising budget allocations among the various media could influence the Group's advertising sales.

e. The Group might fail to attain the same market share in the mobile advertising market as it holds in the PC market.

Based on projections that advertising via Internet-enabled terminals such as smartphones or tablets will grow at a quickening pace, the Group is working to enable the provision of its services via such terminals in addition to PCs. If mobile Internet use expands substantially, however, the Group might fail to acquire the user numbers or usage times that it commands in the PC market and thus may see a fall in viewer rates and a corresponding reduction in market share. As a result, advertising revenue growth could taper off, with negative consequences for earnings.

f. Commercial use of the Internet by corporations might not expand as anticipated.

To expand the market for information listing services, such as 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 is endeavoring to expand the revenues of Yahoo! Auctions and Yahoo! Shopping. Despite these efforts, the market might not expand for any of various reasons. The shift of information listing services to the Internet from traditional media, particularly printed media such as newspapers, magazines, and flyer inserts, might not proceed as expected. 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. Any of these factors could negatively influence the Group's performance.

g. Technological change in the broadband market could affect the Group's income.
Yahoo! BB, the Group's comprehensive broadband service operated jointly by the Company and SOFTBANK BB Corp. (SBB), mainly provides inexpensive, high-speed DSL services. Owing to rapid progress in telecommunications technology, the broadband market is shifting from DSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. To acquire new subscribers in this environment, SBB has introduced Yahoo! BB hikari with FLET'S*, a new comprehensive broadband FTTH service. Even so, the Group might be unable to achieve projected levels of new subscribers or sales, or existing customers might shift to competing services. Moreover, unanticipated expenses might arise. Any of these factors could negatively affect the Group's income.
*FLET'S is a trademark of NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION (NTT EAST) and NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (NTT WEST).

h. A slowdown in the growth rate of users of member services and other fee-based services could affect the Group's revenues.
With the spread of broadband and mobile communications in recent years, the number of Internet users has increased dramatically, fueling growth in the number of users of Yahoo! JAPAN member services and other fee-based services. (The Group's premier member service, Yahoo! Premium, grants to subscribers special members-only benefits and entitlements, including unrestricted participation in Yahoo! Auctions.) Eventually, however, broadband and mobile phone proliferation in Japan will reach a saturation point and growth in the number of Internet users will begin to slow. If, as a result, growth in the number of users of Yahoo! JAPAN member services and other fee-based services also slows, so too is growth in revenue derived from these services likely to decline. To offset the expected decline in revenue growth, the Group is implementing various measures to promote broader usage of Yahoo! JAPAN member services and other fee-based services. Despite these efforts, it is possible that revenues derived from member services and other fee-based services will begin to show slower growth, which could negatively impact the overall Group's revenues.

i. The popularity of fee-based service content via the Internet might decrease.
The spread of broadband communications has enabled the Group to deliver a variety of fee-based service content to meet changing user needs, including high-volume service content such as video and music. Demand for such service content via the Internet is likely to expand as the number of Internet users increases. If, on the other hand, fee-based service content fails to become a regular part of the lives of users, or if access to such service content via devices other than PCs becomes the norm, and if the Group fails to successfully break into the non-PC market, the achievement of expected earnings could be difficult.

2) Competition
a. With competitors in each of its service areas, the Group might have difficulties maintaining its dominant position in the Japanese Internet market.
The Group's services are centered on the flagship Yahoo! JAPAN portal site, which offers a diverse range of services over the Internet. These 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 payment settlement services. The Group has multiple competitors in each of these service areas.

In such a business climate, a degree of uncertainty exists as to whether or not the Group will be able to maintain its dominant position in the Japanese market. Income deterioration could result from price competition or increased customer acquisition costs. Also, the Group might be obligated to pay higher advertising commissions and content provider fees to advertising agencies and content providers, which could adversely affect performance.

The Group fully intends to continue gauging user opinions and usage patterns with an eye to offering services that users want. Nevertheless, it is possible that services offered by a start-up company could gain popularity with users and spread rapidly through the market, thereby posing a competitive challenge to the existing Group's services. It is possible also that the Group will be obligated to make significant investments in developing new services to maintain its competitive advantage. Either eventuality could have a negative impact on the Group's business performance.

The Group believes that its main competitor in the current market environment is Google (Google Inc.).

3) Other Companies' Products and Services
a. In providing its services, the Group relies on the products and services of other companies, including servers, Internet connection lines, information devices, and software.
Many of the products and services necessary for the provision of the Group's services, such as servers, Internet connection lines, information devices, and software, are offered by other companies. The smooth, uninterrupted provision of such products and services by other companies is a prerequisite to the successful provision of the Group's services.

Today, users can choose from several types of browser software for viewing Web sites and from a range of information devices including PCs, smartphones, tablets, TVs, video-game consoles, and car navigation systems for accessing the Internet. Although the Group strives to make its services compatible with all types of browser software and information devices, some cases of incompatibility exist, most of which result from sub-optimal usage conditions or setting errors. Furthermore, browser software or information devices subject to specification changes, rate adjustments, or insufficient market supply have the potential to disrupt user access to the Group's services, thereby negatively affecting the Group's revenues.

4) Technological Change
a. Failure to respond quickly and appropriately to technological innovation could greatly affect the Group's business.
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.

To keep up with the market and maintain competitiveness, the Group plans to improve and expand its services and implement innovative technologies. Nevertheless, if the services offered become outdated or the Group falls behind in introducing new technologies emerging in the market, its competitiveness with other companies could decline.

2. Legal and Institutional Changes

1) Legal Restrictions

a. New laws or amendments relating to the Group or to the Internet industry as a whole could negatively affect the Group's provision of services.

Reports in recent years of incidents in Japan related to the viewing or posting of sensitive information or to dubious business transactions on the Internet have resulted in the application of certain legal restrictions to Internet-based information and goods distribution. To ensure a safe, secure, and convenient Internet environment in Japan, the Group complies with all laws and regulations and carries out policies and awareness campaigns in cooperation with relevant organizations.

The introduction of new laws or amendments to existing laws relating to the Group or the Internet industry as a whole could result in increased compliance-related expenses or otherwise negatively influence the Group's provision of services, as well as affect the development of the Internet industry.

b. Changes to the Provider Liability Limitation Law could restrict the Group's business.

The Law concerning the Limits of Liability for Damages of Specified Telecommunications Service Providers and the Right to Request Disclosure of Identification Information of the Senders (Provider Liability Limitation Law) has been in force since May 2002. This law merely clarifies the scope of liability for illegal behavior previously established by civil law and therefore does not increase the liability of businesses that act as intermediates in Internet-based information distribution. Should a social consensus in support of increased liability of information distribution intermediates emerge, however, the Group's business could be restricted as a result of the introduction of new laws or the implementation of rules for self-regulation.

c. Amendments to the Telecommunications Business Law could restrict the Group's business.

In order to operate Internet-based information communication services, the Group is required to comply with the Telecommunications Business Law and related ordinances enforced by relevant government divisions. Amendments to this law or to related ordinances could restrict the Group's business.

d. The recently established Law on the Improvement of the Environment for the Safe and Secure Use of the Internet by Children could impinge upon the development of the Internet industry in Japan.

Since its establishment, the Group has conducted a variety of measures to contribute to the sound development of the Internet and has taken steps to protect minors from potentially harmful information, such as the operation of Yahoo! Kids and the introduction of Yahoo! Safety Net. In June 2008, the government passed the Law on the Improvement of the Environment for the Safe and Secure Use of the Internet by Children. Judging from the provisions of that law, at this point, the Group expects that it will have only a minor impact upon its business. Nevertheless, the law raises many issues, such as restrictions on freedom of expression or inhibition of filtering development, which could impinge upon the development of the Internet industry in Japan and, consequently, affect the Group's performance.

e. Legislation relating to auction services could negatively affect the Group's earnings.

There have been reports of illegal items being listed on Yahoo! Auctions and cases of fraud. When sellers subject to the law list branded products for auction, the Group instructs them to properly identify themselves 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 to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, 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 fail to bring about the expected results and reports of illegal or fraudulent merchandise continue, legislation could be enacted restricting commercial activity carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could negatively affect the Group's earnings.

f. Legislation relating to social media services could affect the Group's provision of such services.

Social media services provide a space for users to communicate with each other via postings of opinion and content. In the context of such services, the potential exists for defamation, invasion of privacy, and infringement of intellectual property rights and other legally protected ownership rights. The Group prohibits postings containing copyright-protected content and makes concerted efforts to prevent and eliminate such infringements, such as operating a patrol system for detecting illegal content, soliciting user reports of illegal content, and responding swiftly to requests by legitimate right holders to remove illegal content.

If these measures fail to bring about the expected results and reports of illegal postings continue and become an object of public concern, new legislation might be enacted that could restrict comment posting services on the Internet. Depending on the degree of restriction entailed, such legislation could have a significant impact on all of the Group's services that include social media functions.

g. The formulation of new laws or amendments to existing laws concerning financial services could affect the Group.

The Group offers the Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (financial instruments intermediary services).

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which activities bring it under both the Act on Controls, etc. on Money Lending and the Interest Limitation Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Because authorities revised the Act on Controls, etc. on Money Lending so as to lower the interest rate ceiling on loans to match the interest rate ceiling specified in the Interest Limitation Law, customers might claim that interest paid in excess of the rate permitted under the Interest Limitation Law represents unfair profits, and demand repayment. Based on these actions, the Group believes that the revised law's impact on its business will be minor. The Group had already lowered its interest rates in May 2008, before enforcement of the law.

In its Yahoo! Trading (financial instruments intermediary services) operations, the Company is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Act and rules set by the Japan Securities Dealers Association. Under the Financial Instruments and Exchange Act, the Company registers with the Prime Minister as a financial instruments intermediary business. 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 or trading system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

h. In addition to legal restrictions, official administrative guidance and governmental requirements could affect the Group's service provision and performance.

In addition to the application of the aforementioned legal restrictions, self-regulatory systems applicable to companies in the industry with regard to information communication or other businesses under the administrative guidance and requirements of the national government, governmental ministries, or local governments could adversely impact the Group's service provision and performance.

* In June 2010, the Company received a notice from the Tokyo Regional Taxation Bureau requesting a correction in its tax payment regarding the Company's conversion of SOFTBANK IDC Solutions Corp. (IDC) into a subsidiary in February 2009 and its absorption in a merger the following March. Since the Company found it impossible to accept the taxation bureau's claims, it is in the process of submitting a request for reconsideration to the national tax tribunal. In fact, the claims of the taxation bureau will have no impact on the Company's performance because the share transfer agreement between the Company and SOFTBANK Corp., the seller of the IDC shares, provided that SOFTBANK Corp. would bear any additional taxes should they arise.

2) Litigation

a. Victims of auction fraud might take legal action against the Group.

The Group has implemented various measures to improve systems security for a safer and more stable auction environment. 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 July 2007, the Group began offering a "do now, pay later" service (see Note, below). 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.

A lawsuit brought against the Group by certain users of Yahoo! Auctions seeking damage compensation relating to the non-receipt of paid auction items was ruled definitively in the Group's favor on October 27, 2009, on which date the Supreme Court dismissed an appeal by said users, effectively upholding its initial judgment that the Group was not liable for damages because it had not only forewarned Yahoo! Auctions users of the potential for auction fraud but also offered advice on how to detect and avoid it by citing actual examples of fraud.

Despite this ruling in the Group's favor, the strong likelihood that auction fraud will to some extent continue to exist implies that certain Yahoo! Auctions users might again take legal action against the Group, whether or not the Group is responsible. Moreover, the implementation of additional measures to further strengthen systems security in order to prevent criminal activity, including an expansion of patrol capabilities, could entail increased costs and, as a result, lower earnings.

The Group has instituted a system guaranteeing limited compensation for users who have been victimized by auction fraud. This compensation system could lead to higher expenditures for the Group.

Note: The "do now, pay later" service is an anti-fraud measure that allows the buyer to pay the seller after receiving and inspecting the purchased item, thereby precluding the problem of non-delivery of paid items.

b. Affiliated financial instruments firms could demand damage compensation from the Group.

In providing Yahoo! Trading (financial instruments intermediary services), the Group complies with internal solicitation policies and guidelines under the supervision of affiliated financial instruments firms (see Note, below) in setting up trading accounts and handling transactions. Before soliciting clients for transactions, the Group consults with affiliated financial instruments firms. Despite these precautions, the Group might make solicitations that inadvertently lead to misunderstanding on the part of certain clients. If, as a result of such solicitations, clients enter into transactions that result in client losses, the Group could be subject to demands for damage compensation from affiliated financial instruments firms, which in certain cases pay provisional damages to clients.

Note: "Affiliated financial instruments firms" refers to firms that have signed a consignment agreement with the Group for financial instruments intermediary services.

c. The Group could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements or of Web sites accessed through links on the Group's sites.

To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates the content of advertisements and of Web sites accessed through advertisement links. As expressed in a written contract with each advertiser, the advertiser accepts full responsibility for the content of advertisements. 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 slanderous content is prohibited and that full responsibility lies with users. The Group maintains the right to remove Web content that is in violation of its contracts with users and will do so upon discovering such Web content.

Through such internal regulation, the Group prohibits illegal and slanderous content on its sites and protects user privacy. In addition, the Group publishes a disclaimer stating clearly that users bear full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages incurred by users as a result of Web browsing or information posting. However, there is no guarantee that such measures will suffice to stave off litigation. The Group could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements, Web sites accessed through links on the Group's 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 time spent on the Group's sites, or to a suspension of certain Group's services.

d. The Group could be subject to damages that are in fact the responsibility of a third party.

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 users through user rules or clauses posted on the Group's sites. Even so, it is possible that these measures will fail and that users will demand compensation for damages from the Group that actually are the responsibility of a third party. This could result in additional expenses to the Group or damage to its brand image, impacting negatively on performance.

The Group assigns all responsibility to users 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 be able to 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 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 treaty regarding the jurisdictions of international courts could result in future legal disputes with users of the Group's services who reside outside Japan.

e. The Group could be subject to damage claims by third parties for infringement of intellectual property rights, such as patents or copyrights owned by third parties.

Considering intellectual property to be an important management asset, the Group has established an in-house team devoted exclusively to activities related to intellectual property, including investigation and filing.

In many cases, the extent to which patent rights can be applied remains unclear. To avoid potential conflicts, the Group might be obligated 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.

Moreover, internal regulations and training programs have been set up with the goal of ensuring that the Group's services or business-use software do not infringe on copyrights owned by third parties. Despite these efforts, infringements still might occur. If so, then the Group could be sued for compensation, required to pay substantial royalty fees, or forced to cease providing certain services.

f. Advertisers could claim reimbursement of excessive fees resulting from click fraud or other methods of artificially increasing advertising costs.

In listing advertising, including paid search and interest-linked advertising, a problem known as click fraud may arise. Fees for listing advertising are determined by the number of times an advertising link is clicked by users. Click fraud is used to artificially inflate the number of clicks, thereby increasing listing advertising fees charged to advertisers. In the United States, major advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering listing advertising products. Yahoo! JAPAN systematically and in some cases manually monitors and determines whether click fraud is occurring and, in cases where click fraud is detected, removes fraudulent clicks from the count for billing. Nonetheless, a class-action lawsuit might be brought against the Group, resulting in damage to the brand image of Yahoo! JAPAN and negatively impacting the Group's performance.

3) Other Legal Regulations

a. Because the Group routinely consigns business to outside contractors, the possibility exists for violations of the Subcontract Law, which could diminish public confidence in the Group.

The Group periodically holds training courses related to the Subcontract Law for employees of the Group to ensure compliance with the law during business transactions. Despite such efforts, violations of the Subcontract Law might occur, which could damage the Group's credibility and performance.

b. Changes to accounting standards and tax codes could affect the Group's profits or losses.

Against the backdrop of the recent trend in Japan to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards. Even so, significant changes in accounting methods or tax systems could have a material impact on the Group's profits or losses.

3. Natural Disasters and Emergency Situations

1) Natural Disasters

a. The Group's operations could be suspended or discontinued as a result of natural disasters.

The Group's operations are vulnerable to natural disasters such as earthquakes and fires as well as the destruction of buildings, power outages, and network failures resulting therefrom. The Group's network infrastructure and human resources are mainly concentrated in Tokyo. To cope with accidents and surges in Internet access, the Group intends to improve its network 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.

Note: As measures in response to the Great East Japan Earthquake that occurred on March 11th of this year, the Company is adding redundancies in operating bases and setting up a system that will enable employees to work at home in order to maintain its services in the event of an emergency. In addition to the existing diversification of the locations of our data centers in both Eastern and Western Japan, we are also adding redundant bases that are outside the rolling blackout areas for our data center in Eastern Japan that is serviced by Tokyo Electric Power Co., Ltd. Moreover, we are providing information to users through our "Fight Japan, Keep the Dream, Keep the Hope", Yahoo! News, and other related services as well as supporting the disaster victims by collecting donations for emergency relief funds and by holding charity auctions and other events. Nevertheless, if the impact of this major earthquake goes on for a prolonged period, in case that another disaster occurs or, if anything should happen to stable electric power supply, it could have a negative impact on our services for a certain period of time.

2) Emergency Situations

a. The Group's operations could be suspended or discontinued as a result of international conflicts, terrorist attacks, or other emergency situations.

In the event of outbreaks of international conflicts or terrorist attacks, 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 disruption to planned advertising business. Or, for their own reasons advertisers might cancel, 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 fee-based services. In addition, 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 links to business alliances in the regions. In the worst-case scenario, the Group's offices could be physically disabled. If other companies closely related to the Group's businesses, such as SOFTBANK CORP. and its related companies and other Internet service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain some of its services.

4. Business Management

1) Management Policy and Business Strategies

a. Failure to quickly and properly modify strategies in response to changing market conditions could compromise the Group's competitive advantage.

The Group is currently promoting four key strategies—user-oriented social media services, Yahoo! Everywhere, personalized local information services, and open network partnerships—with the specific management goal of increasing user numbers and per-user usage times. These strategies are modified quickly and flexibly according to changes in user needs, partner requirements, or technological or competitive trends.

If management fails to modify these strategies as required, the Group's competitive advantage could be compromised.

2) Technological Development and Improvement

a. Although the Group's R&D efforts aim to meet user needs through the implementation of new strategies and the start-up of new businesses, such efforts might fail to adequately address such needs or result in an R&D delay or failure.

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. While at this time only a certain amount of expenses have arisen regarding the R&D expenses necessary for the above strategy, R&D expenses could exceed projections and the Group's competitiveness could be diminished depending on the time period required for development.

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. 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 the delay or failure of R&D programs, excessive expenses, or lack of effectiveness due to a failure to satisfy customer needs. 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.

b. Failure to effectively implement a program aimed at continuously improving services could eventually render the Group's services obsolete.

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continuously improving the user experience is central to maintaining its competitive advantage. To this end, the Group focuses broadly on (1) improving the visibility and design layout of the display screen with an eye to enhancing operational convenience; (2) tightening the correspondence between the results of searches and other information services and actual user requests; and (3) accelerating display speeds of the results of searches and other information services.

To maintain and increase its competitive advantage, the Group must continue to invest in such service improvements. Should these capital investments not be appropriately made, the Group could experience a decline in its competitiveness or in its brand image. Moreover, the level of investments required for achieving service improvements could rise. Either of these eventualities could adversely affect the Group's business performance. Also, although the Group conducts adequate surveys and tests to determine the likely effects of planned improvements to or renewal of services, the actual effects could result in a reduction of the number of users or of page views, which would have a negative impact on the Group's business performance due to the reduced advertising revenues.

c. Inadequate planning and implementation of capital investment programs could result in lower service quality and higher expenditures.

To support future business expansion and facilitate ongoing provision of quality services that meet customer needs, the Group maintains a continuous capital-investment program of comparatively large scale relative to the size of current operations. Against a background of continuing growth in the Internet user base, increasing rates of broadband connectivity, and expanding Internet accessibility, the Group is obligated to add new and upgrade existing network-related facilities to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short time periods. The Company has pursued stable and efficient operations of the Group's servers and cost reductions by gaining a proprietary large-scale data center for the Group.

Consequently, the Group anticipates a growing need for ever larger capital investments made in a timely manner to build systems and networks for smoothly controlling large volumes of communications traffic, strengthening security systems to protect settlement services and the personal information of customers, and expanding systems to appropriately respond to the growth and diversification of user inquiries. Further, in line with its expanding business scope the Group will be required to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group intends to minimize cash outflows by closely considering costs and benefits and by keeping a tight rein on system development and equipment-related expenditures.

Although the Group believes that business expansion will result in earnings growth sufficient to provide operating cash flows to cover increased costs and cash outflows, insufficient and/or delayed returns on 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 lives of new or upgraded facilities might be shorter than planned. Accordingly, depreciation timeframes might be shorter and depreciation costs higher compared with those of previous facilities. By corollary, the accelerated disposal of existing facilities might result in higher-than-expected losses.

d. Failure to properly adopt the specific information transmission standards of the full range of Internet-enabled devices could adversely affect the Group's business development.

In recent years, the range of Internet-enabled terminals has grown to include smartphones, tablets, video-game consoles, TVs, car navigation systems, resulting in a vastly expanded Internet-connection infrastructure for information terminals other than PCs. Responding to this trend, the Group has adopted the Yahoo! Everywhere strategy promoting Internet usage via a wide range of devices, with the goal of increasing accessibility to and boosting usage times of Yahoo! JAPAN services. In promoting this strategy, the following risks are implied:

To offer Yahoo! JAPAN services to users via various devices, the Group must adopt the information transmission standards of each device with the support of the company that developed it. If the Group fails to properly adopt the standards for a given device, then it will not be able to provide services for that device.

Enabling users to easily connect to the Group's sites via any Internet-enabled device is an important element of the Group's competitiveness. For example, a Y! Button on SOFTBANK mobile phones provides easy and direct connection to Yahoo! JAPAN services. The Group also intends to work closely with companies that have developed Internet-enabled devices other than mobile phones to ensure easy connectivity. Failure to achieve smooth Internet connectivity via such devices could undermine the Group's competitiveness. Furthermore, should higher-than-expected costs be incurred in achieving connectivity, the Group's performance could be negatively impacted.

Each device has unique features, such as screen size and input system. Under the Yahoo! Everywhere strategy the Group is optimizing Yahoo! JAPAN sites for each of these features. Achieving this goal might take longer than expected, or the Group's services might be inferior to other companies' optimized services, resulting in an erosion of competitiveness. Moreover, higher-than-expected optimization-related expenditures could adversely affect the Group's performance.

e. Failure to properly incorporate innovative advertising methods could adversely affect the Group's advertising revenue.

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products suited to the specific needs of each advertiser, including products with guaranteed exposure periods and page views. The Group also offers Sponsor Site services (paid search advertising) and an affiliate ad program, operated in cooperation with ValueCommerce Co., Ltd.;

In addition, the Group has developed and launched various advertising products incorporating innovative advertising distribution methods, including targeting advertising, which distributes advertising based on users' Internet usage histories, keyword search histories, demographic factors, and physical location; Interest Match®, which distributes text advertising based on users' Internet usage histories and the content of Web pages viewed at the time of ad distribution; and AD Network, which distributes advertising over a network of partner sites and thus achieves greater reach than single-site-distribution products. If the Group fails to properly incorporate innovative advertising methods, its advertising revenue could decrease even as the cost of developing new products and forming new partnerships with companies possessing expertise in innovative advertising methods grows. As a result, the Group's performance could be negatively affected.

f. The switch to Google Inc.'s search engine and paid search advertising platform could negatively affect the Group's performance.

In July 2010, the Company decided to change its search engine and paid-search advertising platform to those of Google Inc. It is possible that the switch could impact negatively on the Group's performance, particular that of search-related services in the future.

3) New Businesses

a. The Group's diversification into new businesses might yield lower-than-expected earnings contributions.

The Group plans to further diversify into new businesses to strengthen its operating base and provide a growing range of quality services. To this end, the Group might be obligated to incur additional expenses to employ new staff, expand and upgrade facilities, and conduct research and development.

Moreover, new businesses are unlikely to begin contributing stable revenues immediately. Consequently, the Group's profitability could decline temporarily.

In addition, new businesses might not develop in line with Group's expectations. The Group might be unable to recover investment expenses, which could significantly affect its performance.

4) Services Provided

a. Development, operation, and maintenance of the Group's search services are commissioned to Yahoo! Inc. and others.

The Group's paid search advertising revenues are expanding and account for a larger share of overall advertising sales. The

Group is in the process of converting its search engine and paid search advertising distribution system to Google Inc.'s search engine and paid search advertising distribution system.

In future,should the Company's business relationship with Google Inc. change or some type of obstruction to the smooth service operation of Google Inc. arise, the viability of certain Group's services could be jeopardized and the Group's performance negatively affected.

* In July 2010, the Company decided to change its search engine and paid-search advertising platform to those of Google Inc.

b. For advertising products with guaranteed page views, failure to attain the required number of views could obligate the Group to provide some form of compensation.

Advertising contract periods and page views are guaranteed for many of the Group's products, with advertising fees based on those two parameters. Failure to attain the number of required page views due to problems with the Internet connection environment or to similar problems could obligate the Group to extend advertising contract periods or to devise some other type of compensation, which could negatively impact the Group's advertising revenues.

Moreover, the Group might fail to provide services that meet the needs of certain advertisers, which could result in reduced demand from those advertisers. This could negatively impact the Group's advertising revenues.

c. Expenses for additional Internet connections or capital investment in infrastructure could rise in line with expanding use of streaming and other services requiring relatively large bandwidth.

The Group provides streaming and other services, such as GyaO!, requiring relatively large bandwidth compared with services consisting only of text and images. Brand Panel and Prime Display, incorporating streaming and interactive features, also require greater Internet bandwidth. Because usage of these types of services and advertising products is likely to grow steadily in the future, expenses for Internet connections and capital investment in facilities, such as servers necessary for displaying such services, could increase as well.

5) Compliance

a. Despite the Group's efforts to ensure compliance with laws and regulations, compliance-related risk exists.

The Group recognizes that legal and regulatory compliance is a prerequisite for enhancing corporate value. Consequently, the Group has established various compliance regulations standards for all directors, corporate auditors, and employees to ensure compliance with laws and articles of incorporation. Aiming to achieve thorough observation of those regulations and standards, the Group has posted them on its Intranet and conducts periodic in-house training.

Despite these efforts, it is impossible to entirely eliminate compliance-related risk. If a violation occurs, the Group's brand image and performance could be affected.

6) Management and Operation Systems

a. Failure to accurately increase staff levels as required by business diversification could negatively affect the Group's business development.

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 operation and quality improvement of various services required by the recent surge in Internet users, and to handle billing and provide customer support for fee-based services.

Failure on the part of management or of staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems with users of and stores registered on the Yahoo! Shopping and Yahoo! Auctions sites, and affect operational efficiency.

Although the Group aims to minimize the effects of increased staff levels on its operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

b. The resignation of key personnel could temporarily hinder the Group's continuing business development.

The development of the Group's businesses depends on continued support from senior management and key technical personnel. These include the presidents, directors, and other representatives of each department who possess specialized knowledge and technical expertise concerning the Group and its businesses. Consequently, if key personnel were to leave and the Group failed to replace them, the continuation and development of some business could be temporarily hindered.

In addition, some senior managers participate in the stock-option plan, one of the Group's personnel incentive measures. Rather than motivate participants, however, the stock-option plan might have the opposite effect and be a cause of their leaving the Group.

c. Although the Group promotes the protection of its intellectual property rights to maintain its competitive advantage, these efforts might not be cost-effective.

The Group believes that its intellectual property rights are central to its ability to maintain certain competitive advantages in the market and that it is therefore essential to produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names. Most of the content accompanying the Group's services offered to users is subject to copyrights and other legal rights. Users are allowed to utilize that content within the scope of the user contract to which they have agreed.

Although rights pertaining to the content provided in the Group's services to users are legally protected, it is possible that certain content will be used in a manner other than that sanctioned in user contracts, which could damage the Group's brand image. The increased costs associated with minimizing the likelihood of such an eventuality could negatively affect the Group's business performance. At the same time, expenditures required to enable the Group to exercise those rights as competitive advantages could arise, making it difficult for the Group to gain sufficient benefit from the rights in view of the excessive expenditure entailed.

d. As the Group conducts a growing proportion of business transactions with a base of unspecified individual and corporate customers, costs related to settlement/collection and customer service might increase.

In line with expansion of the Group's business scope and strengthening of its listing advertising, fee-based member services, and paid-content businesses, the proportion of the Group's revenues derived from a diverse client base of unspecified individuals and corporations has grown steadily.

The Group has formed a special team responsible for strengthening the 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 expanded 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 nowadays they have shifted to a diversified range of inquiries about payment, the return or exchange of services and goods, or matters related to commissioned third parties, such as distribution or settlement. 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 the Group's performance.

5. Relationship with Major Stakeholders

1) Major Shareholders

a. Changes to parent company policies or in major shareholders could affect the Group's business.

With SOFTBANK CORP. as the parent company and Yahoo! Inc. as the owner of the Yahoo! brand name, it is to be expected that the Group has good business relationships with various associated business partners of SOFTBANK CORP. and Yahoo! Inc. Moving forward, the Group intends to maintain these relationships. It is possible, however, that the Group's services or business contracts could be affected, or relationships with associated business partners transformed, as a result either of changes in the business strategies of certain companies or of changes in important shareholders, most notably the parent company and other major investors in the Company. Such changes could adversely affect the Group's businesses in various ways.

The shareholder agreement between SOFTBANK CORP. and Yahoo! Inc., the Company's major shareholders, places certain restrictions on the sale or purchase of Yahoo Japan Corporation's stock. The main points of the shareholder agreement 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 both SOFTBANK CORP. and Yahoo! Inc. maintain shareholdings equaling 5% or more of the Company's stock, SOFTBANK CORP. 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 CORP. 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 CORP. 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 CORP. 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 CORP. and the Company will determine the range allowed for granting stock options to employees before this agreement becomes valid.
* The right of SOFTBANK CORP. 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 CORP. 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 CORP. 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 the 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.

b. Competition within the SOFTBANK Group could arise in the future.

The Group is working with SOFTBANK CORP. on mobile phone, Yahoo! BB, and other businesses. If SOFTBANK CORP. 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.

c. Modifications to the license agreement with Yahoo Inc. could affect the Group's business.

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. Any modifications to the agreement could affect the Group's business.

Contract name	YAHOO! JAPAN LICENSE AGREEMENT
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Counterparty	Yahoo! Inc.
Main details	1) Licensing rights granted by Yahoo! Inc. to the Company: • Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services) • Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark • Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan • Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services 2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below) Note: Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

d. Issues related to the management of the Yahoo! brand overseas could restrict the expansion of the Group’s business.

The establishment and proliferation of the Yahoo! brand are considered 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 growth in the number of Internet services 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 Yahoo! 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 Yahoo! 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.

e. Any modifications to the business alliance contract with Yahoo! Sarl and Yahoo! Inc. could affect the Group’s earnings.

The Company has signed the following business alliance contract with Yahoo! Sarl and Yahoo! Inc. to provide services such as paid search adverting, which is one of the Group’s key income sources. Therefore, any modifications to the contract could affect the Group’s earnings.

Contract name	ADVERTISER AND PUBLISHER SERVICES AGREEMENT
Contract date	July 27, 2010 (Original contract dated August 31, 2007)
Contract term	August 31, 2007, to August 30, 2017 (10 years)
Counterparties	Yahoo! Sarl and Yahoo! Inc.
Main details	1) Exclusive rights regarding Yahoo! Sarl services The Company and its subsidiaries for which the Company holds more than 50% of the voting rights will have exclusive rights in Japan for those advertising-related services of Yahoo! Sarl (with the exception of paid search advertising distribution technologies) adopted as contracted services through the procedure given in the contract. However the Company makes no promise to exclusively use Yahoo! Sarl’s paid search advertising distribution technologies and may freely choose and adopt other third parties’ paid search advertising distribution technologies. 2) Payment for Yahoo! Sarl’s services The Company shall pay to Yahoo! Sarl a service fee multiplied by a rate prearranged for each year on the Company revenues (gross revenues earned by the Company or its subsidiaries for which it owns 20% or more of the voting right) associated with the use of services contracted from Yahoo! Sarl (including use of third-parties for those same services). 3) The Company’s option right Should the Company desire, the search and paid search advertising distribution technologies that

	Yahoo! Inc. has their right to provide may be offered to the Company on a non-exclusive basis. Provision of those services will be based on contracts separately formed with Yahoo! Inc. and Microsoft Corporatio. 4) Cooperation regarding transfer of customer data When the Company decides to use technologies other than those of Yahoo! Inc. or Microsoft Corporation, Yahoo! Sarl will cooperate with the Company regarding the transfer of customer data.

f. Any modifications to the business contract with Google Asia Pacific Pte Ltd. could affect the Group's earnings.
The Company has signed the following business alliance contract with Google Asia Pacific Pte Ltd. to provide services such as search and paid search adverting distribution technologies, a key income source for the Group. Therefore, any modifications to the contract could affect the Group's earnings.

Contract name	Google SERVICE AGREEMENT
Contract date	July 27, 2010
Contract term	July 27, 2010, to October 31, 2012
Counterparty	Google Asia Pacific Pte Ltd.
Main details	1) Non-exclusive provision of search and paid search advertising distribution technologies by counterparty The counterparty shall provide its search and paid search advertising distribution technologies to the Group on a non-exclusive basis, which will be used by the Group to offer its own brand of services. 2) Differentiation of search services Both parties are entitled to freely develop and use additional functions for the search results in order to differentiate their search results. The Company may decide on its own whether to display the other party's search results. 3) Payment for counterparty's services Payment for the counterparty's services shall be the sum of a certain amount fixed for each year and an amount calculated using the standard for excess amounts on any revenue of the Company website in excess of a specific amount. The payment for the counterparty's services provided by the Company to partners shall be an amount calculated using a determined method on the annual revenues received from the partner's website.

2) Consolidated Group Management
a. Inadequate consolidated management coordination could impact the Group's performance.
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 Group's services or network as well as personnel support are essential to the operations of all of the services of the Group's subsidiaries and affiliates. The relevant sections of the Group 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 Group and of its subsidiaries and affiliates, which could negatively impact the Group's performance.

3) Other Major Business Partners
a. Any modifications to the business alliance contract with SOFTBANK BB Corp. could affect the Group's earnings.
The Company has signed the following business alliance contract and incentive agreement concerning Yahoo! BB services with SOFTBANK BB Corp. (SBB), which is a subsidiary of SOFTBANK CORP. Should any modifications be made to said business alliance contract with regard to the Yahoo! BB business, they could affect the Group's earnings.

Contract name	Business alliance contract
Contract date	March 31, 2007 (original contract signed on June 20, 2001)
Contract term	June 20, 2001~ (indefinite term)
Counterparty	SOFTBANK BB Corp.
Main details	1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology 2) The Company's main roles: ・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 roles: ・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: - Yahoo! BB ADSL etc. subscribers acquired: ¥100 per line per month - Yahoo! BB hikari with FLET'S/Yahoo! BB hikari FLET'S course subscribers acquired: ¥60 per line per month - Yahoo! BB for Mobile subscribers acquired: ¥50 per line per month

Contract name	Incentive agreement
Contract date	October 7, 2005
Contract term	One year, beginning October 1, 2004 (automatically renewed each year)
Counterparty	SOFTBANK BB Corp.
Main details	Incentive fees ・ New customer acquisition incentive fees Yahoo! BB basic service: Approx. ¥15,000 per subscription Yahoo! BB＋wireless LAN package: Approx. ¥20,000 per subscription ・ Long-term customer incentive fees Yahoo! BB basic service: Approx. ¥200 per month per continuing subscriber Yahoo! BB＋wireless LAN package: Approx. ¥250 per month per continuing subscriber

b. Because the Yahoo! BB business is partially handled by SBB, the service quality of SBB could affect the Group's performance.

The portion of Yahoo! BB business handled by SBB could indirectly influence the Group's 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 early, thereby negatively impacting the Group's earnings.

6. Finances, Loans, and Investments

1) Funds Procurement and Interest Rate Changes

a. In its Yahoo! ezPay service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from buyers.

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 banking, 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. Besides, 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 negative impact on the Group's business and performance.

b. In its Yahoo! JAPAN Card service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from cardholders.

The Yahoo! JAPAN Card is a credit card issued by the Group and through which the Group provides credit to persons issued with the card. The Group reimburses payments made by cardholders to merchants honoring the card. Because payments are collected from cardholders once a month while reimbursements to merchants are 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 making reimbursements to merchants at a suitable cost could prove to be impossible.

2) Investments

a. The Group often makes investments in or loans to other companies. However, appropriate returns might not be obtained on said investments or loans, or the funds could become irrecoverable.

The Group makes investments as a result of business tie-ups or with an eye to forming business tie-ups in the future. The Group cannot guarantee that these investments are recoverable.

Some of the public companies in which the Group has invested have already produced evaluation profits or losses. In the future, evaluation profits could decline or turn into evaluation losses; moreover, evaluation losses could worsen.

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 stock market or 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 Group 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.

7. Relationship with Competitors and Partners

1) Business Alliances and Contracts

a. The Group's emphasis on building partnerships entails certain risks.

By actively forming partnerships with both corporate and personal Web sites, the Group is building an extended network that is expected to result in increased usage of the Group’s services by users of partner sites as well as by Yahoo! JAPAN users.

In the advertising business, the Group is expanding its AD Network and AD Partner advertising networks by partnering with new sites and incorporating their advertising space in a network-wide advertising distribution system, thereby enabling partner sites with limited viewer reach to increase their advertising media value. Advertisers, meanwhile, can achieve wider exposure by targeting advertisements at the entire network’s user base. In the search business, by jointly providing advertisers with the paid search advertising service, the Group and its partners now hold a dominant share of the search market. In addition, the Group is offering other services, such as its online settlement service, Yahoo! Wallet, on partner sites. By establishing an extended network, the Group is helping to enhance the convenience, security, efficiency, user appeal, and profitability of all partner sites on the network. At the same time, by working together with partner sites the Group aims to provide the full range of Internet services that users demand.

In pursuing these actions, the Group faces the following risks:

•Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect the Group’s performance.

•The Group provides services to partners via proprietary systems and via systems owned by affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then the Group’s brand image could be tarnished or the Group could be sued for damage compensation, either of which could negatively affect the Group’s performance.

•Because the quality and reputation of our partners’ services reflect on the reputation and credibility of the Group, any problems with our partners’ services could tarnish the Group’s brand image.

•AD Partner is a distribution service for display advertising and content-linked text advertising mainly to personal homepages and blogs. This service aims to boost the brand image and advertising effects for advertisers as well as to reward sites that meet our selection standards by distributing advertising only to such sites. Should advertisers not get their expected advertising effects or personal site owners not get their expected rewards, however, it might become impossible to place ads or extend the network as expected, which could have a negative impact on the Group’s performance.

b. The termination of paid search advertising business agreements could affect the Group’s profitability.

With the largest share of the paid search advertising market in Japan, the Group provides its paid search advertising services not only to the Group but also to other domestic portal sites and other partners with which it has business agreements. The Group intends to continue to expand the number of its partners and to create new services. However, should the Group’s business agreements with such partners be terminated, profitability could be negatively impacted.

c. The Group’s procurement of various contents from third parties could be affected.

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 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.

d. The Group is pursuing business alliances with other companies, but unforeseen events or situations could occur that prevent plans from going as planned.

The Group is pursing expansion of its services through business alliances. In doing so, the Group offers its services to users based on its own guidelines. However, there is the possibility that the Group’s schemes may not go as originally planned because of troubles caused by business partners such as the leakage of personal information caused by a deficiency in the information management system, disruptions in services caused by system problems, prolongation of service development times, and other troubles.

Conversely, business partners may not be able to provide their services as originally planned because of a problem caused by the Group. In such a case, the business partner might demand some form of compensation. Either of these situations could have a negative impact on the number of users of these services and the Group’s business performance.

2) Collection of Sales Credit Claims

a. Economic and business deterioration might make the collection of receivables from certain clients more difficult or impossible.

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 setting upper limits for transaction amounts, adopting advanced payments, making sales through advertising agencies, or using credit card settlements. Nevertheless, economic fluctuations and deterioration of client businesses could increase delays in collection and the occurrence of defaults.

b. The Group might be unable to collect payments from certain Yahoo! JAPAN Card holders.

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 certain cardholders owing to declines in cardholder creditworthiness.

3) Relationship with Third Parties

a. Each of the Group’s businesses has a degree of dependence on specific customers or suppliers.

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

In terms of advertising sales, the Group’s revenue from sales agents, such as certain advertising agencies and media reps, provides a high proportion of total advertising sales. In its other businesses, as well, the Group has major business transactions with specific companies, which transactions account for a growing percentage of the Group's total 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.

b. Relationships with third-party joint venture partners could deteriorate.
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, the relationships with joint-venture partners are excellent and the cooperative relationships with these partners contribute 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.

c. In some cases, system development and operations essential to services are commissioned to specific third parties.
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. 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, or that some condition could arise where obstructed operation or some other event causes the stoppage of third-parties' systems to which the Group's services are linked. Such events could lead to a loss of sales opportunities and reduce the competitiveness of the Group's systems, negatively impacting the Group's performance or in the worst case resulting in the termination of the services. In addition, some third parties could have contact with the Group's customers in its item delivery-related services or services provided through convenience stores. If such third parties mishandle these services, they could result in the deterioration of the Group's brand image.

d. Some services are dependent on external third parties.
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.

8. Information Security
1) The Group's Efforts to Promote Information Security
a. Information leaks, network invasions, or computer virus attacks could erode public confidence in the Group.
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) empowered with wide-ranging authority. The President of the Company himself has announced our "Information Security Declaration," 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 (Secure Sockets Layer) systems and access to stored data is tightly restricted. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification. In November 2007, the Group was the first in Japan to receive ISO 15408 certification for its development of a monitoring system to prevent information leakage from its databases. In November 2008, the Group obtained Information Security Standard (PCI DSS) certification for its Yahoo! Wallet credit card settlement service. The Group has used these third-party certification systems to implement objective, global-standard checks of its operations with the goal of further strengthening its information security measures and fulfilling its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee perfect maintenance of the Group's information security systems. If, under some circumstance, a problem such as an information leak were to occur, it could impact negatively on performance and erode public confidence in the Group.

2) Personal Information
a. Leaks of personal information required for user identification could damage the Group's credibility and lead to legal disputes.
The Group is obligated to hold personal information for each Yahoo! JAPAN user in order to effectively provide services, including e-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. The Yahoo! Security Center on the Yahoo! JAPAN site works to heighten users' awareness of potential risks by, for example, posting descriptive examples of fraudulent behavior and common methods employed to illicitly obtain personal information, along with suggested security measures to help users protect themselves. In addition, the Group observes strict guidelines regarding internal access to users' personal information, granting access rights only to a very limited number of personnel.

Nevertheless, the Group cannot completely eliminate the possibility that users' personal information will be leaked outside the Group, either deliberately or through negligence, by Group's personnel, by companies with which business alliances have been concluded, or by companies to which the Group outsources work, or as a result of computer viruses introduced via defective or malicious software. There have been multiple incidents of personal information stored on virus-infected PCs being unknowingly leaked onto networks, the source of the virus being file-sharing software. Also, the possibility always exists for third parties to fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ such methods as spoofing or phishing (see Note 1, below) whereby personal user information is illicitly obtained, with unsuspecting users suffering the consequences. To guard against phishing attacks the Group introduced a log-in seal system (see Note 2, below) in March 2007. In December 2007, the Group added to Yahoo! Mail a function enabling users to refuse spoofed mail (see Note 3, below). In June 2008, the Group conducted open testing of an anti-phishing browser (see Note 4, below) that provides basic protection against phishing and is currently offering a phishing warning function on the Yahoo! Toolbar. As of January 2008, the Group began issuing OpenIDs (see Note 5, below), in addition to offering an authentication bureau service to improve information security by eliminating the storage and management of IDs on other sites. Although the Group continues to implement such measures with the goal of minimizing the damage caused by ill-intentioned users, there is no guarantee that these measures will be sufficient. If problems occur despite our efforts to thwart them, the Group's services could be adversely affected and its brand image tarnished. Furthermore, the Group could become a target of lawsuits.

Regardless of questions of legal responsibility, the Group's policy is to propose measures aimed at strengthening the management and monitoring of the security systems of companies with which it has business alliances. Representatives from the Group currently participate on phishing e-mail countermeasures committees of the Ministry of Economy, Trade and Industry and the Ministry of Internal Affairs and Communications, as well as on a similar committee of the National Police Agency. By sharing information with relevant ministries, agencies, and Internet-related associations, the Group is seeking to establish effective measures against this type of fraud.

With the April 2005 promulgation of the Act on the Protection of Personal Information, relevant ministries and agencies issued guidelines for observing the law to businesses under their respective jurisdictions. The Group's handling of personal information is in accordance with the provisions of this law and with each of the guidelines related to its businesses.

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.

Note 2: Log-in seal
A log-in seal consists of an image or a text message appearing on a Yahoo! JAPAN log-in screen. After registering a favorite image or secret message as a log-in seal, a user can place the seal on a personalized log-in screen suited to a designated browser. Users who habitually confirm that the log-in seal appears on the log-in screen when signing in are quickly alerted to the possibility that they are on a fake log-in screen (phishing) when the log-in seal does not appear.

Note 3: Refusing spoofed e-mails
Spoofed e-mails, purportedly sent from one source but in fact sent from another, can be filtered out or refused by users armed with domain validation technology, such as DomainKeys or Sender Policy Framework (SPF). Since July 2005, Yahoo! Mail has featured a DomainKeys function, and in December 2006 we introduced an SPF function in a concerted effort to prevent phishing and other malicious e-mail from landing in Yahoo! Mail service inboxes. Moreover, receiving servers are also armed with these technologies, and users can filter out e-mail purporting to be from "yahoo.co.jp" or from other providers that utilize DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

Note 4: Anti-phishing browser
This is a browser equipped with a password entry column only for access authentication in its address bar field. An entered password is handled by the authentication server using a cryptographic protocol but is not sent directly to the server. Therefore, the password cannot be stolen even when carelessly entered on a fake site.

Note 5: OpenID
OpenID is a shared-identity authorization system that allows Internet users to log in to multiple sites using a single ID, eliminating the need for a different user name and password for each site. The OpenID specifications have been publicly released by the OpenID Foundation (http://openid.net/). Anyone is free to issue an OpenID or develop and provide services that support the system. Yahoo! JAPAN is compliant with OpenID 2.0, the most recent version.

Yahoo! JAPAN users can access a variety of services on OpenID-enabled Web sites simply by using their Yahoo! JAPAN ID. There's no need to create a new account, with separate ID and password, each time a new site is visited. In addition, users can continue to take advantage of Yahoo! JAPAN's existing security functions, such as log-in seals and log-in histories.

Simply by supporting OpenID on their Web sites, developers are freed of the obligation to have their own authentication systems and can offer their services to Yahoo! JAPAN users without requiring them to create a new account.

b. Leaks of personal information by stores registered on Yahoo! Shopping or Yahoo! Auctions, or by business alliance partners, could damage the Group's credibility and lead to legal disputes.
Personal information obtained through the Group's services is held within the Group in principle, and the Group is committed to taking all possible information protection measures. However, there are cases where the personal information management systems of business alliance partners and of stores registered on the Yahoo! Shopping and Yahoo! Auctions sites have a significant influence on the Group's efforts.

The Group outsources the major portion of Yahoo! JAPAN Card services with the intention to take full advantage of available expertise in personal information management as well as to promote variable 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 (financial instruments intermediary services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by affiliated financial instruments firm partners. A portion of this information will be transferred to the Group in a way that complies with the Act on the Protection of Personal Information. The Group has been extremely careful about the transfer and management of this information. If personal information is leaked from the Group or affiliated financial instruments firm partners, the Group could be sued for damage compensation.

The anonymous delivery service offered by Yahoo! Auctions involves the anonymous processing of item deliveries by the transport company commissioned to handle this service. However, if the commissioned transport company should fail to handle the anonymous service properly and the names of the sender and receiver of an item were divulged, the Group could face a legal suit for compensation or suffer damage to its brand image, which could adversely affect its business performance.

Yahoo! Shopping sends personal information provided by buyers directly to stores where buyers have made purchases. Accordingly, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that buyers' personal information is not disclosed to other individuals or entities, stores are given clear instructions on proper methods of information control and are strictly prohibited from using personal information for purposes other than the delivery of items or sales promotions.

To clear credit card payments, stores may use the settlement system of the Group's subsidiary, Netrust, Ltd., or deal directly with credit card companies. Stores opting to use the Netrust settlement system cannot maintain records of credit card numbers, as these are provided directly to credit card companies by Netrust. Stores opting to deal directly with credit card companies are provided with strict instructions to control buyers' credit card numbers in the same manner used to control other personal information. Despite such measures, information leaks might occur, resulting in a loss of Group's credibility, regardless of whether or not the Group was responsible.

3) Communication Privacy

a. Leaks of information related to communications privacy could tarnish the Group's brand image and lead to legal disputes.

The Group acts as a telecommunications provider in offering e-mail, instant messaging, and other services to users. Because of these services, the Group handles information related to communications privacy, such as the content of communications and the storage of communications. In handling this type of information, the Group takes appropriate measures to meet the requirements of the Telecommunications Business Law using the information security system.

Despite these measures, the Group cannot rule out the possibility that this information will be leaked outside the Group, either deliberately or through negligence, or used for malicious purposes by Group's personnel, by companies with which business alliances have been concluded, or by companies to which the Group outsources work, or as a result of defective software, computer viruses, or physical intrusion into the Group's communications facilities. In such cases, the Group's brand image could be tarnished and the Group drawn into legal disputes, with a resultant negative impact on business performance.

4) Network Security

a. Attacks on or invasions of the Group's networks could disrupt the Group's services.

Although the Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from invasion 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 damage. Moreover, there have been several incidents of specific Web sites or networks being targeted by huge volumes of data sent over brief periods of time with the intention of paralyzing the targeted Web site or network. Although the Group has implemented effective security programs and strengthened its monitoring systems in preparation for such an attack, there is no guarantee that such an attack can be averted. Such obstructive actions could disrupt the Group's business or services and in some cases impact on operating results.

5) Fraudulent Use

a. Fraudulent use could result in damage claims.

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users' IDs, passwords, and credit card information, or use fraudulently obtained Yahoo! JAPAN Cards to make payments. As examples of fraud on Yahoo! Auctions, malicious users might use unsuspecting users' accounts to list fraudulent items or to make settlements via Yahoo! Wallet or Yahoo! ezPay. Similarly, on Yahoo! Mail malicious users can send e-mail via unsuspecting users' accounts.

The Group is taking steps to strengthen its information security, enlighten users about ID management, and take certain measures against anticipated fraud. Nevertheless, it is possible that fraudulent use of such information by malicious users will prevent the collection of advances paid, that claims will be made for damage compensation by victims of fraudulent acts or that such compensation claims will be greater than expected or that the expenditures to prevent the recurrence of such fraudulent actions will be high, and that fraud will lower the brand image of Yahoo! JAPAN.

6) Behavioral History Information

a. Restrictions on the collection and analysis of behavioral history information could affect the Group's behavioral targeting advertising and Interest Match .

Based on an analysis of users' Internet usage histories, behavioral targeting advertising and Interest Match® distribute advertisements for products or services to user groups whose Internet usage histories indicate a preference for or interest in those products or services. These advertising products are designed to boost advertising efficiency for all concerned parties, namely, advertisers, users, and the Internet media itself.

The Group rigorously respects the privacy of individual users in its collection and analysis of behavioral history information. Behavioral targeting advertising and Interest Match® analyze three aspects of users' behavioral history information: (1) the Yahoo! JAPAN services viewed by users, or more specifically, accessed via users' browsers; (2) the keywords employed by users in searches; and (3) the type of display advertising viewed, or clicked-on, by users. This information is used only for the purpose of grouping users, or more specifically, users' browsers, on the basis of similar preferences and interests; it is not used to analyze the preferences and interests of specific users.

Although the Group believes it is taking adequate precautions to respect users' privacy, it is possible that some users could object to the collection and analysis of their behavioral history information, or that legal restrictions could be placed on these activities. Such objections or restrictions could damage the Group's brand image or prevent the Group from selling behavioral targeting advertising and Interest Match® in the future, which could have a detrimental impact on the Group's business results.

9. Corporate Governance

1) Corporate Governance System

a. Inadequate internal controls could affect business operations or result in higher operating expenses.

The Group has implemented stricter controls and operational standards 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 works 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 arise in the future. Moreover, increased costs stemming from efforts to improve internal control could negatively affect the Group's earnings.