

# Results for the Fiscal Year and Three Months Ended March 31, 2008 (FY2007-4Q) (Consolidated Basis)

2008.4.25

Company name: Yahoo Japan Corporation

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

Code No. 4689

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

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Scheduled Ordinary Shareholders' Meeting Date: June 24, 2008

Scheduled Securities Report Submission Date: June 24, 2008

Scheduled Dividend Payment Date: June 10, 2008

(Amounts less than one million yen are omitted)

## 1. Consolidated Results for FY2007 (April 1, 2007-March 31, 2008)

### (1) Consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen (%)							
FY2007	262,027	(23.3)	124,807	(17.5)	121,511	(18.2)	62,617	(8.0)
FY2006	212,552	(22.4)	106,232	(29.3)	102,824	(28.7)	57,963	(23.1)

	Net income per share-primary	Net income per share-diluted	ROE	Ratio of ordinary income to total assets	Operating margin
	Yen	Yen	%	%	%
FY2007	1,035.27	1,033.79	28.5	35.3	47.6
FY2006	958.66	956.70	34.8	40.4	50.0

(For reference) Equity in earnings of affiliated companies: FY2007 (¥3,059 million) FY2006 (¥3,522 million)

### (2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007	369,660	250,672	67.1	4,100.94
FY2006	318,428	192,385	59.9	3,153.24

(For reference) Equity capital: FY2007 (¥248,107 million) FY2006 (¥190,692 million)

### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the periods
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2007	81,493	-16,981	-26,192	113,027
FY2006	72,710	-160,403	65,033	75,212

## 2. Cash Dividends

(Record date)	Dividends per share					Total amount (Full year)	Payout ratio (Consolidated)	Dividend on net assets ratio (Consolidated)
	1Q	Interim	3Q	Year end	Full year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2006	-	-	-	96.00	96.00	5,805	10.0	3.5
FY2007	-	-	-	104.00	104.00	6,292	10.0	2.9
FY2008 (Estimates)	-	To be determined	-	To be determined	To be determined	-	-	-

## 3. Consolidated Business Outlook for FY2008-1Q (April 1, 2008-June 30, 2008)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2008-1Q	65,300 ~ 68,300	31,500 ~ 33,800	31,050 ~ 33,350	18,000 ~ 19,400	297.52 ~ 320.66

## 4. Non-consolidated Results for FY2007 (April 1, 2007-March 31, 2008)

### (1) Non-consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen (%)							
FY2007	220,750	(11.9)	121,961	(16.0)	121,584	(15.3)	64,486	(4.7)
FY2006	197,230	(27.7)	105,121	(28.8)	105,412	(28.4)	61,592	(23.9)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007	1,066.16	1,064.64
FY2006	1,018.69	1,016.60

### (2) Non-consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007	356,152	257,167	72.2	4,248.77
FY2006	315,506	197,677	62.6	3,268.24

(For reference) Equity capital: FY2007 (¥257,051 million) FY2006 (¥197,646 million)

## 5. Non-consolidated Business Outlook for FY2008-1Q (April 1, 2008-June 30, 2008)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2008-1Q	55,300 ~ 58,000	29,450 ~ 31,650	30,350 ~ 32,550	18,000 ~ 19,300	297.52 ~ 319.01

[Caution regarding forward-looking statements]

As of the fiscal year ending March 2009, the Company plans to change the method of indicating revenue on a net basis in which some items in cost of sales and in selling, general and administrative expenses are eliminated.

This change was implemented based on a decision that indicating revenue on a net basis would be more appropriate. The decision was taken after re-examining the allocation of roles and risk between the Company and its partners/agencies in the light of the higher importance of transactions with partners, agencies and other associated companies given the Company's pursuit of an open partnership policy. There is no impact on operating income by this change. The Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2009 are calculated based on the new indicating method of revenue as above.

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

For details regarding the previously mentioned performance estimates, please see Page 7 of "(2) Performance Outlook, 6 Business Results."

## 6. Business Results

### (1) Performance Highlights

#### Highlights for the Fiscal Year Ended March 31, 2008

- In the fiscal year ended March 31, 2008, Yahoo Japan Corporation and its consolidated subsidiaries and affiliates recorded growth in sales and profit for the 11<sup>th</sup> consecutive year since the start of its services. Net sales rose 23.3% year on year, to ¥262.0 billion. Operating income was ¥124.8 billion, increasing 17.5% from a year earlier. Ordinary income totaled ¥121.5 billion, rising 18.2% over the same period last year. Net income climbed to ¥62.6 billion, advancing 8.0% year on year.
- In the advertising business, sales of advertising products with high branding impact expanded. These products included the Prime Display launched in October 2007 and Brand Panel in January, the size of which was expanded along with the overall renewal of Yahoo! JAPAN's top page in January. Use of behavioral advertising also grew, supporting a firm increase in display advertising compared with the previous fiscal year. Paid listing advertising sales surged ahead from the previous fiscal year because of the further expansion of this advertising market and increased use of search services. The start in July of a new system for paid listing advertising service that takes into consideration a quality index and the bidding price and the consolidation of Overture K.K.'s sales since September were other factors contributing to the sales surge in paid listing advertising. In mobile advertising, sales of paid listing advertising mainly surged. Sales of advertising for the fiscal year amounted to ¥131.0 billion, rising 46.9% from a year earlier.
- In business services other than advertising, sales of information listing grew steadily. In particular, sales of Yahoo! Real Estate increased sharply, reflecting the large growth in the number of listings and the site renewal. Research-related sales also grew sharply year on year as a result of the conversion of Interscope Inc. to a subsidiary and aggressive business development. Yahoo! Shopping and Yahoo! Auctions made further progress with increasing the number of the merchant stores. Yahoo! Shopping implemented complete renewals of the personal computer and mobile sites in November 2007, aiming to expand use. It also continued to endeavor to acquire new stores. As a result, at the end of March, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 31,289, expanding by 4,245 stores, or 15.7% year on year. In addition, tenant and commission fees for Yahoo! Shopping and Yahoo! Auctions expanded favorably. Business service sales for the fiscal year totaled ¥58.0 billion, increasing 20.4% from the previous fiscal year.
- In the personal services business, Yahoo! Auctions use of mobile services particularly expanded, with the number of page views and bids through the mobile route growing substantially. Despite this growth, transaction value struggled compared with the previous fiscal year because of the slump in special categories, such as automobiles and vehicle

bodies, and because of the negative impact of changes in participation qualifications and stronger measures to prevent system abuse. In addition, revenues from system-use fees declined slightly because of the higher proportion of B-to-C auctions, sales of which are recorded as business service. As a result of Yahoo! Premium campaigns to acquire new members and measures to increase value-added content for existing members, the number of Yahoo! Premium membership IDs at the end of March had risen to 6.91 million IDs, increasing 720,000 IDs, or 11.7%, year on year. Income from Yahoo! BB's ISP fees declined substantially from the same period last year because of the impact of the revision of the contract with SOFTBANK BB Corp. Overall, personal service sales decreased 3.0% from a year earlier, to ¥73.0 billion.

- Total commerce volume for the fiscal year rose 4.5%, to ¥940.0 billion. This figure includes the transaction volumes of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets. There was an especially notable increase in mobile transaction volume.

#### **Fourth Quarter Highlights for the Fiscal Year Ended March 2008**

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates improved during the fourth quarter. Net sales increased 5.9% from the previous quarter and 28.9% year on year, to ¥ 74.2 billion. Operating income amounted to ¥33.7 billion, rising 7.9% from the third quarter and 14.3% from a year earlier. Ordinary income totaled ¥32.8 billion, climbing 6.6% over the last quarter and 15.3% over the same period last year. Fourth quarter net income was ¥16.1 billion, down 5.8% from the third quarter but up 1.2% year on year. The Company booked an extraordinary loss on valuation of the stock of affiliates.
- In the advertising business, the Group focused on capturing fiscal year-end demand from advertisers. In addition to commencing sales of the expanded Brand Panel Triple Size, we actively proposed new products to clients, such as Internet CM Plus, which utilizes moving picture streaming. Sales of display advertising set another quarterly record high, and paid listing advertising rose substantially year on year, also setting a quarterly sales record high. Advertising sales amounted to ¥40.2 billion, increasing 9.8% from the previous quarter and 61.6% from a year earlier.
- In the business services other than advertising, sales of Yahoo! Real Estate increased sharply because of higher demand during the moving season in Japan and because of the impact of the renewal of the rental housing page. Research-related sales also grew sharply from the third quarter last year, reflecting the conversion of Interscope Inc., to a subsidiary. Yahoo! Shopping targeted greater use of its site by running seasonal campaigns for Valentine's Day and for people changing their lives at the start of the new fiscal year as well as continuing to try to increase the number of stores. Business service for the fourth quarter totaled ¥15.1 billion, increasing 2.3% from the previous quarter and 15.1% year on year.

- In the personal services business, Yahoo! Auctions worked to increase use of its services by conducting seasonal promotional campaigns and campaigns offering such benefits as free listing of items using mobile phones, but transaction volume suffered compared with that recorded in the third quarter during the year-end sales campaign. Yahoo! Premium sales rose substantially in reaction to the December end of a campaign offering free membership that started in June 2007. Sales of pay content also increased favorably. Overall, personal service sales for the quarter amounted to ¥18.8 billion, rising 1.5% from the previous quarter but decreasing 3.2% from a year earlier.
  
- Effective January 1, the Company conducted a complete renewal of the top page of Yahoo! JAPAN for the first time since services began in 1996. As a result of meeting customers' needs and aiming to improve easy-to-use functions, page views grew steadily, and sales of the advertising product Brand Panel rose substantially from the previous quarter and year on year. All in all, the renewal was a tremendous success.

## (2) Performance Outlook

As of the fiscal year ending March 2009, the Company plans to change the method of indicating revenue on a net basis in which some items in cost of sales and in selling, general and administrative expenses are eliminated. This change was implemented based on a decision that indicating revenue on a net basis would be more appropriate. The decision was taken after re-examining the allocation of roles and risk between the Company and its partners/agencies in the light of the higher importance of transactions with partners, agencies and other associated companies given the Company's pursuit of an open partnership policy.

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

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

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

### Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2009 (FY2008-1Q) (April 1, 2008 to June 30, 2008)

Net sale	¥65,300 million (15.2%) ~ ¥68,300 million (20.5%)
Operating income	¥31,500 million (6.2%) ~ ¥33,800 million (13.9%)
Ordinary income	¥31,050 million (8.8%) ~ ¥33,350 million (16.9%)
Net income	¥18,000 million (11.1%) ~ ¥19,400 million (19.7%)

### Non-consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2009 (FY2008-1Q) (April 1, 2008 to June 30, 2008)

Net sales	¥55,300 million (5.9%) ~ ¥58,000 million (11.1%)
Operating income	¥29,450 million (0.0%) ~ ¥31,650 million (7.5%)
Ordinary income	¥30,350 million (3.4%) ~ ¥32,550 million (10.9%)
Net income	¥18,000 million (3.9%) ~ ¥19,300 million (11.4%)

#### (Reference)

If the conventional method of indicating sales on a net basis is used, the result will be as follows:

### Consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2009 (FY2008-1Q)

Net sales	¥71,800 million (26.7%) ~ ¥75,000 million (32.3%)
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Non-consolidated Performance Estimates for the First Quarter of the Fiscal Year Ending March 31, 2009 (FY2008-1Q)

Net sales                      ¥57,400 million (9.9%) ~ ¥60,200 million (15.3%)

The operating income, ordinary income and net income of the consolidated and non-consolidated performance estimates remain unchanged.

### **(3) Management Policies**

#### **(i) Basic Management Policies**

Since its founding, the Company has placed its management emphasis on making the services it provides to Internet users as enjoyable, convenient, and agreeable as possible. With today's growing access to various types of information over the Internet, the responsibilities of the social role the Company fulfills as an Internet Service Company have increased significantly.

Going forward, we recognize the convenience, public and society nature, and future potential of the Internet, and are committed to continuing to provide improved services.

Moreover, to meet the expectations of our shareholders, we intend to make every effort to increase shareholder returns.

#### **(ii) Goals for Management Performance Indicators**

Among the major financial performance indicators we recognize as important are net sales growth rate, operating income margins, operating income growth rate, ordinary income margins, and ordinary income growth rate. In addition, how users are utilizing our services is a key structural component of our business development as a Group. Specifically, we consider the following usage indicators to be pertinent to our business. For the state of our overall business or individual services, we monitor the number of page views, unique browsers, and active users IDs (monthly Yahoo! JAPAN ID log-ins). For the state of our pay services, we look at the number of Yahoo! Premium member IDs, Yahoo! BB member and the commercial transaction volume of the services, such as Yahoo! Auctions and Yahoo! Shopping.

#### **(iii) Medium- and Long-Term Management Strategies of the Company**

##### **a. Overall Strategies**

Aiming to increase the number of users and the time spent per user, especially, of the targeted management indicators under the above-mentioned basic management policies, we will promote the following four management strategies:

- Introducing social media: We will promote the formation of a high quality social network by building completely new types of value and connections based on inter-personal communications and communities.
- Making services available "everywhere": We will expand the situations where people can use the Internet via mobile phones and other mobile terminals, television sets, game consoles and other devices.

- Expanding and improving local and life sphere information: We will develop appealing services for local stores, companies, and small offices/home offices (SOHOs) and expand and improve information oriented to the individual life spheres of users.
- Promoting open partnership policy: We will promote our open partnership policy by sharing advertising space with other Internet sites, enabling logging in to other sites using the Yahoo! JAPAN ID, making alliances for settlement and other functions, and open up our service functions and platforms to companies outside the Group.

#### b. Advertising Business

The Internet advertising market in Japan has grown into the next largest advertising market following television and newspapers. It has developed to the point of being on an equal basis with the four major advertising media and its value as a media is rising steadily. With mobile devices, sales of paid listing or contextual advertising in particular are demonstrating growth.

The Group is developing a variety of high-value-added advertising products and establishing sales channels to be able to provide a wide range of advertisers—from national clients to small and medium-sized businesses and individuals—with optimal advertising solutions.

In display advertising, we will expand and promote the more sophisticated advertising products including “Brand Panel” and “Prime Display” which have a larger-size screen and higher visibility than conventional ones, and are being capable of distributing moving pictures for higher branding effectiveness, as well as the behavioral targeting advertising that steadily distributes the products or services in which users likely to be interested, through their behavioral analysis on the Internet, irrespective of the content of the page being viewed.

Our focus in paid listing advertising is on refining the matching of advertising and searches to achieve better efficiency in distributing advertising that is strongly related to the information the user is looking for or the content of the page being viewed.

To expand good listing spots for Prime Display, paid listing, contextual and other advertising, we are providing improved services and content on Yahoo! JAPAN as well as forming business alliances regarding advertising space on other sites.

#### c. Business Service Business

In our business service operations, we are aiming to develop more lifestyle-oriented services for our information listing services, such as Yahoo! Rikunabi and Yahoo! Real Estate. We also are targeting the acquisition of more customers by endeavoring to develop user-appealing products and services for companies and SOHOs, such as Yahoo! Research and Yahoo! WebHosting. Moreover, by improving the life-sphere-orientation of information offered to individual users, we are aiming to increase the degree of convenience of our Internet services that provide in people’s daily lives.

The number of users of Yahoo! Shopping and Yahoo! Auctions who use mobile devices and their transaction volume are rising. Consequently, we are upgrading the usability of our site and functions available for mobile devices. In addition, we are proceeding with strategies to broaden our solicitation for new stores to register on our sites, striving to expand and improve the product lineup. We also are providing support to assist individual stores in building sales by improving our support organization and introducing management tools. At the same time, we are opening up the functions, including the settlement function, of Yahoo! Shopping and Yahoo! Auctions to external companies, with the goal of increasing user convenience and the number of users and frequency of use of our services.

#### d. Personal Services Business

In our personal services business, we are helping people practice recycling lifestyles by promoting environmental consciousness through the recycling on Yahoo! Auctions. We also aim to increase the number of users and frequency of use by increasing the level of safety and confidence in our auctions through such services as anonymous delivery. We are endeavoring to expand sales by increasing the degree of satisfaction with our services among current customers, such as our Yahoo! Premium members and our Yahoo! BB members, who use our ISP services. Furthermore, we are expanding and improving our pay content services, such as Yahoo! Fortune Telling, Yahoo! Comics, and Yahoo! Streaming.

#### **(iv) Issues to Be Addressed**

To achieve harmony with society as well as sustainable growth, the Group believes it is necessary to maintain a competitive position in the market by developing business based on new strategies and by providing content and services that meet the needs of its users. In addition, we must expand our sources of earnings by developing new markets and customer bases as well as maintaining our current customer base. With the emergence of mobile phones, IT-based consumer electronics, and other devices, the use of Internet services is spreading beyond personal computers. Application methods also have diversified due to such trends as social media, where some users send information and others use it. Moreover, technologies have further advanced for searches and other services and for Internet advertising methods. To deal with this expansion in Internet usage and with the diversification in application methods, we are stepping up our concentration on providing new services, building partnerships with other sites or media, technology development, and research on user trends.

The Internet's role as a lifeline has become deeply embedded in people's lives and in businesses. Because our public responsibility as a Group has thereby grown, we carry out our activities with risk management regarding disruption of service at our facilities or in our business due to accidents or natural disasters always in mind. Moreover, we give the highest priority to strengthening security, with personal information privacy at the top of our list. We will continue to develop measures to ensure that our users can feel safe and confident in using the Group's services.

We consider some other objectives besides expanding business content based on business development as necessary for our business. They include establishing a highly flexible but rock-solid organization that can respond to the rapid changes in the environment surrounding the Internet and to the diversifying needs of users and aggressively hiring and training people accordingly. They also include implementing activities to meet our corporate social responsibilities and to strengthen and strictly comply with our internal control system to address many business management risks.

Steadily heading toward these objectives, we will establish an organization capable of achieving optimum results by practicing optimum allocation of our business resources—people, goods, and capital—and by speeding up decision making. Using corporate assets accumulated since our inception, such as brand power, technology capabilities, and our overwhelming user reach, to the maximum, we will seek to diversify our earnings and further solidify our management structure. As the No. 1 Internet service company in Japan, we will strive for further development of the Internet society.

**(4) Consolidated Financial Results for the Full Year and Fourth Quarter****(i) Consolidated Balance Sheets for the Fourth Quarter**

(Millions of yen)

	As of Mar. 31, 2007	As of Mar. 31, 2008	Increase/ Decrease		As of Dec. 31, 2007
	Amount	Amount	Amount	Change (%)	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	75,212	113,027	37,815	50.3	81,907
Notes and accounts receivable-trade (*2)	30,244	36,831	6,586	21.8	34,535
Deferred tax assets	4,344	4,305	-39	-0.9	3,215
Other current assets (*3)	7,818	12,241	4,422	56.6	12,666
Allowance for doubtful accounts	-2,299	-2,095	204	-8.9	-2,341
Total current assets	115,320	164,310	48,989	42.5	129,983
Fixed assets					
Tangible fixed assets					
Buildings and structures	3,483	3,175	-307	-8.8	3,415
Machinery and equipment	13,004	13,394	389	3.0	12,822
Other tangible fixed assets	62	53	-9	-14.7	49
Total tangible fixed assets	16,551	16,623	72	0.4	16,287
Intangible fixed assets					
Software	10,589	11,247	657	6.2	11,339
Goodwill (*4)	4,061	2,525	-1,536	-37.8	4,765
Other intangible fixed assets	33	30	-3	-9.8	31
Total intangible fixed assets	14,684	13,803	-881	-6.0	16,137
Investments and others					
Investment securities (*5)	162,192	163,922	1,729	1.1	163,807
Deferred tax assets	2,990	3,898	908	30.4	3,755
Others	6,712	7,120	408	6.1	7,041
Allowance for doubtful accounts	-23	-18	5	-21.2	-2
Total investments and others	171,871	174,922	3,051	1.8	174,602
Total fixed assets	203,107	205,349	2,242	1.1	207,026
<b>Total assets</b>	<b>318,428</b>	<b>369,660</b>	<b>51,231</b>	<b>16.1</b>	<b>337,010</b>

(Millions of yen)

	As of Mar. 31, 2007	As of Mar. 31, 2008	Increase/ decrease		As of Dec. 31, 2007
	Amount	Amount	Amount	Change (%)	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable-trade (*6)	1,022	6,620	5,598	547.6	6,308
Short-term borrowings	20,120	20,000	-120	-0.6	20,120
Accounts payable-other	13,345	13,744	398	3.0	12,873
Accrued income taxes	28,371	29,154	782	2.8	14,026
Reserve for point system	2,065	2,292	227	11.0	2,210
Other current liabilities (*7)	11,106	17,164	6,057	54.5	17,759
Total current liabilities	76,032	88,976	12,944	17.0	73,299
Long-term liabilities					
Long-term borrowings (*8)	50,000	30,000	-20,000	-40.0	30,000
Other long-term liabilities	10	10	-0	-1.2	10
Total long-term liabilities	50,010	30,010	-20,000	-40.0	30,010
<b>Total liabilities</b>	<b>126,043</b>	<b>118,987</b>	<b>-7,055</b>	<b>-5.6</b>	<b>103,309</b>
<b>Net assets</b>					
Shareholders' equity					
Common stock (*9)	7,187	7,366	179	2.5	7,317
Additional paid-in capital (*9)	2,268	2,447	179	7.9	2,398
Retained earnings (*10)	179,897	236,605	56,708	31.5	220,519
Treasury stock	-28	-28	-0	1.1	-28
Total shareholders' equity	189,324	246,390	57,065	30.1	230,208
Evaluation and exchange adjustments	1,368	1,716	348	25.5	1,140
Share subscription rights	30	116	86	286.1	90
Minority interests in consolidated subsidiaries (*11)	1,662	2,449	786	47.3	2,261
<b>Total net assets</b>	<b>192,385</b>	<b>250,672</b>	<b>58,287</b>	<b>30.3</b>	<b>233,700</b>
<b>Total liabilities and net assets</b>	<b>318,428</b>	<b>369,660</b>	<b>51,231</b>	<b>16.1</b>	<b>337,010</b>

## Main Points Regarding Consolidated Balance Sheets for the Fourth Quarter

### Assets

- \*1. The increase in cash and cash equivalents compared with the same period in the previous fiscal year was mainly due to revenue growth driven by greater sales activities.
- \*2. The growth in notes and accounts receivable-trade compared from a year earlier can principally be attributed to an increase in receivables in the advertising business due to the conversion of Overture K.K. to a consolidated subsidiary.
- \*3. The increase in other current assets from the same period a year earlier was mainly due to the growth in debt related to Yahoo! JAPAN card and Yahoo! ezPay operations.
- \*4. Goodwill expanded from a year earlier mainly due to the amortization of evaluation loss related to Yahoo Japan Value Insight Corporation's stock.

- \*5. Investment securities rose from a year earlier despite a decrease resulting from the evaluation loss recorded on the stock of ValueCommerce Co., Ltd., because of new investment in Telewave, Inc., and other companies.

### **Liabilities**

- \*6. The increase in accounts payable-trade year on year resulted principally from the conversion of Overture K.K. to a consolidated subsidiary.
- \*7. The increase in other current liabilities from a year earlier was mainly due to deposits related to settlements with Netrust, Ltd. and increases in prepayments received due to the conversion of Overture K.K. to a consolidated subsidiary.
- \*8. The decline in long-term borrowings from the same period in the previous fiscal year resulted from repayments.

### **Net Assets**

- \*9. The increase in capital surplus compared with the end of the same period in the previous fiscal year was due to the exercise of stock options.
- \*10. The increase in retained earnings from a year earlier was due to the increase in net income.
- \*11. The increase in minority interests from a year earlier was primarily due to the increase in the net income of consolidated subsidiaries.

**(ii) Consolidated Statements of Income for the Full Year (April 1, 2007 - March 31, 2008)**

(Millions of yen)

	Fiscal year ended Mar. 31, 2007	Fiscal year ended Mar. 31, 2008	Increase/Decrease	
	Amount	Amount	Amount	Change (%)
Net sales	212,552	262,027	49,474	23.3
Cost of sales	8,486	28,260	19,773	233.0
Gross profit	204,065	233,766	29,700	14.6
SG&A expenses	97,832	108,959	11,126	11.4
Personnel expenses (*1)	18,780	22,631	3,851	20.5
Business commissions (*2)	13,804	16,003	2,199	15.9
Sales commissions	10,338	11,407	1,069	10.3
Depreciation expenses (*3)	8,126	9,615	1,489	18.3
Communication charges	7,920	8,386	466	5.9
Royalties (*4)	6,024	7,511	1,487	24.7
Lease and utility expenses (*5)	5,124	6,423	1,298	25.3
Payment commissions (*6)	3,657	5,129	1,472	40.3
Content provider fees	4,597	5,269	671	14.6
Sales promotion costs (*7)	7,120	4,515	-2,604	-36.6
Administrative and maintenance expenses	1,778	2,077	298	16.8
Amortization of goodwill	1,384	1,605	221	16.0
Advertising expenses	1,710	1,297	-412	-24.1
Allowance for doubtful accounts (*8)	2,248	1,792	-455	-20.3
Taxes and public dues	961	1,169	207	21.6
Others (*9)	4,256	4,122	-133	-3.1
Operating income	106,232	124,807	18,574	17.5
Non-operating income	1,171	841	-330	-28.2
Non-operating expenses (income)	4,580	4,137	-443	-9.7
Ordinary income	102,824	121,511	18,687	18.2
Extraordinary gains	806	4	-801	-99.4
Extraordinary losses	1,862	7,526	5,664	304.1
Income before income taxes	101,768	113,989	12,221	12.0
Income taxes, inhabitants' taxes and enterprise taxes	45,223	51,592	6,369	14.1
Adjustment to income taxes	-1,808	-901	906	-
Minority interests in gains of consolidated subsidiaries	389	681	291	74.6
Net income for the period	57,963	62,617	4,654	8.0

## Consolidated Statements of Income for the Fourth Quarter (January 1, 2008 - March 31, 2008)

(Millions of yen)

	Quarter ended Mar. 31, 2007	Quarter ended Mar. 31, 2008	Increase/Decrease		Quarter ended Dec. 31, 2007
	Amount	Amount	Amount	Change (%)	Amount
Net sales	57,560	74,224	16,663	28.9	70,067
Cost of sales	2,205	11,087	8,881	402.7	9,971
Gross profit	55,355	63,137	7,782	14.1	60,095
SG&A expenses	25,821	29,375	3,554	13.8	28,805
Personnel expenses (*1)	4,794	6,230	1,436	30.0	6,070
Business commissions (*2)	3,551	4,160	609	17.2	4,053
Sales commissions	2,923	3,075	152	5.2	2,859
Depreciation expenses (*3)	2,433	2,807	374	15.4	2,488
Communication charges	1,975	2,189	213	10.8	2,109
Royalties (*4)	1,622	2,169	547	33.8	1,983
Lease and utility expenses (*5)	1,409	1,845	436	31.0	1,990
Payment commissions (*6)	1,030	1,442	412	40.0	1,454
Content provider fees	1,235	1,343	107	8.7	1,386
Sales promotion costs (*7)	1,691	1,278	-413	-24.4	1,153
Administrative and maintenance Expenses	497	506	9	1.9	492
Amortization of goodwill	339	360	20	6.1	472
Advertising expenses	267	347	79	29.9	399
Allowance for doubtful accounts (*8)	566	343	-222	-39.3	421
Taxes and public dues	269	324	54	20.2	307
Others (*9)	1,213	949	-263	-21.7	1,161
Operating income	29,533	33,761	4,228	14.3	31,290
Non-operating incomes	50	327	276	547.2	234
Non-operating expenses	1,097	1,238	140	12.8	696
Ordinary income	28,486	32,850	4,364	15.3	30,828
Extraordinary gains	29	-2	-31	-	-1
Extraordinary losses	780	2,988	2,207	282.7	806
Quarterly income before income taxes	27,735	29,859	2,124	7.7	30,020
Income taxes, inhabitants' taxes and enterprise taxes	13,321	15,131	1,810	13.6	12,410
Adjustment to income taxes	-1,660	-1,634	25	-	231
Minority interests in gains of consolidated subsidiaries	90	188	97	108.3	201
Quarterly net income	15,984	16,174	190	1.2	17,177

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

#### Net Sales

The year-on-year growth in net sales for the fourth quarter and fiscal year can be mainly

attributed to an increase in the sales of the advertising business and the conversion of Overture K.K. to a consolidated subsidiary.

### **Cost of Sales**

The year-on-year increase in cost of sales for the fourth quarter and fiscal year primarily resulted from the conversion of Overture K.K. to a consolidated subsidiary.

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

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

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 3,780 up 702, or 22.8%, from the end of the same quarter in the previous fiscal year.

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

The main business commissions for the quarter and for the fiscal year were expenses for temporary and contract employees, the settlement operations of the personal services business, and operations commission fees for the credit card business.

The increase in quarterly operations commission fees from a year earlier was primarily due to growth in expenses for temporary and contract employees and in operations commission fees for the credit card business.

#### **\*3 Depreciation expenses**

The year-on-year increase in quarterly depreciation expenses for the quarter and fiscal year can mainly be attributed to the increased purchase of software and server and to the conversion of Overture K.K. to a consolidated subsidiary.

#### **\*4 Royalties**

The year-on-year advance in royalties for the quarter and fiscal year resulted from the growth in net sales.

#### **\*5 Lease and utility expenses**

The main reasons for the year-on-year growth in lease and utility expenses for the quarter and the fiscal year were partial relocation of the office and expansion of floor space and the conversion of Overture K.K. to a consolidated subsidiary.

#### **\*6 Payment commissions**

The year-on-year expansion in quarterly and fiscal payment commissions was mainly due to the increase in the transaction balance of Yahoo! ezPay and the conversion of Overture K.K. to a consolidated subsidiary.

#### **\*7 Sales promotion costs**

The year-on-year decline in sales promotion costs for the fourth quarter and fiscal year was chiefly due to the termination of sales promotion costs in Yahoo! BB operations as a result of the revision of the business alliance contract with SOFTBANK BB Corp.

#### **\*8 Allowance for doubtful accounts**

The primary reason for the year-on-year decline in the allowance for doubtful accounts for the quarter and fiscal year was an improvement in the debt collection ratio for individuals.

#### **\*9 Others**

The major expenses in others during the fourth quarter were fixtures and fittings expenses, recruiting expenses and travel and commuting expenses.

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

The main components of non-operating expenses for the fourth quarter and fiscal year were translation gains and interest received. The main component of non-operating income for the fourth quarter and fiscal year were equity in losses under the equity method and interest expenses for borrowings.

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

The major extraordinary losses for the fourth quarter and fiscal year were valuation losses on the stocks of Yahoo Japan Value Insight Corporation and Value Commerce Co., Ltd.

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

The effective income tax rates for the fourth quarter and fiscal year were 45.2% and 44.5%, respectively.

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

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

### **Quarterly Net Income**

Net income per share amounted to ¥267.37 for the quarter and ¥1,035.27 for the fiscal year.

**(iii) Consolidated Statements of Cash Flows for the Fourth Quarter and Full Year**

(Millions of yen)

	Quarter ended Mar. 31, 2007	Quarter ended Mar. 31, 2008	Fiscal year ended Mar. 31, 2008
<b>I. Cash flows from operating activities:</b>			
1. Income before income taxes for the periods	27,735	29,859	113,989
2. Depreciation and amortization	2,549	2,952	10,179
3. Increase in accounts receivable-trade	-2,042	-2,354	-3,894
4. Increase in accounts payable-trade	166	312	5,583
5. Payment of income taxes and other taxes	-21	-154	-51,139
6. Other cash flows	3,041	4,647	6,773
Cash flows from operating activities	31,427	35,263	81,493
<b>II. Cash flows from investing activities:</b>			
1. Expenditures on time deposits	-	-	-20,000
2. Proceeds from time deposits	-	-	20,000
3. Expenditures on tangible fixed assets	-3,723	-2,195	-7,512
4. Expenditures on intangible fixed assets	-1,100	-738	-3,717
5. Expenditures on investment securities	-	-826	-8,836
6. Proceeds from acquisition of newly consolidated subsidiaries' stocks	-	-675	2,355
7. Other cash flows	-2,902	320	729
Cash flows from investing activities	-7,726	-4,114	-16,981
<b>III. Cash flows from financing activities:</b>			
1. Redemption of long-term debt	-	-	-20,000
2. Dividends paid	-	-	-5,805
3. Other cash flows	50	-29	-386
Cash flows from financing activities	50	-29	-26,192
IV. Net change in cash and cash equivalents	23,751	31,119	38,319
V. Cash and cash equivalents at the beginning of the periods	51,461	81,907	75,212
VI. Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-	-	-504
VII. Cash and cash equivalents at the end of the periods	75,212	113,027	113,027

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

Cash flows provided by operating activities increased mainly due to growth in net income, amounting to ¥35,263 million in the fourth quarter and ¥81,493 million in the fiscal year.

**Cash Flows from Investing Activities**

Cash flows used in investing activities for the fourth quarter, mainly for the purchase of servers and other equipment, amounted to ¥4,114 million. Cash flows used in investing activities for the fiscal year amounted to ¥16,981 million and were allocated primarily for the purchase of investment securities.

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

Cash flows used in financing activities for the full year amounted to ¥26,192 million mainly due to expenditures on redemption of long-term debt and the payment of dividends.

## **(5) Analysis of Business Results**

### **(i) Business Climate of the Full Year**

According to a report by the Ministry of Internal Affairs and Communications on Internet usage in Japan, the Internet penetration rate among the population of Japan has reached 68.5%. The report estimates that there are 87.54 million Internet users in Japan, and that 67.9% of Internet-using households have broadband services, including the spread of high-speed and enjoyable Internet access environments. According to a survey conducted by Dentsu Inc., the Internet advertising market in Japan totaled ¥600.3 billion in 2007, growing 24.4% year on year, and overtaking magazine advertising to become the next biggest advertising media after television and newspaper.

Along with the development of Internet usage and access environments, variety of Internet service has continued to broaden. There has been a rapid popularization of consumer-generated media (CGM), such as blogs and social networking services (SNS), in addition to web browsing, e-mail, net auction and e-commerce and other traditional uses of the Internet. There has been a growing diversification of IT-linked consumer electronics, such as mobile phones and other communications terminals, television sets, and game consoles. Along with this trend, consumers' lives have become more convenient as they can choose to use a variety of Internet-enabled devices in various different situations or parts of their lives. Consequently, the influence of the Internet on people's lives is expected to expand further in future.

Against this backdrop, as one of Japan's leading Internet service companies, the Yahoo! JAPAN Group aimed at the "life engine", which can be applied to every facet of our lives. We endeavored to provide our services more oriented to people's lives under the following major strategies: "Social Media" for expanding and improving CGM functions, "Yahoo! Everywhere" for enhancing our mobile and other device services, "Enrichment of Local Information" that provides regional and neighborhood information, and "Open Partnership Policy" that expands business opportunities through partner sites by providing our advertising distribution and payment collection services to companies outside the Group.

As a result, consolidated net sales of the Group for the fiscal year period advanced 23.3% year on year, to ¥262.0 billion. Operating income amounted to ¥124.8 billion, increasing 17.5% from a year earlier. Ordinary income totaled ¥121.5 billion, rising 18.2% from the same period last year. The current net income increased to ¥62.6 billion, up 8.0% year on year.

## (ii) Segment Information

### Outline of Businesses

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

### Fiscal Year Results

#### Advertising Business

During the fiscal year under review, despite the uncertainty that hung over the overall advertising market, the Internet advertising market continued to grow. Amid these circumstances, we endeavored to win advertising by strengthening our collaboration with advertising companies and making sales proposals that match client needs.

In October 2007, we commenced sales of a new strategic product called Prime Display, the size of which we expanded to 300 pixels (vertical) x 250 pixels (horizontal) to make it extremely eye-catching. In addition, in conjunction with the full renewal of the top page of Yahoo! JAPAN on January 1, 2008, we expanded the size of our Brand Panel products and began sales of a new product, Brand Panel Triple Size. Along with the development and sales of these new advertising products, it has become possible to use even bigger, high-visual-impact moving picture advertising. Consequently, sales increased because even more than before, these products meet the needs of advertisers, especially national clients, for high branding power. Among other products, behavioral targeting advertising, which targets users according to their past history of usage, also expanded substantially, with advertisements increasing from real estate-related, finance, various types of employment services, automobile, transportation, and leisure-related companies. In addition to an increase in sales of demographic targeting, which distributes according to specific groups, our area behavioral targeting, which targets users according to area information, contributed to winning promotional advertising focused on specific regions.

Paid listing advertising revenues advanced significantly from a year earlier because of the further expansion of the market and the greater use of search services. The start in July 2007 of a new system for paid listing advertising service that takes into consideration a quality index and

the bidding price in determining the listing order also contributed to sales growth. Furthermore, the inclusion of the performance of Overture K.K. in consolidated results as of September 2007 boosted sales compared with the previous fiscal year. Mobile advertising revenues also rose substantially because of the strong growth in the use of paid listing advertising. Consequently, fiscal advertising business sales amounted to ¥131.0 billion, accounting for 50.0% of net sales.

### **Business Services Business**

During the fiscal year under review, the Group concentrated on acquiring listing information, centered on Yahoo! Real Estate, and listing revenues rose favorably. In particular, sales of Yahoo! Real Estate climbed substantially, approximately doubling. In December 2007, Yahoo! Shopping expanded functions for product search, comparing, and list narrowing with a focus on site functionality. It also implemented a full renewal of its site to improve the degree of convenience of its services for merchant stores. As a result, use of Yahoo! Shopping increased, especially on the mobile site. Moreover, Yahoo! Shopping and Yahoo! Auctions endeavored to increase use through a variety of other measures, including conducting 8<sup>th</sup> anniversary commemoration sales, running seasonal sales promotions, and special features on popular products. Continuing to concentrate on acquiring new stores, the Group implemented such measures as introducing successful cases of store management and running a campaign for new store openings on Yahoo! Shopping. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 31,289 at the end of March, 2008, increasing by 4,245 stores, or 15.7% year on year. Based on this growth, revenues from tenant fees and sales commissions expanded favorably. Total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel and Yahoo! Tickets for the fiscal year amounted to ¥940.0 billion, rising 4.5% year on year. In the research-related area, the conversion of Interscope Inc. into a subsidiary, the reorganization of Yahoo Japan Value Insight Corporation as a subsidiary, and the promotion of new products resulted in significant sales growth year on year.

Overall, business service sales for the fiscal year amounted to ¥58.0 billion and accounted for 22.2% of net sales.

### **Personal Services Business**

During the fiscal year, Yahoo! Auctions implemented a variety of measures to stimulate greater use. It conducted a campaign to award Yahoo! Points to users, seasonal sales promotions, and a free item listing campaign for the mobile version of Yahoo! Auctions. Nevertheless, income from system-use fees declined slightly because, in addition to the slackness in special categories, such as automobiles and vehicle bodies, there were a slump in transaction volume due to stricter measures to prevent abuse of the system and an increase in the proportion of B-to-C auctions and other factors. To attract new members, Yahoo! Premium ran a campaign offering free membership until December 2007 to people who have used its services. It also endeavored to raise the value of membership through a campaign presenting an iPod shuffle to

people purchasing campaign-targeted mobile phones on Yahoo! Keitai Shop on a new particular mobile phone service contract basis. As a result, the number of Yahoo! Premium member IDs rose to 6.91 million at the end of March 2008, representing a net increase of 720,000 IDs, or 11.7% from a year earlier. Yahoo! BB's ISP fee income declined substantially from the previous fiscal year due to the impact of the revision of the contract with SOFTBANK BB Corporation in the first quarter. Among pay content services, sales of Yahoo! Partner, Yahoo! Comics and Yahoo! Marriage grew sharply while sale of Yahoo! Mail, Yahoo! Fortune Telling and other pay content services also increased favorably. Moreover, the Company began discussions with eBay Inc., the United States' largest Internet auction site, on a business alliance that would strengthen support and guidance for mutual entry into each other's markets in Japan and the United State. The overall aim of the alliance would be the creation and expansion of a new cross-border auction market.

Consequently, personal service sales for the fiscal year amounted to ¥73.0 billion and accounted for 27.9% of net sales.

## Quarterly Results

### FY2007-4Q (January 1, 2008-March 31, 2008)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	40,297 (54.3%)	15,106 (20.4%)	18,894 (25.5%)	74,298 -	-74 (-0.2%)	74,224 (100.0%)
Operating expenses	22,037	9,145	6,200	37,383	3,078	40,462
Operating income (Contribution)	18,260 (54.1%)	5,961 (17.7%)	12,693 (37.6%)	36,914 -	-3,152 (-9.4%)	33,761 (100.0%)

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

(Millions of yen)

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

**FY2007-3Q (October 1, 2007-December 31, 2007)****(Millions of yen)**

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	36,708 (52.4%)	14,766 (21.1%)	18,613 (26.6%)	70,089 -	-22 (-0.1%)	70,067 (100.0%)
Operating expenses	20,681	8,702	6,220	35,605	3,172	38,777
Operating income (Contribution)	16,027 (51.2%)	6,064 (19.4%)	12,393 (39.6%)	34,484 -	-3,194 (-10.2%)	31,290 (100.0%)

**Advertising Business**

During the period under review, despite the slight sluggishness in the overall advertising market, the Internet advertising market firmly expanded. Amid these circumstances, we endeavored to win advertising by strengthening our collaboration with advertising companies and making sales proposals that match client needs.

In conjunction with the complete renewal of Yahoo! JAPAN's top page, we increased the size of all our Brand Panel products and commenced sales of Brand Panel Triple Size. By strengthening our capability for distributing advertising using advanced flash technology, we are even more able than before to meet the needs of advertisers, particularly national clients, for higher branding power. We also began sales of Brand Panel Internet CM Plus, which incorporates moving picture advertising. As a result of promoting the distribution of moving picture advertising over the Internet, we received many orders for this type of advertising during the period under review. Sales rose steadily for Prime Display, which established itself as one of our new core products.

Behavioral targeting advertising, which targets users according to their past history of usage, also expanded substantially, with advertisements increasing from real estate-related, finance, a variety of employment services, automobile, transportation and leisure-related companies. There was an increase in sales of demographic targeting advertising which distributes according to users' attributes. The area behavioral targeting advertising which makes distributions according to area information contributed to winning the promotion focused on specific regions. The paid listing advertising revenues advanced significantly from a year earlier. Factors contributing to this growth were the greater use of search services by companies, the start of a new system for paid listing advertising service that takes into consideration a quality index and the bidding price, and the inclusion of sales from companies outside the Group due to the convention of Overture K.K. to a consolidated subsidiary. Mobile advertising revenues also rose substantially because of the strong growth in the use of paid listing advertising and an increase in picture advertising by finance-related firms.

Consequently, the fourth quarter advertising business sales amounted to ¥40.2 billion.

## **Advertising Products**

During the fourth quarter, sales of Brand Panel, the size of which was expanded when Yahoo! JAPAN's top page was renewed, go off to a good start. In addition, sales of behavioral targeting advertising rose substantially compared with the same period last year. We also aggressively developed the market for advertising by special sponsors. In collaboration with Sony Assurance Inc., we created an "Automobile Insurance Best Answer" special features that linked Yahoo! Answers, Yahoo! Research, Yahoo! Internet Certification and other services, and attracted a great deal of attention.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.21 to ¥1.68 per impression, rates for targeting-type banner ads varied from ¥0.08 to ¥6.50 per impression, and rates for the large-sized Prime Displays varied from ¥0.21 to ¥5.00 per impression. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥3.50 to ¥8.00 per mailing. Rates for Network Prime Display for national clients varied from ¥0.18 to ¥1.44.

## **Business Services Business**

During the fourth quarter, sales of Yahoo! Rikunabi struggled compared with the same period in the previous fiscal year because a lack of interest in hiring by companies. On the other hand, sales of Yahoo! Real Estate climbed sharply along with heightened demand for new living spaces during the moving season in Japan and the effect of a renewal of its rental housing homepage. Consequently, listing revenues increased firmly compared with the fourth quarter last year. The Group continued efforts to acquire new stores, running a new store campaign for Yahoo! Shopping to commemorate the site renewal carried out in the third quarter. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 31,289 at the end of March 2008, increasing by 4,245 stores or 15.7% year on year.

Along with this growth, revenues from tenant fees and sales commissions expanded. Total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel and Yahoo! Ticket for the quarter amounted to ¥238.1 billion, rising 2.2% year on year, with mobile transaction volume in particular increasing substantially. Research-related sales also surged ahead compared with the fourth quarter last year due to the conversion of Interscope Inc. into a subsidiary.

Overall, the business service sales from the fourth quarter amounted to ¥15.1 billion.

## **e-Commerce Related Performance Figures**

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

	March 2007	March 2008
Number of shopping unique browsers	16.76 million browsers	13.38 million browsers

Number of shopping store unique browsers	16.98 million browsers	17.84 million browsers
Number of stores (As of the end of each month)	14,699 stores	16,361 stores

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

### Shopping Related Transaction Volume

	January 2007-March 2007	January 2008-March 2008
Daily average transaction volume	¥ 511 million	¥ 559 million

Note: Transaction volume represents the combined sales transaction volumes of Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket. Transactions from fraudulent orders and cancellations have been removed from the above amounts.

### Yahoo! Auctions Number of Total Listed Items, etc.

	March 2007	March 2008
Number of auction unique browsers	28.65 million browsers	33.43 million browsers
Number of total listed items (Monthly average)	13.34 million items	15.81 million items
Number of stores (As of the end of each month)	12,345 stores	14,928 stores

### Yahoo! Auctions Transaction Volume etc.

	January 2007-March 2007	January 2008-March 2008
Daily average number of new listings	953 thousand items	920 thousand items
Daily average transaction volume	¥2,076 million	¥2,057 million
Average closing price per item	¥5,694	¥5,277
The average ratio of successful auctions per day	26%	22%

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

### **Personal Services Business**

During the fourth quarter, Yahoo! Auctions took various steps to stimulate greater use. It ran Valentine's Day and other seasonal promotions, a campaign to award Yahoo! Points to all users without exception for listing items in certain categories, and a free item listing campaign for the mobile version of Yahoo! Auctions. Nevertheless, transaction volume was flat comparing with the same period of previous year because of stricter measures to prevent abuser of the system.

Income from system-use fees declined because of such factors as an increase in the proportion of B-to-C auctions and stricter measures to prevent fraud and illegal listings. Working to attract new members, Yahoo! Premium continued its campaign offering three-months free for new members who have used Yahoo! Auctions. As a result, the number of Yahoo! Premium member IDs rose to 6.91 million at the end of March 2008, representing a net increase of 720,000 IDs or 11.7% from the fourth quarter last year. Yahoo! BB's ISP fee income declined substantially year on year due to the impact of the revision of the contract with SOFTBANK BB Corporation in the first quarter. Among pay content services, sales of Yahoo! Partner and Yahoo! Comics grew sharply while sales of Yahoo! Mail, Yahoo! Fortune Telling, Yahoo! Marriage and other pay content services also increased favorably.

Overall, the personal service sales for the fourth quarter amounted to ¥18.8 billion.

### **(iii) Operating Review**

#### **<Search Business>**

Main Services:

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

In the fourth quarter, we endeavored to make further progress with adding social media functions to our search services, with making our search services available “everywhere,” and with implementing the open partnership policy. In collaboration with NewsWatch, Inc., we began offering Site Search, a free search service for corporate sites that enables both of search on the web and search in their own sites. Two months after the start of the service, it was being used on over 150 company sites, helping to promote our open partnership policy. Among efforts to promote the use of Yahoo! JAPAN search functions and to strengthen search functions, we conducted a campaign that offered Yahoo! Points to Yahoo! Premium members in proportion to the number of days that used Yahoo! Search and continued to improve search quality.

#### **<Auction Business>**

Main Services:

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

During the fourth quarter, we continued to implement measures aimed at expanding users. We ran a campaign offering free system fees for listing items, introduced a plan awarding Yahoo! Points for bidding on and winning items, and conducted an “Item Listing Support Campaign” that offered Yahoo! Points to all without exception for listing items in special categories which changed the transaction rules. We pursued our goal of providing services “everywhere” by making it free to list items by mobile phone and by starting our “Do Now, Pay Later” service for mobile phone. In addition, we promoted the greater use of the Internet auctions by public bodies by starting a Tokyo-Style Tax Payment-in-Kind Auction for assets of taxpayers put up for auction by the Tokyo Federation of Tax Savings Associations. During the period from April 2007 to

March 2008, the total value of items auctioned on government auctions that we hosted amounted to ¥4,675.8 million.

### <Member Services Business>

Main Services:

Yahoo! Premium, Yahoo! BB, Yahoo! Insurance, Yahoo! Trading, Yahoo! Forex, Yahoo! Tickets, Yahoo! LiveTalk, Yahoo! Fan Club, Yahoo! Partner, Yahoo! Marriage, Yahoo! Deliver, Yahoo! Keitai Shop, Yahoo! What's New

In the fourth quarter, we worked to expand the number of members of Yahoo! Premium and other membership services of Yahoo! JAPAN as well as to boost the degree of satisfaction of members. To acquire new members for Yahoo! Premium, we continued our campaign offering 3-months of free Yahoo! Premium membership for those who have used Yahoo! Auctions services. In addition, we promoted greater use of our services by starting a campaign that awards Yahoo! Points to all Yahoo! Premium members without exception in accordance with the number of days they used Yahoo! Search services. In collaboration with OriconDD Inc., we introduced Yahoo! Fan Club, a members-only service that provides direct links between celebrities and fans, or between fans. Among efforts to expand and improve services, we launched Yahoo! Foreign Exchange, a service that allows users to post and read the latest foreign exchange news and articles on foreign exchange and FX trading as well as listing the FX guarantee deposit of The Japan Net Bank, Limited.

#### ▪ Number of Premium Member IDs

March 2007	March 2008
6.19 million IDs	6.91 million IDs

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

End of March 2007	End of March 2008
Approximately 5,164 thousand lines (including approximately 1,124 thousand lines marketed by Yahoo! JAPAN)	Approximately 4,809 thousand lines (including approximately 981 thousand lines marketed by Yahoo! JAPAN)

Note: Jumper installation completed, excluding service cancellations and "Yahoo! BB Hikari."

### <Regional Services Business>

Main Services:

Yahoo! Rikunabi, Yahoo! Real Estate, Yahoo! Maps, Yahoo! Get Local, Yahoo! Transit, Yahoo! Traffic Information, Yahoo! Phone Book, Yahoo! Gourmet, Yahoo! Coupons, Yahoo! StepUp, Yahoo! Internet Certification, Yahoo! Healthcare,

During the fourth quarter, the Regional Services Business focused on improving information coverage related to regional activities, providing enriched services based on submitted users' behavioral information, and expanding and improving mobile versions of services. Yahoo! Real Estate endeavored to boost use of its services by carrying out a full renewal of its rental housing

page and striving to increase the convenience of its listings by adding peripheral maps and high-quality images. The business took steps to expand and improve local and life sphere information by adding a search peripheral function to Yahoo! Maps, by enabling users to search for a variety of facilities and events on the beta version of Yahoo! Get Local, and by further improving its comment posting function. Aiming to further expand and improve map-related services, the Company absorbed ALPS MAPPING K.K. through a merger.

### **<Media Business>**

Main Services:

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

During the fourth quarter under review, the Media Business continued to emphasize planning and development of content and services that would be supported by users and advertisers. In collaboration with TBS Television, Yahoo! TV implemented auditions for the acting roles in the new TV drama series "ROOKIES" on which Yahoo! JAPAN users could vote. Among actions taken to infuse social media functions into services, we added blog and opinion functions on high profile topics to Yahoo! News. We also launched the beta version of Investor Feelings, a Yahoo! Finance service enabling users to search for word-of-mouth information posted by investors by using the stock code or company name. In addition, we launched Yahoo! Logoole (beta version), a Web site analysis tool that can be attached to a blog, allowing the identification of the number of visitors and their groupings.

### **<Shopping Business>**

Main Services:

Yahoo! Shopping, Yahoo! Books, Yahoo! Prize Competition

During the fourth quarter, in reaction to the renewal of the Yahoo! Shopping site, we focused on following up with improvements and adding functions, such as allowing users to look for desired items using rankings for items or keyword rankings. Among the measures taken to expand service use, we aggressively ran special features on a new life, and seasonal sales promotions for Valentine's Day and White Day. Moreover, we announced the winner of the 6<sup>th</sup> Backorder Gourmet Ranking "King of the Delicious Finals," and held a celebration sale by the winning store. As a result of focusing on the acquisition of new stores, the total number of stores increased to 16,361 at the end of March 2008, and in crease of 1,662 stores or 11.3% from a year earlier.

### **<Lifestyle Business>**

Main Services:

Yahoo! Autos, Yahoo! Music, Yahoo! Movies, Yahoo! Rental DVD, Yahoo! Fashion, Yahoo! Beauty, Yahoo! Wedding, Yahoo! Consumer Electronics Navigator, Yahoo! Flyer Information,

Yahoo! Books, Yahoo! Comics, Yahoo! Games, Yahoo! Fortune Telling, Yahoo! Ringtone, Yahoo! Pet, Yahoo! Second Life

In our Lifestyle Business, we continued our efforts to provide social media services in lifestyle-related fields that require a high degree of expertise or interest. Undergoing a name change as well as a renewal, Yahoo! Beauty published “LUAU”, a free, flash-based web magazine that can be read by turning pages just like printed women’s magazines. We also reformed our Diet Diary, a self-management tool for people who want to loose weight, adding such functions as being able to offering personal advice on balancing meals or diet methods to users with a registered Diet Diary. As a social media function, we made it possible for registered people to review each others’ diaries. For Yahoo! Movies, we expanded our selection of popular U.S. and European films for our Online Theater by adding as new distributors Sony Pictures Entertainment Inc. and UNIVERSAL PICTURES (JAPAN) INC. Online Theater allows users to view their favorite movies at home and other locations. Among efforts to improve the convenience of our services, we launched Yahoo! Flyer Information, a service enabling searches for and viewing of advertising flyers on the Internet through a business alliance with TOPPAN PRINTING CO., LTD.

### **<Social Net Business>**

Main Services:

Yahoo! Mail, Yahoo! Calendar, Yahoo! Briefcase, Yahoo! Photo, Yahoo! Groups, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Profile, Yahoo! Blogs, Yahoo! Days, Yahoo! GeoCities, Yahoo! Message Boards, Yahoo! Polls, Yahoo! Podcast, Yahoo! Videocast

Acting as the driver of the development of social media on Yahoo! JAPAN, the Social Net Business continued to work to increase the added value content of related services and to link up with various services of Yahoo! JAPAN. During the quarter, we took various steps to improve the convenience of services. We made a decision to introduce Yahoo! Mail Academic Edition email services a web email service for academic institutions, at Waseda University. We also launched a beta version of the next-generation Yahoo! Mail as a web mail service that provides almost the same operability as other e-mail software, and endeavored to improve convenience by collecting test users. We introduced a Web version of Yahoo! Messenger that can be used to log in from the browser without downloading any software. In addition, we focused on prompting communications between users by commencing Yahoo! Profile, a service can be used on all Yahoo! JAPAN services, allowing users to send messages without revealing their email address and to indicate the scope of viewing by the public. Promoting the availability of our services “everywhere,” we launched a mobile version of Yahoo! Blog, enabling users to post and view blogs using their mobile phones.

## <Mobile Business>

Main Services:

Yahoo! Mobile, Yahoo! Content Store, Yahoo! Posting Appli, Yahoo! MachiMoba

During the fourth quarter, we continued to endeavor to increase the degree of customer satisfaction with our Yahoo! Keitai service for SOFTBANK mobile phones and our mobile version of Yahoo! JAPAN for i-mode and EZweb formats. We began offering Yahoo! Headline News, a service that collects and delivers the latest news to users once a day. As a measure to acquire new users, we commenced a mobile Yahoo! JAPAN service for Disney Web, the portal site for Disney Mobile. Among actions taken to expand and improve local and life sphere information, we launched Yahoo! MachiMoba, a mobile version of general local site that allows users to collect peripheral information on the current or a selected area. We also conducted a major renewal of Yahoo! Mobile, a PC site that provides a range of information on mobile phones, such as the services of mobile version of Yahoo! JAPAN, the handsets of each carrier, and comparisons of fee schedules.

### Number of Page Views

	March 2007	March 2008
Yahoo! Mobile Page Views	2,506 million page views	3,672 million page views
Daily Average Yahoo! Mobile Page Views	80 million page views	118 million page views

## <New Business Office>

Main Services:

Yahoo! ezPay, Yahoo! NetBanking, Yahoo! Points, Yahoo! Card, Yahoo! Public Utility Payment, Yahoo! Travel, Yahoo! Business Travel, Yahoo! Research, Business Express, Yahoo! WebHosting, Yahoo! Benefits

### Settlement Related

As a measure to protect against fraud, such as nonarrival of goods, on Yahoo! Auctions, we introduced an Agency Payment Management Service on Yahoo! NetBanking that enables auction users to pay after delivery of the item. To promote the open partnership policy, we began accepting applications for a Yahoo! JAPAN Card with a joint Suica function as part of a business alliance with East Japan Railway Company. In addition we started offering a service with Yahoo! Points attached on an external site.

### Travel Related

During the quarter, Yahoo! Travel started offering highway bus reservation services for Japan. Among actions taken to improve the convenience of services and expand use, we launched an overseas optional tour reservation service in collaboration with Alan Corporation. In addition, we endeavored to expand and improve our travel information by running many special features on

tourist spots with seasonal and other attractions and by introducing on Yahoo! Business Travel accommodations where the QUO Card can be used.

#### Research Related

During the quarter, we endeavored to work on increasing the number of monitors and diversifying demographics by running a “Looking for Monitors” campaign that enables the participants enrolled in this service to win the latest game consoles, gift certificates or Yahoo! Points. At the end of March 2008, the total number of registered monitors amounted to 1.70 million, the largest organization of research monitors in Japan.

#### Others

During the fourth quarter, the number of registered companies on Yahoo! On Business, a portal site for business owners launched in the previous quarter exceeded 11,000.

#### **<Service Supervising Division>**

##### Main Services:

Yahoo! JAPAN Top Page, Yahoo! Toolbar, My Yahoo!, Yahoo! Widgets, Yahoo! Volunteer, Yahoo! Kids, Yahoo! Safety Net, Yahoo! Developer Network , Yahoo! Newsletter, Yahoo! eMail Magazine, Yahoo! JAPAN Help Center, Yahoo! Download Center

During the quarter, we carried out a full renewal of the top page of the Yahoo! JAPAN site. We strove to upgrade the convenience of services by renewing Yahoo! Tool Bar and launching Yahoo! Download Center, which enables the immediate download of Yahoo! Tool Bar, Yahoo! Widgets, and other software and software developed by other companies for Yahoo! JAPAN.

On Yahoo! Kids, we ran campaigns and special features, working to provide services that children and family could use to enjoy the Internet. These services included the announcement of prizes on a Doraemon special feature for the “16<sup>th</sup> Nature is Our Friend Contest,” introductions of study drills for the new academic year and the latest stationary products, and a Spring Holidays Special Feature 2008 containing special four-scene comics and other items of interest.

## (Reference)

### Yahoo! JAPAN Page Views etc.

	March 2007	March 2008
Total Monthly Page Views	37,297 million page views	43,145 million page views
Daily Average Total Monthly Page Views	1,203 million page views	1,391 million page views
Number of Yahoo! JAPAN Unique Browsers	130.25 million browsers	159.74 million browsers
Number of Active User IDs on Yahoo! JAPAN	19.23 million IDs	21.92 million IDs

Notes:

- Number of Yahoo! JAPAN unique browsers is the browsers which accessed Yahoo! JAPAN services each month.
- Number of active user IDs on Yahoo! JAPAN is the IDs which logged in each month.

### New Service

Date	New services and service upgrades
January 1	Implemented full renewal of Yahoo! JAPAN top page.
January 30	Began offering OpenID service enabling use of external sites using Yahoo! JAPAN ID.
February 1	Renewed moving picture player and page design of Yahoo! Streaming.
February 8	Launched Site Search, a search service for corporate and commercial sites.
March 1	Began offering partial service on mobile version of Yahoo! JAPAN of Disney Web, the portal site for Disney Mobile.
March 4	Announced start of Yahoo! Flyer Information, a digital flyer search and viewing service.
March 12	Commenced offering services with Yahoo! Points attached on external sites.
March 17	Began accepting application for the Yahoo! JAPAN Card Suica, a joint card with convenient functions.
March 19	Launched Yahoo! MachiMoba, a service providing regional information to mobile phones.
March 19	Launched Yahoo! Fan Club, a service providing direct links between celebrities and fans, or between fans.

### Yahoo! JAPAN CSR Activities

As an Internet service company group, our Group carries out a variety of activities to contribute to the healthy development of the emerging Internet society. A report on our views and record regarding corporate social responsibility (CSR) activities can be viewed at <http://forgood.yahoo.co.jp/>

The “Yahoo! JAPAN Sustainability Report 2007” (<http://csr.yahoo.co.jp/>, Japanese language only) posted on the previously mentioned site introduces our various CSR activities from three

points of view—a good relationship with our customers, carrying out appropriate corporate activities, and making a social contribution.

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

## 1. Volunteer Activities

- Through Yahoo! Volunteer, we have introduced a Charity Shopping service whereby a portion of the price (equal to or greater than 4%) of purchases made on Yahoo! Shopping automatically is donated to volunteer groups. The following organizations are donated by Charity Shopping (no particular order):
  - Peace Winds Japan, an organization that provides support for refugees from wars and natural disasters.
  - Japan Association for Refugees, an organization that provides legal and living support for refugees that have come to Japan.
  - FoE Japan, an organization that addresses environmental issues on a global basis.
  - Save the Children Japan, an organization that provides support for children suffering from war, poverty and disease around the world.
- We also collect and donate charity funds through our Internet Charity Contributions site using the two methods of Yahoo! Wallet (purchase of wallpaper) and Yahoo! Points. The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
  - World Vision Japan's "African Regional Emergency Relief Fund."
  - National Federation of UNESCO Associations in Japan's "Let's Protect World Heritage Sites, the Treasures of Mankind" movement.
  - The Wild Bird Society of Japan's "Protect Wild Bird and Our Bountiful Nation" movement.
  - Shibuya Pasonetto's "Rental Computers for the Elderly Fund."

## 2. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the fourth quarter, we again held many charity auctions featuring athletes and famous people. Among them, we auctioned the "Dream Wedding Dress" designed by IKKO and a baseball personally signed by baseball team manager Sadaharu Oh. In total, we held 615 charity auctions during the quarter, raising a total of ¥14,970,729. The funds raised by such auctions are being donated to the following charities (not listed by any special order).

- GREEN CROSS Japan, the Japan chapter of the global environmental protection body Green Cross International.
- First Aid – The First Bond, an organization that raises awareness of umbilical cord blood therapy and provides support for victims of difficult blood diseases.

- Japanese Foundation for AIDS Prevention, which provides an social safety net for AIDS and HIV positive people as well as disseminating information about AIDS prevention.
- Sasagawa Memorial Health Foundation, which provides support for leprosy victims and conducts activities to eliminate discrimination.
- ASHINAGA, which provides scholarship support and care for children orphaned because of their parents' sickness, accident or suicide.

### **3. Others**

- Launched Security Special Feature 2008 Spring – Unstoppable Information Leaks, Evolving Fraud Schemes, Our Children Are in Danger, which lists ways to protect against One-Click fraud (fraudulent pay service bills) and personal information leakage and information on protecting children from Internet crime. (From January 28, 2008)
- Yahoo! Internet Charity Contributions received applications for support under its Yahoo! Internet Charity Contributions NPO Assistance Program from 14 organizations, of which after consideration, it selected 4 organizations. (February 22, 2008)
- Two winners were chosen from among the 1,675 stories submitted to the 3<sup>rd</sup> Yahoo! JAPAN Literary Awards. (March 6, 2008)
- Decided the Grand Prix, runner up and other awards for the Keitai Journalist Contest 2007. In this contest, contestants submitted pictures with comments taken with a mobile phone camera on the theme of “Things I Notice or that Concerned Me in Daily Life” on such topics as the graying society or education. (March 23, 2008)

## **Risk Factors**

Major risk factors with regard to the businesses of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) as of the publication date of this document are discussed below. The Group proactively discloses those risk factors it deems necessary that potential investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and potential investors consider the issues below before assessing the position of the Group and its future performance. Please note that the risk factors listed below do not represent complete coverage of risks that should be considered before investing in the shares of Yahoo Japan Corporation (the Company).

### **1. Impact of Internet Market and Competition**

#### **1) Influence of Internet Markets and Infrastructure**

##### **a. Dependence on the Growth of Internet Usage**

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the recent spread of broadband communications. As the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are the continued expansion of Internet-based communications and commercial activity as well as a stable and secure infrastructure for Internet users.

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

##### **b. Dependence on the Infrastructure for Internet Connection**

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

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

### **c. Dependence on Internet Connection Devices**

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

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

### **2) Building Partnerships in the Internet Market**

The Group is actively working to build partnerships with both corporate and individual Internet media to expand usage of the entire network, including partner sites. In doing so, we plan to increase access of the Group’s sites by users of other companies’ sites as well as access by our users.

In the advertising business, the Group is endeavoring to expand advertising networks, such as “AD Network” and “AD Partner,” by incorporating other sites’ ad space through tie-ups with those sites. This system allows other Internet sites with limited reach to increase their media value through networking, while making it possible for advertisers to achieve a wider coverage by targeting their customer base through the entire advertising network. In the search business, the Company and its partner sites have jointly provided advertisers with the paid listing service offered by Overture K.K. and achieved remarkable results and a dominant market share. In the auction business, the Company has agreed with eBay Inc. to mutually support and guide market entry into Japan and the United States. In addition, the Company has begun offering other services, such as its online settlement service Yahoo! Wallet, on partner sites. By proceeding with the building of such partnerships, the Company is increasing the convenience, security, efficiency, user appeal and profits of the partnership sites. Through this process, the Company is aiming to provide users with the diverse range of Internet services demanded through the Group and partners acting as whole.

In pursuing these actions, the Company faces the following risks.

- Partnerships (business tie-ups) have been concluded in such a way as for both parties to benefit from the relationship. However, partners could fail to achieve their sales or traffic goals, or competition with other companies could result in a delay in setting up the partnership or greater expenditure to acquire a partner or the partnership agreement could be cancelled. If any of these actions occurred, they could adversely affect the Group’s performance.
- The Company provides its services to partners through its own systems and those of its affiliated and business tie-up companies. Should the Company’s partners suffer any damages due to the disruption of these systems, it could tarnish the brand image of the Group or result in a legal suit for compensation, which might impact negatively on the Company’s performance.
- Since the quality or reputation of the services of our partners reflect on the reputation or credibility of the Group, any problems with our partners’ services could tarnish the brand image of the Group.
- “AD Partner” is a service for distributing display advertising or contextual advertising mainly to personal homepages or blogs, aiming to improve the brand image and advertising effects for advertisers or provide a high-level reward to site owners by networking only the partner sites that have passed our inspections. Should the advertisers not get their expected advertising effects or site owners not get their expected rewards, however, it may become impossible to place ads or make registrations at the partner site as expected and

thus could have a negative impact on the Company's performance.

### **3) The Social Media Services Market**

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

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

### **4) Markets of Individual Business Segments**

#### **a. Internet Advertising Business**

##### **i. Potential of the Internet Advertising Market**

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

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations. Since that time, the Internet advertising market has grown significantly, accounting for 8.6% of the total advertising market in calendar year 2007, according to a recent DENTSU INC. report. During the same year, the Internet advertising market became the next biggest advertising market after the major television and newspaper advertising markets. Nevertheless, future growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated income, which could negatively affect Group performance.

Although the Internet advertising market is attracting increasing expenditures from companies in various industries, the Internet's value as an advertising medium has not been adequately established among advertisers, advertising agencies, and consumers. Corporate use of Internet advertising, which has a relatively short history, is often done on a test basis with limited budgets. To promote greater understanding and appreciation of Internet

advertising in the advertising industry, including both advertisers and advertising agencies, the Group regularly hosts seminars and other informational events. In addition, the Group is enhancing its advertising sales system and strengthening ties with advertising agencies with the goal of expanding and stabilizing the advertiser base. It is uncertain, however, whether the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, leading companies that conduct nationwide sales campaigns on relatively large budgets, will decide to use Internet advertising on a continual, large-volume basis, similar to their use of advertising in traditional media. If they do not, the Group might have difficulties in achieving stable advertising revenue.

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

## **ii. Characteristics of Internet Advertising**

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

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

## **iii. Greater Variation in Advertising Products**

Many new advertising products that use a variety of advertising methods utilizing Internet media have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products to help fulfill advertiser needs, including products that guarantee exposure periods and number of impressions. The Group also offers Sponsor Site services (paid listing advertising) operated jointly with Overture K.K. and an affiliate ad program (pay per performance advertising) operated in cooperation with ValueCommerce Co., Ltd.

Recently, the Company has developed and launched various products that use new advertising methods. These products include behavioral targeting products (see Note, below), which can target users according to their past history of Internet usage; custom

behavioral targeting advertising products, which use the user's search history and browsing history on specific pages on Yahoo! JAPAN as well as general behavioral history; visits to the sites of major advertisers, grouping (age and gender), and area information; "AD Network," which allows distribution by combining ad space of each medium and can reach much further than a single medium; and "Contextual Advertising," which can analyze content of the page and then distribute advertising that matches the content of the page. If the Group fails to properly handle the new approaches required by the evolution of advertising, however, it could decrease advertising revenue. In addition, costs could grow for developing new products and forming new partnerships with firms that deal with the new types of advertising. These circumstances might have a negative effect on Group performance.

*Note:* Past history of Internet usage is used by behavioral targeting advertising only for grouping users (browsers) with similar interest or concern and not for analyzing interest and concern of specific users. All information obtained is operated in accordance with Yahoo! Japan's privacy policy.

## **b. Business Services**

### **i. Trends in Corporate Internet Use and Market Change**

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

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

### **ii. Influence of Changes in the Broadband Market**

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

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

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

Owing to rapid progress in telecoms technology, however, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which enables much faster data transfer via optical fiber. In line with this shift, the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By emphasizing sales promotions, leveraging the advantages of its strengths in brand dominance and price-competitiveness, and undertaking various campaigns, the Group is working to attract new subscribers. Despite these efforts, it is possible that the Group will attract fewer new accounts than expected or lose customers to competing services, resulting in a failure to achieve its sales goals. At the same time, the Group might incur heavier costs than projected. As a result, Group performance could be negatively affected.

*Note:* SOFTBANK BB Corp. (SBB) underwent a reorganization of its businesses to further strengthen its broadband operations. As part of this process, SBB spun off its modem rental business on November 1, 2005, establishing BB Modem Rental Yugen Gaisha as a modem rental specialist. (BB Modem Rental was subsequently sold to Yugen Gaisha Gemini BB.) On December 1, 2005, SBB further split up its operations, spinning off its ADSL operations into BB TECHNOLOGY Corp. (BBT) while retaining its FTTH, retail, and other non-ADSL businesses. On March 31, 2007, these businesses were recombined when SBB merged with BBT, with BBT remaining as the surviving company. Following the merger, BBT changed its name to SOFTBANK BB Corp.

### **c. Personal Services**

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

With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for personal services business is likely to continue expanding. Sooner or later, broadband proliferation in Japan will reach a saturation point and growth in the number of users will plateau. To prepare for that time, the Group is implementing various measures to boost customer satisfaction and promote greater use of the full range of its services. Growth in the numbers of Yahoo! Auctions participants, Yahoo!

Premium members, and Yahoo! BB subscribers, however, might lose its early momentum, which could have a significant negative influence on Group earnings.

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

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

## **5) Competitors**

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

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

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

Another possibility in the Internet market is the sudden emergence of a start-up company with an innovative service that becomes popular with users and spreads rapidly through the market. Yahoo Japan Corporation fully intends to gauge the opinions and trends of users and offer services that they will support. However, it is possible that the start-up

company or its service could compete with our Group services or that the Group will have to make significant expenditures to develop new services to maintain its competitive advantage. Both these situations could have a negative impact on the Group's business performance.

## **6) Revision of Business Forecasts**

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

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

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

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

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

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

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

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

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

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

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

Effective September 1, 2003, a revision of legislation concerning the sale of used goods was promulgated in order to prevent criminal misuse of Internet auctions. In addition to imposing a registration system on Internet auction operators, the revised law requires operators to make efforts to confirm the identities of participants and maintain records of auctions. The law also stipulates that when an operator is ordered by an investigative body to remove an auction listing based on suspicion of fraud, the operator must comply. The scope of the revised law, however, is limited to areas where the Group is already compliant. Furthermore, because no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have a significant impact on its auction business.

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

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

**c. Possibility of Legal Restrictions on Social Media Typed Content**

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

holder's request to remove any illegal content.

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

#### **d. Potential Legal Restriction on Other Services**

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

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which brings it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction (IRR) Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Since the authorities have decided to make a revision to the Money-Lending Business Control and Regulation Law to reduce the interest rate ceiling on loans to the same maximum interest rate specified in the IRR Law, it is possible for customers to claim that interest paid in excess of the amount allowed under the IRR Law represents unfair profits, and demand repayment. The Company is preparing for any future interest repayment claims by conservatively booking all the amount which has a possibility to be claimed. In addition, the Company intends to lower its interest rates before the revised law is enforced. Based on these actions, the Company believes that the impact of the revised law on its business will be minor.

In its Yahoo! Trading (financial instruments intermediary services), the Company is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Law and rules set by Japan Securities Dealers Association. Under the Financial Instruments and Exchange Law, the Company registers as a financial instruments intermediary business with the Prime Minister. Although the Group is committed to compliance with these rules and regulations, it could be subject to penalties, such as a loss of registration, if, despite all efforts, it should be found guilty of violating any of those laws and rules. Strengthening or revising the compliance system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

#### **e. Administrative Guidance and Requirements, etc. from National Government, Ministerial and Local Government**

In addition to the application of the legal restrictions mentioned previously, the self-regulatory systems of the companies in the industry with regard to information communication or business under the administrative guidance and requirements of the national government, ministries, and local governments could have an adverse effect on the services or performance of the Group.

## **2) Potential Litigation**

### **a. Illegal Acts by Auction Participants**

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see Note1, below) for online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. The Group began offering anonymous payment and delivery (see Note 2, below) services in July 2007. The Group also plans to launch such new measures as Japan's first "Do Now, Pay Later" service using a virtual account. In addition, the Group has set up a patrol team to eliminate illegal items from auctions in cooperation with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it is uncertain that illegal acts will not occur in the future. Therefore, the possibility of legal action being taken against the Group cannot be ruled out, whether or not the Group is responsible. In fact, groups of users have already filed a suit for damage compensation against the Company. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to ensure proper management could lead to increased costs and therefore negatively impact earnings.

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

*Note1:* The escrow service consists of a company acting as an intermediate between the sell and buy sides of a transaction to ensure the smooth transfer of the item and payment. Provided by third parties, not by the Company, this service varies according to the escrow company used. In general, however, the escrow company receives payment from the buyer and transfers it to the seller upon confirming the buyer's receipt of the correct item in good condition. This service eliminates concerns that the item will not be delivered or payments not made.

*Note 2:* The anonymous payment service enables users who have auctioned items to receive payment without informing the winning bidder of their bank account number or name. This result is achieved through the use of a general payment account at Japan Net Bank, Ltd settled for each auction transaction. The anonymous delivery service allows both the seller and purchaser of the item to send and receive the item without divulging any personal information (name, address, telephone number, etc.). Any personal information of the sender and receiver needed for the process is managed by Company and the transport company contracted to provide the anonymous delivery service. The Group expects that this service will contribute to the prevention of cases of sellers not sending items following "Yahoo! Auctions"

and other forms of fraud.

#### **b. Solicitation of Financial Instruments Transactions**

In providing its Yahoo! Trading (financial instruments intermediary services), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated financial instruments firms (see Note, below) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the financial instruments firm, but the solicitation could mislead customers into losses. In such cases, the Company could be subject to demands for damage compensation from the financial instruments firm, which temporarily pays damages to customers, depending on the situation.

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

#### **c. Information Distribution via the Internet**

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

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

Through such internal regulations the Group prohibits illegal and slanderous content on its sites and protects the privacy of users. In addition, the Group publishes a disclaimer stating clearly that the user takes full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. To protect minors from harmful content, the Group is implementing such programs as Yahoo! Kids and Yahoo! Safety Net. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The Group could be subject to claims, reprimands, or damage suits from users, related parties, or government agencies in regard to the content of advertisements, Web sites accessed through

links on its sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

#### **d. Third-Party Responsibility**

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

The Group assigns all responsibility to the user and accepts no responsibility regarding Yahoo! Auctions, making no guarantees as to the selection, display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services, or Web site content of the many retailers employing these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss, or delay in the delivery of said goods. However, it remains possible that users of these services or other related parties will take legal action against the Group for claims or compensation related to the content of its services. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image. Further, it is possible that the Group will be involved in legal disputes with users of these services outside Japan because of the treaty regarding the jurisdictions of international courts.

### **3) Patents, Copyrights, and Other Intellectual Assets of Third Parties**

The Japanese Patent Office (JPO) recently began filing 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. The Company considers our intellectual property to be important management assets. We have a team specialized in the activities concerning intellectual property, including the investigation, filing, employee education. However, the possibility exists that third parties in possession of these patents will make claims or file suit against the Group and that the Group will be forced to pay large royalties to acquire said patents or have to cease providing certain services.

In addition, the extent to which patent rights can be applied remains unclear. As

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

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

#### **4) Changes in Accounting Standards**

Against the backdrop of the recent trend to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards for severance and retirement benefits, financial instruments, and other categories. Even so, a significant change in accounting methods could have a material impact on the Group's profits or losses.

### **3. Information Security Management**

#### **1) Group Efforts to Promote Information Security**

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

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures groupwide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1, below), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems and access to stored data is

tightly restricted. In August 2004, the Group acquired Information Security Management Systems (ISMS) (see Note 2, below) certification. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0. In November 2007, the Group was the first in Japan to receive ISO 15408 certification (See Note 3, below) for its development of a monitoring system to prevent information leakage from its data bases. The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

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

*Note1: Information Security Declaration*

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

The customer and other information held by the Company (including its subsidiaries and affiliates, hereinafter referred to as the Group) are our most important assets. Protecting this information is extremely important not only to us but also to our customers, vendors, and business partners.

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

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

*Note2: BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0* Taking into consideration both technical security methods and overall organization management, these certification systems focus on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle—Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management

team revises, improves, and processes)—is continuously repeated with the goal of improving information security levels. At March 31, 2008, a total of 10 companies, including the Company and 9 subsidiaries, were certified.

*Note3: ISO 15408*

ISO 15408 is an international standard that evaluates whether the product or system related to information technology has been properly designed and the design correctly implemented from the point of view of the security of information technology. The official name of the standard is ISO/IEC 15408 Information Technology Security Standard.

## **2) Personal Information**

### **a. Group Efforts to Protect Personal Information**

The Group holds personal information to identify each individual customer in providing various services and electronic commerce.

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. In addition, the Group has set up a Yahoo! Security Center within the Yahoo! JAPAN site that urges users to be careful, specifically by posting information on examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. The Group also handles internal information access rights with extreme care, granting only a limited number of persons access to users' personal information.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, either deliberately or through negligence, by Group-related persons, by companies with which business alliances have been concluded or by companies to which the Group outsources work or due to defective software or malicious software, such as computer viruses. There have been multiple cases of personal information stored on personal computers being unknowingly leaked onto networks by virus-infected personal computers of users of file-sharing software, such as Winny. There is also a possibility that third parties will fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ other methods such as spoofing or phishing (see Note 1, below), whereby they illicitly obtain personal user information, resulting in damage to users. As of March 2007, to prevent against phishing attacks, the Company has introduced a log-in seal system (see Note 2, below) whereby users register a seal that appears on the log-in screen into which they input their ID and password. Since December 2007, the Company has added to Yahoo! Mail a function allowing users to refuse spoofed email (see Note 3, below). As of January 2008, the Company commenced issuing OpenIDs (See Note 4, below) and offering an authentication bureau service to improve information security by eliminating storage and management of IDs on other sites. As mentioned previously, the Company continues to implement measures with the intension of eliminating damage caused

by malicious users. However, there is no guarantee that these measures will be sufficient. If some problems happen despite the efforts of the Group, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

Regardless of whether or not the Group is legally responsible, its policy is to take measures to strengthen the management and monitoring of the security systems of companies with which it has business alliances. Representatives of the Group are currently participating in the phishing e-mail countermeasures committees of the ministries of Economy, Trade and Industry, and of Internal Affairs and Communications, as well as a committee set up by the National Police Agency. By sharing information with related ministries, agencies, and industry associations, the Group is seeking to establish effective measures against this type of fraud.

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

*Note 1: Phishing fraud*

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

*Note 2: Log-in seal*

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

*Note 3: Refusing spoofed email*

Much of the email recognized as spam contains spoofed emails sent by people pretending to be someone else or another company. These spoofed emails can be filtered out by the user using domain validation technology (DomainKeys or SPF) to check the address. Since July 2005, Yahoo! Mail has offered a Domain Keys function and introduced an SPF function in December 2006 as measures to prevent the malicious use of Yahoo! Mail services. Now, by introducing this new measure for the receiving server, the user can filter out emails pretending to be from "yahoo.co.jp" or from email pretending to be from a provider that has introduced

DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

*Note 4: OpenID*

OpenID is an authorization system that allows use of multiple sites with the same ID. Its specification has been publicly released by the OpenID Foundation (<http://openid.net/>). Anyone is free to issue an OpenID or develop and provide services that support the system. Yahoo! JAPAN is compliant with OpenID 2.0 of the latest version to issue an OpenID, which has been currently released.

For Web sites supporting OpenID, any users can access a variety of services using their Yahoo! JAPAN ID without creating a new account for each service or managing different IDs or passwords. In addition, they may still continue to use Yahoo! JAPAN's existing security functions, such as log-in seals or log-in histories.

Just by supporting Web sites for OpenID, any developers do not have to have their own authentication system, and can create and provide services for Yahoo! JAPAN's active users that do not require users to create a new account.

**b. Fraudulent Use of Credit Cards**

In providing services such as Yahoo! Wallet and Yahoo! ezPay, the Group has taken all practical precautions in protecting itself from such problems as the fraudulent use of credit cards as well as the leakage of personal information in the manner indicated above. However, there can be no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in a suit against the Group seeking compensation for losses, preventing the recovery of the funds reimbursed through Yahoo! ezPay, and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on other services offered by the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its Yahoo! JAPAN Card since the related services began. However, if such acts exceed those expectations, damages in excess of the anticipated level could be incurred. Furthermore, in order to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater than anticipated costs.

**c. Personal Information Management of Business Alliance Partners and of Stores Registered on Yahoo! Shopping and Yahoo! Auctions**

Personal information obtained through Group services is held within the Group in principle, and the Group is committed to taking all possible information protection measures as stated above. However, there are cases where the personal information management systems of business alliance partners and of stores registered on Yahoo! Shopping and Yahoo! Auctions

sites have a significant influence on the Group's efforts.

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

For Yahoo! Trading (financial instruments intermediary services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by our financial instruments firm partners. A portion of this information will be transferred to the Company in a way that complies with the Personal Information Protection Act. The Company has been extremely careful about the transfer and management of this information. If personal information is leaked from the Company or affiliated financial instruments firm, the Company could be liable for damage compensation.

The anonymous delivery service offered by Yahoo! Auctions involves the anonymous processing of item deliveries by the transport company commissioned to handle this service. However, if the commissioned transport company should not handle the anonymous service properly and the names of the sender and receiver of an item to be divulged, the Company could face a legal suit for compensation or have its brand image damaged, which could adversely affect its business performance.

Previously, it was possible for stores on the Yahoo! Shopping and Yahoo! Auctions sites that had independent contracts with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we now intend to prevent personal information leaks by these stores. This is being achieved by eliminating the necessity for stores to handle credit card numbers by offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure for using store management tools, restricting downloading of order information including customer information, and broadening information security awareness. Nevertheless, it is possible that information leaks may occur despite the implementation of these measures, resulting in a loss of Group credibility, regardless of whether or not it was responsible.

### **3) Communication Privacy**

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

system.

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

#### **4) Behavioral History Information**

Behavioral targeting advertising, which targets users according to their past history of usage, aims to display advertising of products or services only to a group of users who have a preference or interest in those products or services. This advertising product aims to be an effective advertisement method for advertisers, users, and the Internet media by avoiding placing unrelated advertising on the pages viewed by users. Recently, it has become possible to achieve highly detailed targeting by including users' click history, visits to major advertisers' sites, grouping (age and gender), and area information in addition to the behavioral history.

With regard to the collection and use of behavioral history information, the Company is very careful to protect the privacy of users. For behavioral targeting advertising, the Company uses behavioral history information derives from what kind of services the user (more correctly the user's browser) views on Yahoo! JAPAN or what keywords are used in Yahoo! Search. The information is only used to create groups of users (browsers) that similar preferences and interests, and no analysis is made of the preferences and interests of individual users. Moreover, the Company does not regularly collect behavioral history information from any of its business partner sites. Should the Company want to collect information from a business partner site, in consideration of the privacy of the partner, it posts a Web Beacon regarding the use of the behavioral history information on the site and makes its possible for users to prevent the use of their behavioral information by changing a setting on Yahoo! JAPAN.

Although the Company believes it is taking adequate precautions to protect the privacy of users, it is possible that some users might raise an objection to the use of their behavioral history information, causing damage to the Group's brand image. In addition, if it became no longer possible to sell behavioral targeting advertising products, it could have a negative impact on the business results of the Group.

#### **5) Network Security**

Although the Group has established appropriate security systems to ensure the security of its external and internal computer networks, the possibility of damage by computer viruses or

hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such events. Recently, there have been several cases of specific Web sites or networks being targeted by huge volumes of data sent over a short period of time for the purpose of paralyzing the Web site or network. Although the Group has implemented effective security programs and other measures as well as strengthened its monitoring system to deal with such attacks, there is no guarantee that all such attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results, and financial condition.

#### **4. International Conflicts, Terrorist Attacks, and Natural Disasters**

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

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group's site, causing a disruption in planned advertising business. Or, for their own reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstances arise whereby users would no longer be able to use the Group's paid services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and SOFTBANK CORP. and their related companies and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

In addition, Group operations are vulnerable to fire, power outage, damage to telephone networks, and other phenomena. Its network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other disasters. To cope with accidents and surges in Internet access, the Group intends to continue improving the infrastructure by duplicating and dispersing its systems and data centers.

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

## **5. Business with Involved Parties**

### **1) Relationship with the SOFTBANK Group**

#### **a. Positioning within the SOFTBANK Group**

Our parent company, SOFTBANK CORP., has a variety of companies operating under its umbrella that are active in a range of fields and areas. The Group plays a central role in the Internet Culture segment and is also involved in the Broadband Infrastructure segment through its collaboration with SOFTBANK BB Corp. in providing the comprehensive broadband service Yahoo! BB. In the Others segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

#### **b. Alliance Contracts and Other Arrangements with SOFTBANK BB Corp.**

The Company has signed the following business alliance contract and incentive agreement concerning Yahoo! BB with SOFTBANK BB Corp. (SBB), which is a subsidiary of SOFTBANK CORP.

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
<p>1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main responsibilities</p> <ul style="list-style-type: none"> <li>* Promoting Yahoo! BB services</li> <li>* Recruiting subscribers for 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 and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>* Handling subscriber inquiries and providing technical support</li> <li>* From the ISP charge, the Company takes the following in exchange for services rendered: <ul style="list-style-type: none"> <li>- Subscribers acquired by March 31, 2005: ¥100 per line per month</li> <li>- Subscribers acquired during the period from April 1, 2005, until March 31, 2007: ¥200 per line per month until the 36<sup>th</sup> month from the month of application. From the 37<sup>th</sup> month, ¥100 per line per month.</li> <li>- Subscribers acquired after April 1, 2007: ¥100 per line per month</li> </ul> </li> </ul>

Contract name: Incentive agreement
Contract date: October 7, 2005
Contract term: One year from October 1, 2004 (automatically renewed each year)
Contracted party: SOFTBANK BB Corp.
<ul style="list-style-type: none"> <li>• Customer acquisition incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB basic service <ul style="list-style-type: none"> <li>Approx. ¥15,000 per subscription</li> </ul> </li> <li>Yahoo! BB + wireless LAN package <ul style="list-style-type: none"> <li>Approx. ¥20,000 per subscription</li> </ul> </li> </ul> </li> <li>• Long-term customer incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB basic service <ul style="list-style-type: none"> <li>Approx. ¥200 per month per continuing subscriber</li> </ul> </li> <li>Yahoo! BB + wireless LAN package <ul style="list-style-type: none"> <li>Approx. ¥250 per month per continuing subscriber</li> </ul> </li> </ul> </li> </ul>

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

\* SBB and the Company revised the above business alliance contract on March 31, 2007, to reflect a change in the value of the role taken by each company. The Company had been paying ¥2,400 per line to SBB after the first subscription fee was charged, thereby sharing the cost of Yahoo! BB subscriber acquisition. However, together with the revision of the above business alliance contract, the provision to share the cost of Yahoo! BB subscriber acquisition was cancelled.

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

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

#### **d. Joint Venture for Streaming Content**

As stated above, the Company has established and commenced operations of TV Bank Corporation (TV Bank) jointly with SOFTBANK CORP. to strengthen its streaming content business. The two partners have concentrated the necessary human resources and

know-how into TV Bank and are proceeding with the procurement of streaming content, the development and operation of systems for transmitting or searching streaming content, and the creation and operation of streaming services. With the cooperation of content providers and advertising agencies, the Company intends to develop Yahoo! Streaming and other streaming content services into a core business in the years ahead.

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

#### **e. Investment in Mobile Phone Business**

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

The Group has expanded its mobile Internet services provided to SOFTBANK MOBILE in its capacity as the portal mobile site for its services, while also providing its services to carriers other than SOFTBANK MOBILE. The Group is providing SOFTBANK MOBILE's customers with an environment that facilitates the use of a variety of Internet services via mobile phone. In the future, the Group aims to achieve integrated mobile Internet services fully accessible by subscribers of all mobile carriers.

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

#### **f. Possibility of Competition within the SOFTBANK Group**

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

#### **g. Joint Directorships**

As of March 31, 2008, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

\* Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK part-time

director)

\* Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK president and CEO)

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

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

#### **h. Joint Auditors**

Mitsuo Sano, who became a corporate auditor of Yahoo Japan Corporation in December 1996, is also a standing corporate auditor of SOFTBANK CORP. Mr. Sano was brought on board by the Company to strengthen its corporate auditing function.

## **2) Business Relationship with the Yahoo! Inc. Group**

### **a. License Agreement with Yahoo! Inc.**

The Group's operations are based on a license agreement with Yahoo! Inc., one of the founding partners of the Company. The Yahoo! trademark, software, and tools (hereinafter referred to as the trademark) used in the operation of the Group's Internet search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

Contract name: YAHOO! JAPAN LICENSE AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified <i>Note:</i> The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.

1) Licensing rights granted by Yahoo! Inc. to the Company:

- \* Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services)
- \* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark
- \* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan
- \* Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services

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

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

*Note:*

Royalty calculation method

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

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

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

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

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

offered by the Group to carry out unfair competition with or harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

### **c. Other Joint Directorships**

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

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

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

- \* The election of directors and corporate auditors shall be done according to law and the Company's articles of incorporation. However, as long as both SOFTBANK and Yahoo! Inc. maintain shareholdings equaling 5% or more of the Company's stock, SOFTBANK and Yahoo! Inc. shall each nominate its own representative to be a director. In addition, the number of directors shall be five, which number cannot be changed without first obtaining the approval of both SOFTBANK and Yahoo! Inc.
- \* The Company shall conduct its business according to law and its articles of incorporation. However, should the Company wish to undertake a merger that would reduce the combined shareholdings of SOFTBANK and Yahoo! Inc. to less than 50%, or to sell major assets, it must first obtain the approval of Yahoo! Inc.
- \* The Company shall increase its capital, raise funds, and take other financial actions according to law and its articles of incorporation. SOFTBANK will not approve any resolution by the Company to issue new share subscription rights without Yahoo! Inc.'s consent. (except in the case of stock options for employees). Moreover, SOFTBANK and the Company will determine the range allowed for granting stock options to employees before this agreement becomes valid.
- \* The right of SOFTBANK and Yahoo! Inc. as shareholders to inspect the Company's books shall be in accordance with law and the Company's articles of incorporation.
- \* Other points of agreement
  - Neither SOFTBANK nor Yahoo! Inc. will agree to any change to the Company's articles of incorporation that would be detrimental to the other party.
  - When one party decides to sell shares of Yahoo Japan Corporation, it will inform the other party at least 20 days in advance of the intended selling date.
  - When one party decides to purchase additional shares of Yahoo Japan Corporation on the market, it will first obtain the consent of the other party.
  - When one party decides to sell shares of Yahoo Japan Corporation on the market,

it must offer the shares to the other party first. Should the other party not wish to buy the shares, they will be sold to a third party. In that case, the other party will also participate as a seller in the transaction with the same third party also buying its shares, and may sell shares held in Yahoo Japan Corporation to the third party as well in accordance with the proportion of shares held by SOFTBANK and Yahoo! Inc.

The Company is not the central party in this shareholder agreement. The Company, by principle, carries out its business in accordance with law and its articles of incorporation, and, moreover, the agreement does not significantly fetter the Company's operations or its pursuit of business. From this point of view, the Company believes that the agreement does not represent an invasion of the rights of other shareholders.

#### **4) Cooperation with Associated Business Partners, etc.**

As indicated above, the Company's parent company is SOFTBANK Corp. and the Company carries out the business of operating an Internet portal site service under the Yahoo! Brand of Yahoo! Inc. For these reasons, the Company has good business relationships with various associated business partners of SOFTBANK Corp. and Yahoo! Inc. Going forward, the Company intends to continue these relationships, but it is possible that the Group's services or business contracts could be affected or relationships with these associated business partners could be transformed due to changes in the business strategies of individual companies or changes in important business partners (especially the parent company and other major investors in the Company). If such a situation arose, it could adversely affect the Group's businesses in various ways.

## **6. Dependence on Specific Customers and Third Parties**

### **1) Dependence on Specific Customers**

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

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

If there were a change in the Group's business relationships with or sales to or by these customers or agents, or deterioration in their business conditions, or a problem with their systems or other facilities, the viability of the Group's services and its performance could be negatively impacted.

## **2) Dependence on Third Parties**

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

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

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

## **3) Dependence on Third-party Plug-in Software for Display of Advertising**

In providing its services, the Group relies on software extensions (plug ins) developed and distributed for free by third parties to enable a rich level of expression in its advertising or video clips. Generally, such software extensions are already installed on computers and functional or users are automatically prompted to install them. However, it is possible that users could erase such software extensions or change their settings so that the software extensions cannot be used or the developing company could begin to charge for the software extension or render it unusable. In such cases, the quality of expression could decline or

functions could be limited. Moreover, depending on the service, it might become impossible to even offer the service.

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

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

## **7. Technological Innovation and Research and Development**

### **1) Keeping Up with Technology**

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

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States, the center of innovation in Internet technologies. With this, the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group might also bear an increasing financial burden owing to original development in Japan, including a rising level of expenditures for localizing work and preparation for the possibility that technological innovation in Japan will at some point surpass that in the United States, with new technologies being developed in Japan instead of in the United States.

### **2) Research and Development**

To respond to the growth and diversification of Internet use and maintain a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet customer needs. To support that process, the Group established a new research institution, Yahoo! JAPAN Research, on April 1, 2007. The Group is projecting substantial R&D expenses related to future business development. Actual R&D expenditures could rise beyond those projections and, depending on the time period required for development, the Group's competitiveness could actually diminish despite its efforts.

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies

with proven records in the business. In order to respond quickly to changing market needs, the Group is also focusing on organizational enhancement for service planning and for system development. Even so, the Group might fail to achieve targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than anticipated. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

In addition, the Group has introduced measures to respond to the increase in Internet access via mobile phones and other mobile terminals, which could result in larger expenditures for service development, thereby compressing Group profits.

## 8. Group Business Operations

### 1) Services Provided by Overture K.K.

#### a. Service Agreement with Overture K.K.

Contracting company	Yahoo Japan Corporation (The "Company"); OVERTURE K.K.("OVKK") (Consolidated subsidiary)
Contract counterparties	OVERTURE SEARCH SERVICES (IRELAND) LIMITED (hereinafter referred to as "OSSIL"); Yahoo! Inc. ("Yahoo")
Contract date	August 31, 2007
Contract term	From August 31, 2007 to August 30, 2017 (10 years)
Main details	<p>ADVERTISER AND PUBLISHER SERVICES AGREEMENT</p> <p>1. Basic roles of each party</p> <p>OSSIL will dedicate robust efforts to develop and enhance the contracted services and advance the competitiveness of the services. OVKK will dedicate robust marketing efforts to advance customer adoption of the contracted services to enhance the OVKK revenue generated under this agreement.</p> <p>OSSIL and OVKK, via a joint steering committee, will agree to roadmap of improvements and developments to carry out customization of contracted services for the Japanese market to optimize services for the market.</p> <p>2. Exclusive provision of contracted services</p> <p>In Japan, OVKK, the Company or subsidiaries for which the Company holds more than 50% of the voting rights will be the exclusive offeree of the contacted services. (The services include advertising platform related to paid search and contextual advertising as of the contract date, and additional search and advertising related services adopted as contracted services through the procedure given in the original contract.)</p> <p>3. Service fee payments to OSSIL by OVKK</p> <p>OVKK shall pay to OSSIL a service fee calculated as a rate prearranged for each year on OVKK revenues (gross revenues earned by OVKK or companies for which it owns 20% or more of the voting rights) associated with the use of the contracted services or OSSIL's technologies or systems.</p> <p>4. OVKK's exclusive rights in Japan</p> <p>OVKK has the exclusive rights in Japan for provision of the search and advertising related services of OSSIL, Yahoo or its subsidiaries.</p> <p>5. Exclusivist obligation regarding contracted services</p> <p>OVKK, the Company or subsidiaries for which the Company holds more than 50% of the voting rights are obligated not to provide versions of or similar services to the contracted services. If the performance issues arise based on the material breach for the service level stipulated in the arrangement, which may cause serious negative impact to the business of OVKK, the joint steering committee will find a solution for the issue. Paid listing and contextual</p>

	advertising services that the Company possesses as of the contract date will not be object of this contract.
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**b. Paid Listing Advertising Services**

Based on the business tie-up with Overture K.K. (see Note, below), the Group’s paid listing advertising sales have firmly expanded and become a larger proportion of overall advertising sales. The advertising delivery platform for paid listing advertising is developed, operated and maintained by Yahoo! Inc. and its subsidiary OSSIL. Overture K.K. handles the marketing and sales in Japan of advertising products (paid listing and contextual advertising) that uses the platform. Accordingly, should the Company’s business relationship with Yahoo Inc. change or some type of obstruction to the smooth operation of Yahoo Inc. arise, it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

Recently, a form of fraud misusing the system of paid listing advertising has become a problem. Some fraudsters, taking advantage of the fact that the cost of Sponsor Site is based on the number of clicks, have dishonestly increased the number of clicks and thereby excessively charged advertisers. In the United States, some advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering this type of advertising product. The Group cannot rule out the possibility that such legal action will be taken against the Group and Overture, thereby damaging the Group’s brand image and negatively impacting its performance.

*Note:* The previously mentioned agreement was concluded on August 31, 2007 and Overture K.K. became a subsidiary of the Company effective September 1, 2007.

**c. Partnership in Paid Listing Advertising**

Overture K.K. provides its paid listing advertising services not only to the Group but also to other domestic portal sites and other partners with which it has business agreements. Overture holds the largest share of the paid listing advertising market in Japan. The Group intends to continue to expand Overture’s number of partners and to create new services. However, should its business agreements with such partners be terminated, it could have a major impact on the profitability of the Group.

**2) Maintenance and Control of Service Quality**

**a. Acquisition of Quality Information and Content**

The Group offers and plans to continue offering Internet users quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content such as films and music. However, should the Group not be able to acquire information and

content as expected or the costs of acquiring the information and content be higher than anticipated, use of the Group's services by Internet users might decline, possibly resulting in a failure of the Group to achieve its projected earnings.

#### **b. Advertising Guarantee**

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

Moreover, the Group might fail to provide services that meet the needs of advertisers, which could result in lost sales opportunities as well as reduced demand from advertisers, which would negatively impact Group advertising revenues.

#### **c. Constant Improvement of Services**

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

To maintain and increase its competitive advantages, the Group must continue to invest in such improvements of the services. Should these capital investments not be appropriately made, the Group could experience a decline in its competitiveness or in its brand image. Moreover, the required level of improvement investments could rise to improve the services. Both these circumstances might affect the business performance of the Group adversely. Moreover, the Group conducts adequate surveys and tests of the effectiveness of planned improvement or renewal of services beforehand. Nevertheless, the change in services could have the reverse effect, reducing the number of users or page views, which might have a negative impact on business performance because of the influence on advertising revenues, etc.

#### **d. Equipment Investment for Quality Service**

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group maintains a capital-investment program of comparatively large scale considering its current operations. To keep up with further growth of the Internet user

base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after the other to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short time periods. Consequently, the Group anticipates a growing need for even larger capital investments than in the past in a timely manner to build systems and networks to smoothly control large volumes of communications traffic, strengthen security systems to protect settlement services and the personal information of customers, and expand systems to appropriately respond to the growth and diversification of user inquiries. Further, in response to growth in business scope, the Group assumes that it will have to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

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

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, insufficient and/or delayed effects of capital investments could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the invested facilities may be shorter than planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of disposal of current facilities.

#### **e. Diversification and New Business**

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

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

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

#### **f. The Group's Intellectual Property Rights such as Copyrights and Patents**

The Group believes that its intellectual property rights are an important facet of its ability to demonstrate competitive advantages in the market and that it is essential for the Group to produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names.

Most of the Group's services provide contents to users that involve copyrights and other legal rights, and users are able to utilize that content within the scope of the user contract they have agreed to.

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

### **3) Internal Control System**

#### **a. Operations and Management**

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

#### **b. Human Resource Management as Business Expands**

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, the Group must increase staff in response to business diversification to support the large number of new Web sites created by the recent surge in Internet use, to carry out the operation and management of its community and shopping services, and to control billing and offer customer support for fee-based services.

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

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

### **c. Continued Support from Senior Management**

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

In addition, some senior managers participate in one of the Group's personnel incentive measures, the stock-option plan. Depending on the fortunes of the stock market, these stock- option plans might not motivate plan participants but rather could reduce their motivation and cause them to leave the Group.

### **d. Doing Business with a Large Pool of Unspecified Customers**

Along with the expansion of the Group's operations and the ramping-up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of Group revenues stemming directly from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team responsible for strengthening management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, the Group might be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems, and the costs of receivables collection.

The nature and quantity of customer inquiries might broaden. Previously, most inquiries were related to service usage, but they might shift to inquiries about payment, the return or exchange of services and goods, and matters related to commissioned third parties, such as distribution or settlement. In order to properly respond to customer inquiries, the Group is in the process of increasing staff, strengthening and expanding its management organization, and improving efficiency by standardizing and computerizing businesses. The costs of these measures and improvements could negatively affect the Group's profits. In addition, these measures do not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. Such a result could damage the Group's brand image and negatively impact Group performance.

### **e. Collection of Sales Credit Claims**

In sales of advertising and other products, the Group follows a set of internal rules in carefully examining the credit standing of clients. It also exercises sufficient precautions so that the collection of receivables will not be delayed , such as making sales through advertising agencies or using credit card settlements. Nevertheless, economic fluctuations and deterioration of customer business could increase delays in collections and the occurrence of

defaults.

The Group plans to curtail unrecoverable debt by rigorously evaluating the creditworthiness of individual Yahoo! JAPAN Card holders and monitoring their card use. Even so, the Group might be unable to collect payments from cardholders owing to declines in cardholder creditworthiness.

#### **4) Consolidated Group Operations**

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

Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of the businesses of the Company and of its subsidiaries and affiliates, which could negatively impact the Group's performance.

Several subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partners, especially in the areas of sales, supplies, distribution, and systems. Currently, relationships with joint-venture partners are excellent and the cooperative relationships with these partners contribute strongly to the performance of these Group companies. However, if for some reason a situation occurred that created an obstruction to the business cooperation or the tie-up between the partners, the performance of each company could be damaged and, depending on the company, the continuation of operations could become impossible.

### **9. Funds Procurement and Changes in Interest Rates**

#### **1) Investment in Mobile Phone Business**

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

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

## **2) Yahoo! ezPay Service**

Yahoo! ezPay is a payment service provided by the Company's subsidiary Netrust, Ltd., whereby on the request of the seller and buyer of an item listed on Yahoo! Auctions Netrust acts as the intermediate in the settlement of the transaction.

Because Netrust reimburses the seller of an item one to three business days after the buyer has made settlement by credit card or Internet banking, the subsidiary must carry the credit-card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. The Group is exploring methods of reducing the amount of reimbursement funds by shortening settlement cycles with the credit-card companies' settlement banks as well as seeking methods of diversifying its sources of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, the Group might not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a significant negative impact on the Group's business and performance.

## **3) Yahoo! JAPAN Card Service**

The Yahoo! JAPAN Card differs from the joint cards that the Group has offered in the past in that the Group is the credit-card issuer and will be providing credit to those who are issued the card. The Group will also be reimbursing payments made by cardholders to merchants honoring the card. Because payments will be collected from cardholders once a month while reimbursements to merchants will be made about three times a month, it will be necessary to finance those reimbursements. Although the Group is considering diversifying its funding sources as the business expands, obtaining the necessary funding for reimbursements to merchants at a suitable cost could prove to be impossible.

## **10. Loans and Investments**

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

Furthermore, although some companies in which the Group has invested have already publicly listed and produced an unrealized gain, this unrealized gain could decline or turn to an unrealized loss in the future.

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

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