

Results for the Three Months Ended December 31, 2004 (FY2004-3Q) (Consolidated Basis)

2005.1.20

Company name **Yahoo Japan Corporation** (code number: 4689 TSE 1st Section)

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

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1. Significant Matters Concerning the Preparation of Quarterly Financial Information

(1) Use of simplifications in accounting methods: No

(2) Change in accounting methods in the current fiscal year: No

(3) Change in scope of consolidation or application of equity method: Yes

New consolidated subsidiary 3 Subsidiary removed from consolidation 0

Company newly accounted for by the equity method 1

Company no longer accounted for by the equity method 0

2. Results for FY2004-3Q (Oct. 1, 2004-Dec. 31, 2004)

(1) Consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen (%)		Millions of yen (%)		Millions of yen (%)		Millions of yen (%)	
FY2004-3Q	30,965	(54.2)	15,458	(39.2)	15,466	(38.0)	9,252	(39.2)
FY2003-3Q	20,081	(23.0)	11,106	(63.1)	11,206	(65.2)	6,648	(87.0)
FY2004- 9 months	81,937	(54.0)	42,648	(48.3)	42,810	(48.9)	26,204	(53.2)
FY2003- 9 months	53,195	(34.0)	28,767	(76.7)	28,749	(78.1)	17,100	(100.4)
FY2003 (for reference)	75,776		41,211		41,308		24,826	

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-3Q	1,225.96	1,222.04
FY2003-3Q	3,527.27	3,514.41
FY2004- 9 months	3,472.90	3,461.33
FY2003- 9 months	9,074.00	9,045.44
FY2003(for reference)	12,892.72	12,851.03

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

FY2004-3Q:	7,546,747 shares,	FY2003-3Q:	1,884,940 shares
FY2004- 9 months:	7,545,576 shares,	FY2003- 9 months:	1,884,581 shares
FY 2003:	1,915,795 shares		

2. Percentage change figures for quarterly net sales, operating income, ordinary income, and net income represent percentage changes from the corresponding period in the previous fiscal year.

3. There was a change in accounting methods in the fiscal year ended March 2004 (FY2003).

For detailed information regarding consolidated management performance, please see Pages 5~6 and 14~15 of the Attached Materials.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2004-3Q	109,019	85,225	78.2	11,290.06
FY2003-3Q	65,986	51,054	77.4	27,081.10
FY2003(for reference)	82,410	59,806	72.6	31,643.23

Note: Number of shares issued and outstanding at the end of each period (Consolidated Basis)

FY2004-3Q: 7,548,755 shares

FY2003-3Q: 1,885,245 shares

FY2003: 1,886,016 shares

* For detailed information regarding changes in financial status, please see Pages 9~11 and 18~19 of the Attached Materials.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the quarter
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2004-3Q	7,980	-4,373	228	54,565
FY2003-3Q	5,842	-1,462	367	29,039
FY2004- 9 months	25,186	-10,450	186	54,565
FY2003- 9 months	14,407	-9,211	628	29,039
FY2003 (for reference)	26,147	-10,913	1,194	39,643

3. Business Outlook for FY2004-4Q (Jan. 1, 2005-Mar. 31, 2005) and Full Fiscal Year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2004-4Q	33,000~35,400	15,250~17,200	9,150~10,300
FY2004-Full Year	114,937~117,337	58,061~60,010	35,355~36,505

Estimated consolidated net income per share for quarter: ¥ 1,212.63~ ¥ 1,365.04

Estimated consolidated net income per share for full fiscal year: ¥ 4,685.53~ ¥ 4,837.93

(For reference) Non-Consolidated Business Outlook for FY2004-4Q (Jan. 1, 2005-Mar. 31, 2005) and Full Fiscal Year

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2004-4Q	29,000~31,200	15,300~17,150	9,300~10,400
FY2004-Full Year	104,678~106,878	58,182~60,031	35,749~36,849

Estimated non-consolidated net income per share for quarter: ¥ 1,232.51 ~ ¥ 1,378.29

Estimated non-consolidated net income per share for full fiscal year: ¥ 4,737.74~ ¥ 4,883.52

Forward-Looking Information Used in Performance Estimates

Performance estimates have been made based on the information available to the Company and the Group at the current point in time. Consequently, changes in the underlying factors could cause actual results to differ significantly. For details regarding the previously mentioned performance estimates, please see Page 7 of the Attached Materials.

The average number of outstanding shares for the third quarter of fiscal 2004 has been used to calculate the estimated consolidated and non-consolidated net income per share for the quarter and the full fiscal year.

[For reference] Non-Consolidated Results for FY2004-3Q (Oct.1, 2004-Dec. 31, 2004)

(1) Non-consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2004-3Q	28,459 (52.2)	15,500 (40.5)	15,628 (40.3)	9,440 (42.7)
FY2003-3Q	18,700 (22.1)	11,035 (60.0)	11,138 (62.1)	6,615 (82.4)
FY2004- 9 months	75,677 (53.1)	42,587 (48.3)	42,881 (49.6)	26,449 (55.3)
FY2003- 9 months	49,416 (33.3)	28,716 (72.3)	28,656 (73.0)	17,026 (91.4)
FY2003(for reference)	70,308	40,939	41,104	24,322

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-3Q	1,250.91	1,246.90
FY2003-3Q	3,509.47	3,496.67
FY2004- 9 months	3,505.31	3,493.63
FY2003- 9 months	9,034.46	9,006.02
FY2003(for reference)	12,629.69	12,588.85

Notes: 1. Average outstanding shares during the periods

FY2004-3Q:	7,546,747 shares	FY2003-3Q:	1,884,940 shares
FY2004- 9 months:	7,545,576 shares	FY2003- 9 months:	1,884,581 shares
FY 2003:	1,915,795 shares		

2. Percentage change figures for net sales, operating income, ordinary income, and net income are percentage changes compared with the same period in the previous fiscal year.

3. There was a change in accounting methods in the fiscal year ended March 2004.

(2) Non-consolidated financial position

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2004-3Q	105,413	85,604	81.2	11,340.22
FY2003-3Q	65,028	51,617	79.4	27,379.98
FY2003(for reference)	80,905	59,940	74.1	31,714.32

Note: Number of shares issued and outstanding at the end of each period

FY2004-3Q:	7,548,755 shares	FY2003-3Q:	1,885,245 shares
FY2003:	1,886,016 shares		

Attached Materials

Third Quarter Highlights for the fiscal year ending March 2005

- Advertising sales grew substantially, particularly those of the Media and Listing business divisions, while personal service sales of the Auction and other business divisions also expanded favorably. Reflecting these conditions, net sales for the third quarter increased by 17.0% from the previous quarter and 54.2% year on year, to ¥30,965 million, and ordinary income rose by 11.9% from the previous quarter and 38.0% from a year earlier, to ¥15,466 million, and net sales and ordinary income exceeded the estimated figures.
- Amid growing demand for Internet advertising among industries, the Group continued its focus on selling advertising to National Clients. Sales of such core products as Brand Panel and Super Banner were strong. Due to the many advertising campaigns conducted to the period and also influenced by the introduction of video-clip advertising, advertising sales to the highly branding-conscious automobile, digital consumer product, cosmetics, and food product industries increased. Sponsor Site sales were also favorable. As a result, advertising sales reached a record high, rising 25.8% from the previous quarter and 81.0% year on year, to ¥10,550 million.
- In the Auction Business Division, transaction volumes, which have recovered since the latter part of September, expanded thanks to year-end demand and various sales promotions. Monthly transaction volume in December hit a record high of ¥58.0 billion and quarterly transaction volume also hit a record high of ¥166.6 billion helping transaction volume for the 2004 calendar year exceed ¥500.0 billion. Net sales for the third quarter rose 22.4% from the previous quarter and 29.1% year on year, to ¥7,481 million.
- Centered on Sponsor Site sales, the advertising sales of the Listing Business Division continued to expand favorably. Yahoo! Rikunabi-related sales also posted gains thanks to booming market conditions.
- To meet the diversified needs of its users, Yahoo! BB Business Division added Yahoo! BB Hikari, a new comprehensive broadband service based on optical fiber connections, to complement its ADSL service. As a result of posting sales promotion expenses for the introduction campaign in advance, at the point when the subscriber line was connected, the business division incurred additional costs temporarily during the quarter that pushed down operating income compared with the previous quarter.
- The Shopping Business Division initiated a variety of sales promotion measures based on its full-scale introduction of the Yahoo! Points system in the third quarter. Moreover, the business division reinforced its sales and store support organizations with the aim of

adding more stores. Consequently, although net sales climbed 18.8% from the previous quarter, a revision in the method of calculating royalties paid to Yahoo! Inc. resulted in the booking of a one-time prior period cost, and this prior period cost and the increase in other costs caused the Shopping Business Division to post an operating loss for the quarter.

- Daily access exceeded one billion page views for the first time on October 20, 2004.

Performance Outlook

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

The Company and its Group view the services used by its customers are an important factor in their business development. Specifically, we place great significance on the numbers of page views, which indicate overall access and access per service; unique browsers; and active user IDs, which signify the number of users with Yahoo! JAPAN IDs that log on monthly. In addition, the numbers of Yahoo! Premium IDs, indicating pay service users, and Yahoo! BB subscribers and the commercial transaction volumes of Yahoo! Auctions and Yahoo! Shopping are also considered to be important indicators.

Our estimations of income and expenses are based on the trends in these indicators, but in the rapidly changing environment of the Internet, it is difficult to establish a specific rate of growth or change in these indicators. Accordingly, we limit our performance estimates announced with each quarter report to estimates of performance for the next quarter.

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

The following "Consolidated Performance Estimates for Fiscal Year Ending March 2005 (FY2004)" is the aggregation of FY2004-4Q estimates together with accumulated actual results of FY2004-1Q to 3Q.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 2005 (FY2004-4Q):

Net sales	¥33,000	~	¥35,400 Million
Ordinary income	¥15,250	~	¥17,200 Million
Net income	¥9,150	~	¥10,300 Million

Consolidated Performance Estimates for the Fiscal Year Ending March 2005 (FY2004):

Net sales	¥114,937	~	¥117,337 Million
Ordinary income	¥58,061	~	¥60,010 Million
Net income	¥35,355	~	¥36,505 Million

Nonconsolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 2005 (FY2004-4Q):

Net sales	¥29,000	~	¥31,200 Million
Ordinary income	¥15,300	~	¥17,150 Million
Net income	¥9,300	~	¥10,400 Million

Nonconsolidated Performance Estimates for the Fiscal Year Ending March 2005 (FY2004):

Net sales	¥104,678	~	¥106,878 Million
Ordinary income	¥58,182	~	¥60,031 Million
Net income	¥35,749	~	¥36,849 Million

1. Consolidated Balance Sheets

(Millions of yen)

	As of Dec. 31, 2004	As of Sept. 30, 2004	Comparison with the previous quarter		As of Dec. 31, 2003
	Amount	Amount	Increase/ decrease	Change	Amount
Assets					
Current assets					
Cash and cash equivalents (*1)	54,565	50,730	3,835	7.6%	28,439
Accounts receivable trade (*2)	18,108	15,718	2,389	15.2%	11,122
Inventory	47	74	-26	-36.2%	71
Accounts receivable other	415	269	145	54.2%	190
Deferred tax assets	1,278	1,345	-66	-4.9%	823
Other current assets (*3)	2,236	1,171	1,065	90.9%	1,390
Allowance for doubtful accounts (*4)	-1,207	-999	-207	20.8%	-515
Total current assets	75,444	68,308	7,135	10.4%	41,521
Fixed assets					
Tangible fixed assets (*5)					
Building and structures	1,670	1,486	184	12.4%	1,189
Machinery and equipment	9,967	8,956	1,011	11.3%	6,215
Land	0	0	-	-	0
Total tangible fixed assets	11,637	10,442	1,195	11.4%	7,405
Intangible fixed assets					
Consolidated accounts (*6)	1,917	367	1,549	421.8%	399
Other intangible fixed Assets (*7)	2,957	2,425	532	22.0%	1,115
Total intangible fixed assets	4,875	2,792	2,082	74.6%	1,514
Investment and others					
Investment securities (*8)	9,716	10,417	-701	-6.7%	7,954
Long-term loans (*3)	4,772	5,862	-1,090	-18.6%	5,941
Others	2,648	2,553	94	3.7%	1,701
Allowance for doubtful accounts	-74	-90	15	-17.3%	-52
Total investments and others	17,062	18,743	-1,681	-9.0%	15,545
Total fixed assets	33,575	31,978	1,596	5.0%	24,464
Total assets	109,019	100,287	8,731	8.7%	65,986

(Millions of yen)

	As of Dec. 31, 2004	As of Sept. 30, 2004	Comparison with the previous quarter		As of Dec. 31, 2003
	Amount	Amount	Increase/ decrease	Change	Amount
Liabilities					
Current liabilities					
Accounts payable—trade	1,312	834	478	57.3%	558
Short-term loans	193	204	-11	-5.5%	200
Accounts payable—other (*9)	7,035	7,087	-51	-0.7%	3,645
Accrued income taxes (*10)	8,363	10,663	-2,299	-21.6%	5,859
Reserve for point system (*11)	280	20	259	-	-
Other current liabilities (*12)	4,193	2,332	1,861	79.8%	2,230
Total current liabilities	21,379	21,142	237	1.1%	12,493
Long-term liabilities					
Long-term accrued payables	3	60	-56	-93.7%	79
Long-term deferred taxes (*13)	1,713	2,196	-482	-22.0%	2,056
Reserve for retirement allowances	13	12	0	4.1%	11
Other long-term liabilities	231	231	-	-	152
Total long-term liabilities	1,962	2,500	-538	-21.5%	2,300
Total liabilities	23,342	23,643	-301	-1.3%	14,794
Minority interests in consolidated subsidiaries					
Minority interests in consolidated subsidiaries	451	315	135	43.0%	137
Shareholders' equity					
Common stock (*14)	6,637	6,503	133	2.1%	6,265
Additional paid-in capital	1,718	1,584	133	8.5%	1,346
Retained earnings (*15)	73,144	63,892	9,252	14.5%	39,340
Other securities evaluation adjustment (*16)	3,753	4,374	-621	-14.2%	4,121
Treasury stock	-27	-26	-0	3.3%	-20
Total shareholders' equity	85,225	76,328	8,897	11.7%	51,054
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	109,019	100,287	8,731	8.7%	65,986

Main Points Regarding Consolidated Balance Sheets

Assets

- *1 The increase in cash and cash equivalents compared with the previous quarter and year on year was principally due to earnings growth based on sales activities.
- *2 The expansion in accounts receivable—trade compared with the previous quarter and year on year was principally due to growth in personal services and Sponsor Site sales.
- *3 The increase in other current assets and the decline in long-term loans compared with the previous quarter and year on year were chiefly due to the transfer of recovery of loans made based on a finance scheme for Yahoo! BB's business from the long-term

loans account to the current assets account because payment is expected within one year.

- *4 The growth in the allowance for doubtful accounts compared with the previous quarter and year on year can be attributed to the increase in sales receivables for individual and corporate customers, as well as the increase in aged sales receivables for individual customers for which the estimated loss percentage is high.
- *5 The increase in tangible fixed assets compared with the previous quarter and year on year was mainly due to additional installations, such as servers, etc.
- *6 The growth in consolidated accounts compared with the previous quarter and year on year was principally due to the acquisition of two subsidiaries. The consolidated account amount will be amortized over three years.
- *7 The expansion in other intangible fixed assets compared with the previous quarter and year on year was primarily due to growth in software.
- *8 Although the Group made acquisitions of affiliates during the quarter under review, investment securities declined compared with the previous quarter due to mark-to-market revaluations.

Liabilities

- *9 The growth in accounts payable—other year on year resulted primarily from the increase in operating expenses and the purchase of servers, etc.
- *10 Although accrued income taxes were booked in the quarter, they were lower than those of the previous quarter due to an interim payment of income taxes.
- *11 The amount of points granted or temporarily granted expected to be used under the Yahoo! Points system that commenced in the previous quarter was booked to the reserve for point system account.
- *12 The expansion in other current liabilities compared with the previous quarter and year on year was mainly due to an increase in advances resulting from the consolidation of new subsidiaries.
- *13 The decrease in long-term deferred taxes compared with the previous quarter and year on year was chiefly due to the mark-to-market of investment securities.

Shareholders' Equity

- *14 The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.

- *15 The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.
- *16 The decrease in the other securities evaluation adjustment compared with the previous quarter and year on year was chiefly due to the mark-to-market of investment securities.

2. Consolidated Statements of Income (Oct. 1, 2004-Dec. 31, 2004)

(Millions of yen)

	Three months ended Dec. 31, 2004		Three months ended Sept. 30, 2004	Comparison with the previous quarter		Three months ended Dec. 31, 2003
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	30,965	100.0%	26,476	4,488	17.0%	20,081
Cost of sales	2,233	7.2%	1,885	347	18.4%	1,324
Gross profit	28,732	92.8%	24,591	4,141	16.8%	18,757
SG&A expenses	13,273	42.9%	10,872	2,401	22.1%	7,650
Personnel expenses (*1)	2,478	8.0%	2,136	341	16.0%	1,858
Business commissions (*2)	1,826	5.9%	1,491	335	22.5%	858
Sales commissions (*3)	1,311	4.2%	1,012	298	29.4%	779
Depreciation expenses (*4)	1,235	4.0%	1,020	214	21.1%	816
Royalties (*5)	1,098	3.5%	682	416	61.1%	524
Communication charges	1,097	3.5%	1,033	63	6.2%	734
Lease and utility expenses (*6)	745	2.4%	533	212	39.8%	361
Sales promotion costs (*7)	721	2.3%	370	350	94.7%	354
Content provider fees	611	2.0%	605	6	1.0%	423
Payment commissions (*8)	406	1.3%	270	136	50.5%	170
Allowance for doubtful debt accounts (*9)	268	0.9%	218	49	22.8%	142
Advertising costs	255	0.8%	208	46	22.1%	82
Packing and transport expenses	194	0.6%	163	31	19.0%	115
Compensation payment	181	0.6%	230	-49	-21.4%	54
Administrative and maintenance expenses	167	0.5%	165	2	1.5%	85
Tax and public dues	155	0.5%	128	26	20.7%	1
Others (*10)	519	1.9%	600	-81	-13.5%	286
Operating income	15,458	49.9%	13,718	1,739	12.7%	11,106
Non-operating income (expenses)	8	0.0%	107	-99	-92.6%	100
Ordinary income	15,466	49.9%	13,826	1,639	11.9%	11,206
Extraordinary loses (gains)	-131	-0.4%	276	-407	-	110
Quarterly income before income taxes	15,335	49.5%	14,103	1,232	8.7%	11,316
Income taxes, inhabitants' taxes and enterprise taxes	6,086	19.6%	5,635	451	8.0%	4,572
Adjustment to income taxes	28	0.1%	-173	202	-	71
Minority interests in gain (loss) of consolidated subsidiaries	-31	-0.1%	0	-32	-	24
Quarterly net income	9,252	29.9%	8,641	610	7.1%	6,648

Income Statement for Nine-Month Period (Apr. 1, 2004-Dec. 31, 2004)

(Millions of yen)

	Nine months ended Dec. 31, 2004		Nine months ended Dec. 31, 2003	Comparison with the previous year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	81,937	100.0%	53,195	28,741	54.0%
Cost of sales	5,675	6.9%	3,783	1,891	50.0%
Gross profit	76,262	93.1%	49,411	26,850	54.3%
SG&A expenses	33,613	41.1%	20,644	12,969	62.8%
Personnel expenses	6,685	8.2%	4,866	1,818	37.4%
Business commissions	4,586	5.6%	2,373	2,213	93.3%
Sales commissions	3,277	4.0%	2,109	1,168	55.4%
Depreciation expenses	3,076	3.8%	2,079	996	47.9%
Royalties	2,419	3.0%	1,379	1,039	75.3%
Communication charges	2,971	3.6%	2,055	916	44.6%
Lease and utility expenses	1,758	2.1%	935	822	87.9%
Sales promotion costs	1,527	1.9%	961	566	58.9%
Content provider fees	1,742	2.1%	1,280	462	36.1%
Payment commissions	922	1.1%	399	522	130.8%
Allowance for doubtful debt accounts	591	0.7%	223	367	164.6%
Advertising costs	626	0.8%	238	388	163.0%
Packing and transport expenses	488	0.6%	344	143	41.6%
Compensation payment	535	0.7%	207	327	158.0%
Administrative and maintenance expenses	488	0.6%	262	225	86.0%
Tax and public dues	398	0.5%	68	330	480.8%
Others	1,516	1.8%	857	658	76.8%
Operating income	42,648	52.0%	28,767	13,880	48.3%
Non-operating income (expenses)	162	0.2%	-18	180	-
Ordinary income	42,810	52.2%	28,749	14,061	48.9%
Extraordinary gains (loses)	414	0.6%	-222	637	-
Income before income taxes	43,225	52.8%	28,526	14,698	51.5%
Income taxes, inhabitants' taxes and enterprise taxes	16,510	20.1%	11,197	5,313	47.5%
Adjustment to income taxes	542	0.7%	208	334	160.3%
Minority interests in gain (loss) of consolidated subsidiaries	-33	-0.0%	20	-53	-
Net income for the period	26,204	32.0%	17,100	9,104	53.2%

Main Points Regarding Statements of Income

Net Sales

The increase in net sales from the previous quarter and year on year was principally the result of the growth in the advertising sales of the Media and Listing business divisions and the personal service sales of the Auction Business Division. Sales of consolidated subsidiaries, on a gross total basis, were ¥3,014 million for the third quarter.

Selling, General and Administrative Expenses

***1 Personnel expenses**

At the end of the third quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 1,440, up 505, or 54.0%, from the end of the same quarter in the previous fiscal year.

***2 Business commissions**

The main business commissions for the third quarter were expenses for temporary and contracted employees, the settlement operations of personal service sales, and Yahoo! BB's call center.

***3 Sales commissions**

Sales commissions were higher than in the previous quarter and year on year because of the growth in advertising sales.

***4 Depreciation expenses**

Depreciation expenses in the third quarter increased compared with the previous quarter and year on year due to an increase in servers and other equipment and additional equipment related to expanded office floor space.

***5 Royalties (See note)**

The higher royalties compared with the previous quarter and year on year were primarily due to a revision in the method of calculating royalties.

***6 Lease and utility expenses**

The growth in lease and utility expenses in the third quarter compared with the previous quarter and year on year can be attributed to office expansion due to increased personnel.

***7 Sales promotion costs**

The increase in sales promotion costs in the third quarter compared with the previous quarter and year on year resulted mainly from higher point expenses due to the full-scale start to the Yahoo! Points system and to additional expense for posting sales promotion

expenses for the introduction campaign in advance at the point when the subscriber line was connected.

***8 Payment commissions**

The increase in payment commissions in the third quarter compared with the previous quarter and year on year was chiefly due the expanded transaction volumes of the Yahoo! ezPay.

***9 Allowance for doubtful debt accounts**

The main reason for the increase in the provision to allowance for doubtful debt accounts for the third quarter compared with the previous quarter and year on year was the growth in sales receivables of corporate and individual customers, as well as increase in aged sales receivables for individual customers for which the estimated loss percentage is high.

***10 Others**

The main components of others in the third quarter were hiring expenses, purchase of fixtures and fittings, and consolidated accounts amortization expenses.

Non-Operating Income (Expenses)

The main component of non-operating income for the third quarter was interest earned from loan based on finance scheme on Yahoo! BB business. The main components of non-operating expenses were loss of affiliates on equity method and loss on disposal of fixed assets.

Extraordinary Losses (Gains)

The major extraordinary losses posted during the third quarter were the prior period adjustment resulting from the revision in the method of calculating royalties (see note) for the period from January to March 2004 in the previous fiscal year and a loss on sale of fixed assets.

Income Taxes, etc.

The effective income tax rate for the third quarter was 39.9% after application of the IT investment promotion tax system.

Minority interests in gain (loss) of consolidated subsidiaries

Minority interest loss for the quarter reflects the interest of shareholders other than the Company in the profits and losses of seven subsidiaries.

Quarterly Net Income

Net income per share for the third quarter amounted to ¥1,225.96.

Licensing Agreement with Yahoo! Inc.

Yahoo Japan Corporation has held discussions with Yahoo! Inc. regarding the interpretation of the provisions provided in the Yahoo Japan Corporation licensing agreement (hereinafter referred to as the "licensing agreement") concluded on April 1, 1996 that relates to the method of royalty calculation and confirmed the details of the royalty calculation. The confirmed method reflects the fact that Yahoo Japan Corporation current business structure is much different from the expected business structure at the execution date of the license agreement (April 1996). The major points of agreement were adopting (1) the consolidated income rather than the non-consolidated income, and (2) the net sales rather than gross profit. The agreed method of calculation for royalties will be applied retroactively starting with January 2004, with the difference for the period from January to September 2004 being booked in the third quarter of the fiscal year ending March 2005, together with the royalties from October to December 2004 calculated by agreed method. For the period starting from January 1, 2005, the cost of sales of Seven and Y Corp. should be deducted from the net sales, since the gross margin structure of Seven and Y Corp. is materially different from those of other business of Yahoo Japan Corporation. In addition, when Yahoo Japan Corporation plans to enter into new business that has different gross margin structure than those of existing the Company's business, both parties will discuss the appropriate calculation method to be applied to such new business.

Confirmed Calculation Method

<For the calendar year 2004>

$[(\text{Consolidated Net Sales}) - (\text{Advertising Sales Commissions on a consolidated base})] \times 3\%$

<After January 2005>

$[(\text{Consolidated Net Sales}) - (\text{Advertising Sales Commissions on a consolidated base}) - (\text{Cost of Sales of Seven and Y Corp.})] \times 3\%$

<Accounting for the Difference Arising for the Period from January to September 2004>

January to March 2004: booked as extraordinary loss in third quarter of fiscal year ending March 2005.

April to September 2004: added to royalties booked under SG&A for the quarter.

3. The Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Dec. 31, 2004	Nine months ended Dec. 31, 2004
Cash flows from operating activities:		
Income before income taxes	15,335	43,225
Depreciation and amortization	1,243	3,106
Amortization of consolidated accounts	48	156
Increase/decrease in allowance for doubtful accounts	191	495
Additions to reserve for point system	259	280
Increase in reserve for retirement allowances	0	1
Loss on disposal of fixed assets	85	256
Loss on sale of fixed assets	66	66
Loss on evaluation of investment securities	-	0
Gain/ loss on sale of investment securities	-	-546
Exchange gains/ losses	-0	-0
Equity in gain/loss under the equity method	91	66
Proceeds from interest and dividends	-172	-534
Interest expense	1	6
Decrease in inventory	27	17
Increase in accounts receivable trade (*1)	-2,386	-5,155
Increase in accounts payable trade	437	625
Increase/decrease in accounts receivable other	-75	566
Increase in accounts payable other (*2)	775	2,777
Increase in consumption tax payable	561	121
Payment of bonuses to directors	-	-127
Other cash flows	-29	-130
Payment of income taxes and other taxes (*3)	-8,483	-20,089
Cash flows from operating activities	7,980	25,186
Cash flows from investing activities:		
Expenditures on tangible fixed assets (*4)	-2,359	-5,706
Expenditures on intangible fixed assets (*5)	-621	-1,573
Expenditures on investment securities (*6)	-454	-2,788
Proceeds from sale of investment securities	31	713
Expenditures on equity funds	-	-12
Expenditures from acquisition of stocks of subsidiaries (*7)	-1,128	-1,128
Proceeds from acquisition of stocks of subsidiaries	-	12
Proceeds from recovery of lending	25	73
Expenditures on increase in guarantee deposit assets	-0	-495
Proceeds from decrease in guarantee deposit assets	0	25
Proceeds from interest and dividend (*8)	139	441
Other cash flows	-5	-12
Cash flows from investing activities	-4,373	-10,450

(Millions of yen)

	Three months ended Dec. 31, 2004	Nine months ended Dec. 31, 2004
Cash Flows from financing activities:		
Proceeds from short-term loan	100	680
Redemption of short-term loan (*9)	-112	-912
Proceeds from issuance of shares (*10)	267	474
Expenditures on treasury shares	-0	-6
Interest expenses	-1	-6
Other cash flows	-23	-42
Cash Flows from financing activities	228	186
Effect of exchange rate changes on cash and cash equivalents	0	0
Net change in cash and cash equivalents	3,835	14,922
Cash and cash equivalents at the beginning of term	50,730	39,643
Cash and cash equivalents at the end of term	54,565	54,565

Main Points Regarding Statements of Cash Flows

Cash flows from operating activities

*1 Accounts receivable trade

The increase was mainly attributable to growth in personal services and Sponsor Site sales.

*2 Accounts payable other

The increase was mainly attributable to growth in payables.

*3 Payment of income taxes and other taxes

Payment was in accordance with the interim tax payment.

Cash flows from investing activities

*4 Expenditures on tangible fixed assets

Expenditures were a result of purchase of servers and other equipment and fixtures.

*5 Expenditures on intangible fixed assets

Expenditures were chiefly for the purchase of software.

*6 Expenditures on investment securities

Expenditures during the quarter were for the purchase of stock of affiliates.

*7 Expenditures from acquisition of stocks of subsidiaries

Expenditures during the quarter were for the purchase of stock of subsidiaries.

*8 Proceeds from interest and dividends

Proceeds mainly comprise interest earned from a loan based on finance scheme for Yahoo! BB business.

Cash Flows from financing activities

*9 Redemption of short-term loan

Expenditures were from the redemption of short-term loans of subsidiaries.

*10 Proceeds from issuance of shares

Proceeds were from the exercise of stock options.

4. Segment Information

(1) FY2004-3Q (Oct. 1, 2004-Dec. 31, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	7,488 (24.2%)	7,481 (24.2%)	4,295 (13.9%)	3,057 (9.9%)	2,731 (8.8%)	521 (1.7%)	5,433 (17.5%)	31,009 -	-44 (-0.2%)	30,965 (100.0%)
Operating expenses	1,654	2,682	1,811	1,852	2,819	537	1,842	13,200	2,306	15,506
Operating income (Contribution)	5,834 (37.7%)	4,799 (31.0%)	2,483 (16.1%)	1,205 (7.8%)	-87 (-0.6%)	-16 (-0.1%)	3,590 (23.2%)	17,809 -	-2,350 (-15.1%)	15,458 (100.0%)

FY2004-2Q (July1, 2004-Sept. 30, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	6,514 (24.6%)	6,114 (23.1%)	4,158 (15.7%)	2,223 (8.4%)	2,298 (8.7%)	398 (1.5%)	4,822 (18.2%)	26,529 -	-52 (-0.2%)	26,476 (100.0%)
Operating expenses	1,536	2,098	1,621	1,635	2,162	405	1,294	10,755	2,001	12,757
Operating income (Contribution)	4,977 (36.3%)	4,015 (29.3%)	2,536 (18.5%)	587 (4.3%)	135 (1.0%)	-7 (-0.1%)	3,527 (25.7%)	15,773 -	-2,054 (-15.0%)	13,718 (100.0%)

FY2003-3Q (Oct. 1, 2003-Dec. 31, 2003)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	3,642 (18.1%)	5,795 (28.9%)	3,306 (16.5%)	1,576 (7.8%)	1,683 (8.4%)	268 (1.3%)	3,842 (19.1%)	20,114 -	-32 (-0.1%)	20,081 (100.0%)
Operating expenses	982	1,425	1,201	1,193	1,466	278	864	7,410	1,564	8,975
Operating income (Contribution)	2,659 (23.9%)	4,370 (39.3%)	2,104 (19.0%)	382 (3.4%)	217 (2.0%)	-10 (-0.1%)	2,978 (26.8%)	12,703 -	-1,597 (-14.3%)	11,106 (100.0%)

(2) Cumulative total for the nine-month period (Apr.1, 2004-Dec.31, 2004)

FY2004 (Apr. 1, 2004 - Dec. 31, 2004)

(Millions of yen)

	Auction	Listing	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	19,681 (24.0%)	19,640 (24.0%)	12,263 (15.0%)	7,333 (9.0%)	7,025 (8.6%)	1,270 (1.6%)	14,846 (18.1%)	82,060 -	-123 (-0.3%)	81,937 (100.0%)
Operating expenses	6,633	4,523	4,922	4,938	6,699	1,317	4,382	33,416	5,872	39,289
Operating income (Contribution)	13,048 (30.6%)	15,116 (35.4%)	7,340 (17.2%)	2,395 (5.6%)	326 (0.8%)	-47 (-0.1%)	10,464 (24.5%)	48,643 -	-5,995 (-14.0%)	42,648 (100.0%)

FY2003 (Apr. 1, 2003 - Dec. 31, 2003)

(Millions of yen)

	Auction	Listing	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	14,996 (28.2%)	9,158 (17.2%)	9,013 (16.9%)	4,353 (8.2%)	4,685 (8.8%)	786 (1.5%)	10,257 (19.3%)	53,250 -	-54 (-0.1%)	53,195 (100.0%)
Operating expenses	3,556	2,686	3,530	3,274	4,116	713	2,244	20,122	4,306	24,428
Operating income (Contribution)	11,440 (39.8%)	6,472 (22.5%)	5,483 (19.1%)	1,078 (3.7%)	569 (2.0%)	72 (0.3%)	8,012 (27.9%)	33,128 -	-4,360 (-15.3%)	28,767 (100.0%)

Outline of Business Divisions

Segment	Business Division	Main Services and Associated Subsidiaries
Listing Business	Listing Business Div.	Provides directory search services, such as Category Search; information listing services, such as Yahoo! Rikunabi, and Yahoo! Autos; and regional Information services, such as Yahoo! Maps, and Yahoo! Phone Book. <ul style="list-style-type: none"> • BridalNet, Inc., • Indival, Inc.
Auction Business	Auction Business Div.	Operates the auction site. <ul style="list-style-type: none"> • Netrust, Ltd.
Yahoo! BB Business	Yahoo! BB Business Div.	Offers comprehensive broadband-related services.
Media Business	Media Business Div.	Supplies information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies; and community services, such as Yahoo! Message Boards. <ul style="list-style-type: none"> • Y's Sports Inc., • Y's Insurance Inc.
Shopping Business	Shopping Business Div.	Operates online shopping site. <ul style="list-style-type: none"> • e-Shopping! Books CORP. (see note), others
Business Solutions(BS) Business	Business Solutions(BS) Business Div.	Provides Yahoo! Research Internet survey services and corporate portal site development services <ul style="list-style-type: none"> • UniCept, Inc., • Firstserver, Inc.
Corporate Common Business	(Common sales that cannot be categorized into the business divisions)	Advertising sales for the top page of Yahoo! JAPAN and Yahoo! Premium revenues. <ul style="list-style-type: none"> • VACS Corporation • NETGENE Co., Ltd. • Surfmonkey Asia Inc., others

Note: On January 5, 2005, e-Shopping! Books CORP. changed its name to Seven and Y Corp.

5. Operating Review by Business Division

Beginning with January 2002, the Group introduced a business division organizational system. The reason for changing to this type of business organization was to clarify responsibility for profits and losses and cause individual business division to do their own business planning and create their own budgets. Moreover, the system is intended to optimize the allocation of human, physical, and financial resources and speed up decisions, thus maximizing results. Business that is not related to any one business division but common to all business divisions is termed Corporate Common Business.

The following is an outline of the activities of the six business divisions and Corporate Common Business for the quarter. For the statement of income by business division, the net sales have been classified into the following four types of services.

Type of Service	Sales Content
Advertising	<p>Sales of banner, e-mail advertising, and other advertising listed on the sales sheet as well as related sales.</p> <ul style="list-style-type: none"> • Regular banner, text, e-mail, and other advertising. • Results-based advertising, merchant margin, projected advertising production fees, and others. • Paid search services (Sponsor Site)
Business Service	<p>Sales to corporations other than advertising.</p> <ul style="list-style-type: none"> • Yahoo! BB customer acquisition incentive fees • Tenant fees and sales commissions for B to C auction and Yahoo! Shopping. • Yahoo! Research, Business Express, Yahoo! Portal Solutions, and other sales. • Content provider fees for Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Real Estate, and others. • Magazine and book licensing fees, fees for permission to use the Yahoo! name.
Personal Service	<p>Sales from services for individuals.</p> <ul style="list-style-type: none"> • System-use fees for Yahoo! Auctions and others. • Yahoo! Premium revenues. • Yahoo! BB ISP fees and content fees.
Other	<ul style="list-style-type: none"> • Sales by Seven and Y Corp. (formerly e-Shopping! Books CORP.)

Net Sales by Business Division (Third Quarter)

(Millions of yen)

	Advertising	Business Service	Personal Service	Other	Total
Listing	5,253	2,180	55	-	7,488
Auction	296	855	6,329	-	7,481
Yahoo! BB	404	1,473	2,417	-	4,295
Media	2,661	136	260	-	3,057
Shopping	258	647	-	1,825	2,731
BS	15	500	4	-	521
Corporate Common Business	1,660	106	3,666	-	5,433
Elimination or Corporate	-0	-44	-	-	-44
Total	10,550	5,856	12,732	1,825	30,965

(1) Listing Business Division

1) Major business

This business division provides directory search services, such as Category Search; information listing services, such as Yahoo! Autos, Yahoo! Real Estate, and Yahoo! Rikunabi; and regional information services, such as Yahoo! Maps, Yahoo! Phone Book, and Yahoo! Gourmet. The business division builds revenues by charging fees to the information providers and is developing a paid search business based on Sponsor Site services.

Main Services: Category Search, Yahoo! Dictionary, Yahoo! Knowledge, Yahoo! Autos, Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Education, Yahoo! Wedding, Yahoo! Healthcare, Yahoo! Present, Yahoo! Maps, Yahoo! Transit, Yahoo! Traffic Information, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Phone Book, Yahoo! Coupons, Business Express.

2) Activities in the third quarter

In the third quarter we continued to expand services, targeting further growth in our user base. In our directory search services, the cumulative number of questions and answers handled by our Q&A-based Yahoo! Knowledge service topped 10 million. The number of questions successfully answered by this service is approaching one million, reflecting the large number of users the service has attracted. We also improved our Yahoo! Dictionary service, adding three new dictionaries and making it possible for users to set their own user preferences. To support further business expansion, we concluded capital and business alliances with AccessPort Inc., an operator of the Japanese keyword search service JWord, and Global Media Online INC. Advertising sales from our Sponsor Site service expanded favorably thanks to cooperation with our business partner Overture. Among our listing services, we carried out a full-scale renewal of the Yahoo! Autos site, adding a new body type search function that makes it even easier to select an automobile. On Yahoo! Healthcare, we launched a Family Doctor service that offers free information on approximately 500 illnesses. During the quarter we introduced a mobile phone service for Shotworks, a matching service for people looking for short-term temporary jobs. And we further improved our regional information services, renewing the recipe information on Yahoo! Gourmet and adding a function on Yahoo! Maps for Yahoo! Premium members that allows them to adjust the resolution to view a larger than normal map.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
October 14	• Added three new dictionaries to Yahoo! Dictionary, expanding the data base. Moreover, introduced a function allowing users to set their own user preferences.
October 20	• Substantially renewed the New Information page. Added such new corners as Ahead of the Crowd Information and introduced for the first time on Yahoo! JAPAN a RSS format delivery function, making information searches even more convenient.
November 29	• Concluded a business tie-up with Japan Medical Planning Co., Ltd., and launched Family Doctor service on Yahoo! Healthcare. This service provides free information on approximately 500 typical illnesses.

December 10	<ul style="list-style-type: none"> The cumulative number of question and answers handled by our Yahoo! Knowledge service, which provides knowledge or information on a Q&A basis, topped 10 million.
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Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	3,277.13 million page views (-5.5 %)	14.5 % of total page views
Daily Average page views in Dec.	105.71 million page views (-8.5 %)	

Note: Includes the page views of BridalNet, Inc.

Business Express Orders

Oct. 2004	Nov. 2004	Dec. 2004
2,733 contracts	2,915 contracts	2,850 contracts

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> Main components of business service sales are business express and information listing fees for Yahoo! Rikunabi, Yahoo! Autos, and Yahoo! Real Estate. The main component of personal service sales is the sales of BridalNet, Inc., an Internet matchmaking service. Main items in SG&A are personnel, sales commissions, content provider fees, and royalty expenses.
Advertising	5,253	721	15.9%	
Business service	2,180	255	13.3%	
Personal service	55	-1	-3.4%	
Other	-	-	-	
Total	7,488	974	15.0%	
Cost of sales	13	-0	-5.8%	
Gross profit	7,474	975	15.0%	
SG&A expenses	1,640	118	7.8%	
Operating income	5,834	856	17.2%	
Operating margin	77.9%	-	-	

(2) Auction Business Division

1) Major Business

Based on its Yahoo! Auctions services, this business provides a place where individuals can buy and sell items and companies can sell their goods by auction. In addition, it supports companies to have stores on Yahoo! Auctions.

Main services: Yahoo! Auctions, Yahoo! Delivery, Yahoo! ezPay

2) Activities in the third quarter

During the third quarter, we worked to expand use of our services. We carried out many sales promotion activities in conjunction with the Christmas and end-of-year sales campaigns, such as launching winter sports and jewelry special features. We also introduced a special large-screen service function and established new categories for pets and living creatures, making it possible to hold auctions for aquarium fish, birds, and insects. We increased the number of employees patrolling our site for fraudulent and illegal activities, and sought to strengthen our detection of suspect auctions. As part of our efforts to promote understanding of intellectual property rights and to protect copyrights, we published an Intellectual Property Rights Guide on the Web. We took further steps to ensure that more people could use our services in complete confidence. Among these activities, we concluded an agreement with the Association of Japanese Animators to cooperate in determining measures to guard against the abuse of Yahoo! Auctions to sell items that infringe on intellectual property rights. Building on the success of the first Internet auction by a public body in Japan held in the previous quarter for the Tokyo Metropolitan Government Bureau of Taxation, we added the Bureau of Port and Harbor Tokyo Metropolitan Government in the third quarter, expanding the scope of such auction activities. Among the items impounded due to tax arrears auctioned by the Bureau of Port and Harbor in the third quarter was a pleasure craft.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
October 7	• Intellectual Property Rights Guide published on the Web to promote understanding of intellectual property rights
October 14	• 2 nd cooperative public Internet auction (trial) held with the Metropolitan Government Bureau of Taxation
November 15	• Concluded an agreement with the Association of Japanese Animators to determine measures to guard against infringements of intellectual property rights
December 9	• Established new categories for pets and living creatures on Yahoo! Auctions
December 15	• 3 rd cooperative public Internet auction (trial) held with the Metropolitan Government Bureau of Taxation and the Bureau of Port and Harbor Tokyo Metropolitan Government

Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	6,738.68 million page views (+6.8 %)	29.7 % of total page views
Daily Average page views in Dec.	217.37 million page views (+3.3 %)	

Yahoo! Auctions number of total listed items and transaction rate, etc.

	Oct. 2004	Nov. 2004	Dec. 2004
Number of auction unique browsers	Approx. 19.71 million browsers	Approx. 19.45 million browsers	Approx. 18.91 million browsers
Number of total listed items (Monthly average)	Approx. 6.80 million items	Approx. 7.49 million items	Approx. 7.07 million items
Monthly total number of new listings	Approx. 17.56 million items	Approx. 17.97 million items	Approx. 17.84 million items
Daily average number of new listings	Approx. 566 thousand items	Approx. 599 thousand items	Approx. 575 thousand items
Monthly volume of transactions	Approx. ¥53.8 billion	Approx. ¥54.7 billion	Approx. ¥ 58.0 billion
Daily average transaction volume	Approx. ¥ 1,738 million	Approx. ¥ 1,824 million	Approx. ¥ 1,872 million
Average closing price per item	¥5,911	¥5,967	¥6,373
The average ratio of successful auctions per day	42%	41%	39%
Number of stores (As of the end of each month)	3,126 stores	3,207 stores	3,312 stores

Notes: 1. Monthly volume of transactions figures and Daily average transaction volume do not include cancellations or adjustments.

2. The average ratio of successful auctions per day is calculated excluding the ratio for the final days of free listing campaign.

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main components of business service sales are registration fees, tenant fees and transaction fees of stores (merchant stores). • Sales included in personal service are system-use fees of Yahoo! Auctions and others.
Advertising	296	47	19.2%	
Business service	855	154	22.0%	
Personal service	6,329	1,165	22.6%	
Other	-	-	-	
Total	7,481	1,367	22.4%	<ul style="list-style-type: none"> • Main items in SG&A are communication, business commissions, payment commissions, and personnel expenses.
Cost of sales	6	1	35.7%	
Gross profit	7,475	1,365	22.3%	
SG&A expenses	2,675	581	27.8%	
Operating income	4,799	783	19.5%	
Operating margin	64.2%	-	-	

(3) Yahoo! BB Business Division

1) Major business

Yahoo! BB's business activities revolve around its comprehensive broadband service Yahoo! BB. They mainly comprise the acquisition of subscribers over the Web and the provision of some ISP services, such as e-mail, homepage creation, and others.

Main services: Yahoo! BB, Yahoo! Mail, Yahoo! GeoCities, etc.

2) Activities in the third quarter

During the quarter under review, we continued to focus on acquiring new subscribers over the Web. In addition, we improved and expanded our services for members. To acquire new members, we introduced new services in line with the diversifying needs of our users. We launched optical fiber-based Yahoo! BB Hikari, Yahoo! BB Hikari for Homes, Yahoo! BB Hikari for Apartments services to complement our ADSL services. Moreover, we began accepting applications for Yahoo! BB 8M Otoku Line Type, an ADSL service using Japan Telecom's Otoku Line service. We also expanded our services for Yahoo! BB subscribers, increasing the size of their Yahoo! Mail mailboxes to 2GB and offering advance purchase tickets for Yumi Matsutoya's nationwide tour concerts and Kyosuke Himuro's New Year live concert (lottery basis if necessary). As a result of posting sales promotion expenses for the introduction campaign in advance, at the point when the subscriber line was connected, the business division incurred additional cost during the quarter that pushed down operating income compared with the previous quarter.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
October 5	• Began accepting applications for Yahoo! BB Hikari, an optical fiber-based service.
October 14	• Increase the size of subscribers' Yahoo! Mail mailbox to 2GB. The limit on the size of individual e-mails was expanded to 10MB.
November 25	• Jointly with SBB, co-sponsored "Yahoo! BB presents Yumi Matsutoya national tour concerts - VIVA! 6 x 7 tour 2004-2005". Offered exclusive advance purchase tickets (lottery basis if necessary) to Yahoo! BB, Yahoo! BB Hikari, and Yahoo! Premium members as well as distributing original video content.
December 3	• Jointly with SBB, co-sponsored "Yahoo! BB presents NEW YEAR SPECIAL LIVE - KYOSUKE HIMURO SOUL STANDING BY-PLUS". Yahoo! BB and Yahoo! BB Hikari subscribers were offered advance ticket (lottery basis if necessary).

Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	2,698.91 million page views (+2.9 %)	11.9 % of total page views
Daily Average page views in Dec.	87.06 million page views (-0.5 %)	

Total Subscriber Lines for Yahoo! BB Services

End of Oct. 2004	Approximately 4,541 thousand lines (including approximately 1,158 thousand lines marketed by Yahoo! JAPAN)
End of Nov. 2004	Approximately 4,604 thousand lines (including approximately 1,163 thousand lines marketed by Yahoo! JAPAN)
End of Dec. 2004	Approximately 4,658 thousand lines (including approximately 1,168 thousand lines marketed by Yahoo! JAPAN)

Note: Jumper installation completed, excluding service cancellations. Figures include subscribers who only use BB Phone services.

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main component of business service sales is the customer acquisition incentive fees of Yahoo! BB. • Main components of personal service sales are the ISP fees for Yahoo! BB. • Main items in SG&A expenses are business commissions, sales promotion, depreciation, and personnel expenses.
Advertising	404	74	22.5%	
Business service	1,473	-55	-3.7%	
Personal service	2,417	118	5.2%	
Other	-	-	-	
Total	4,295	137	3.3%	
Cost of sales	230	-8	-3.5%	
Gross profit	4,065	145	3.7%	
SG&A expenses	1,581	198	14.3%	
Operating income	2,483	-52	-2.1%	
Operating margin	57.8%	-	-	

(4) Media Business Division

1) Major Business

Our Media business division provides users with a variety of desired content and services, thereby stimulating page views and increasing advertising sales. The business also provides fee-based content and services. Services provided include information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies, Yahoo! Music, and Yahoo! Streaming; community services, such as Yahoo! Message Boards and Yahoo! Avatar.

Main Services: Yahoo! News, Yahoo! Finance, Yahoo! Sports, Yahoo! Beauty, Yahoo! Weather, Yahoo! Movies, Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Entertainment, Yahoo!

TV Coverage, Yahoo! Fortune Telling, Yahoo! Game, Yahoo! Comics, Yahoo! Streaming, Yahoo! Member Directory, Yahoo! Message Boards, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! Groups, Yahoo! Deliver.

2) Activities in the third quarter

During the quarter under review, we continued to develop appealing content for users and to expand sales by planning special features and products that would attract advertisers. Group subsidiary Y's Insurance Inc. began to sell insurance products over the Internet, linking up with the Insurance Center on the Yahoo! Finance site. We also formed a business alliance with e-Publishing Inc., which provides fashion, cosmetics, and lifestyle goods, beginning to distribute fashion news through our comprehensive cosmetics and beauty information site Yahoo! Beauty and through Yahoo! News. In Yahoo! Streaming, while achieving reach on a par with mass media, we made a full-scale introduction of video streaming with audio advertising products offering branding and promotion advertising that leverages the special features of the Internet to the maximum. Among paid content, paid fortune telling services on Yahoo! Fortune Telling performed well partially because of the New Year season. Yahoo! Streaming began providing distribution of paid streaming content to users other than Yahoo! BB and Yahoo! Premium members. Its first such offering was video streaming distribution of the Mobile Suit Gundam series provided by Bandai Channel Co., Ltd. Furthermore, because the scope of the Group's social responsibility is growing, we started a disaster alert function and supplying emergency lifeline information through Yahoo! Message Boards and Yahoo! Topics.

Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! Finance	October 6	<ul style="list-style-type: none"> Y's Insurance Inc. set up a site to sell insurance products in cooperation with the Insurance Center on Yahoo! Finance, etc.
Yahoo! Messenger	October 26 December 13	<ul style="list-style-type: none"> Expanded service to enable use by Vodafone Live! compatible mobile phones making service available to all three major mobile phone carrier services. Added an image display function showing hot auction items on Yahoo! Auctions (items that have received many bids or been viewed very often).
Yahoo! Streaming	November 1 December 1	<ul style="list-style-type: none"> Began full-scale introduction of video streaming with audio advertising products, offering free distribution of Whimsical Robot, an original animation sponsored by Ezaki Glico Co., Ltd. Commenced distribution of paid streaming content. As a first offering, began distribution of Mobile Suit Gundam provided by Bandai Channel Co., Ltd.
Yahoo! Beauty Yahoo! News	November 5	<ul style="list-style-type: none"> Started offering fashion news provided by e-Publishing Inc.

Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	6,191.19 million page views (-15.2 %)	27.3 % of total page views
Daily Average page views in Dec.	199.71 million page views (-17.9 %)	

Note: Includes the page views of Y's Insurance Inc.

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main component of business service sales is car insurance package estimate request service sales. • Main component of personal service is sales of fee-based content.
Advertising	2,661	785	41.8%	
Business service	136	-0	-0.1%	
Personal service	260	49	23.4%	
Other	-	-	-	
Total	3,057	834	37.5%	<ul style="list-style-type: none"> • Main items in SG&A are sales commissions, personnel, content provider fees, and communication expenses.
Cost of sales	86	3	3.7%	
Gross profit	2,970	831	38.8%	
SG&A expenses	1,765	214	13.8%	
Operating income	1,205	617	105.0%	
Operating margin	39.4%	-	-	

(5) Shopping Business Division

1) Major business

This business division operates with variety of goods, consisted with stores with high brand names and boutiques with a wide assortment of highly individualistic and appealing goods. It also supplies items related to travel, such as domestic and overseas accommodation and airline tickets, and information on travel preparation.

Main Services: Yahoo! Shopping, Yahoo! Books, Yahoo! Computer, Yahoo! Tickets, Yahoo! Travel, Yahoo! Business Travel, SevenAndY.

Note: On January 5, 2005, e-Shopping! Books Corp. changed its name to Seven and Y Corp.

2) Activities in the third quarter

During the period under review, we planned a variety of seasonal sales promotions, such as Christmas and Oseibo (year-end gift-giving) special features. We also concentrated on increasing the purchasing and repeater ratios utilizing the Yahoo! Points system that got fully underway in the third quarter. We conducted sales campaigns offering three or five times the regular number of points for purchases. To recruit more stores for the Yahoo! Shopping site, we further strengthened our sales and marketing organizations. As a result, at the end of December, we had a total of 2,810 stores, an increase of 394 stores, or 16.3%, from the end of September 2004. To make its overseas travel services even more convenient, Yahoo!

Travel added overseas super-discount airline tickets to its real time seat availability and online reservation system, which was previously only for regular discount airline tickets. In addition, we introduced a mobile phone accommodation reservation system, enabling mobile phone users to make business and tourist hotel and Japanese inn accommodation reservations at approximately 7,500 locations nationwide. During the quarter, Yahoo! Tickets targeted expansion in its user base by running a New Year's countdown special feature and offering Yahoo! BB subscribers an advance ticket purchase service. In other areas, e-Shopping! Books CORP. added CDs and DVDs to its lineup of publications, and changed its name to Seven and Y Corp in the new year.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
November 4	<ul style="list-style-type: none"> In addition to its regular discount overseas airline ticket service, Yahoo! Travel began one of the largest super-discount overseas airline ticket online reservation services in Japan.
November 11	<ul style="list-style-type: none"> Yahoo! Travel started offering mobile phone domestic hotel and Japanese inn accommodation reservations services.

Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	469.30 million page views (-0.9 %)	2.1 % of total page views
Daily Average page views in Dec.	15.13 million page views (-4.1 %)	

Note: Includes the page views of Seven and Y Corp.

Shopping Business Transaction Volume

Oct. 2004	Nov. 2004	Dec. 2004
¥6,213 million	¥6,667 million	¥7,864 million

Note: The figures represent the total transaction volume of Yahoo! Shopping, Yahoo! Travel, Yahoo! Thickets and Seven and Y Corp.

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> Main components of business service sales are tenant fees and sales commissions of Yahoo! Shopping and sales commissions of Tavigator, Inc. Main component of other is sales of Seven and Y Corp. Main item in cost of sales is purchasing costs of Seven and Y Corp.
Advertising	258	86	49.9%	
Business service	647	61	10.4%	
Personal service	-	-	-	
Other	1,825	285	18.5%	
Total	2,731	432	18.8%	

Cost of sales	1,440	221	18.1%	• Main items in SG&A are personnel, packing and transport, business commissions, and royalty expenses.
Gross profit	1,290	211	19.6%	
SG&A expenses	1,378	435	46.2%	
Operating income	-87	-223	-	
Operating margin	-3.2%	-	-	

(6) Business Solution (BS) Business Division

1) Major business

This business division utilizes the know-how and technology developed by the Group to offer business solutions to companies and government bodies, including sole proprietors. Specifically, it provides such services as the Internet survey service Yahoo! Research, licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C (for endusers) businesses or B-to-B (for sales outlets) businesses, Web design consulting, and domain and hosting services, etc.

Main Services: Yahoo! Research, Yahoo! Portal Solutions, Yahoo! Domain, Yahoo! Web Hosting.

2) Activities in the third quarter

During the quarter, we strengthened our sales capabilities for Yahoo! Research in a bid to acquire more customers. We also launched Yahoo! Research Self, which provides users with speedy and low cost services by enabling them to create the research request and check the results themselves on their own personal computers. To further expand the business scope of our domain and hosting services and stabilize their earnings base, we acquired shares in Firstserver, Inc. and made it a subsidiary during the third quarter. Firstserver is a company with superior business experience and technological capabilities in providing corporate clients with services in Internet-related fields as well as boasting a strong customer base. The Japan Football Association launched its new Web site during the quarter with the help of our portal site construction and support services. And we supported the establishment of a new service by JTB Corp., which combined its information with Yahoo! Portal Solutions to enable the provision of travel information on JTB home page that meets the needs of a diverse range of customers.

Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in Dec.	1.97 million page views (-25.8 %)	0.01 % of total page views
Daily Average page views in Dec.	60 thousand page views (-28.2 %)	

3) Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main components of business service sales are sales of Yahoo! Research and Yahoo! Web Hosting.
Advertising	15	-2	-13.9%	
Business service	500	124	32.9%	
Personal service	4	1	49.4%	
Other	-	-	-	
Total	521	122	30.9%	<ul style="list-style-type: none"> • Primary component of cost of sales is costs for Yahoo! Research.
Cost of sales	343	81	31.2%	
Gross profit	177	41	30.3%	<ul style="list-style-type: none"> • Main items in SG&A are personnel, royalty, communication, and business commissions expenses.
SG&A expenses	193	49	34.8%	
Operating income	-16	-8	-	
Operating margin	-3.1%	-	-	

(7) Corporate Common Business– Elimination or Corporate

Revenues and expenses related advertisements on the top page of Yahoo! JAPAN and sales on Yahoo! Premium relating to other services for the Company are not allocated to the sales or expenses of business divisions, but considered sales and expenses of Corporate Common Business that develop our corporate brand. Sales and expenses from Headquarters are added up to Corporate Common Business.

Main services: Top Page, Yahoo! Kids, My Yahoo!, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert, Yahoo! Toolbar, Yahoo! Newsletter, Yahoo! Mobile, Yahoo! Volunteer, Yahoo! Bookmark, Yahoo! JAPAN Help Center, Yahoo! Internet Certification, Yahoo! Wallet, Yahoo! Premium, Yahoo! Points.

Activities in the third quarter

In the third quarter, Corporate Common Business implemented a Yahoo! Points gift campaign exclusively for Yahoo! Premium members with a view to acquiring more members, and similarly held a bargain sale on Yahoo! Shopping. During the quarter, we reached an agreement with Walt Disney Internet Group, the Internet business division of Walt Disney Japan, to jointly develop mobile Internet services. As a first offering, we launched Disney Collection on Yahoo! Mobile, a Disney content service for mobile phone users. Furthermore, we substantially changed the design of Yahoo! Kids' top page and launched Yahoo! Kids

Picture Book, a site that allows children to view pictures and video clips of animals and plants and listen to the sounds they make.

Number of Premium member IDs

Oct. 2004	Nov. 2004	Dec. 2004
4.59 million IDs	4.71 million IDs	4.82 million IDs

Income statements for the third quarter

(Millions of yen)

	Third quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				(Net Sales)
Advertising	1,660	450	37.2%	• Main components of Corporate Common Business sales are advertising sales on top pages, etc. and Yahoo! Premium fees.
Business service	62	-7	-10.6%	• Consolidation elimination figures are removed as sales of headquarters.
Personal service	3,666	177	5.1%	
Other	-	-	-	
Total	5,389	620	13.0%	(SG&A Expenses)
Cost of sales	111	49	78.3%	• Main components of Corporate Common Business SG&A are personnel, sales commissions, and business commissions expenses.
Gross profit	5,277	570	12.1%	• Main items in Headquarters SG&A are personnel, depreciation, and business commission expenses.
SG&A expenses	4,037	803	24.9%	
Operating income	1,240	-232	-15.8%	
Operating margin	23.0%	-	-	

Advertising

(Advertising Related Sales)

The following is an outline of our advertising business in the quarter under review based on combining as advertising sales the banner, email, and other advertising sales of each business division, and related advertising. A summary of the sales activities for the quarter under review follows.

Activities in the third quarter

Although we observed that advertising slowed somewhat compared with the high demand in the previous quarter resulting from the hot summer and advertising related to the Athens Olympics, overall, the advertising market in Japan continued to be upbeat. With Internet advertising especially, demand increased among various industries along with the growing recognition that Internet advertising is on a par with other traditional media, such as television. During the quarter, we saw increased demand from advertisers that previously had been very cautious about Internet advertising. To take advantage of this situation, the Group strengthened its cooperative sales organization with advertising agencies, actively making proposals to National Clients and targeting winning large-scale advertising. In particular, the Group aggressively marketed products with broad reach and high impact, such as Brand Panels for top pages, Super Banners for Yahoo! News, and Billboard, exposure of which is determined based on reach. During the quarter, we also further developed the use of large volume distribution V Banner and Flash products. Partially because these products can now achieve advertising statements close to that of television commercials and many advertising campaign were launched in the quarter, we received major advertising orders from the highly branding-conscious automobile, digital consumer electronics, cosmetics, and food product industries. During the quarter, we also focused on selling our Run Of Center Text product, which is aimed at advertisers that give priority to a high degree of traffic, winning advertising from a wide range of industries, such as financial services and real estate. Furthermore, we strengthened our lineup of advertising products for stores listed on Yahoo! Shopping, increasing advertisements from stores aiming to promote seasonal sales or increase name recognition. Sales of Sponsor Sites continued to be favorable thanks to our tie-up with Overture.

Based on our sales efforts, quarterly advertising business sales climbed to ¥10.5 billion, registering another record high. The third quarter advertising related sales were as follows.

(Third Quarter)

(Millions of yen)

	Amount	Comparison with the previous quarter		Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Advertising related sales (Consolidated basis)	10,550	2,161	25.8 %	4,720	81.0 %

Advertising Products

During the third quarter, sales of high impact products continued to be strong. In particular, sales of Brand Panel for top pages reached a record high. Sales of Super Banners, Monsters, Large Squares, and other large-sized products also exceeded those of the previous quarter. The number of advertisements using the Internet as a branding media increased. And the trend toward creative use of animation in large-sized banners continued to grow. During the quarter, we made a full-scale introduction of video streaming with audio advertising products. In Yahoo! Streaming, along with the distribution of the original animation "Whimsical Robot", we included a video streaming advertisement by Ezaki Glico Co., Ltd. (for Poscam) that used the same elements as their TV commercial. We also conducted many promotions using video streaming.

For the third quarter, rates for high-volume branding-type banner ads ranged from ¥0.15 to ¥1.00 per page view, rates for targeting-type banner ads varied from ¥1.20 to ¥12.00 per page view, and rates for the large-sized Super Banners varied from ¥0.60 to ¥4.00 per page view. Rates for the group-specific e-mail advertising Yahoo! Deliver were ¥4.00 to ¥10.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥5.00 million to ¥9.00 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

(Reference)

1. Start of Disaster Information Service (Earthquake Flash Reports)

Because the Group's social responsibility is growing along with the spread of the Internet, we are committed to offering services that will support the safety and peace of mind of people, such as information related to various types of disasters.

During the third quarter, because we can accurately reach more people as media, we began a Disaster Information Service that utilizes space ordinarily used by advertising banners to provide flash reports in the case of earthquakes. In addition, Yahoo! Message Boards and Yahoo! Topics will also be used to convey lifeline information in the case of emergencies.

2 . Acquired ISMS Certification

Ten companies, including the Company and nine subsidiaries, have acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution, for all their business. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0. Based on this certification, we intend to continue to strengthen our information securities management measures using third party monitoring under a global standard.

Taking into consideration both technical security methods and overall organization management, this certification system focuses on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective.

During the third quarter, we established the Yahoo! Security Center, which contains a security guide explaining how to more safely and enjoyably use the Internet. In future, in order for Internet users to confidently, conveniently, and enjoyably use our services, we continuously take the maximum care in protecting our users' privacy while offering a variety of services and making additions to existing services.

3. Volunteer Activities

In commemoration of the seventh anniversary of the start of Yahoo! JAPAN services, we launched Yahoo! Volunteer in April 2003. Part of our social contribution activities, Yahoo! Volunteer provides a volunteer group Information site where various volunteer groups can register and users can search volunteer group information and a community support service where people wanting to volunteer and groups looking for volunteers can link up.

During the quarter, we launched Internet Charity Contributions, a service that allows users to easily make charity contributions for good causes, on our Yahoo! Volunteer site. Through Internet Charity Contribution, we raised funds for the victims of the series of earthquakes in the Chuetsu region of Niigata Prefecture and the victims of the series of earthquakes of Sumatra, Indonesia, and the following tsunami in South Asia.

4. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. Among our charity auctions of goods donated by celebrities in the third quarter, we auctioned a T-shirt autographed by artist Kyosuke Himuro and a uniform and pair of baseball spikes signed by professional player Masashi Nakayama. In total, we held 527 charity auctions during the third quarter, raising a total of approximately ¥36.1 million. All of the funds raised for such charities are being donated to the following charities (not listed in any special order).

- The Niigata Prefecture Disaster Countermeasures Headquarters, which supports the emergency relief activities for victims of the series of earthquakes in the Chuetsu region of Niigata Prefecture.
- The Japanese Paralympic Committee (JPC), which was established under the umbrella of the Japan Sports Association for the Disabled (JSAD), is a member of international sports organizations and develops and sends athletes to international competitions.
- The Central Community Chest of Japan, which through its Disaster Relief System (Red Feather Charity, disaster volunteer and community support systems) provides funding support for NPOs, volunteer groups, and private-sector disaster volunteer centers for support and emergency relief activities for victims in disaster struck regions.
- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.

5. Environmental Protection Activities

As a company in the service industry, we do not have any operations that produce large volume of industrial waste. However, we take environmental protection very seriously, and are contributing in terms of conserving natural resources. To reduce the burden on the environment, we are undertaking the following recycling activities for natural resources. To promote the use of recycled paper, we collect and recycle all used documents within our offices. These efforts during the third quarter reduced carbon dioxide emissions by 4,350 kg and saved the equivalent of 113 trees from being logged. We intend to remain actively involved in tackling the issue of environmental protection.

- Eco Mark (envelopes, paper shopping bags, etc.)
- Recycling resources (use of paper recycle box, distribution of eco paper plates to Eco League participating universities for campus festivals)

Risk Factors

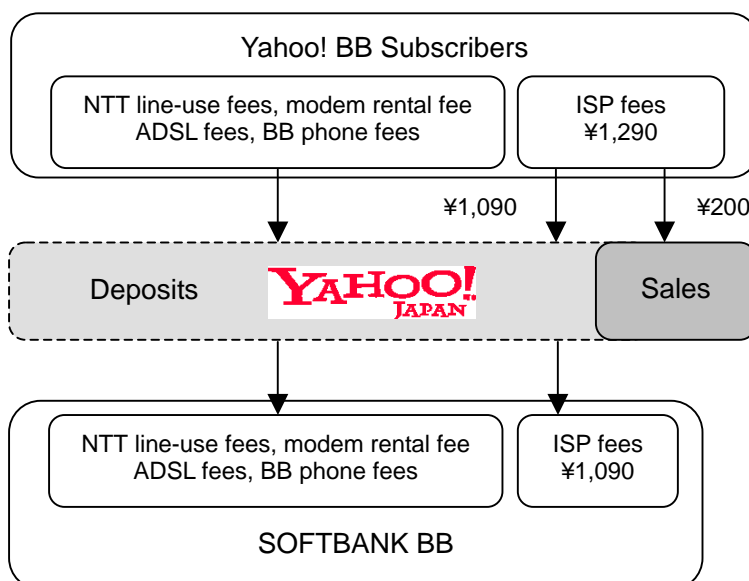
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group”) have reported their results for the third quarter ended December 31 2004, in the document *Results for the Three Months Ended December 31, 2004*. A number of potential factors could substantially impact future performance.

Major factors contributing to the business risks for the Group are discussed below. The Group proactively discloses those items it deems necessary that investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the issues below before assessing the position of the Group and its future performance. However, it should be noted that the risks listed below do not represent complete coverage of risks that should be considered before investing in the shares of Yahoo Japan Corporation (the “Company”).

1. Group Operations

(1) Yahoo! BB Business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, ISP services, a broadband portal site and content-provision services, and other services. The Group’s role in this joint business includes promoting the service and signing up subscribers, providing customer service, operating a broadband portal site, and providing a fee-collection platform. SBB’s responsibilities lie in supplying and maintaining an ADSL infrastructure and connections to the Internet, technological development and providing technical support. The allocation of revenues based on the above separation of roles is as follows.



Note:
Of the ¥1,290 collected in ISP fees from Yahoo! BB Subscribers, the Group only records a proportional share of ¥200 as sales.

a. Subscriber Sign up Promotion Business and Incentive Commission

Beginning with the fiscal year ended March 31, 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving incentive commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to sign up through consumer electronic wholesalers and other means, including the Internet route, and because it has become necessary to actively develop subscriptions from corporations as a result of the start-up of BB Phone service, a broadband telephone service offered by SBB, in April 2002.

The Group strives to attract greater numbers of subscribers through promotion efforts using various campaigns and price competitiveness supported by brand strength. If the Group fails to gather the anticipated number of new subscribers, the Group may be prevented from making anticipated sales or required to bear much higher costs than expected, with a subsequent significant impact on earnings.

In addition, if subscribers sign up only to cancel their subscriptions within a short period there is the possibility that the Group will have to return commissions to SBB, and this could negatively impact Group performance.

Since the Group has stopped selling the Yahoo! BB Starter Kit, it is assumed that, in principle, the Group will be able to avoid the risk associated with sales of the kits. However, the Group will continue to bear the liability risk associated with starter kits it has sold in the past.

b. ADSL Infrastructure and Internet Access Service

The Group has begun offering versions of some of its regular services, such as e-mail and Web page creation services, as special services to Yahoo! BB subscribers, and it is possible that the development and operating costs of these services could exceed original estimates.

It is possible that the work contributed by SBB could indirectly but significantly influence the Group's performance. Specifically, there is risk of extended construction periods and related delays in offering services to subscribers who have signed up for them, resulting in delayed accounting of sales as well as lost sales opportunities due to cancellations. Other risks are failure to build infrastructure and problems with service quality, leading to subscriber cancellations, damage to the Group's brand image, and the subsequent negative effect on the Group's business. In addition, service delays and technical upgrade problems could result in demand for compensation from subscribers. The Group works closely with SBB, making efforts to reduce the risk involved with its direct interface with subscribers in particular, such as its homepages and other areas, but these efforts do not eliminate all risks regarding the relationship with SBB.

It is SBB's responsibility to build infrastructure for the services. The Group therefore does not bear the risk of equipment investment, construction, or obsolescence of facilities due to technological progress.

c. Broadband Portal Service

The Group offers and plans to offer subscribers broadband content, such as films and music, in cooperation with companies offering various content. It is possible, however, that expected sales will not be made due to insufficient assemblage of content or

content costing far more than expected. This may impact sales and profit.

The Group acts as the platform for consigned billing and settlements for said pay content provision and access services to effect collections. For that reason, the Group intends to improve operating efficiency by hiring specialists and technically skilled staff and undertaking business cooperation with other companies with a proven record in the business. There is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems related to consigned billings and settlements could result in demand for compensation from subscribers.

d. The Competitive Environment

As of December 31, 2004, the major providers in Japan of services similar to those the Group offers were as follows (in no particular order):

Site	Provider	Business description
@nifty	Nifty Corp.	ISP business and comprehensive information site
So-net	Sony Communication Network Corp.	ISP business and comprehensive information site
BIGLOBE	NEC Corp.	ISP business and comprehensive information site
OCN	NTT Communications Corp.	Long-distance telecommunication business and ISP business
FLET'S	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
ACCA	ACCA Networks Co., Ltd.	ADSL business

With competition from these service providers expected to grow, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition to cutting access revenues, competition could increase advertising costs, which would have a negative effect on the Group's operating results. As a result, in the worst case, the Group and SBB could no longer afford to continue providing services and would be forced to withdraw from the business. In this way, competition could have a significant impact on the Group's business.

(2) Auction Business

a. Damage Compensation

The Group delegates all responsibility to the users and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display, or bidding of goods or services offered or the formation or honoring of contracts agreed to while using this service. However, the possibility exists that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services.

b. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. Effective September 2003, a revision of the law regarding the sale of used goods to prevent crimes abusing Internet auctions was enforced. In addition to imposing a registering system on Internet auction operators, the reformed law requires operators to make efforts to confirm the identity of participants and maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reformed law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, the Group does not expect that the reformed law will have a significant impact on its auction business. Nevertheless, if a law regulating actual auction transactions on the Internet was to be adopted in the future, depending on its content when passed, it could influence the Group's auction business. Specifically, the Intellectual Property Promotion Plan announced on May 27, 2004 by the government's Intellectual Property Strategy Headquarters (Chairman: Junichiro Koizumi, Prime Minister) includes measures for dealing with improper items listed on Internet auctions. It is possible that further new regulations will be introduced in future.

The Group has taken multiple measures to improve the security of its systems for the purpose of achieving a safer and sounder auction site. In September 2000, the Group began an escrow service (see note below) for its online auctions. In May 2001 the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal address of users posting items on the auction site. In addition, the Group has set up a patrol team to remove illegal items from auctions and cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and a subsequent negative impact on earnings.

The Group institutes a damage-compensation system, which pays a certain amount to users that have suffered damages due to illegal activities. This could increase expenses by the Group.

Note: The escrow service consists of a company acting as an intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and payment. Because this service is provided by third parties and not the Company, the service varies according to the company used. However, in general, the escrow company receives payment from the purchaser and transfers it to the seller upon confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that items will not be delivered or payments not made.

c. Yahoo! ezPay Service

Yahoo! ezPay (see note below) is a payment service provided by the Company's subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust, Ltd., acts as the intermediate in the settlement of the C-to-C transaction.

Since Netrust, Ltd., reimburses the seller of the item one to two days after the

purchaser has made settlement by credit card, the subsidiary must carry the credit card receivables for the period up to the fixed settlement date of the bank used by the credit card company. The Group is exploring methods of reducing the amount of reimbursement funds by shortening the settlement cycle with the credit card companies' settlement banks as well as seeking methods of diversifying its source of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible the Group will not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a significant negative impact on the Group's business and performance.

In providing this service, the Group has taken all possible precautions to protect itself from such problems as the fraudulent use of credit cards as well as the leakage of personal information of individuals online as outlined in 5. Information Security Management below. However, there is no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in the Group being sued for compensation of losses, preventing the recovery of the funds reimbursed and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on Yahoo! Auctions and other Group services.

In addition to the online settlement market being crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and the life cycle of services is short. Therefore, after a service has been launched, it is necessary to establish a service planning and system development organization that can respond quickly to the constantly changing demand in the market. However, there is a possibility that such problems as the service not properly meeting customer requirements, not being suitably compatible with new technologies, and not achieving a high-powered quick start could occur. These problems might result in an unavoidable decline in competitiveness within the market that would be detrimental to the Group's business and performance.

Note: Yahoo! Payment was renamed Yahoo! ezPay as of August 31, 2004.

d. The Competitive Environment

As of December 31, 2004, the major providers of Japanese-language online mall and auction business directed to Japanese Internet users were as follows (in no particular order):

Site	Provider	Business description
BIDDERS	DeNA Co., Ltd.	Online auction site
Rakuten Ichiba	Rakuten, Inc.	Online mall and auction site

With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition, competition could lower commission income by cutting participation and increasing advertising costs, which would have a negative impact on the Group's operating results.

(3) Risks Affecting Internet Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those businesses mentioned above. Therefore, the Internet advertising areas that are thought to be the most important and the associated risks will be discussed below. The risks that could affect other businesses are explained in section 5, "Other Overall Business Risks."

a. Use of the Internet as an Advertising Medium

Having emerged almost simultaneously with the establishment of the Group, Internet advertising is still in its development stage. As such, its value as an advertising medium has not been adequately established among advertisers, consumers, and advertising agencies. Up to this point, with limited experience in Internet advertising, most advertisers still consider it a trial medium, and many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering the Group's major advertisers by industry, National Clients that usually advertise more than other companies and on a national basis, such as cosmetics, toiletries, food products, beverages, drugs and health care goods companies, do not spend as much on Internet advertising as they do on other media at this time. If this condition continues, it may be difficult for the Group to achieve a stable flow of advertising revenue.

To increase the understanding and appreciation of Internet advertising among advertisers and advertising agencies, the Group is taking steps to educate them by regularly holding seminars and other methods. At the same time, as elaborated on later in this document, in order to reduce the previously stated risks the Group is expanding and firming up the advertiser base by changing its advertising sales structure and building a close, cooperative relationship with advertising agencies.

The Group believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness must be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept roles in this area, none has progressed far enough to be capable of full-scale evaluation. With the progressive spread of broadband, this market is gaining recognition among advertisers and advertising agencies. However, it remains unclear whether Internet advertising will become a business on a par with the traditional newspaper, magazine, television, radio, and other advertising media.

b. Characteristics of Internet Advertising

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses to be reduced by companies. Moreover, Internet advertising has a short history, and changes in more developed markets, such as the United States, could affect the Japanese market.

Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand among advertisers tend to be seasonal. These factors produce underlying short-term fluctuations in the Group's advertising revenue. Further, as the Group's cost structure includes a high proportion of fixed costs, such as personnel and leasing expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Group's earnings stream.

In addition, although advertising contract periods and page views ("hits") are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or to devise some other type of

compensation that could negatively impact Group advertising revenues.

c. Advertising Sales Structure

In the future, the Group will need to increase its sales force and to strengthen its sales-management system to suit market expansion. However, these measures alone will not be sufficient to guarantee increased advertising revenues.

d. The Competitive Environment

As of December 31, 2004, the major providers of Japanese-language Internet navigational services or similar services directed to Japanese Internet users earning advertising income through comprehensive information sites for those services were as follows (in no particular order). These companies are considered largely in competition with the Group services in the listings and media businesses.

Site	Provider	Business description
MSN	Microsoft Corp.	Comprehensive information site
infoseek	Rakuten Inc.	Comprehensive information site
goo	NTT-Resonant Inc.	Comprehensive information site
livedoor	livedoor Co., Ltd.	Comprehensive information site
Google	Google Inc.	Search service site
excite	excite Japan Co., Ltd.	Comprehensive information site

Included among these companies are service providers in the highly competitive U.S. Internet industry and corporations affiliated with competitors of Yahoo! Inc., the Company's major shareholder. With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its position in the industry. In addition to falling advertising rates, competition could increase costs through higher content fees and commissions paid to advertising agencies and information providers, which would have a substantial negative impact on the Group's operating results.

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of December 31, 2004, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, e-commerce, e-finance, media and marketing, broadcasting media, and technology services and an overseas fund investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

(2) Alliance Contracts and Other Arrangements with SBB

The Company has signed the following contracts with SOFTBANK CORP. affiliate SOFTBANK BB Corp. (SBB) concerning Yahoo! BB business. Yahoo! BB business accounted for 13.9% of Group sales in the third quarter of the fiscal year ending March 31, 2005. Therefore the following contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: June 20, 2001
Contract term: Indefinite from June 20, 2001~(Perpetual contract)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting subscribers of Yahoo! BB services
* Operating the Yahoo! BB portal site
* Providing mail and Web site services
* Providing a fee-collection platform
3) SBB's main responsibilities
*Providing ADSL service 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
Usage charges are ¥990 per month for ADSL and ¥1,290 per month for ISP. From the ISP charge, the Company takes ¥200 in exchange for service.

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004
Contracted party: SOFTBANK BB Corp.
Incentive fees
* Lump-sum incentive fees (100% upon verification of operational subscriber lines)
BB Phone services: approx. ¥7,000 per application
Yahoo! BB services: approx. ¥15,000 per application
Yahoo! BB services + LAN Pack: approx. ¥20,000 per application
* Continual incentive fees
BB Phone services: approx. ¥150 per month per continuing subscriber
Yahoo! BB services: approx. ¥200 per month per continuing subscriber
Yahoo! BB services + LAN Pack: approx. ¥250 per month continuing subscriber

Notes: 1. The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT has become SOFTBANK BB Corp. due to the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All of the merged companies had the same parent company, SOFTBANK CORP.

2. The details of the incentive agreement were changed to those shown above as of April 1, 2004.

(3) Joint Directorships

As of December 31, 2004, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK CORP. part-time director)

Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK CORP. president)

Yahoo Japan Corporation president and CEO Masahiro Inoue has been a part-time director of SOFTBANK CORP. since June 2001. In addition, he sits on the boards of four other companies in the SOFTBANK Group (excluding subsidiaries and affiliates of the Company) as a part-time director. Mr. Inoue has been engaged to sit on these boards to offer advice on the strategic direction of their businesses, not to be involved in the business activities of these companies. Consequently, the influence of his other directorships on the business activities of the Company is limited.

Yahoo Japan Corporation chairman Masayoshi Son was the president and CEO of the Company at its founding and acts in the capacity of offering valuable overall advice from his perspective as a founder of the Company and as a representative of the parent company.

3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

The Group’s operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.6% of voting shares as of December 31, 2004. The Yahoo! trademark, software and tools (hereinafter referred to as “the trademark”) used in the operation of the Group’s Internet directory 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.

License name: Yahoo Japan Corporation licensing agreement
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified <i>Note:</i> The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company’s outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
<p>1) Licensing rights granted by Yahoo! Inc. to the Company:</p> <ul style="list-style-type: none"> * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.’s Internet directory search and other services customized and localized for the Japanese market (hereinafter referred to as “the Japanese version of the Yahoo! directory 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! directory search services <p>2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company</p> <p>3) Royalties to be paid by the Company to Yahoo! Inc. (see Note)</p> <p>Note: Calculation method for the calendar year 2004 $[(\text{Consolidated Net Sales}) - (\text{Advertising Sales Commissions on a consolidated base})] \times 3\%$</p> <p>Calculation method from January 2004 $[(\text{Consolidated Net Sales}) - (\text{Advertising Sales Commissions on a consolidated base}) - (\text{Cost of Sales of Seven and Y Corp.})] \times 3\%$</p>

Yahoo Japan Corporation has held discussions with Yahoo! Inc. regarding the interpretation of the provisions provided in the License Agreement that relates to the method of royalty calculation and confirmed the details of the royalty calculation as above. When Yahoo Japan Corporation plans to enter into new business that has different gross margin structure than

those of existing Yahoo Japan Corporation business, both parties will discuss the appropriate calculation method to be applied to such new business.

On January 5, 2005, e-Shopping! Books Corp. changed its name to Seven and Y Corp.

(2) The Yahoo! Brand and Cooperation Overseas

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

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

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

(3) Other Joint Directorships

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

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995. As the Group is dependent on the Internet indirectly and directly, the most basic requirements for its operations are the continued expansion of communication and commercial activity through the Internet and a stable and secure environment for Internet users.

However, a number of factors contribute to uncertainty in the outlook for Internet usage, including the availability of necessary infrastructure, such as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols for responding to growing Internet traffic and increasingly advanced applications; and the possibility of new regulations or charges related to Internet use.

(2) Dependence on the Environment for Internet Connection

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

If for any reason the connecting environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue.

Operations are vulnerable to impact from such phenomena as fires, power outages and damage to telephone lines. The Group has dispersed its facilities in Tokyo to offset any of these events but does not presently have multiple site capacity outside Tokyo.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, it is possible for an incident to occur for reasons unforeseen or for some other reason after which it would be difficult to carry on normal operations or recover fully. Such an incident could impact negatively on the business, performance, and brand image of the Group.

5. Information Security Management

(1) Group Efforts to Achieve Information Security

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of this technology has broadened the horizons of Internet users and boosted convenience, the flip side of the coin is that it has turned the importance of the security of personal and other information into a major society issue. As providers of a range of services over the Internet, the Group needs to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. In 2001, the Group appointed a Chief Security Officer (CSO), and implemented groupwide information security efforts based on this position. To protect personal information, the addresses and other information of our customers are encrypted with SSL (Security Sockets Layer) and access to stored data is thoroughly restricted. Moreover, in April 2002, the Company obtained the right to use the TRUSTe mark (see Note 1) of the non-profit privacy protection licensing institution TRUSTe. In September 2003, the Group established the Information Security Council to promote information security management, and concurrently the President of the Company himself announced our Information Security Declaration (see Note 2), setting out the Group's overall information security efforts. In February 2004, to further reinforce our information management organization, the Company established an Information Management Measures Headquarters headed up by the President. The headquarters has been given a broad scope of authority to allow it to rapidly and effectively initiate measures companywide to protect personal and other important business information. Specifically, the headquarters regularly holds one meeting a week, checks the current status of information management operations, considers various measures to improve the management system, and confirms and monitors the progress of measures to improve information management. As part of a series of new security measures, the ten companies in the Group, including the company and nine subsidiaries, acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution, for all their business. These companies have been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). The Group has used these third party certification systems to implement a third party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee that the Group's information security systems are perfect. If, under some circumstance, problems, such as an information leak, were to occur, they might not only impact negatively on performance, but could also result in a loss of the public's confidence in the Group.

Notes:

1. TRUSTe Certification Institution and TRUSTe mark

TRUSTe is an independent, non-profit institution established in 1997 in the United States. The institution issues the TRUSTe mark to web sites based on an examination of their personal information protection systems, guaranteeing that the site is being monitored on this issue by a third party. As of April 2001, a TRUSTe Certification Institution was established within the Japan Engineers Federation, a non-profit organization in recognition of the spreading use the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms with the privacy protection policies of TRUSTe and meets the license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree with and follow the guidelines of TRUSTe for the processing of consumer complaints.

2. Information Security Declaration

The Company declares its commitment to the following policy regarding information security management for society as whole.

The customer and other information held by Yahoo Japan Corporation and its subsidiaries and affiliates, hereinafter referred to as the "Group," is our most important asset. Protecting this information is extremely important not only for our sake, but also for the sake of our customers, vendors, and business partners.

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

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

3. BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0

Taking into consideration both technical security methods and overall organization management, this certification system focuses on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle of Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management team revises, improves, and processes) is continuously repeated with the goal of improving information security levels.

(2) Personal Information

In July 1998 the Group added a service enabling users to customize Yahoo! JAPAN categories to match their individual tastes and personalize a variety of information sources by inputting individual information. In addition, with acquisition of GeoCities in March 2000 the Group began services providing space for registered subscribers to create their own Web sites.

The Group uses information obtained from users internally to better match advertisements to appropriate users. This information is not disclosed to advertisers or to other outside parties.

As a result of the start of personal identification for Yahoo! Auctions, the Yahoo! BB service and the recruiting of Yahoo! Research collaborators, and aggressive efforts to develop e-commerce through subsidiaries and affiliates, the Group now owns much more detailed personal information than ever to help identify individuals users.

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. In addition, the Group has set up a Yahoo! Security Center within the Yahoo! JAPAN site that encourages users to be careful by posting information on examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. It also deals with information access rights within the Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group deliberately or through negligence by persons related to the Group, to companies with which business alliances have been concluded, or to companies to which the Group outsources work, etc. There is also a possibility that third parties may use passwords, etc., to fraudulently access the system or pretend to be someone else or use some other method such as Phishing fraud (see note below) whereby they illicitly obtain personal information of users resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible or not, its policy is to take measures to strengthen the management and monitoring of the security systems of companies with which it has business alliances. Currently, the Group also is participating in the Liaison Meeting for Countermeasures against Phishing e-mail sponsored by the Ministry of Economy, Trade and Industry and shares information with related government ministries and agencies in its attempts to discover effective measures against fraudulent activities.

A law protecting the privacy of personal information was passed in the 156th session of Japan's Diet, obliging companies to protect the personal information they accumulate. Enforcement of the law is scheduled for April 2005. However, since the Group's procedures for dealing with personal information already meet the regulations of the new law its enforcement is expected to have almost no impact on operations. Nevertheless, as the law was going through the approval process in the Diet, it was accompanied by a proposal to create a separate law for the information and communications industries. If this proposal results in a law more severe than the current law regarding the protection of personal information, it could affect the Group's business.

Moreover, in consideration of the new laws, the discussion on revision of the Ministry of Public Management, Home Affairs and Posts and Telecommunications' "Guidelines on the Protection of Personal Data in Telecommunications Business," has been shifted in the direction of clarifying the procedures that should be undertaken by companies in telecommunications to protect personal data. The revised guidelines are scheduled to come into force from April 2005 along with the new laws. No major changes are expected in the guidelines, however, and the enforcement of the revised version should have almost no impact on the Group.

Note: Phishing fraud

This type of fraud involves getting personal information by sending email pretending to be a financial institution or a company that tricks people into accessing a fraudulent website where they are asked to input such personal information as credit card numbers, login IDs and passwords or other sensitive information. Damages from money theft using this system are mounting in Europe and the United States, and such cases have become common in Japan as well recently. The National Police Agency has posted warnings about phishing fraud on its web site.

(3) Network Security

Although the Group has established appropriate security systems to ensure the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. In particular, there have been several cases recently of specific Web sites or networks being

targeted by sending huge volumes of data over a short period for the purpose of paralyzing the Web site or network. Although the Group has introduced effective security programs and other measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results and financial condition.

6. Other Overall Business Risks

(1) Increased Risk from Diversification and New Business

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

Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group's profitability may decline temporarily.

In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover its investment expenses and that this will significantly impact its performance.

(2) Keeping Up with Technology

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Group's services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States. With this, the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including a rising level of expenditures for localizing operation of the services.

The Group's small-scale capabilities in research and development could also impede competitiveness due to such factors as more time needed for development. Either of these contingencies could severely impact operating results.

Recently, use of the Internet through mobile phones and other mobile terminals has increased. Although the Group has responded to this increase by adapting its services for use with mobile terminals, it can provide no guarantee that its services will achieve ratings in this medium on a par with mobile terminals use with personal computers. User share could fall as a result and result in larger expenditures for services development that could compress the Group's profits.

(3) Dependence on Third Parties

Although the Group works continuously to build the value it supplies its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Group purchases this content from third parties on contract. Failure to

consistently provide high-quality content that appeals to users could lower traffic and subsequently impact advertising revenue.

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken or these providers were unable to continue handling large volumes of access, the Group's business and operating results could suffer substantial negative effects. In addition, the Group depends on hardware suppliers for rapid delivery, installation and servicing of servers and other equipment necessary for providing information services. Error or delay on the part of these companies could damage the Group's relationship with users, hurt its brand image or impair its operations.

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party's system. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the related sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise that obstructed operation or that some other event could cause the system of a third party to which the Group's service is linked to stop. Such events could lead to the loss of sales opportunities and reduce the competitiveness of the Group's system, negatively impacting the Group's performance or in the worst case resulting in the termination of the service.

The Group not only relies on the previously mentioned Internet providers but also many of its services rely on third parties that the Group has consigned operations to or receives information or support from. It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in a negative impact on performance.

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

(4) Collection of Sales Credit Claims

In sales of advertising and other products, the Group carefully examines the credit standing of sellers, following a set of internal rules. It also undertakes sufficient precautions so the collection of sales credit claims will not be delayed in cases of credit card settlements through sales agents. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the occurrence of defaults. With the expansion of business, the Group has seen and expects to continue to see a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

(5) Dependence on Specific Customers

In each of its businesses, the Group has a degree of dependence on sales to specific customers or by specific agencies.

In terms of advertising sales, the revenue of the Group from sales agents, such as certain advertising companies and media reps, provides a high proportion of the advertising sales. Moreover, advertising revenue from Sponsor Sites operated through a business alliance with Overture are growing steadily, and account for a significant proportion of total advertising sales.

As for business service sales, the amount of incentive fees paid for acquiring new Yahoo! BB members is still large and SBB accounts for a high proportion of overall sales. In the other business divisions, the Group has major business transactions with specific companies among the customers we make sales to and these transactions account for a growing percentage of the Group's sales revenue.

If there was a change in the business relationships with or sales to or by these customers or agents or a deterioration in their business conditions or a problem with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

(6) The Risks of Doing Business with a Large Pool of Unspecified Customers

Along with the expansion of its Yahoo! BB and Yahoo! Auctions operations and the ramping up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's business that comprises direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to be responsible for strengthening management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that compared with its previous focus on corporate customers the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems and the costs of receivables collection. In particular, it is expected that the funds borrowed to allow Netrust, Ltd., to reimburse sellers of items on its auction site based on the previously described Yahoo! ezPay service will increase to a significant amount. If the recovery of these reimbursed funds is blocked in some way, it could incur serious negative impact on the Group's business, operating results and financial condition.

It is also possible that the nature and quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of its services. But they may now shift to inquiries about payment, the return or exchange of services and goods and matters related to commissioned third parties, such as distribution or settlement. In order to properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing businesses and computerizing them. It is possible that the costs of these measures and improvements could negatively affect the Group's profits. In addition, it does not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

(7) Continued Support from Senior Management, Etc.

The Group depends on continued support from senior management and key technical personnel. These include the president, directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technological expertise concerning the Group and its business. Consequently, if key personnel were to leave and the Group fails to replace them that would negatively influence the continuation and development of the business.

In addition, some senior managers participate in one of the Group's personnel incentive measures, the stock option plan. Depending on the fortunes of the stock market, it is possible that these stock options may not motivate the participants in the plan and indeed may reduce their motivation and cause them to leave the Group.

(8) Internal Control System and Human Resources

In addition to the enhancement of personnel and the organization for greater advertising sales and technology development, the Group must increase staff to support the large number of new Web sites created by the recent surge in Internet use, to carry out the operation and management of its community and shopping services, and to control billing and offer customer support concerning fee-based services related to Yahoo! BB.

Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems with users and tenants, and affect the efficiency of operations.

To respond to personnel increases and business diversification, the Group must further improve its administrative control systems. Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.

To prevent problems resulting from human error in business, such as the inappropriate management of test IDs for Yahoo! Auctions revealed in March 2002, the Group has taken such measures as stricter controls and operation standards for behavioral norms so that such problems do not occur due to improper conduct by internal staff. Nevertheless, there remains the possibility of similar problems occurring in the future in terms of business management and control.

(9) Risk Regarding Consolidated Group Operations

There are risks because the Group's subsidiaries and affiliates are generally small scale, and accordingly, because their in-house management systems are also small scale. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect the Group's performance.

Tie-ups with the Company's services or network or personnel support are essential to the operations of any of the services of its subsidiaries and affiliates. The related sections of the Company work closely with the individual subsidiaries and affiliates to provide that support. However, it is possible that it will become difficult to adequately provide this cooperation or support due to the expansion of the businesses of the Company, its subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several of the subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partners, especially in the areas of sales, supplies, distribution, and systems. At this time, relationships with the joint venture partners are excellent, and the cooperative

relationships with these partners contribute strongly to the performance of these Group companies. However, if for some reason a situation occurred that created an obstruction to the business cooperation or the tie-up between the partners it could be damaging to the performance of each company and, depending on the company, it may become impossible to continue to operate.

(10) Share Distribution

At December 31, 2004, the major shareholders of Yahoo Japan Corporation held a very high stake in the Company, with over 75% of its equity owned by SOFTBANK CORP. and Yahoo! Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares, but at present it is difficult to imagine any significant change in the short term. As a result, it is highly likely that the proportion of fixed shares will remain high for the time being. It is possible in the worst case scenario that the Company would violate the listing standards of the stock exchange its shares are listed on.

The Company has made and intends to continue efforts to increase the liquidity of its shares and the number of shareholders. It has made a number of stock splits in the past and is working to increase recognition of the Company among potential shareholders by conducting vigorous investor relations programs.

(11) International Conflicts, Terrorist Attacks and Natural Disasters

In the event of outbreaks of international conflicts or terrorist attacks or large-scale natural disasters, such as earthquakes and tidal waves, the Group expects that its businesses would also be substantially affected.

Specifically, under the impact of such an event the Group's advertising revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group site, causing a disruption in planned advertising business. Or, for its own reasons, the advertising company might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might also be interrupted or some other circumstance arise where users would not longer be able to use the Group's pay services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, the Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and related companies or SBB and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to continue operations.

(12) Legal Restrictions, Lawsuits and Intellectual Property Rights

a. Government Regulations

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

The Law Regarding Limitations on the Liability of Providers of Specified Electronics Communications Services and Regarding Privacy of User Information was passed during the 153rd session of the Diet. However, this law only clarifies the scope

of liability for illegal behavior previously provided by civil law and does not increase the liability of businesses that act as intermediaries in distributing information over the Internet. Nevertheless, the passing of the new law may start a social movement toward requiring greater responsibility of information distribution intermediaries. There is a possibility that the Group's business may be restricted through the introduction of new laws or the implementation of rules on self-regulation.

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

b. Potential Litigation

Moves are being made to regulate the flow of information on the Internet, both to ban the distribution of illegal or harmful content and to protect the privacy of individuals.

To avoid conflict with Japanese legal restrictions, the Group established a Banner Advertisement Presentation Standard that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Group also maintains the right to list Web sites and remove Web sites listed on its Internet directory search services at any time. In addition, the Group fully discloses its legal obligations in written contracts with the creators of these Web sites with clauses indicating the full responsibility of creators for the content of their sites. For such services as auctions and bulletin boards, where users can transmit information freely, the Group indicates clearly in its contracts with users that illegal or harmful content is prohibited and that full responsibility lies with the user. The Group maintains the right to remove content and will do so any time it discovers content in violation of its contracts with users.

Through such internal regulations the Group prohibits illegal and slanderous content on its site and protects the privacy of users. In addition, the Group publishes a disclaimer stating clearly that the user takes full responsibility for Web browsing and that the Group accepts no responsibility for damage caused to users during Web browsing. To protect minors from harmful content, the Group is implementing such programs as Yahoo! Kids. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The Group could be subject to claims, damage suits or reprimands from users, related parties or government agencies in regard to the content of advertisements, Web sites accessed through links on its site, contributions to community message boards and trading on its auction business. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Web site content of the many retailers using these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss or difficulty in the delivery of said items. However, the possibility exists that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Furthermore, if the current proposed treaty regarding the jurisdiction of international courts is approved it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

c. Patents, Copyrights, and other Intellectual Assets of Third Parties

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover not only technology but also business models. As such, the possibility exists that third parties in possession of these patents will make claims or file suits against the Group and that the Group will be prohibited from using such technology or forced to pay large royalties to acquire said patents. In addition, the extent to which patent rights can be applied remains unclear.

As such, to avoid potential conflicts the Group may be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographical boundaries for application of patent rights also remain unclear. Consequently, the Group cannot rule out the possibility of patent issues arising overseas, in addition to in Japan.

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to say that such a problem could not occur. In such a case, the Group may be sued for compensation, required to pay substantial royalty fees or have to cease providing certain services.

(13) Change in Accounting Standards

Against the backdrop of the recent trend to establish international accounting standards, the Group has taken action appropriately and quickly to change its accounting standards for severance and retirement benefits, financial instruments, and other categories. A significant change in accounting methods for the recognition of stock option expenses or other income or expense recognition could have a material impact on the Group's profits or losses.

(14) Revision of Business Forecasts

The pace of change in technology and the market in the Internet sector in which the Group is categorized is rapid, and the advertising business is highly susceptible to overall economic trends.

The Group determines its forecasts for sales and costs based on the assumption of a certain usage rate of each of its services, etc. However, the business environment surrounding the Group can change drastically, and actual business results may differ considerably from the announced forecast.

When such a difference is recognized, the Group will announce a revision of the forecast on a timely basis.

7. Risks Concerning Investment, Loan and Capital Investment Programs

(1) Investment

As of December 31, 2004 the Group has invested in 39 companies and cooperatives including the main companies stated in the List of Companies Invested in by Yahoo Japan Corporation. These investments have been made to form ties with the companies invested in and their businesses or to form business ties for the future. The Group cannot guarantee that these investments will be recovered.

Although as of December 31, 2004, 5 of these companies had been publicly listed and the value of the Company's investment in all of these companies had increased, this value could decline in the future.

The Group takes the utmost care to ensure that the performances of the companies it invests in are reflected appropriately in its own performance by operating according to in-house rules in accordance with general accounting standards and by applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies they could have an even greater adverse effect on the Group's fiscal profit or loss in the future.

To pursue business synergies or the expansion of the Group's business, it is anticipated that the Company will further invest or loan funds for capital participation in third-party companies, fund joint ventures and engage in new investments by establishing companies, etc., or by adequately providing for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risk of said investments or loans based on thorough analysis and compliance with in-house procedures. However, if these new investments or loans do not achieve the originally planned level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's financial condition in future.

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and to continue introducing such new services as streaming video and audio, the Group has a capital investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after the other to adequately cope with higher peaks in access volume and larger volumes of data transmission over a short period. Consequently, the Group anticipates a growing necessity for even larger capital investments than in the past in a timely manner to build systems and networks to smoothly control large volumes of communications traffic, strengthen security systems to protect settlement services and the personal information of customers, and expand systems to appropriately respond to the growth and diversification in user inquiries. Furthermore, in response to growth in business scope the Group assumes that it will have to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group will take care to ensure that unnecessary cash outflows do not occur by closely considering costs and benefits, focusing on keeping the system development and equipment purchase expenses reasonable.

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact

future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of disposal of current facilities.

(3) Participation in Finance Scheme for Yahoo! BB

In a meeting of the board of directors held on July 17, 2003, based on the following finance scheme the Group decided to make a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental PLC and is registered in the Cayman Islands. On July 31, 2003, the Group made a loan of ¥5.7 billion that will mature in 42 months.

Finance Scheme Summary

- The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments in a *Tokumei Kumiai* (TK), an anonymous partnership. This amount is structured as senior and mezzanine loans and a TK investment.
- The SPC acquires modems and a modem rental agreement from SBB and pays SBB for them using the funds raised.
- The SPC operates a modem rental business and pays principal and interest to lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fee revenues).
- In the case that modem rental fees are not paid using the underlying assets, SBB will provide credit compensation under the terms outlined in the guarantee agreement.

The scheme is based on the assumption that the originally estimated rental fees will be paid from the underlying assets and that SBB will provide credit compensation if the rental fees are not paid from the underlying assets. If for some reason a situation arises where SBB cannot adequately perform on its pledge to provide credit compensation, it could prevent the recovery of the principal and interest on the Company's portion of the financing.

In principle, the Group's risk in the above financing scheme is limited to the principal and interest on its loan. The Group does not intend to make any commitment to invest additional capital in the scheme.

If, in future, SBB should decide to raise further funds based on identical or similar finance schemes, the Company will examine the conditions and nature of each finance scheme on a separate basis and make a decision on whether to extend loans based on the merits of each case.

Main Companies Invested in by Yahoo Japan Corporation

(As of Dec. 31, 2004)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	9.90	4,127	Internet technical-support service		
2	Vector Inc.	OSE Hercules	99/03/26	10.72	1,398	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	Yes
3	Oricon Inc.	OSE Hercules	00/03/30	1.51	505	Construction and supply of music-related databases	Alliance for Yahoo! Music/music shopping	
4	Weathernews Inc.	TSE 1st Section	99/06/01	3.80	326	Weather observation, data collection and analysis, weather forecast, and related information services		
5	E-net Japan Corporation	OSE Hercules	00/12/16	4.78	308	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping/Auctions tenant	
6	CyberMap Japan Corp.		98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
7	Carview Corporation		99/10/05	6.54	38	Offering car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos	
8	ARCHINET, Inc.		01/01/23	8.91	12	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
9	Cafeglobe.com Inc.		01/02/01	11.18	7	Operation of cafeglobe.com, an information site for women	Alliance for Yahoo! Gourmet/Beauty	
10	istyle Inc.		01/04/23	5.67	5	Operation of @cosme, a cosmetics and beauty information site	Alliance for Yahoo! Beauty	
11	Total of 22 other companies				87			
Shares in affiliated companies								
1	All About, Inc.		04/09/08	41.34	2,239	General information site based on expert guides, Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
2	YUME NO MACHI SOUZOU IINKAI Co., LTD.		04/10/20	30.17	388	Internet-based ordering of delivery services	Alliance for regional information services	Yes
3	Tavigator, Inc.		00/03/07	30.00	129	Sales of travel gear on the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
4	INTAGE Interactive Inc.		02/10/01	49.00	89	Internet-based marketing research services	Alliance for Yahoo! Research	Yes

Investments								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		778			
2	Other investments				22			

- Notes:
- In principle, the date of acquisition is the day that the Company became a shareholder.
 - B/S accounting amounts are shown on a consolidated basis in units of millions of yen. As reference, the main subsidiaries' non-consolidated B/S accounting amounts are shown in the following table.
 - In addition to the above, the Company plans to include CREO CO., LTD. and AccessPort Inc. as consolidated affiliates accounted for by the equity method.

Company	B/S accounting amount (¥ MM)	Line of business
Firstserver, Inc	1,730	Server rental, domain registration, and other Internet-related information processing services
broadcast.com japan k.k.	810	Planning and creating regional maps, and providing regional map data and regional information services and others
e-Shopping! Books CORP.	350	Internet-based sales of publications, CDs, DVDs, and others and related services
VACS Corporation	240	Development and sales of PC software
BridalNet, Inc.	229	Web-based marriage matchmaking service
NETGENE Co., Ltd.	168	Development of applications for mobile devices
Surfmonkey Asia Inc.	123	Internet browsing censorware for homes and schools
Netrust, Ltd	120	On-line settlement services
Indival, Inc.	120	Web-based recruiting services.
UniCept, Inc.	50	Consulting for Internet business and a range of planning, development, and operation services
Y's Insurance Inc.	30	Life/non-life insurance agency business
GeoCities Japan Corporation	10	Maintaining domain names (protect services being offered by the Company)
Y's Agencies Inc.	10	Planning and sales of ad products
Y's Sports Inc.	0	Collecting sports information and producing articles and content
BridalConcierge Corp.	0	Maintaining domain names (protect services being offered by the Company)
egg-i.inc.		Wholly owned subsidiary of NETGENE Co., Ltd. Currently, not in actual operation.
eS! Books Research CORP.		Maintaining domain names. Wholly owned subsidiary of Seven and Y Corp.

Note: On January 5, 2005, e-Shopping! Books CORP. changed its name to Seven and Y Corp.