

# Results for the Fiscal Year and Three Months Ended March 31, 2005 (FY2004-4Q) (Consolidated Basis)

2005.4.20

Company name **Yahoo Japan Corporation** (Code number: 4689 TSE 1<sup>st</sup> 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 2      Subsidiary removed from consolidation 0  
     Company newly accounted for by the equity method 2  
     Company no longer accounted for by the equity method 0

## 2. Results for FY2004-4Q (Jan. 1, 2005 - Mar. 31, 2005)

### (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 (%)	
FY2004-4Q	35,841	(58.7)	17,539	(40.9)	17,485	(39.2)	10,316	(33.5)
FY2003-4Q	22,580	(16.4)	12,443	(59.8)	12,559	(70.1)	7,726	(116.8)
(For reference)								
FY2004	117,779	(55.4)	60,187	(46.0)	60,295	(46.0)	36,521	(47.1)
FY2003	75,776	(28.2)	41,211	(71.2)	41,308	(75.6)	24,826	(105.2)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-4Q	1,308.35	1,304.64
FY2003-4Q	3,843.60	3,830.69
(For reference)		
FY2004	4,766.03	4,750.62
FY2003	12,892.72	12,851.03

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

FY2004-4Q: 7,884,950 shares      FY2003-4Q: 2,010,123 shares  
 FY 2004: 7,629,257 shares      FY 2003: 1,915,795 shares

2. Percentage change figures for 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 4~5 and 13~14 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
FY2004-4Q	130,244	96,059	73.8	12,702.14
FY2003-4Q	82,410	59,806	72.6	31,643.23

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

FY2004-4Q: 7,549,883 shares

FY2003-4Q: 1,886,016 shares

For detailed information regarding changes in financial status, please see Pages 8~10 and 16~17 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
FY2004-4Q	20,896	-6,668	197	68,992
FY2003-4Q	11,739	-1,701	566	39,643
(For reference)				
FY2004	46,083	-17,119	384	68,992
FY2003	26,147	-10,913	1,194	39,643

## 3. Business Outlook for FY2005-1Q (Apr. 1, 2005 - Jun. 30, 2005)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-1Q	36,600~39,200	15,650~17,250	8,900~10,000

Estimated consolidated net income per share for quarter: ¥ 1,166.56 ~ ¥ 1,310.74

(For reference) Non-Consolidated Business Outlook for FY2005-1Q (Apr. 1, 2005 - Jun. 30, 2005)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-1Q	32,300 ~ 34,600	17,150 ~ 18,600	10,450 ~ 11,400

Estimated non-consolidated net income per share for quarter: ¥ 1,369.73 ~ ¥ 1,494.25

### 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 6 of the Attached Materials.

Yahoo Japan Corporation plans to carry out a stock split on May 20, 2005. However, the average number of outstanding shares used in the calculation of estimations above is the average for the fiscal year ended March 2005.

**[For reference] Non-Consolidated Results for FY2004-4Q (Jan.1, 2005 - Mar. 31, 2005)**

**(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 (%)
FY2004-4Q	31,730 (51.9)	17,730 (45.1)	18,040 (44.9)	10,708 (46.8)
FY2003-4Q	20,891 (14.2)	12,222 (53.7)	12,448 (64.6)	7,296 (102.6)
(For reference)				
FY2004	107,407 (52.8)	60,318 (47.3)	60,922 (48.2)	37,157 (52.8)
FY2003	70,308 (27.0)	40,939 (66.2)	41,104 (70.4)	24,322 (94.6)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-4Q	1,358.07	1,354.21
FY2003-4Q	3,629.99	3,617.80
(For reference)		
FY2004	4,849.47	4,833.79
FY2003	12,629.69	12,588.85

Notes: 1. Average outstanding shares during the periods

FY2004-4Q:	7,884,950 shares	FY2003-4Q:	2,010,123 shares
FY2004:	7,629,257 shares	FY2003:	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
FY2004-4Q	126,210	96,830	76.7	12,804.29
FY2003-4Q	80,905	59,940	74.1	31,714.32

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

FY2004-4Q:	7,549,883 shares	FY2003-4Q:	1,886,016 shares
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## Attached Materials

### Highlights for the Fiscal Year Ended March 31, 2005

- Yahoo Japan Corporation and its consolidated subsidiaries and affiliates posted strong gains during the fiscal year under review. Net sales rose 55.4% year on year, to ¥117.7 billion while operating income advanced 46.0%, to ¥60.1 billion, and ordinary income increased 46.0%, to ¥60.2 billion. Net income amounted to ¥36.5 billion, a 47.1% increase year on year. Operating margin for the fiscal year was 51.1%.
- During calendar year 2004, Japan's overall advertising market turned upward for the first time in four years. According to Dentsu Inc.'s report on "Japanese Advertising Expenses in 2004," Internet advertising expanded to ¥181.4 billion, exceeding radio advertising for the first time. Amid this jump in growth, the Group aggressively marketed core products, such as Brand Panel for top pages, to National Clients. Sponsor Site sales were also strong. As a result, advertising sales for the fiscal year reached a record high, soaring 74.8% from the previous fiscal year, to ¥38.9 billion.
- In business services other than advertising, sales were favorable for Yahoo! Rikunabi, the employment information site launched in April 2004. Moreover, the number of merchant stores registered on Yahoo! Auctions reached 3,556 at the end of March 2005, climbing 1,145 stores, or 47.5%, within the space of one year. Yahoo! Shopping also added many new stores during the fiscal year, ramping up its total number of stores to 3,298 at the end of March 2005, a gain of 1,674 stores, or 103.1%. Yahoo! Shopping conducted a variety of sales promotions based on the Yahoo! Point System to increase transaction volume. Yahoo! Research and other services for corporate customers also performed well, and business service sales rose sharply to ¥23.6 billion, up 74.4%.
- In the Group's personal service business, the number of Yahoo! Premium member IDs surpassed 5 million at the end of February 2005 while the number of registered Yahoo! Wallet member IDs exceeded 10 million in January 2005. Yahoo! Wallet is a secure registration service for a user's payment method for Yahoo! JAPAN's fee-based content and other services. Yahoo! Auctions' transaction volume remained level in the first half due to strengthened measures for security. However, transaction volume moved up sharply in the second half thanks to year-end demand and promotion campaigns. Yahoo! BB's ISP revenues were also strong. As a result, personal service sales rose to ¥48.1 billion, up 35.8%.
- Total commerce transaction volume for the fiscal year rose 25.6%, to ¥681.8 billion. This figure includes transaction volumes for Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, 7 & Y, and Yahoo! Tickets.
- Daily access exceeded one billion page views for the first time on October 20, 2004.

## **Fourth Quarter Highlights for the Fiscal Year Ended March 2005**

- Supported by good growth in the advertising and business service sales of the Listing Business Division and in the sales of Seven and Y Corp., net sales for the fourth quarter expanded 15.7% from the previous quarter and 58.7% year on year, to ¥35,841 million. Ordinary income increased 13.0% from the previous quarter and 39.2% from a year earlier, to ¥17,485 million. As a result, net sales and ordinary income of the quarter exceeded the projected range.
- In addition to growing Sponsor Site sales, there was strong branding-conscious advertising demand, particularly among National Clients. As a result, advertising sales reached a record high, rising 18.3% from the previous quarter and 75.4% year on year, to ¥12,485 million.
- Bolstered partially by the full-scale start to the recruiting season, the employment information site Yahoo! Rikunabi performed well during the quarter, helping business service sales of the Listing Business Division expand favorably. Advertising sales of Listing Business Division also posted growth.
- During the quarter, the Auction Business Division increased the convenience of its Yahoo! ezPay service by adding Internet bank accounts as well as credit cards to its payment method. Moreover, it increased the safety of its service by prohibiting the listing of items for auction with the intention of using the payment from the winner of the auction to purchase the item and make a profit. Operating income declined compared with the previous quarter because of the booking of estimated amounts when compensation claims were filed during the quarter in addition to the previously used method of booking actual amounts when paid.
- The Shopping Business Division continued to focus on attracting new stores, and strengthened its support for stores already on the site. At the end of March 2005, a total of 3,298 stores were registered on Yahoo! Shopping, an increase of 488 stores, or 17.4%, from the previous quarter.

## 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.

### Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 2006 (FY2005-1Q):

Net sales	¥ 36,600	~	¥ 39,200 Million
Ordinary income	¥ 15,650	~	¥ 17,250 Million
Net income	¥8,900	~	¥ 10,000 Million

### Non-Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 2006 (FY2005-1Q):

Net sales	¥ 32,300	~	¥ 34,600 Million
Ordinary income	¥ 17,150	~	¥ 18,600 Million
Net income	¥ 10,450	~	¥ 11,400 Million

## 1. Consolidated Balance Sheets

(Millions of yen)

	As of	As of	Comparison with the		As of
	Mar. 31, 2005	Dec. 31, 2004	previous quarter		Mar. 31, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	68,992	54,565	14,426	26.4%	39,643
Accounts receivable trade (*2)	18,293	18,108	185	1.0%	12,847
Inventory	180	47	133	281.7%	48
Accounts receivable other	616	415	201	48.5%	249
Deferred tax assets	2,233	1,278	954	74.7%	1,850
Other current assets (*3)	3,459	2,236	1,222	54.7%	1,820
Allowance for doubtful accounts (*4)	-1,364	-1,207	-157	13.0%	-733
Total current assets	92,410	75,444	16,966	22.5%	55,726
Fixed assets					
Tangible fixed assets (*5)					
Buildings and structures	1,597	1,670	-72	-4.3%	1,328
Machinery and equipment	10,095	9,967	128	1.3%	6,746
Land	0	0	-	-	0
Construction in progress	182	-	182	-	-
Total tangible fixed assets	11,875	11,637	238	2.0%	8,075
Intangible fixed assets					
Goodwill (*6)	1,807	1,917	-109	-5.7%	352
Other intangible fixed Assets (*7)	3,756	2,957	798	27.0%	1,293
Total intangible fixed assets	5,563	4,875	688	14.1%	1,646
Investments and others					
Investment securities (*8)	13,946	9,716	4,230	43.5%	9,194
Long-term loans (*3)	3,656	4,772	-1,115	-23.4%	5,915
Others	2,841	2,648	192	7.3%	1,905
Allowance for doubtful accounts	-50	-74	23	-32.1%	-53
Total investments and others	20,393	17,062	3,331	19.5%	16,962
Total fixed assets	37,833	33,575	4,258	12.7%	26,683
<b>Total assets</b>	<b>130,244</b>	<b>109,019</b>	<b>21,224</b>	<b>19.5%</b>	<b>82,410</b>

(Millions of yen)

	As of Mar. 31, 2005	As of Dec. 31, 2004	Comparison with the previous quarter		As of Mar. 31, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable trade	1,228	1,312	-84	-6.4%	636
Short-term loans	319	193	125	65.0%	400
Accounts payable other (*9)	7,618	7,035	583	8.3%	4,181
Accrued income taxes (*10)	16,676	8,363	8,312	99.4%	11,688
Reserve for point system (*11)	477	280	197	70.3%	-
Other current liabilities (*12)	5,243	4,193	1,049	25.0%	2,655
Total current liabilities	31,564	21,379	10,184	47.6%	19,563
Long-term liabilities					
Long-term accrued payables	2	3	-1	-31.7%	73
Long-term deferred taxes (*13)	1,946	1,713	233	13.6%	2,534
Reserve for retirement allowances	13	13	0	4.6%	12
Other long-term liabilities	195	231	-36	-15.6%	152
Total long-term liabilities	2,158	1,962	196	10.0%	2,772
Total liabilities	33,723	23,342	10,381	44.5%	22,335
<b>Minority interests in consolidated subsidiaries</b>					
Minority interests in consolidated subsidiaries	461	451	9	2.2%	267
<b>Shareholders' equity</b>					
Common stock (*14)	6,692	6,637	54	0.8%	6,399
Additional paid-in capital	1,773	1,718	54	3.2%	1,480
Retained earnings (*15)	83,461	73,144	10,316	14.1%	47,066
Other securities evaluation adjustment (*16)	4,161	3,753	408	10.9%	4,880
Treasury stock	-27	-27	-0	2.3%	-21
Total shareholders' equity	96,059	85,225	10,833	12.7%	59,806
<b>Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity</b>	130,244	109,019	21,224	19.5%	82,410

## 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 growth in accounts receivable—trade compared with the end of previous quarter was only slight despite increases in personal service and advertising sales because of a shorter collection cycle applied to our Sponsor Site business partner, Overture.
- \*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 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 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 Although there was another acquisition of a subsidiary booked during the quarter, goodwill declined compared with the previous quarter due to the amortization of amounts from previous periods. Goodwill is 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 The increase in investment securities compared with the previous quarter and fiscal year was principally due to the acquisition of stocks of affiliates.

### **Liabilities**

- \*9 The growth in accounts payable—other year on year resulted primarily from the increase in operating expenses and the purchase of software, etc.
- \*10 Accrued income taxes is the estimated amount of income taxes for the fiscal year under review less the interim payment made.
- \*11 Reserve for point system is the amount of points expected to be used of the points granted under the Yahoo! Point system.
- \*12 The expansion in other current liabilities compared with the previous quarter and year on year was mainly due to an increase in accrued consumption tax, an increase in the allowance for sales returns of consolidated subsidiaries, and the booking of the estimated amount of auction compensation payments.
- \*13 Deferred taxes chiefly arise 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 increase in the other securities evaluation adjustment compared with the previous quarter and decrease compared with the previous fiscal year was mainly due to the mark-to-market of investment securities.

## 2. Consolidated Statements of Income (Jan. 1, 2005 - Mar. 31, 2005)

(Millions of yen)

	Three months ended Mar. 31, 2005		Three months ended Dec. 31, 2004	Comparison with the previous quarter		Three months ended Mar. 31, 2004
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	35,841	100.0%	30,965	4,876	15.7%	22,580
Cost of sales	3,256	9.1%	2,233	1,022	45.8%	1,508
Gross profit	32,585	90.9%	28,732	3,853	13.4%	21,072
SG&A expenses	15,046	42.0%	13,273	1,773	13.4%	8,628
Personnel expenses (*1)	2,850	8.0%	2,478	372	15.0%	1,915
Business commissions (*2)	1,894	5.3%	1,826	68	3.7%	992
Sales commissions	1,500	4.2%	1,311	189	14.4%	928
Depreciation expenses	1,386	3.9%	1,235	150	12.2%	923
Communication charges	1,166	3.3%	1,097	68	6.3%	805
Royalties (*3)	960	2.7%	1,098	-138	-12.6%	583
Lease and utility expenses	802	2.2%	745	57	7.7%	348
Content provider fees	615	1.7%	611	3	0.7%	444
Sales promotion costs (*4)	606	1.7%	721	-114	-15.8%	276
Payment commissions (*5)	521	1.5%	406	115	28.4%	206
Advertising costs (*6)	361	1.0%	255	106	41.9%	70
Compensation payment (*7)	324	0.9%	181	143	79.4%	145
Allowance for doubtful debt accounts	255	0.7%	268	-12	-4.6%	197
Amortization of business rights (*8)	217	0.6%	-	217	-	-
Public relations costs (*9)	217	0.6%	24	192	787.2%	68
Others (*10)	1,363	3.7%	1,012	350	34.6%	719
Operating income	17,539	48.9%	15,458	2,080	13.5%	12,443
Non-operating expenses (income)	-53	-0.1%	8	-61	-	115
Ordinary income	17,485	48.8%	15,466	2,018	13.0%	12,559
Extraordinary gains (losses)	20	0.0%	-131	152	-	-37
Quarterly income before income taxes	17,505	48.8%	15,335	2,170	14.2%	12,522
Income taxes, inhabitants' taxes and enterprise taxes	8,195	22.9%	6,086	2,108	34.6%	5,835
Adjustment to income taxes	-1,010	-2.9%	28	-1,038	-	-1,069
Minority interests in gain (loss) of consolidated subsidiaries	4	0.0%	-31	36	-	30
Quarterly net income	10,316	28.8%	9,252	1,064	11.5%	7,726

## Consolidated Statements of Income (Apr. 1, 2004 - Mar. 31, 2005)

(Millions of yen)

	Fiscal year ended Mar. 31, 2005		Fiscal year ended Mar. 31, 2004	Comparison with the previous fiscal year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	117,779	100.0%	75,776	42,002	55.4%
Cost of sales	8,931	7.6%	5,292	3,639	68.8%
Gross profit	108,847	92.4%	70,483	38,363	54.4%
SG&A expenses	48,660	41.3%	29,272	19,387	66.2%
Personnel expenses (*1)	9,536	8.1%	6,781	2,754	40.6%
Business commissions (*2)	6,481	5.5%	3,366	3,115	92.6%
Sales commissions	4,778	4.1%	3,038	1,740	57.3%
Depreciation expenses	4,462	3.8%	3,003	1,459	48.6%
Communication charges	4,138	3.5%	2,860	1,277	44.6%
Royalties	3,379	2.9%	1,963	1,416	72.1%
Lease and utility expenses	2,561	2.2%	1,284	1,276	99.3%
Content provider fees	2,357	2.0%	1,724	633	36.7%
Sales promotion costs	2,134	1.8%	1,237	897	72.5%
Payment commissions (*5)	1,444	1.2%	606	838	138.3%
Advertising costs (*6)	988	0.8%	309	679	219.8%
Compensation payment (*7)	860	0.7%	353	507	143.6%
Allowance for doubtful debt accounts	847	0.7%	421	425	101.0%
Administrative and maintenance expenses	696	0.6%	403	292	72.4%
Packing and transport expenses	686	0.6%	477	208	43.6%
Others	3,307	2.8%	1,440	1,867	129.7%
Operating income	60,187	51.1%	41,211	18,975	46.0%
Non-operating income (expenses)	108	0.1%	97	11	11.4%
Ordinary income	60,295	51.2%	41,308	18,987	46.0%
Extraordinary gains (losses)	435	0.4%	-259	695	-
Income before income taxes	60,730	51.6%	41,048	19,682	47.9%
Income taxes, inhabitants' taxes and enterprise taxes	24,706	21.0%	17,032	7,673	45.1%
Adjustment to income taxes	-467	-0.4%	-861	393	-
Minority interests in loss (gain) of consolidated subsidiaries	-28	-0.0%	50	-79	-
Net income for the period	36,521	31.0%	24,826	11,694	47.1%

## **Main Points Regarding Statements of Income**

### **Net Sales**

The increase in net sales from the previous quarter and year on year was chiefly due to growth in the advertising and business service sales of the Listing Business Division and the sales of Seven and Y Corp. Sales of consolidated subsidiaries, on a gross total basis, were ¥4,541 million for the fourth quarter.

### **Cost of Sales**

The increase in cost of sales from the previous quarter and year on year was primarily the result of an increase in the procurement of books by Seven and Y Corp. and the addition starting in the fourth quarter of the cost of making maps by ALPS MAPPING K.K.

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

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

At the end of the fourth quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 1,755, up 739, or 72.7%, from the end of the same quarter in the previous fiscal year.

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

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

#### **\*3 Royalties**

Royalties declined compared with the previous quarter in reaction to the additional charge booked during the previous quarter due to a revision in the method of calculating royalties.

#### **\*4 Sales promotion costs**

The decrease in sales promotion costs in the fourth quarter compared with the previous quarter was principally in reaction to the additional costs booked in the third quarter due to a change in the timing of the booking of the expenses of the Yahoo! BB subscriber introduction campaign.

#### **\*5 Payment commissions**

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

#### **\*6 Advertising expenses**

Advertising costs were higher than in the previous quarter and year on year mainly because of the advertising campaign for the Yahoo! Business Travel Plan and the purchase of the naming rights for the Fukuoka Yahoo! JAPAN Dome.

\*7 Compensation payment

The growth in compensation payment in the fourth quarter compared with the previous quarter and year on year can be attributed the booking of estimated amounts when compensation claims were filed during the quarter in addition to the previously used method of booking actual amounts when paid.

\*8 Amortization of business rights

Amortization of business rights arose due to the business rights from the transfer of business of ALPS MAPPING K.K.

\*9 Public relations costs

The increase in public relations costs in the fourth quarter compared with the previous quarter and year on year was mainly due to expenses related to providing a special benefit plan for shareholders.

\*10 Others

The major components of others were maintenance expenses for servers and other equipment, packing and transport expenses of Seven and Y Corp., and taxes and public dues.

**Non-Operating Income (Expenses)**

The main component of non-operating income for the fourth 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 Gains (Losses)**

The major extraordinary gain posted during the fourth quarter was on sale of investment securities.

**Income Taxes, etc.**

The effective income tax rate for the fourth quarter was 41.0%.

**Minority Interests in Gain (Loss) of Consolidated Subsidiaries**

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

**Quarterly Net Income**

Net income per share for the fourth quarter amounted to ¥1,308.35.



### 3. The Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2005
<b>Cash flows from operating activities:</b>		
Income before income taxes	17,505	60,730
Depreciation and amortization	1,425	4,531
Amortization of goodwill	173	330
Increase in allowance for doubtful accounts	131	626
Additions to reserve for point system	197	477
Increase in reserve for retirement allowances	0	1
Loss on disposal of fixed assets	69	325
Loss on sale of fixed assets	-	66
Loss on evaluation of investment securities	-	0
Gain/ loss on sale of investment securities	-20	-566
Exchange gains/ losses	-0	-0
Equity in gain/loss under the equity method	360	427
Gain/Loss on change in affiliate holding ratio	1	1
Proceeds from interest and dividends	-172	-707
Interest expense	1	7
Increase in inventory	-80	-62
Decrease/increase in accounts receivable trade (*1)	121	-5,034
Decrease/Increase in accounts payable trade	-87	538
Increase/decrease in accounts receivable other	-313	253
Increase in accounts payable other (*2)	1,142	3,919
Increase in consumption tax payable	312	434
Payment of bonuses to directors	-	-127
Other cash flows	128	-1
Payment of income taxes and other taxes	-0	-20,089
<b>Cash flows from operating activities</b>	<b>20,896</b>	<b>46,083</b>
<b>Cash flows from investing activities:</b>		
Expenditures on tangible fixed assets (*3)	-1,944	-7,650
Expenditures on intangible fixed assets (*4)	-704	-2,278
Expenditures on investment securities (*5)	-3,027	-5,815
Proceeds from sale of investment securities	23	737
Expenditures on equity funds	-35	-47
Expenditures from acquisition of stocks of subsidiaries	-	-1,128
Proceeds from acquisition of stocks of subsidiaries (*6)	56	68
Proceeds from recovery of lending	25	99
Expenditures on increase in guarantee deposit assets	-903	-1,399
Proceeds from decrease in guarantee deposit assets	8	33
Expenditures on transfer of business	-308	-308
Proceeds from interest and dividend (*7)	139	581
Other cash flows	2	-9
<b>Cash flows from investing activities</b>	<b>-6,668</b>	<b>-17,119</b>



(Millions of yen)

	Three months ended Mar. 31, 2005	Fiscal year ended Mar. 31, 2005
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loan (*8)	200	880
Redemption of short-term loan (*8)	-100	-1,012
Proceeds from issuance of shares (*9)	109	584
Expenditures on treasury shares	-0	-6
Interest expenses	-1	-7
Other cash flows	-10	-53
Cash flows from financing activities	197	384
Effect of exchange rate changes on cash and cash equivalents	0	0
Net change in cash and cash equivalents	14,426	29,348
Cash and cash equivalents at the beginning of term	54,565	39,643
Cash and cash equivalents at the end of term	68,992	68,992

## Main Points Regarding Statements of Cash Flows

### Cash Flows from Operating Activities

\*1 Accounts receivable trade

The decrease was mainly attributable to the shorter collection cycle applied to our Sponsor Site business partner, Overture.

\*2 Accounts payable other

The increase was mainly attributable to growth in payables.

### Cash Flows from Investing Activities

\*3 Expenditures on tangible fixed assets

Expenditures were a result of purchase of servers and other equipment and fixtures purchase due to office space expansion.

\*4 Expenditures on intangible fixed assets

Expenditures were chiefly for the purchase of software.

\*5 Expenditures on investment securities

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

\*6 Proceeds from acquisition of stocks of subsidiaries

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

\*7 Proceeds from interest and dividends

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

### **Cash Flows from Financing Activities**

- \*8 Proceeds and Redemption of short-term loan  
Proceeds and expenditures resulted from the borrowing and redemption of short-term loans of subsidiaries.
  
- \*9 Proceeds from issuance of shares  
Proceeds were from the exercise of stock options.

#### 4. Segment Information

(1) FY2004-4Q (Jan. 1, 2005 - Mar. 31, 2005)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	9,718 (27.1%)	7,656 (21.4%)	4,536 (12.7%)	3,568 (10.0%)	3,406 (9.5%)	1,110 (3.1%)	5,902 (16.5%)	35,899	-58 (-0.3%)	35,841 (100.0%)
Operating expenses	2,385	2,912	1,867	3,498	1,937	1,218	1,904	15,725	2,577	18,302
Operating income (Contribution)	7,333 (41.8%)	4,744 (27.0%)	2,668 (15.2%)	69 (0.4%)	1,469 (8.4%)	-107 (-0.6%)	3,997 (22.8%)	20,174	-2,635 (-15.0%)	17,539 (100.0%)

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

(Millions of yen)

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

FY2003-4Q (Jan. 1, 2004 - Mar. 31, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	4,456 (19.7%)	5,841 (25.9%)	3,746 (16.6%)	1,904 (8.4%)	2,058 (9.1%)	309 (1.4%)	4,277 (18.9%)	22,595	-15 (-0.0%)	22,580 (100.0%)
Operating expenses	1,131	1,801	1,264	1,602	1,360	325	1,097	8,583	1,553	10,136
Operating income (Contribution)	3,325 (26.7%)	4,039 (32.5%)	2,481 (19.9%)	301 (2.4%)	698 (5.6%)	-15 (-0.1%)	3,180 (25.6%)	14,012	-1,568 (-12.6%)	12,443 (100.0%)

(2) FY2004 (Apr. 1, 2004 - Mar. 31, 2005)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	29,359 (24.9%)	27,338 (23.2%)	16,799 (14.3%)	10,740 (9.1%)	10,593 (9.0%)	2,381 (2.0%)	20,748 (17.6%)	117,960	-181 (-0.1%)	117,779 (100.0%)
Operating expenses	6,909	9,546	6,790	6,875	10,197	2,536	6,286	49,141	8,449	57,591
Operating income (Contribution)	22,449 (37.3%)	17,792 (29.6%)	10,009 (16.6%)	3,864 (6.4%)	395 (0.7%)	-155 (-0.3%)	14,462 (24.0%)	68,818	-8,631 (-14.3%)	60,187 (100.0%)

FY2003 (Apr. 1, 2003 - Mar. 31, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	13,615 (18.0%)	20,838 (27.5%)	12,760 (16.8%)	6,411 (8.5%)	6,589 (8.7%)	1,096 (1.4%)	14,535 (19.2%)	75,846	-70 (-0.1%)	75,776 (100.0%)
Operating expenses	3,817	5,358	4,795	4,634	5,718	1,039	3,342	28,705	5,859	34,564
Operating income (Contribution)	9,797 (23.8%)	15,480 (37.6%)	7,965 (19.3%)	1,777 (4.3%)	870 (2.1%)	56 (0.1%)	11,192 (27.2%)	47,140	-5,929 (-14.4%)	41,211 (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 Keyword Search and 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"> <li>• BridalNet, Inc.</li> <li>• Indival, Inc.</li> <li>• ALPS MAPPING K.K.</li> </ul>
Auction Business	Auction Business Div.	Operates the auction site. <ul style="list-style-type: none"> <li>• Netrust, Ltd.</li> </ul>
Yahoo! BB Business	Yahoo! BB Business Div.	Offers comprehensive broadband-related services.
Shopping Business	Shopping Business Div.	Operates online shopping site. <ul style="list-style-type: none"> <li>• Seven and Y Corp., others</li> </ul>
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"> <li>• Y's Sports Inc.</li> <li>• Y's Insurance Inc.</li> </ul>
Business Solutions (BS) Business	Business Solutions (BS) Business Div.	Provides Yahoo! Research Internet survey services and domain/hosting services <ul style="list-style-type: none"> <li>• UniCept, Inc.</li> <li>• Firstserver, Inc.</li> </ul>
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"> <li>• VACS Corporation</li> <li>• NETGENE Co., Ltd.</li> <li>• Surfmonkey Asia Inc., others</li> </ul>

## **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 and fiscal year. 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"> <li>• Regular banner, text, e-mail, and other advertising.</li> <li>• Results-based advertising, merchant margin, projected advertising production fees, and others.</li> <li>• Paid search services (Sponsor Site)</li> </ul>
Business service	<p>Sales to corporations other than advertising.</p> <ul style="list-style-type: none"> <li>• Yahoo! BB customer acquisition incentive fees</li> <li>• Tenant fees and sales commissions for B to C auction and Yahoo! Shopping.</li> <li>• Yahoo! Research, Business Express, Yahoo! WebHosting, and other sales.</li> <li>• Information listing fees for Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Real Estate, and others.</li> <li>• Magazine and book licensing fees, fees for permission to use the Yahoo! name.</li> </ul>
Personal service	<p>Sales from services for individuals.</p> <ul style="list-style-type: none"> <li>• System-use fees for Yahoo! Auctions.</li> <li>• Yahoo! Premium revenues.</li> <li>• Yahoo! BB ISP fees, content fees and others.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Sales by Seven and Y Corp.</li> </ul>

### **Net Sales by Business Division (Fourth Quarter)**

(Millions of yen)

	Advertising	Business service	Personal service	Other	Total
Listing	6,437	3,212	69	-	9,718
Auction	384	913	6,358	-	7,656
Yahoo! BB	452	1,539	2,544	-	4,536
Shopping	391	720	-	2,456	3,568
Media	2,955	146	305	-	3,406
Business Solutions (BS)	106	999	5	-	1,110
Corporate Common Business	1,758	148	3,994	-	5,902
Elimination or Corporate	-1	-57	-	-	-58
Total	12,485	7,622	13,277	2,456	35,841

## Net Sales by Business Division (Fiscal Year)

(Millions of yen)

	Advertising	Business service	Personal service	Other	Total
Listing	20,092	9,031	235	-	29,359
Auction	1,162	3,089	23,086	-	27,338
Yahoo! BB	1,515	5,903	9,379	-	16,799
Media	9,254	547	937	-	10,740
Shopping	976	2,551	-	7,065	10,593
Business Solutions (BS)	146	2,220	14	-	2,381
Corporate Common Business	5,794	453	14,500	-	20,748
Elimination or Corporate	-1	-180	-	-	-181
Total	38,941	23,618	48,153	7,065	117,779

### **(1) Listing Business Division**

#### **1) Major Business**

This business division provides directory search services, such as Keyword Search and 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: Keyword Search, Category Search, Yahoo! Product Search, Yahoo! Dictionary, Yahoo! Translation, Yahoo! Knowledge, Yahoo! Autos, Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Education, Yahoo! Marriage, 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 Fourth Quarter**

In the fourth quarter we continued to expand services, targeting further growth in our user base. In our directory search services, we improved our services with several new services. One was Yahoo! Translation, a service that can translate interactively between English-Japanese, Chinese-Japanese, and Korean-Japanese. We also unveiled the beta version of Yahoo! Product Search, a service that allows users to search for merchandise on the Internet on a variety of shopping sites where it is available all at once just by inputting the name of the merchandise or a keyword. Sponsor site advertising sales remained robust thanks to cooperation with our business partner Overture. In our listing services, we launched a marriage broker service called Yahoo! Marriage and carried out a limited-period no-monthly-charge sign-up campaign. Yahoo! Rikunabi also introduced a recruiting information site, Rikunabi 2006 for University Students and Graduate Students, for students graduating in 2006. In regional information services, we renewed our Yahoo! Get Local site,

adding a search function enabling users to search for information on stores, facilities, and events listed on Yahoo! JAPAN by such keywords as region, store name, and genre. We also improved user convenience by starting mobile versions of Yahoo! Coupons and Yahoo! Get Local. In addition, we started developing ways to utilize the map database of ALPS MAPPING K.K. to further improve our regional information services.

### Major New Services and Service Upgrades

Date	New services and service upgrades
January 20	<ul style="list-style-type: none"> <li>Renewed Yahoo! Get Local site, strengthening presentation of locally oriented information. Added a function that allows users to search for information on stores, facilities, and events using such keywords as region, store name, and genre. Also greatly improved nationwide event information.</li> </ul>
January 31	<ul style="list-style-type: none"> <li>Began offering a Yahoo! Translation service that can interactively translate English-Japanese, Chinese-Japanese, and Korean-Japanese. The service can be used for text or Web page translation and boasts a comparative word-to-word highlighting function and a linking function with Yahoo! Dictionary that have not be seen before in Web translation services.</li> </ul>
February 1	<ul style="list-style-type: none"> <li>Introduced a mobile version of Yahoo! Coupons that allows the use of mobile phones to search for discount coupons and the mobile phone display to receive prizes or benefits at the actual store or facility.</li> </ul>
February 9	<ul style="list-style-type: none"> <li>Started a mobile version of Yahoo! Get Local that enables users to easily search for information on the area they are currently in based on the coordinates of their mobile phone.</li> </ul>
February 17	<ul style="list-style-type: none"> <li>Launched the beta version of Yahoo! Product Search, a service that allows users to search for merchandise on the Internet on a variety of shopping sites where it is available all at once just by inputting the name of the merchandise or a keyword.</li> </ul>

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

Monthly page views in Mar.	3,914.38 million page views (19.4 %)	15.0 % of total page views
Daily average page views in Mar.	126.27 million page views (19.4 %)	

Note: Includes the page views of BridalNet, Inc. and ALPS MAPPING K.K.

### Business Express Orders

Jan. 2005	Feb. 2005	Mar. 2005
2,581 contracts	2,847 contracts	3,349 contracts

### 3) Income Statements for the Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are Business Express and information listing fees for Yahoo! Rikunabi, Yahoo! Autos, and Yahoo! Real Estate.</li> </ul>
Advertising	6,437	1,183	22.5%	20,092	
Business service	3,212	1,032	47.3%	9,031	
Personal service	69	13	25.1%	235	
Other	-	-	-	-	
Total	9,718	2,229	29.8%	29,359	<ul style="list-style-type: none"> <li>The main component of personal service sales is the sales of BridalNet, Inc.</li> </ul>
Cost of sales	238	224	17.3 times	277	
Gross profit	9,480	2,005	26.8%	29,081	<ul style="list-style-type: none"> <li>The main component of cost of sales was the expenses for producing the maps of ALPS MAPPING K.K.</li> </ul>
SG&A expenses	2,147	506	30.9%	6,631	
Operating income	7,333	1,498	25.7%	22,449	<ul style="list-style-type: none"> <li>Main items in SG&amp;A are personnel, content provider fees, sales commissions, and royalty expenses.</li> </ul>
Operating margin	75.5%	-	-	76.5%	

## (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 Fourth Quarter

During the fourth quarter, we took a variety of actions to expand service use. We ran sales campaigns to coincide with seasonal events, such as special features on Valentine's Day, new lifestyles for the new fiscal year, and ways to combat hay fever. We sold by auctions reserved seat tickets for the season opening series of the Fukuoka Softbank Hawks baseball team. We held Disney Mall Auctions in partnership with the Walt Disney Internet Group. We also held the first Internet public real estate auction (trial) in Japan in cooperation with the Tokyo Metropolitan Government Bureau of Taxation. We introduced many services to improve the convenience of users, adding Internet bank accounts to credit cards as methods of payment in our Yahoo! ezPay service, and starting a rich site summary (RSS) service to



enable users to efficiently find or confirm facts about merchandise that they are interested in or looking for on the auction site. And, through a business alliance with eBOOKOFF Co., Ltd., operator of eBOOKOFF, Japan's largest online used book store, we set up a system through which our users can sell used books, CDs, DVDs, and video games to the store. Furthermore, to make our site a safer and more enjoyable place for our users, we prohibited participants other than auction stores to list items for auction when they do not have them on hand. Some participants do so with the intention of using the payment from the winner of the auction to purchase the item and make a profit.

### Major New Services and Service Upgrades

Date	New services and service upgrades
January 24	<ul style="list-style-type: none"> <li>Reached agreement on a business alliance with IDU CO., an operator of Internet real estate auctions, to expand our business.</li> </ul>
February 1	<ul style="list-style-type: none"> <li>Prohibited participants other than auction stores to list items for auction when they do not have them on hand with the intention of using the payment from the winner of the auction to purchase the item and make a profit.</li> </ul>
February 1 ~ February 6	<ul style="list-style-type: none"> <li>Set up a portion of the seats for the Fukuoka Softbank Hawks' season opening series (8 games) as Yahoo! Auctions Special Reserved Seats under a Plan Commemorating the Start of the New Hawks, and sold the seats by auction.</li> </ul>
February 9	<ul style="list-style-type: none"> <li>Jointly hosted with BMG FUNHOUSE Inc. a charity auction of items donated by the popular band THE YELLOW MONKEY.</li> </ul>
February 17	<ul style="list-style-type: none"> <li>Started an RSS service that enables users to easily and instantly check on the latest status of a merchandise, on a check result page, etc.</li> </ul>
March 2 ~ March 23	<ul style="list-style-type: none"> <li>Jointly hosted with All About Inc. a charity auction of items produced by the popular guides of the All About site.</li> </ul>
March 8 ~ April 5	<ul style="list-style-type: none"> <li>We held Disney Mall Auctions for Disney characters and collector items in partnership with the Walt Disney Internet Group.</li> </ul>
March 17	<ul style="list-style-type: none"> <li>4<sup>th</sup> cooperative public Internet auction (trial) held with the Metropolitan Government Bureau of Taxation. It was the first time for a public real estate auction to be held in Japan.</li> </ul>
March 28	<ul style="list-style-type: none"> <li>Through a business alliance with eBOOKOFF Co., Ltd., started a system for Yahoo! Auctions users to sell used books, CDs, DVDs, and video games to eBOOKOFF, which list such items on Yahoo! Auctions.</li> </ul>
March 28	<ul style="list-style-type: none"> <li>Added Internet bank accounts to the payment method offered by the settlement service Yahoo! ezPay for Yahoo! Auctions.</li> </ul>

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

Monthly page views in Mar.	7,065.23 million page views (4.8 %)	27.1 % of total page views
Daily average page views in Mar.	227.91 million page views (4.8 %)	

### Yahoo! Auctions Number of Total Listed Items and Successful Auction Ratio, etc.

	Jan. 2005	Feb. 2005	Mar. 2005
Number of auction unique browsers	Approx. 19.45 million browsers	Approx. 18.45 million browsers	Approx. 19.22 million browsers
Number of total listed items (Monthly average)	Approx. 6.88 million items	Approx. 7.50 million items	Approx. 7.63 million items
Monthly total number of new listings	Approx. 18.78 million items	Approx. 18.11 million items	Approx. 19.88 million items
Daily average number of new listings	Approx. 606 thousand items	Approx. 647 thousand items	Approx. 641 thousand items
Monthly volume of transactions	Approx. ¥54.6 billion	Approx. ¥51.6 billion	Approx. ¥ 55.4 billion
Daily average transaction volume	Approx. ¥ 1,764 million	Approx. ¥ 1,845 million	Approx. ¥ 1,788 million
Average closing price per item	¥ 5,991	¥ 5,798	¥ 5,827
The average ratio of successful auctions per day	41%	40%	38%
Number of stores (As of the end of each month)	3,442 stores	3,436 stores	3,556 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 Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are transaction fees, tenant fees, and registration fees of stores (merchant stores).</li> <li>Sales included in personal service are system-use fees of Yahoo! Auctions and others.</li> <li>Main items in SG&amp;A are communication, business commissions, payment commissions, and compensation payment.</li> </ul>
Advertising	384	88	29.8%	1,162	
Business service	913	57	6.8%	3,089	
Personal service	6,358	28	0.5%	23,086	
Other	-	-	-	-	
Total	7,656	174	2.3%	27,338	
Cost of sales	10	3	54.0%	27	
Gross profit	7,646	171	2.3%	27,310	
SG&A expenses	2,902	226	8.5%	9,518	
Operating income	4,744	-55	- 1.2%	17,792	
Operating margin	62.0%	-	-	65.1%	

### **(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

#### **2) Activities in the Fourth 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 attractive new services. Adding to the Yahoo! BB Hikari service menu, we began accepting applications for Yahoo! BB Hikari TV package and Yahoo! BB Hikari Apartment TV package. Through these new services, subscribers can enjoy the use of BBTv, a broadband broadcasting and electronic video rental service and Wireless TV Box, a terrestrial television broadcasting service. We also ran a campaign offering a Yahoo! BB package including no telephone line sign up costs and a Moving Bonus Campaign featuring up to three months of free use. For existing subscribers, we took various steps to improve the value of our services, including selling advance tickets, holding exclusive bargain sales for Yahoo! BB subscribers on Yahoo! Shopping, and providing Fukuoka Softbank Hawks' video streaming content with wider bandwidth. During the quarter, Yahoo! GeoCities held the 1<sup>st</sup> Yahoo! GeoCities Homepage Festival, which was one of the largest homepage contest events domestically in terms of number of entries and votes.

#### **Major New Services and Service Upgrades**

Date	New services and service upgrades
January 10	<ul style="list-style-type: none"><li>The Yahoo! GeoCities sponsored 1<sup>st</sup> Yahoo! GeoCities Homepage Festival had over 8,800 entries, becoming one of the largest homepage contests in Japan.</li></ul>
March 8	<ul style="list-style-type: none"><li>Adding to the Yahoo! BB Hikari service menu, we began accepting applications for Yahoo! BB Hikari TV package and Yahoo! BB Hikari Apartment TV package that enable subscribers to enjoy the use of BBTv, a broadband broadcasting and electronic video rental service and Wireless TV Box, a terrestrial television broadcasting service.</li></ul>

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

Monthly page views in Mar.	3,139.48 million page views (16.3%)	12.0% of total page views
Daily average page views in Mar.	101.27 million page views (16.3%)	

### Total Subscriber Lines for Yahoo! BB Services

End of Jan. 2005	Approximately 4,713 thousand lines (including approximately 1,169 thousand lines marketed by Yahoo! JAPAN)
End of Feb. 2005	Approximately 4,756 thousand lines (including approximately 1,174 thousand lines marketed by Yahoo! JAPAN)
End of Mar. 2005	Approximately 4,776 thousand lines (including approximately 1,176 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 Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>• Main component of business service sales is the customer acquisition incentive fees of Yahoo! BB.</li> <li>• Main component of personal service sales is the ISP fees for Yahoo! BB.</li> </ul>
Advertising	452	48	11.9%	1,515	
Business service	1,539	65	4.4%	5,903	
Personal service	2,544	127	5.3%	9,379	
Other	-	-	-	-	
Total	4,536	240	5.6%	16,799	<ul style="list-style-type: none"> <li>• Main items in SG&amp;A expenses are business commissions, sales promotion, depreciation, and personnel expenses.</li> </ul>
Cost of sales	234	4	1.9%	899	
Gross profit	4,301	236	5.8%	15,899	
SG&A expenses	1,633	51	3.3%	5,890	
Operating income	2,668	184	7.4%	10,009	
Operating margin	58.8%	-	-	59.6%	

### (4) 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! Beauty, Yahoo! Travel, Yahoo! Business Travel, SevenAndy.

## 2) Activities in the Fourth Quarter

During the period under review, in addition to continuing to concentrate on bringing in new stores, we worked to raise the level of satisfaction with our services of existing stores by holding store conferences and conducting regular surveys. As a result, at the end of March, we had a total of 3,298 stores, an increase of 488 stores, or 17.4%, from the end of December 2004.

During the quarter, we ran seasonal sales promotions, such as the special feature 2005 Valentine Selection, which introduced a collection of the most appropriate gifts for Valentine's Day. To further improve services, we renewed the top page of Yahoo! Shopping, and made it easier to select items. Targeting increased use of its services, Yahoo! Business Travel took advantage of point rebates and other features of the Yahoo! Points system to offer even greater discounts on accommodations under its Yahoo! Business Travel Plan. As a result of newly including CDs and DVDs in its lineup from previous quarter, Seven and Y Corp. recorded strong sales growth in the fourth quarter.

### Major New Services and Service Upgrades

Date	New services and service upgrades
January 17	• In partnership with DENSAN SYSTEM Co., Ltd., started a payment service for Yahoo! Shopping available at more than 60 thousand convenience store and post office outlets throughout Japan.
February 2	• Yahoo! Shopping announced Best Store 2004 ranking.
February 25	• Yahoo! Travel offers special tour to support Fukuoka Softbank Hawks during their season opening series at Yahoo! JAPAN Dome and set up special site to introduce special tour.

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

Monthly page views in Mar.	539.24 million page views (14.9%)	2.1% of total page views
Daily average page views in Mar.	17.39 million page views (14.9%)	

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

### Shopping Business Transaction Volume

Jan. 2005	Feb. 2005	Mar. 2005
¥ 7,385 million	¥ 6,760 million	¥ 8,177 million

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

### 3) Income Statements for the Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are tenant fees and sales commissions of Yahoo! Shopping and sales commissions of Tavigator, Inc.</li> <li>Other sales is sales of Seven and Y Corp.</li> <li>Main item in cost of sales is purchasing costs of Seven and Y Corp.</li> <li>Main items in SG&amp;A are personnel, business commissions, packing and transport, and advertising costs.</li> </ul>
Advertising	391	132	51.3%	976	
Business service	720	72	11.3%	2,551	
Personal service	-	-	-	-	
Other	2,456	630	34.6%	7,065	
Total	3,568	836	30.6%	10,593	
Cost of sales	1,990	550	38.2%	5,617	
Gross profit	1,577	286	22.2%	4,975	
SG&A expenses	1,507	129	9.4%	4,580	
Operating income	69	157	-	395	
Operating margin	2.0%	-	-	3.7%	

## **(5) 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! Insurance, Yahoo! Sports, Yahoo! Weather, Yahoo! Movies, Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Entertainment, Yahoo! TV Coverage, Yahoo! Fortune Telling, Yahoo! Games, 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 Fourth 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. As an

official sponsor of the 2005 Special Olympics World Winter Games, which are being held in Asia for the first time, we launched a site to support the games entitled 2005 Special Olympics World Winter Games—Sharing the Courage, Joy and Inspiration. We launched Yahoo! Insurance, a service that accepts requests for materials on and application for medical, cancer, and accident insurance over the Internet and provides information on all the difference types of insurance as well as on individual insurance products. To improve our services, we began distributing Yahoo! Messenger 6.0 (Beta version), which offers substantially improved functions. Among paid content, Yahoo! Music launched Yahoo! Music Download, a download service that allows users to sample and purchase about 73 thousand songs from 39 labels. During the quarter, Yahoo! Streaming's offering of a pay viewing service for Korean TV drama programs attracted a great deal of attention.

### Major New Services and Service Upgrades

Service	Date	New services and service upgrades
Yahoo! Messenger	January 24	<ul style="list-style-type: none"> <li>Started distributing for free Yahoo! Messenger 6.0 (Beta version). Successor to the current version 5.1, version 6.0 features substantial improvements, such as interactive gaming and Address Book with better linkage with other services.</li> </ul>
Yahoo! Insurance	January 31	<ul style="list-style-type: none"> <li>Launched Yahoo! Insurance service that supplies information on individual insurance products and accepts request for materials and application over the Internet.</li> </ul>
Yahoo! Music	February 24	<ul style="list-style-type: none"> <li>Through a tie-up with Label Gate Co., Ltd., started Yahoo! Music Download, a pay song download service.</li> </ul>
Yahoo! Streaming	March 7	<ul style="list-style-type: none"> <li>Concluded a business alliance with Toei Video Co., Ltd., to advertise the theater-use movies and DVDs of their new movie brand CINEMA 4U and to develop an Internet movie distribution business.</li> </ul>
Yahoo! Games	March 31	<ul style="list-style-type: none"> <li>Launched Yahoo! Games Download Game, a pay download service for game software.</li> </ul>

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

Monthly page views in Mar.	7,401.65 million page views (19.6%)	28.4% of total page views
Daily average page views in Mar.	238.76 million page views (19.6%)	

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

### 3) Income Statements for the Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					
Advertising	2,955	294	11.1%	9,254	<ul style="list-style-type: none"> <li>Main component of business service sales is car insurance package estimate request service sales.</li> </ul>
Business service	146	9	7.2%	547	
Personal service	305	45	17.3%	937	
Other	-	-	-	-	
Total	3,406	349	11.4%	10,740	<ul style="list-style-type: none"> <li>Main component of personal service is sales of fee-based content.</li> </ul>
Cost of sales	97	11	13.0%	336	
Gross profit	3,308	338	11.4%	10,403	<ul style="list-style-type: none"> <li>Main items in SG&amp;A are sales commissions, personnel, content provider fees, and communication expenses.</li> </ul>
SG&A expenses	1,839	73	4.2%	6,539	
Operating income	1,469	264	21.9%	3,864	
Operating margin	43.1%	-	-	36.0%	

### (6) Business Solutions (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, domain and hosting services, licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C (for end-users) businesses or B-to-B (for sales outlets) businesses, and Web design consulting, etc.

Main Services: Yahoo! Research, Yahoo! WebHosting, Yahoo! Domain, Yahoo! Portal Solutions

#### 2) Activities in the Fourth Quarter

During the quarter, we continued to strengthen our sales capabilities mainly centered on Yahoo! Research Compact and Yahoo! Research Self, which was newly launched in the third quarter. We also worked to acquire more research monitors and at March 31 had a total of 420 thousand monitors (including mobile monitors), one of the largest monitor pools in Japan. In our domain hosting service, we focused on building a cooperative organization with Firstserver, Inc., which was recently made a subsidiary to further expand the business scope of our domain hosting services and stabilize our earnings base. Based on this cooperation, we are developing low-cost, highly reliable services and carrying out test marketing. In our



portal site construction and support services, we aggressively made proposals to educational corporations and public corporations in a bid to acquire new customers.

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

Monthly page views in Mar.	2.6 million page views (31.9%)	0.01 % of total page views
Daily average page views in Mar.	80 thousand page views (31.9%)	

**3) Income Statements for the Fourth Quarter and Fiscal Year**

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are sales of Firstserver, Inc., Yahoo! Research, and Yahoo! WebHosting.</li> </ul>
Advertising	106	90	564.9%	146	
Business service	999	498	99.6%	2,220	
Personal service	5	1	25.6%	14	
Other	-	-	-	-	
Total	1,110	589	113.2%	2,381	<ul style="list-style-type: none"> <li>Main components of cost of sales are costs for Yahoo! Research and Firstserver, Inc.</li> </ul>
Cost of sales	594	250	73.1%	1,457	
Gross profit	516	338	190.8%	923	<ul style="list-style-type: none"> <li>Main items in SG&amp;A are personnel, amortization of goodwill, and business commissions expenses.</li> </ul>
SG&A expenses	624	430	222.2%	1,078	
Operating income	-107	-91	-	-155	
Operating margin	-9.7%	-	-	-6.5%	

**(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, Yahoo! Blogs.

### Activities in the Fourth Quarter

In the fourth quarter, we took several measures to increase the number of Yahoo! Premium members. We carried out a Yahoo! Points Present Campaign for premium member users of Yahoo! Fortune Telling and Yahoo! Shopping, and a campaign for new Yahoo! BB subscribers offering 12 months of free Yahoo! Premium membership. As a result, the number of Yahoo! Premium IDs topped five million at the end of February. Moreover, to further boost the market penetration of the Yahoo! JAPAN brand name, we obtained the naming rights for the Fukuoka Dome, and formally renamed it the Fukuoka Yahoo! JAPAN Dome.

### Number of Premium Member IDs

Jan. 2005	Feb. 2005	Mar. 2005
4.92 million IDs	5.00 million IDs	5.08 million IDs

### Income Statements for the Fourth Quarter and Fiscal Year

(Millions of yen)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					(Net Sales)
Advertising	1,757	96	5.8%	5,793	• Main components of Corporate Common Business sales are advertising sales on top pages, etc. and Yahoo! Premium fees.
Business service	91	29	46.5%	273	• Consolidation elimination figures are removed as sales of headquarters.
Personal service	3,994	328	9.0%	14,500	
Other	-	-	-	-	
Total	5,844	454	8.4%	20,567	(SG&A Expenses)
Cost of sales	90	-21	-19.3%	314	• Main components of Corporate Common Business SG&A are personnel, sales commissions, and business commissions expenses.
Gross profit	5,753	476	9.0%	20,252	• Main items in Headquarters SG&A are personnel, depreciation, and business commission expenses.
SG&A expenses	4,391	354	8.8%	14,421	
Operating income	1,362	122	9.8%	5,830	
Operating margin	23.3%	-	-	28.4%	

## **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 Fourth Quarter**

During the fourth quarter, the advertising market in Japan continued to be upbeat. With Internet advertising in particular, the recognition among advertisers that Internet advertising is on a par with other traditional media, such as television, increased even more than in the past, as indicated by Dentsu Inc.'s report on "Japanese Advertising Expenses in 2004," which stated that Internet advertising exceeded radio advertising for the first time. Helped by the seasonal benefit of fiscal year-end demand, this increased demand from industry resulted in Internet advertising sales maintaining their upward swing. 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. We particularly concentrated on proposing high-impact-style advertising that targets synergy effects through combinations with television and newspaper advertising, and achieved especially good results with the cultivation of an advertiser base that prefers those medias. Sales were strong in products with broad reach and high impact, such as Brand Panels for top pages, Super Banners for Yahoo! News-Topics, and Billboard, exposure of which is determined based on reach. With the continued spread of broadband, sales increased of large volume distribution V Banner and banners utilizing advanced Flash technology as there was a notable improvement in the creativity of Internet advertisements. Amid this trend, there continued to be growth in advertising sales to the highly branding-conscious beverage, cosmetics, and automobile 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. Our e-mail advertising product Yahoo! Delivers has a broad base of demand throughout industry because of its reputation for high quality and reliability. Sales of advertising for the Yahoo! Mobile services, though still on a small scale, also posted positive growth. Sponsor Sites sales continued to be favorable and were extended to category pages.

Based on our sales efforts, quarterly advertising business sales rose to ¥12.4 billion, registering another record high. The fourth quarter and fiscal year advertising related sales were as follows.

(Fourth 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)	12,485	1,934	18.3 %	5,367	75.4 %

(Fiscal Year)

(Millions of yen)

	Amount	Comparison with the previous period	
		Increase/decrease	Change
Advertising related sales (Consolidated basis)	38,941	16,665	74.8 %

### Advertising Products

During the fourth quarter, sales of high impact products continued to be strong. Sales of Brand Panel for top pages reached a record high, and sales of Super Banners, Large Squares, Monsters, and other large-sized products also exceeded those of the previous quarter. We ran our second web drama based advertising program for new car models in collaboration with Nissan Motor Co., Ltd., around the web drama Hitorinafutari. Especially in the beverage industry, there was greater use than ever before of large-scale Internet advertising programs in new products sales promotion, as companies increasingly recognize Internet as a branding media. These trends helped to raise awareness of Internet advertising. For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.15 to ¥0.60 per page view, rates for targeting-type banner ads varied from ¥0.30 to ¥12.00 per page view, and rates for the large-sized Super Banners varied from ¥0.30 to ¥4.00 per page view. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥4.00 to ¥10.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥5.40 million to ¥7.20 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

(Reference)

### **1. 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.

Because as a media we can accurately reach more people than many other systems, we operate a Disaster Information Service that utilizes space ordinarily used by banners to provide flash reports in the case of earthquakes. In addition, Yahoo! Message Boards and Yahoo! Topics are also be used to convey lifeline information in the case of emergencies.

### **2. Acquired ISMS Certification**

In August 2004, the Group acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution and was certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0. At March 31, 2005, 12 companies, including the parent company and 11 subsidiaries, have been certified under these standards. 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 Group receives regularly scheduled checks from a third-party perspective.

We have also established the Yahoo! Security Center, which contains a security guide explaining how to more safely and enjoyably use the Internet. In future, to enable Internet users to confidently, conveniently, and enjoyably use our services, we intend to take the maximum care in protecting our users' privacy while introducing a variety of new 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, Yahoo! Volunteer raised funds through Internet Charity Contributions for the victims of the series of earthquakes and the following tsunamis off Sumatra, Indonesia. As an official sponsor of the 2005 Special Olympics World Winter Games, we launched a site to support the games entitled 2005 Special Olympics World Winter Games—Sharing the Courage, Joy and Inspiration, contributing to development of sports culture in Japan by providing a place for people to share the inspiration of sports over the Internet.

#### **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 fourth quarter, we auctioned an autographed guitar signed by Kazuya Yoshii of the popular band THE YELLOW MONKEY and a baseball uniform signed by Yomiuri Giant's Kazuhiro Kiyohara. In total, we held 518 charity auctions during the quarter, raising a total of approximately ¥54.56 million. For the fiscal year, we raised a total of approximately ¥119.46 million.

The funds raised for such charities are being donated to the following charities (not listed in any special order).

- Cookie Factory Mamie, a training and employment facility for the disabled.
- The 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.
- The Japanese Red Cross Society, the Japanese chapter of the Red Cross, which boasts the world's largest network of humanitarian activists built on the universal principles of humanity, impartiality, neutrality, independence, voluntary service, unity, and universality.
- 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.

#### **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 quarter reduced carbon dioxide emissions by 5,195 kg and saved the equivalent of 137 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

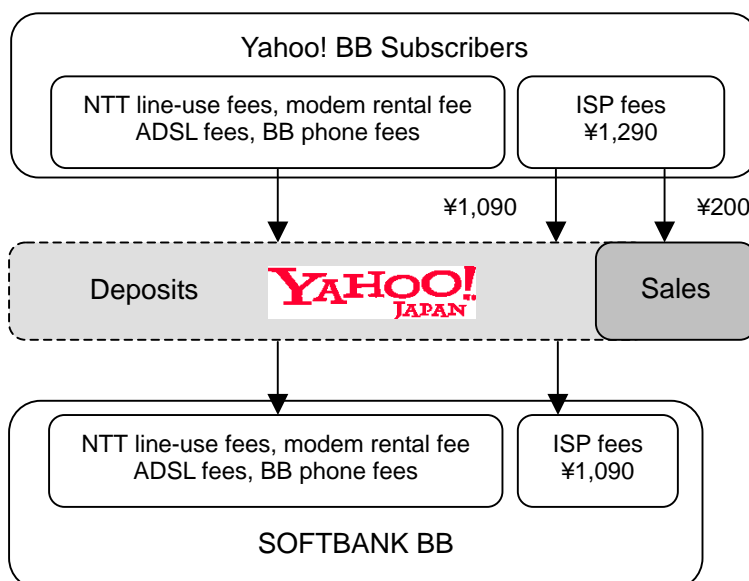
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group”) have reported their results for the fiscal year and the fourth quarter ended March 31 2005, in the document *Results for the Fiscal Year and the Three Months Ended March 31, 2005*. A number of potential factors could 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 in terms of direct interface with subscribers by utilizing our websites and other services, 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 March 31, 2005, 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. 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 has instituted 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.

#### **b. 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. Nevertheless, 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. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image.

### **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 auction transaction.

Since Netrust, Ltd., reimburses the seller of the item one to three business days after the purchaser has made settlement by credit card or Internet bank transfer, the subsidiary must carry the credit card receivables for the period up to the fixed settlement date of the bank used by the credit card company. The Group is exploring methods of reducing the amount of reimbursement funds by shortening 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 March 31, 2005, 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 risks associated with the Internet advertising areas that are thought to be the most important will be discussed below. Other risks that could affect our businesses are explained in section 6, "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 March 31, 2005, 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.

### **(4) Yahoo! JAPAN Card Service**

To expand its business domain and at the same time give subscribers access to additional service advantages, the Group will begin issuing its own credit card, the Yahoo! JAPAN Card.

The Yahoo! JAPAN Card differs from the joint cards that the Group has offered in the past in that the Group is the credit card issuer and will be providing credit to those who are issued the card. The Group will also be reimbursing payments made by

cardholders to the merchants honoring the card. Since payments will be collected from cardholders once a month while reimbursements to merchants will be made about three times a month, it will be necessary to finance those reimbursements. The Group plans to curtail bad debts through strict credit evaluation of cardholders and monitoring of credit card use. However, it is possible that the Group will not be able to collect payments from cardholders to cover reimbursements due to bad debts arising from a decline in the creditworthiness of cardholders. The Group is considering diversification of its funding sources as the business expands, but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

The Group intends to outsource the major portion of this service to take maximum advantage of available expertise in managing individual information, etc. as well as cost flexibility. However, the Group may not be able to recover its fixed costs of the service if it cannot acquire a large enough number of card users. In addition, although the Group has been extremely careful in choosing its business partner for this service, it is possible that the Group may be sued for damages should its business partner leak personal information.

Following the start up of this credit card service, it will be necessary to establish an organization that can constantly respond quickly to changes in the credit card market. In the event of a change in the credit card market, the settlement commission received from affiliated merchants may decline because of intensified competition, reducing profitability. Among possible additional expenses, a certain level of costs are anticipated due to the risk of fraudulent actions, such as card copying, theft, and others. However, if fraudulent use of the Group's credit card goes beyond those expectations, damages in excess of the anticipated level could be incurred. Furthermore, in order to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater than anticipated costs.

## 2. Relationship with SOFTBANK Group

### (1) Positioning within the SOFTBANK Group

As of March 31, 2005, 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, fixed telecom, 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 14.3% of Group sales in the fiscal year ended 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.
<p>1) The Company and SBB jointly provide Internet access services using DSL technology.</p> <p>2) The Company's main responsibilities</p> <ul style="list-style-type: none"> <li>* Promoting Yahoo! BB services</li> <li>* Recruiting subscribers of Yahoo! BB services</li> <li>* Operating the Yahoo! BB portal site</li> <li>* Providing mail and Web site services</li> <li>* Providing a fee-collection platform</li> </ul> <p>3) SBB's main responsibilities</p> <ul style="list-style-type: none"> <li>* Providing ADSL service between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>* Handling subscriber inquiries and providing technical support</li> </ul> <p>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.</p>

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 March 31, 2005, 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 33.5% of voting shares as of March 31, 2005. 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"> <li>* 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”)</li> <li>* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark</li> <li>* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li> <li>* Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services</li> </ul> <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:  Royalty calculation method  { ( Consolidated net sales ) - ( Advertising sales commissions on a consolidated basis ) ( Cost of sales of consolidated subsidiaries with a different gross margin structure and others } × 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.

## **(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, in August 2004, the Group acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). As of March 31, 2005, Yahoo Japan Corporation and 11 of its subsidiaries have acquired ISMS certifications. The Group has used these third party certification systems to implement a third party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee that the Group's information security systems are perfect. If, under some circumstance, problems, such as an information leak, were to occur, they 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. Representatives of the Group are currently participating in the Phishing e-mail counter-measures committees of the ministries of Economy, Trade and Industry and Internal Affairs and Communications as well as one set up by the National Police Agency. Sharing information with related ministries and agencies and industry associations, the Group is seeking effective measures against this type of fraud.

Starting April 2005, the Personal Information Protection Act and the guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. However, the Group had already implemented in advance systems to meet the regulations or requirements of the law and guidelines regarding the methods of handling personal information. The Group, therefore, believes that the enforcement of the law or guidelines will have almost no impact on its operations.

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 clients, following a set of internal rules. It also undertakes sufficient precautions so the collection of receivables will not be delayed by taking such measures as making sales through advertising agencies or using credit card settlements. 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 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. Moreover, it is expected that the funds required for the reimbursement side of the settlement services offered by Yahoo! ezPay and Yahoo! JAPAN Card will increase to a substantial amount. If the recovery of these funds is blocked in some way, it could have a serious negative impact on the Group's 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 March 31, 2005, 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.

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

Because it operates Yahoo! BB, the Group is required to observe the Telecommunication Business Law and related ordinances 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) Investments and Loans**

As of March 31, 2005, the companies or organizations in which the Group has invested in as a result of business ties or with an eye to forming business ties in the future are as shown below. The Group cannot guarantee that these investments will be recovered.

Furthermore, although there are companies in which the Group has invested that have already publicly listed and produced an unrealized gain, this unrealized gain could decline in 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 Mar. 31, 2005)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (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	9.9	4,468	Internet technical-support service		
2	Vector Inc.	OSE Hercules	99/03/26	10.7	1,465	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	Yes
3	SOFTBANK Internet Technology Fund No. 1		00/02/21		1,109			
4	Oricon Inc.	OSE Hercules	00/03/30	1.5	459	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping	
5	Weathernews Inc.	TSE 1st Section	99/06/01	3.8	382	Weather observation, data collection and analysis, weather forecast, and related information services		
6	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	342	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping/Auctions tenant	
7	CyberMap Japan Corp.		98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
8	Carview Corporation		99/10/05	6.5	38	Offering car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos	
9	ARCHINET, Inc.		01/01/23	8.9	12	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
10	Cafeglobe.com Inc.		01/02/01	11.2	7	Operation of cafeglobe.com, an information site for women	Alliance for Yahoo! Gourmet/Beauty	
Shares in affiliated companies								
1	All About, Inc.		04/09/08	41.3	2,095	General information site based on expert guides, Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
2	CREO. CO., LTD.	Jasdaq	05/01/26	36.9	1,398	System development; planning, development and sale of software packages; and support services.	Business alliance for system development	
3	AccessPort Inc.		05/01/28	33.4	950	Japanese keyword search service ("JWord")	Alliance for Yahoo! JAPAN directory search services	Yes
4	YUME NO MACHI SOUZOUINKAI CO., LTD.		04/10/20	29.9	377	Internet-based ordering of delivery services	Alliance for regional information services	Yes
5	Tavigator, Inc.		00/03/07	30.0	141	Sales of travel gear on the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
6	INTAGE Interactive Inc.		02/10/01	49.0	106	Internet-based marketing research services	Alliance for Yahoo! Research	Yes

Investments								
1	Other investments				39			

### Notes:

1. In principle, the date of acquisition is the day that the Company became a shareholder.
2. B/S accounting amounts are shown on a consolidated basis in units of millions of yen. As reference, the subsidiaries' non-consolidated B/S accounting amounts are shown in the following table.
3. AccessPort Inc. changed its name to JWord Inc. effective April 1, 2005.
4. As a result of a revision in the guidelines for practical application of financial instruments accounting rules, SOFTBANK Internet Technology Fund No 1, which was included under investments in the previous quarter, is now being accounted for as a investment security.
5. The public tender offer for shares of ValueCommerce Co., Ltd. began on March 1, 2005 and ended on April 11, 2005. As a result, at April 12, 2005, Yahoo Japan Corporation had acquired 49.72% of the company's voting rights.



Company	B/S accounting amount (¥M)	Line of business
Firstserver, Inc.	1,730	Server rental, domain registration, and other Internet-related information processing services
ALPS MAPPING K.K.	810	Planning and creating regional maps, and providing regional map data and regional information services and others
VACS Corporation	240	Development and sale 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
CURIOCITY CORP.	123	Operation of shopping portal
Netrust, Ltd.	120	On-line settlement services
Indival, Inc.	120	Web-based recruiting services
UniCept, Inc.	50	Consulting for Internet business and planning, development and operation of a range of services
Y's Insurance Inc.	30	Life/non-life insurance agency business
Seven and Y Corp.	18	Internet-based sale of publications, CDs, DVDs, etc. and related services
GeoCities Japan Corporation	10	Maintaining domain names ( for maintaining services being offered by the Company )
broadcast.com japan k.k.	10	Maintaining domain names ( for maintaining services being offered by the Company )
Y's Agencies Inc.	10	Planning and sale of ad products
Y's Sports Inc.	0	Collecting sports information and producing articles and content
BridalConcierge Corp.	0	Maintaining domain names ( for maintaining 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.