

# Results for the Three Months Ended June 30, 2008 (FY2008-1Q)

2008.7.25

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>)

Representative: Masahiro Inoue, President and CEO

Contact: Akira Kajikawa, Director and CFO

Tel: (03) 6440-6000

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(Amounts less than one million yen are omitted)

## 1. Results for FY2008-1Q (April 1, 2008-June 30, 2008)

### (1) Consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Revenue	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2008-1Q	65,557 -	32,898 -	32,412 -	19,158 -
FY2007-1Q	56,687 (15.1)	29,670 (23.7)	28,527 (24.3)	16,204 (22.7)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2008-1Q	317.50	317.09
FY2007-1Q	267.95	267.57

### (2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2008-1Q	318,507	224,625	69.7	3,722.81
FY2007	369,660	250,672	67.1	4,100.94

(For reference) Equity capital: FY2008 1Q ¥221,930 million FY2007 1Q ¥248,107 million

## 2. Cash Dividends

(Record date)	Dividends per share				
	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2007	-	-	-	104.00	104.00
FY2008	-	-	-	-	-
FY2009 (estimates)	-	-	-	-	-

Note: Revision in dividends scheduled for the quarter: None

Payment of dividends is not yet determined at this time.

## 3. Business Outlook for FY2009 (April 1, 2008-March 31, 2009)

Revisions in quarterly consolidated performance forecasts: None

#### 4. Others

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

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

(3) Changes in the accounting principles and procedures for producing financial statement and in method of presentation for the quarter (Changes in significant items that form the basis of producing quarterly financial statements)

1) Revisions in accounting standards: Yes

2) Other changes: Yes

(4) Issued shares (common stock)

1) Issued shares at end of quarter (including treasury shares)

FY 2009/3-1Q 60,502,816 shares FY 2008/3 60,502,022 shares

2) Treasury shares at end of quarter

FY 2009/3-1Q 889,080 shares FY 2008/3 1,932 shares

3) Average shares

FY 2009/3-1Q 60,342,795 shares FY 2008/3-1Q 60,476,734 shares

#### Consolidated Business Outlook for FY2008 - Interim (April 1, 2008-September 30, 2008)

(Figures in parenthesis are % change Yon Y)

	Revenue		Operating income		Ordinary income		Net income		Net income per share-primary	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen	
FY2008-Interim	130,857 –	(-)	64,798 –	(-)	63,962 –	(-)	37,558 –	(-)	622.42 –	(-)
	134,157		66,698		65,862		38,708		641.48	

Note: Revisions in quarterly consolidated performance forecasts: None

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.

## 5. Information regarding Consolidated Sales Performance

### (1) Highlights for the First Quarter Ended June 30, 2008

- In the first quarter, the revenue amounted to ¥65.5 billion.\* Operating income was ¥32.8 billion, increasing 10.9% from a year earlier. Ordinary income totaled ¥32.4 billion, rising 13.6% over the same period last year. Net income climbed to ¥19.1 billion, advancing 18.2% year on year.

(\* ) Commencing with the first quarter, the Company changed its method of accounting for the traffic acquisition cost (TAC) paid to other partner sites and recorded in the cost of sales and the commissions paid to sales agencies and others and recorded in SG&A expenses to a net of sales method (presentation and booking on net basis). For an explanation, please see page 11, (4) Others, Change in Revenue Accounting Methods. Calculated using the previous gross basis method, revenue for the first quarter would have been ¥72.5 billion. Hereinafter, calculations of revenue are on a net basis (presentation and booking on net basis) or the previous gross basis as indicated below.

(Billions of yen)

	Revenue (Net basis)	Year on Year	Revenue (Gross basis)	Year on Year
Advertising Business	33.6	+37.4%	39.3	+60.6%
Business Service Business	14.0	-0.5%	14.3	+1.9%
Personal Service Business	17.8	-1.2%	18.8	+3.9%
Total	65.5	+15.6%	72.5	+27.9%

- In the advertising business, sales of behavioral targeting advertising that targets users according to their past history of Internet usage surged year on year. Sales of the business's core product, Prime Display, also increased. Paid search advertising sales also rose substantially from a year earlier due to the consolidation of Overture K.K. and greater use of its services by non-Group companies due to the Group's open partnership policy. Sales of mobile advertising also made a strong showing on the strength of growth in paid search advertising.
- In business services other than advertising, sales of Yahoo! Real Estate increased favorable from the first quarter last year, reflecting growth in the number of listings. On the other hand, sales of Yahoo! Rikunabi declined because of the drop-off in hiring sentiment in reaction to the perception of an overall slowdown in the economy. Yahoo! Shopping and Yahoo! Auctions continued their efforts to increase the number of merchant stores during the quarter. As a result, at the end of June, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 32,061, expanding by 3,693 stores, or 13.0% year on year. In addition, tenant and commission fees for Yahoo! Shopping and Yahoo! Auctions expanded favorably. Notably, the volume of mobile commercial transactions grew sharply during the quarter.
- In the personal service business, Yahoo! Auctions' revenues from system-use fees declined slightly despite the implementation of various measures to increase the number of auction items listed and higher levels of use by mobile phone users. Efforts by the Yahoo! Premium membership IDs breaking through the 7 million IDs mark during the quarter. In addition, Yahoo! Premium commenced member-exclusive prize campaigns as a new approach in collaboration with non-Group business partners for services including non-Internet services. Sales of pay content services soared due mainly to growth in sales of Yahoo! Partner and Yahoo! Comics.
- The Group will start full-scale operations of Interest Match™ advertising services beginning in the fall. The service offers superior functions compared with existing content-linked advertising.
- As part of its environmental protection activities, the Group commenced carbon neutral activities during the quarter. For Yahoo! JAPAN users, the Group introduced Yahoo! Carbon Offset services.

## (2) Consolidated Financial Results

### (i). Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2007	As of June 30, 2008	Increase/ decrease		As of March 31, 2008
	Amount	Amount	Amount	Change (%)	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	55,373	66,698	11,325	20.5	113,027
Notes and accounts receivable-trade (*2)	28,372	34,192	5,820	20.5	36,831
Inventory assets	147	192	45	30.5	240
Deferred tax assets	3,210	2,584	-626	-19.5	4,305
Other current assets (*3)	8,783	12,981	4,197	47.8	12,000
Allowance for doubtful accounts	-2,455	-1,749	705	-28.7	-2,095
Total current assets	93,431	114,899	21,467	23.0	164,310
Fixed assets					
Tangible fixed assets					
Buildings and structures	3,378	3,066	-312	-9.3	3,175
Machinery and equipment	12,829	13,292	463	3.6	13,394
Other tangible fixed assets	32	32	0	0.6	53
Total tangible fixed assets	16,240	16,391	150	0.9	16,623
Intangible fixed assets					
Software	10,798	11,638	839	7.8	11,247
Goodwill	3,687	2,940	-746	-20.2	2,525
Other intangible fixed assets	32	29	-3	-10.2	30
Total intangible fixed assets	14,518	14,608	89	0.6	13,803
Investments and other assets					
Investment securities (*4)	165,856	161,684	-4,171	-2.5	163,922
Deferred tax assets	3,411	4,750	1,338	39.2	3,898
Other assets	5,984	6,216	231	3.9	7,120
Allowance for doubtful accounts	-23	-42	-18	80.5	-18
Total investments and other assets	175,228	172,608	-2,619	-1.5	174,922
Total fixed assets	205,987	203,608	-2,379	-1.2	205,349
<b>Total assets</b>	<b>299,419</b>	<b>318,507</b>	<b>19,088</b>	<b>6.4</b>	<b>369,660</b>

(Millions of yen)

	As of June 30, 2007	As of June 30, 2008	Increase/ decrease		As of March 31, 2008
	Amount	Amount	Amount	Change (%)	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable-trade (*5)	915	4,797	3,881	423.9	6,620
Short-term bank loans	20,120	20,020	-100	-0.5	20,000
Accounts payable-other (*6)	10,888	16,933	6,044	55.5	13,744
Income taxes payable	11,429	12,313	884	7.7	29,154
Provision for Yahoo! Points	2,173	2,396	223	10.3	2,292
Other current liabilities (*7)	11,249	17,409	6,159	54.8	17,164
Total current liabilities	56,776	73,870	17,094	30.1	88,976
Long-term liabilities					
Long-term debt (*8)	40,000	20,000	-20,000	-50.0	30,000
Other	10	11	0	4.1	10
Total long-term liabilities	40,010	20,011	-19,999	-50.0	30,010
<b>Total liabilities</b>	<b>96,787</b>	<b>93,882</b>	<b>-2,905</b>	<b>-3.0</b>	<b>118,987</b>
<b>Net assets</b>					
Shareholders' equity					
Common stock (*9)	7,215	7,372	157	2.2	7,366
Capital surplus	2,296	2,453	157	6.9	2,447
Retained earnings (*10)	190,281	249,476	59,195	31.1	236,605
Treasury stock (*11)	-28	-38,183	-38,155	-	-28
Total shareholders' equity	199,764	221,119	21,355	10.7	246,390
Unrealized gain on available-for-sale securities	1,025	811	-214	-20.9	1,716
Stock acquisition rights	44	147	102	228.6	116
Minority interests (*12)	1,796	2,547	750	41.8	2,449
<b>Total net assets</b>	<b>202,631</b>	<b>224,625</b>	<b>21,993</b>	<b>10.9</b>	<b>250,672</b>
<b>Total liabilities and net assets</b>	<b>299,419</b>	<b>318,507</b>	<b>19,088</b>	<b>6.4</b>	<b>369,660</b>

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

### Assets

- \*1 Cash and cash equivalents increased from the same period a year earlier because of the increase in cash flow from operating activities. However, despite the above expenditures, cash and cash equivalents decreased quarter on quarter due to the purchase of own stocks and payment of corporate taxes.
- \*2 The growth in notes and accounts receivable-trade from a year earlier can principally be attributed to an increase advertising sales.
- \*3 The growth 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 Investment securities decreased from a year earlier principally due to an evaluation loss recorded on the stock of ValueCommerce Co., Ltd.

## Liabilities

- \*5 The increase in accounts payable-trade year on year resulted principally from the conversion of Overture K.K. to a consolidated subsidiary.
- \*6 The increase in accounts payable-other year on year primarily can be attributed to accounts payable related to the purchase of own stock.
- \*7 The increase in other current liabilities from a year earlier was mainly due to increases in prepayments received of Overture K.K. and deposits received by Yahoo! ezPay.
- \*8 The decline in long-term liabilities from the same period in the previous fiscal year results from repayments.

## Net Assets

- \*9 The rise in capital surplus compared with the same period in the previous fiscal year was due to the exercise of stock options.
- \*10 The growth in retained earnings from a year earlier was due to the increase in net income.
- \*11 The increase in treasury stock year on year resulted mainly from the purchase of own stock in accordance with a decision by the board of directors in the first quarter.
- \*12 The increase in minority interests from a year earlier was primarily due to the increase in the revenue consolidated subsidiaries.

(ii) Consolidated Statements of Income (April 1, 2008-June 30, 2008)

(Millions of yen)

	Three months ended June 30, 2007	Three months ended June 30, 2008	Increase/decrease		Three months ended March 31, 2008
	Amount	Amount	Amount	Change (%)	Amount
Revenue	56,687	65,557	8,869	15.6	74,224
Cost of sales	2,406	6,946	4,539	188.6	11,087
Gross profit	54,281	58,611	4,330	8.0	63,137
Selling, general & administrative expenses	24,610	25,713	1,102	4.5	29,375
Personnel expenses (*1)	5,067	6,139	1,072	21.2	6,230
Business commissions (*2)	3,738	4,286	547	14.7	4,160
Depreciation expenses (*3)	2,061	2,364	302	14.7	2,807
Communication charges	2,067	2,220	152	7.4	2,189
Royalties	1,610	1,958	348	21.6	2,169
Lease and utility expenses (*4)	919	1,756	837	91.1	1,845
Sales promotion costs (*5)	1,050	1,436	386	36.8	1,278
Content provider fees	1,247	1,342	94	7.6	1,343
Sales commissions (*6)	2,665	1,023	-1,641	-61.6	3,075
Administrative and maintenance expenses	604	557	-46	-7.8	506
Advertising costs	254	318	64	25.1	347
Taxes and public dues	257	289	32	12.7	324
Payment commissions (*6)	1,104	216	-888	-80.4	1,442
Amortization of goodwill	372	200	-172	-46.1	360
Allowance for doubtful accounts (*7)	546	190	-355	-65.1	343
Others (*8)	1,042	1,410	368	35.4	949
Operating income	29,670	32,898	3,227	10.9	33,761
Non-operating income	115	215	100	86.9	327
Non-operating expenses	1,257	700	-557	-44.3	1,238
Ordinary income	28,527	32,412	3,885	13.6	32,850
Extraordinary gains	2	709	707	-	-2
Extraordinary losses	2	17	14	535.6	2,988
Quarterly income before income taxes	28,527	33,105	4,577	16.0	29,859
Income taxes, inhabitants' taxes and enterprise taxes	11,215	12,287	1,072	9.6	15,131
Adjustment to income taxes	970	1,490	520	53.7	-1,634
Minority interests in gains of consolidated subsidiaries	137	167	30	22.5	188
Quarterly net income	16,204	19,158	2,953	18.2	16,174

Change in Accounting Methods

\* Commencing with the first quarter, the Company changed its method of accounting for revenue from the gross method to the net of deduction method (presentation on a net basis) for the traffic acquisition cost (TAC) paid to other partner sites and recorded in the cost of sales and the commissions paid to sales agencies and recorded in SG&A expenses.

## Main Points Regarding Consolidated Statements of Income for the First Quarter

### Revenue

Revenue for the first quarter increased year on year despite the decline related to the change to presentation on a net basis. The growth in revenue can be mainly attributed to an increase in the sales of the Advertising Business.

### Cost of Sales

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

### Selling, General and Administrative Expenses

#### \*1 Personal expenses

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 4,164 up 745, or 21.8%, from the end of the same quarter in the previous fiscal year.

#### \*2 Business commissions

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

#### \*3 Depreciation expenses

The year-on-year increase in quarterly depreciation expenses can mainly be attributed to the increased purchase of software and servers.

#### \*4 Lease and utility expenses

The main reason for the year-on-year growth in lease and utility expenses for the quarter was the temporary decline in such expenses in the first quarter last year due to the partial relocation of the office.

#### \*5 Sales promotion costs

The year-on-year expansion in sales promotion costs for the first quarter was chiefly due to the increase in expenses for Yahoo! Points and paid search advertising.

#### \*6 Sales and payment commissions

The year-on-year decline in quarterly sales and payment commissions was mainly due to the change to the deduction method where agency and settlement-related commissions are deducted from revenue.

#### \*7 Allowance for doubtful accounts

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

#### \*8 Others

The major expenses in others during the first quarter were transfer expenses from manufacturing costs, office supplies expenses, and fixtures and fittings expenses.

### Non-Operating Expenses (Income)

The main component of non-operating income for the first quarter was interest received. The main components of non-operating expenses for the quarter were equity loss under the equity method and interest expenses for borrowings.

### Extraordinary Gains (Losses)

The major extraordinary gain for the first quarter was a gain on sale of investment securities.

### Income Taxes, etc.

The effective income tax rate for the first quarter was 41.6%.

### Minority Interests in Gains of Consolidated Subsidiaries

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

### Quarterly Net Income

Net income per share amounted to ¥317.50 for the quarter.

### (iii). Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30,2007	Three months ended June 30, 2008
	Amount	Amount
<b>Cash flows from operating activities:</b>		
Income before income taxes for the periods	28,527	33,105
Depreciation and amortization	2,192	2,508
Increase in accounts receivable-trade	1,912	2,883
Increase/decrease in accounts payable-trade	-106	-1,811
Other cash flows	185	-2,186
Subtotal	32,710	34,499
Payment of income taxes and other taxes	-27,856	-29,052
Cash flows from operating activities	4,854	5,446
<b>Cash flows from investing activities:</b>		
Expenditures on tangible fixed assets	-2,569	-2,327
Expenditures on intangible fixed assets	-1,315	-889
Expenditures on investment securities	-5,001	-20
Proceeds from collection on loans receivables	-	1,016
Other cash flows	-19,249	341
Cash flows from investing activities	-28,135	- 1,877
<b>Cash flows from financing activities:</b>		
Redemption of long-term debt	-10,000	-10,000
Expenditures on purchase of treasury shares	-	-33,324
Dividends paid	-5,805	-6,303
Other cash flows	-248	-269
Cash flows from financing activities	-16,053	-49,897
Net change in cash and cash equivalents	-39,334	-46,328
Cash and cash equivalents at the beginning of the periods	75,212	113,027
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-504	-
Cash and cash equivalents at the end of the periods	35,373	66,698

#### Main Points Regarding Consolidated Statement of Cash Flows for the First Quarter

##### Cash Flows from Operating Activities

Cash flows provided by operating activities increased despite payment of income taxes and other taxes due to growth in net income, amounting to ¥5,446 million for the quarter.

##### Cash Flows from Investing Activities

Cash flows used in investing activities for the first quarter, mainly for the purchase of servers and other equipment and software, amounted to ¥1,877 million.

##### Cash Flows from Financing Activities

Cash flows used in financing activities for the first quarter increased primarily due to the purchase of own stock, the redemption of long-term debt, and payment of dividends amounting to ¥49,897 million.

### (3) Performance Outlook

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

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

The performance estimates for the interim period of the fiscal year ending March 2009 shown below have been estimated by adding the forecast for the second quarter to the actual results of the first quarter.

#### Consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2009 (FY2008-2Q) (July 1, 2008 to September 30, 2008)

Revenue	¥ 65,300 million ~ ¥ 68,600 million
Operating income	¥ 31,900 million ~ ¥ 33,800 million
Ordinary income	¥ 31,550 million ~ ¥ 33,450 million
Net income	¥ 18,400 million ~ ¥ 19,550 million

#### Consolidated Performance Estimates for the Interim Period of the Fiscal Year Ending March 31, 2009 (FY2008-Interim) (April 1, 2008 to September 30, 2008)

Revenue	¥ 130,857 million ~ ¥ 134,157 million
Operating income	¥ 64,798 million ~ ¥ 66,698 million
Ordinary income	¥ 63,962 million ~ ¥ 65,862 million
Net income	¥ 37,558 million ~ ¥ 38,708 million

### (4) Others

#### Change in Revenue Accounting Methods

Commencing with the first quarter, the Company changed its method of accounting for revenue from the gross method to the net of deduction method (presentation on a net basis) for the traffic acquisition cost (TAC) paid to other partner sites and recorded in the cost of sales and the commissions paid to sales agencies and recorded in opportunities through partner sites, the Company decided that it would be more rational to present revenue on a net basis as a result of a reconsideration of the allocations of roles and risk between the Company and its sales agencies and business partners. A comparison of the two methods of presenting revenue shows that under the new method, consolidated revenue for the first quarter was ¥6,963 million less, cost of sales ¥3,793 million less, and SG&A expenses ¥3,170 million less than the old method of presentation. As a result, gross profit was ¥3,170 million less under the new method. The new method has no impact on operating income, ordinary income, and income before income taxes.

The affect of this change in accounting method on segment information is indicated appropriately in that section.

## 6. Segment Information

### (1) Outline of Businesses

Type of Business	Major Services
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 for planning and production of advertising.</li> <li>• Paid search advertising (Sponsor Site) 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>

### (2) Quarterly Results

FY2008-1Q (April 1, 2008-June 30, 2008)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Revenue	33,683	14,001	17,897	65,582	-24	65,557
Operating income	17,790	5,562	12,793	36,146	-3,247	32,898

### Advertising Business

During the period under review, the slowdown in the economy had an increasingly large effect on the overall advertising market. Amid these circumstances, we endeavored to win advertising by further strengthening our collaboration with advertising companies and making sales proposals that match client needs.

Behavioral targeting advertising, which targets users according to their past history of usage, grew notably compared with the first quarter last year. Demographic behavioral targeting advertising, which distributes according to information on specific groups and areas, and area behavioral targeting advertising, which targets users according to area information, both expanded favorably. As a result, the overall behavioral targeting advertising rose sharply from real estate and construction; finance, insurance, and securities; transportation and leisure; automobile-related; cosmetics and toiletries; and food-related companies. The popularity of our core Prime Display supported the increase in distribution volume of behavioral targeting advertising as well as the development of networking advertising business. Sales of Brand Panel advertising on Yahoo! JAPAN top page also expanded favorably over the same period last year. In addition, the reputation of our new Brand Panel Internet CM Plus product, which meets the needs of advertisers that which to achieve delivers high branding impact by incorporating moving picture advertising, grew significantly.

Paid search advertising revenues advanced significantly from a year earlier. Factors supporting this growth were the greater use of search services by companies, sales contributions from a paid search advertising service that takes into consideration a quality index and the bidding price, the conversion of Overture K.K. to a consolidated

subsidiary, and the increased use of paid search advertising services on media outside the Group due to the open partnership policy. Although the Group saw steady growth in paid search advertising and in its number of advertisers, advertising sentiment declined during the quarter due to the slowdown in the economy, especially among major advertisers, and overall advertising revenues declined slightly from the previous quarter. Mobile advertising revenues, however, continued to rise on the strength of growth in the use of paid search advertising. Among advertising projects that caught the attention of the market during the quarter were the Yahoo! JAPAN Earth Project, an environmental theme campaign sponsored by Toyota Motor Corporation, and X BRAND presented by Yahoo! JAPAN, a fashion and lifestyle information website participated in by 20 high-quality magazines and sponsored by Toyota Motor Corporation, All Nippon Airways Co., Ltd., Shiseido Co., Ltd., and others.

Consequently, first quarter advertising business sales amounted to ¥33.6 billion.

### Business Services Business

During the quarter, sales of Yahoo! Real Estate continued to climb based on our focus on increasing listing information. On the other hand, sales of Yahoo! Rikunabi declined compared with the first quarter last year because companies showed less interest in hiring because of the perception of a slowdown in the economy. Yahoo! Shopping and Yahoo! Auctions strove to attract new stores to their sites through campaigns promoting the appeal of stores, such as the special feature, The Best Stores of 2007. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 32,061 at the end of June 2008, increasing by 3,693 stores, or 13.0% year on year. Revenues from tenant fees and sales commissions expanded along with this growth and Yahoo! Shopping and Yahoo! Auctions also took steps to increase site use through Mother's Day and Father's Day sales promotion special features. As a result, total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket for the quarter amounted to ¥237.7 billion, advancing 2.9% year on year, with mobile transaction volume in particular increasing substantially. Research-related sales edged forward slightly compared with the first quarter last year supported by collaboration efforts with Yahoo Japan Value Insight Corporation.

Overall, business service sales for the first quarter amounted to ¥14.0 billion.

### e-Commerce Related Performance Figures

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

	June 2007	June 2008
Number of shopping Domain unique browsers	15.04 million browsers	-
Number of shopping store unique browsers	16.93 million browsers	-
Number of shopping unique browsers	-	21.19 million browsers
Number of stores (As of the end of each month)	15,248 stores	16,705 stores

Note: Number of shopping unique browsers means the number of unique browsers which accessed the entire Yahoo! Shopping services as of June 2008.

## Shopping Related Transaction Volume

	April 2007-June 2007	April 2008-June 2008
Daily average transaction volume	¥ 543 million	¥ 583 million

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

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

	June 2007	June 2008
Number of auction unique browsers	31.45 million browsers	35.27 million browsers
Number of total listed items (Monthly average)	14.95 million items	14.79 million items
Number of stores (As of the end of each month)	13,120 stores	15,356 stores

## Yahoo! Auctions Transaction Volume etc.

	April 2007-June 2007	April 2008-June 2008
Daily average number of new listings	899 thousand items	997 thousand items
Daily average transaction volume	¥1,994 million	¥2,028 million
Average closing price per item	¥5,433	¥5,099
The average ratio of successful auctions per day	24%	22%

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

## Personal Services Business

During the quarter, Yahoo! Auctions took various steps to expand transaction opportunities. It ran a sales promotion in collaboration with Yahoo! Points and various no-charge item-listing campaigns for PC and mobile users. These efforts led in particular to an increase in the number of item listing IDs. Transaction volume picked up during the quarter because of a recovery by the automobile and motorbike categories that had been in a continued slump. Yahoo! Premium continued its efforts to enhance the value of its membership. As a result, the number of Yahoo! Premium member IDs rose to 7.06 million at the end of June 2008, breaking through the 7 million IDs mark and representing a net increase of 890,000 IDs, or 14.6% from the first quarter last year. During the quarter, Yahoo! Premium began collaborating with non-Group business partners in member-exclusive perks, such as discounts on the monthly fees for USEN CORPORATION's video streaming site Video Complex and on Daiichikosho Co., Ltd.'s Big Echo karaoke room rental fees. Among pay content services, sales of Yahoo! Partner, Yahoo! Comics, and Yahoo! Marriage grew sharply while sales of Yahoo! Mail, Yahoo! Fortune Telling, and other pay content services also increased favorably.

Overall, personal service sales for the first quarter amounted to ¥17.8 billion.

## **7. Operating Review**

### **(1) Search Business**

#### **Main Services**

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

In the first 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 our open partnership policy. We focused on our open partnership policy by making further progress with introducing Site Search, a free search service for corporate sites that enables searches on the web their own sites. The service is now being used by a variety of media and municipal body sites. We took steps to improve the benefits and convenience of Yahoo! Answers, renewing the question page and adding a function that indicates the cutoff time for answers. We also improved the interface of the mobile version of Yahoo! Answers (Chiemoba). Among efforts to promote the use of Yahoo! JAPAN search functions and to strengthen search functions, we continued our campaign that offered Yahoo! Points to Yahoo! Premium members in proportion to the number of days they used Yahoo! Search and began offering a Website Explorer service that allows web administrators to confirm the status of the display of searches and other tasks.

### **(2) Auction Business**

#### **Main Services**

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

During the first quarter, we continued our efforts to increase transactions through such promotions as a 10-free item listings a month campaign or awarding Yahoo! Points for purchasing auction items worth ¥1,000 or more. In addition, we worked to increase the degree of convenience of our services through such measures as renewing the upload functions for pictures of auction items. In cooperation with National Institute of Advanced Industrial Science and Technology, we, began open testing of a phishing prevention browser “Trial Version Yahoo! Auctions.” Moreover, we took steps to prevent the misuse of our services, changing the bidding history display method and not displaying a user’s complete Yahoo! JAPAN ID as measures to prevent fraud using alternate winner systems on Yahoo! Auctions. We also promoted the revitalization of regional economies by launching a special site promoting goods of roadside train stations nationwide—Yahoo! Auctions Japan Roadside Train Station Specialty Goods Tour.

### **(3) Member Service Business**

#### **Main Services**

Yahoo! Premium, Yahoo! BB, Yahoo! Insurance, Yahoo! Trading, Yahoo! Forex, Yahoo! Partner, Yahoo! Marriages, Yahoo! Deliver, Yahoo! Keitai Shop, Yahoo! What’s New

In the first quarter, we endeavored 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. In our Yahoo! Premium services, we took various steps to enhance the value of membership. We began collaborating with non-Group business partners in providing Yahoo! Premium member-exclusive perks, such as discounts on the monthly fees for

USEN CORPORATION's video streaming site Video Complex and on Daiichikoshō Co., Ltd.'s Big Echo karaoke room rental fees. In our Yahoo! Comics services, we increased the number of titles available in our Mega Browsing service for the more than 100 free pages of reading service offered exclusively to Yahoo! Premium members. During the quarter, the number of Yahoo! Premium membership IDs surpassed the 7 million mark for the first time. Among efforts to expand and improve services, Yahoo! Keitai Shop conducted a promotion of White Call 24, a service providing free calls between BB Phones and SOFTBANK Mobile phones, and Yahoo! Foreign Exchange ran a campaign offering Yahoo! Points for opening a JNB-FX account with Japan Net Bank, Ltd.

#### Number of Yahoo! Premium Member IDs

June 2007	June 2008
6.16 million IDs	7.06 million IDs

#### (4) Media Business

##### Main Services

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

During the quarter under review, the Media Business continued to emphasize planning and development of content and services that would be supported by users and advertisers. To improve the degree of convenience of our services, we renewed the top pages of "Stocks and Investment" and "Money" on our Yahoo! Finance site and began offering a discount on the pay content services Reuters Stock Report exclusively for Yahoo! Premium members. Yahoo! Sports took steps to enhance its services by expanding and improving its content on J League's sports promotional lottery toto and offering video clips on its officially licensed Japanese U.S. major league baseball site MAJOR.JP exclusively for Yahoo! Premium members. Also during the quarter, we endeavored to promote mutual use of the services of non-Group business partners through such actions as forming a business alliance with USEN CORPORATION's video streaming site Video Complex.

#### (5) Lifestyle Business

##### Main Services

Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Drive, Yahoo! Music, Yahoo! Movies, Yahoo! Rental DVD, Yahoo! Tickets, Yahoo! Live Talk, Yahoo! Fan Club, Yahoo! Fashion, Yahoo! Beauty, Yahoo! Wedding, Yahoo! Consumer Electronics Navigator, Yahoo! Books, Yahoo! Comics, Yahoo! Games, Yahoo! Fortune Telling, Yahoo! Ringtone, Yahoo! Pet, Yahoo! Retirement

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. During the quarter, we launched Yahoo! Drive, a new drive and touring service with enhanced functions that address both information collection and information distribution and sharing needs. Using a map data base covering all of Japan as its service platform, Yahoo! Drive enables the collection of information on drive routes before the drive as well as the creation and posting of a drive route and posting of "word of mouth" information after the drive. Among other activities, we worked to add social media functions to our Yahoo! Fortune Telling services by starting a Fortune Telling Chart service for Yahoo! Profile. The

new service uses the information registered on Yahoo! Profile to derive the basic and romantic personality of the user. Among actions to enhance our services, we introduced X Brand presented by Yahoo! JAPAN, a fashion and lifestyle information website participated in by 20 high-quality, leading Japanese magazines.

## (6) Shopping Business

### Main Services

Yahoo! Shopping, Yahoo! Prize Competition

During the first quarter, we made efforts to promote our “everywhere” and open partnership policies in our Yahoo! Shopping services. To enable people to enjoy Yahoo! Shopping anywhere and anytime, we introduced Yahoo! Shopping bestseller ranking for Sharp Corporation’s full high vision LCD television AQUOS. In addition, we endeavored to promote our open partnership policy by forming a business tie-up with niwango, inc. to add Yahoo! Shopping to the Nico Nico Ichiba section of their “Nico Nico Douga” service. Among the measures taken to expand service use, we aggressively conducted seasonal sales promotions for such events as Mother’s Day and Father’s Day and implemented such campaigns as a Yahoo! Points campaign. As a result of focusing on the acquisition of new stores, the total number of stores increased to 16,705 at the end of June 2008, an increase of 1,475 stores, or 9.6% from a year earlier.

## (7) Regional Service Business

### Main Services

Yahoo! Real Estate, Yahoo! Maps, Yahoo! Get Local, Yahoo! Transit, Yahoo! Traffic Information, Yahoo! Phone Book, Yahoo! Gourmet, Yahoo! Coupons, Yahoo! Flyer Information, Yahoo! StepUp, Yahoo! Internet Certification, Yahoo! Everybody’s Certification, Yahoo! Healthcare

During the first quarter, the Regional Services Business focused on improving information coverage related to regional activities, providing enriched services based on submitted information, and expanding and improving mobile versions of services. For our Yahoo! Maps, we worked to improve the convenience of the site by making improvements to various features including the surround search function. We also renewed the site to enable simple and quick display of maps that suit the purpose of users and provide abundant related regional and lifestyle sphere information. We also renewed the design of the Yahoo! Gourmet site, endeavoring to expand and improve the listing information by listing pictures and coupon content on search results for restaurants and adding new pages for details of menus and “word of mouth” postings. In addition, we launched the official version of Everybody’s Certification, to which we have added a social media function by linking it to Yahoo! Profile. By increasing the degree of freedom in making certifications, we made efforts to improve the social media function and convenience of the service.

## (8) 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

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 add social media functions to services. We linked up Yahoo! Blogs with Yahoo! Answers, adding a function enabling questions and answers on blogs to be made on Yahoo! Answers. We also linked up Yahoo! Blogs with Yahoo! Profile, adding functions that allow the display of a Profile Badge, sending messages, and registering friends. Among other measures, we collaborated with Yahoo! Avatar in running various campaigns, such as a Yahoo! Points campaign. During the quarter we added two more schools to our Yahoo! Mail Academic Edition email services, a web email service for academic institutions. We also introduced version 9.0 of Yahoo! Messenger (beta version). In this new upgraded version, we aimed to enhance the user experience by adding such functions as sharing video clips and pictures during conference calls and receiving voice messages.

## (9) Mobile Business

### Main Services

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

During the first quarter, we continued our efforts 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 carried out a major renewal of the top page of Yahoo! Keitai, making it easier to view popular services as well as speeding them up. During the quarter, we laid the foundations for the launch of sales of Apple Corporation's iPhone™ 3G and the iPod® touch. We prepared to offer more than 100 Yahoo! JAPAN services through such measures as service optimization for these new terminals, concentrating on making further progress with our "everywhere" strategy. Among efforts to enhance services, we launched service for "KIRAKIRA STREET," a mobile phone site for games, avatars, and communications.

### Number of Page Views

	June 2007	June 2008
Yahoo! Mobile page views	2,718 million page views	3,790 million page views
Daily Average Yahoo! Mobile page views	90 million page views	126 million page views

## (10) 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! On Business

### (Settlement Business)

During the quarter, we increased the number of municipal bodies using Yahoo! Public Utility Payment services by 14. We began handling such tax payments as Furusato Grants. We also introduced a mobile version of the service, working to increase public utility payments via Internet. Among other measures, we endeavored to expand the users of the Yahoo! JAPAN Card Suica and the Yahoo! JAPAN Card. We introduced measures to increase the convenience of the credit cards, such as adding the ability to use Yahoo! Points for Suica charges on the joint card.

Furthermore, we introduced the Agency Payment Management Service for Yahoo! ezPay, enabling users to settle their auction bill after the purchase item has arrived.

#### (Travel Business)

During the first quarter, we completely renewed the Yahoo! Travel and Yahoo! Business Travel top pages. Among actions taken to improve the convenience of services and expand social media functions, we made it easier to search for accommodations and tours, enhanced the “word of mouth” information, and listed hotel rankings. In addition, we endeavored to expand and improve our travel information by running many special features on tourist spots in conjunction with Golden Week and summer holidays.

#### (Research Business)

During the quarter Yahoo! Research strengthened its collaboration with Yahoo Japan Value Insight Corporation and continued to work on increasing the number of monitors and diversifying demographics. As a result, at the end of June 2008, the total number of registered monitors amounted to 1.77 million, the largest organization of research monitors in Japan.

#### (Others)

During the first quarter, we further enhanced the services of Yahoo! On Business, a portal site for business owners, adding video streaming capability and promoting the use of the service on corporate sites. As a result, the number of registered companies exceeded 15,000 at the end of the quarter.

We worked to expand and improve services, by launching the Internet service Yahoo! JAPAN for AQUOS for full high vision LCD television, aiming to make it possible to enjoy high definition, large-screen Internet service.

### (11) 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 first quarter, as an official partner of the Japanese Olympic Committee, we provided support for the Japanese Olympic Team and launched a special feature “Let’s Give a Cheer for Japan’s Beijing Olympic Team.” We endeavored to enhance the services of Yahoo! Widget by introducing a One-Segment Widget service that links up a one-segment tuner for a PC with Yahoo! JAPAN’s services, allowing users to enjoy one-segment broadcasting.

On Yahoo! Kids, we ran campaigns and special features, working to provide services that children and family could use to enjoy the Internet. Ahead of the release of a movie of the popular animation Pokemon, which was timed for the summer vacation, we ran a program enabling users to read the story of the movie on Yahoo! Comics. Among other measures, we ran the special feature Let’s Go To See Fireflies, Firefly Special Feature 2008, which introduced nationwide tourist spots and listed reports on fireflies and environmental issues.

(Reference)

### Yahoo! JAPAN Page Views etc.

	June 2007	June 2008
Total Monthly page views	39,013 million page views	43,988 million page views
Daily Average Total Monthly Page Views	1,300 million page views	1,466 million page views
Number of Yahoo! JAPAN Unique Browsers	150.42 million browsers	176.11 million browsers
Number of Active User IDs on Yahoo! JAPAN	19.67 million IDs	22.02 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 Services

Date	New services and service upgrades
April 4	• Introduced the official version of the CGM-based certification service, Yahoo! Everybody's Certification.
May 9	• Through a business tie-up with niwango, inc.'s "nico nico douga," began offering various content and services.
May 12	• Launched the comprehensive drive and touring service Yahoo! Drive.
May 14	• Formed business tie-up with USEN CORPORATION's video streaming site Video Complex.
May 29	• Commenced the Internet service Yahoo! JAPAN for AQUOS for full high vision LCD television.
June 10	• Launched a One-Segment Widget service that links up one-segment services with Yahoo! Widget to allow users to enjoy a new type of television service.
June 17	• Began offering Fortune Telling Chart service, which has a SNS function, on Yahoo! Fortune Telling.
June 23	• Introduced X BRAND presented by Yahoo! JAPAN, a fashion and lifestyle information website participated in by 20 high-quality, leading Japanese magazines.

### 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 2008" (<http://csr.yahoo.co.jp/>, Japanese language only) posted on the previously mentioned site introduces our various CSR activities from three points of view—carrying out appropriate corporate activities, a good relationship with our customers, and making a social contribution.

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

## Volunteer Activities

Currently, we collect and donate charity funds through our Internet Charity Contributions site using the two methods of Yahoo! Wallet (purchase of wallpaper) and Yahoo! Points. Since introducing our Internet Charity Contributions service in 2004, we have received donations in excess of ¥100 million from customers.

The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):

- The Japanese Red Cross of Japan's "China Earthquake Relief Fund," "Myanmar's Cyclone Victims Relief Fund, and "Iwate and Miyagi Nairiku Earthquake Damage Relief Fund"
- Japan Platform's "Myanmar's Cyclone Victims Relief Fund."
- The National Land Afforestation Promotional Organization's "Green Fund."

## Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the first quarter, we again held many charity auctions featuring athletes and famous people. Among them, we auctioned an "Only One in the World Q Car" designed by Nahomi Matsushima of Othello and a Takashi Yanase's autograph illustration, signed. In total, we held 825 charity auctions during the quarter, raising a total of ¥29,126,096. The funds raised by such auctions are being donated to the following charities (not listed in any special order).

- Japan Transport Support Association, which supports people undergoing transplants and their families.
- First Aid—The First Link, an organization that raises awareness of umbilical cord blood therapy and provides support for victims of difficult blood diseases.
- Japan Paralympic Support Council, which supports events for disabled people.
- HAWKS JUNIOR ACADEMY, a program that contributes to society through activities supporting the development and popularization of baseball in Japan, principally in Kyushu.
- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.

## Others

- Launched the Pink Ribbon Campaign 2008, which aims to heighten awareness of the importance of early discovery, diagnosis, and treatment of breast cancer, and listed an outline of the application requirements for artwork for the 4<sup>th</sup> Pink Ribbon Design Awards (From May 12, 2008).
- Launched the Red Ribbon Campaign 2008, which introduces correct information and help line services for HIV, enables posting of messages, and collects donations (From June 2, 2008).
- Launched Yahoo! JAPAN Earth Project, Yahoo! JAPAN's portal site for environmental enlightenment activities. The site introduced environmental issues using audio and video clips, and posted the latest information on the Toyako Summit in Hokkaido (From June 2, 2008).

## **8. 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.

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

#### **1) Influence of Economy, Internet Markets and Users**

##### **a. The Group's businesses depend on the growth of Internet-related markets.**

Internet usage in Japan has continued to grow steadily in the number of users and time spent since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the recent spread of broadband communications and the progress of mobile terminals. As the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its business growth are the continued expansion of Internet-based communications and commercial activities including the number of Internet users or the time they spend on it, as well as a stable and secure infrastructure for Internet users.

However, a number of factors contribute to uncertainty in the continued expansion of the Internet-related market: the number of Internet users could reach the saturation point or there could be a slump in Internet usage time; new regulations or charges could restrict the use of the Internet; and new protocols or the development and application of technology standards needed to deal with the growing

number of Internet users and advanced level of usage may not be implemented properly, limiting usage.

**b. It is uncertain whether the Internet can maintain and expand its position as major media.**

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 third-largest advertising market, after the television and newspaper advertising markets.

To increase its value as a media, the Group is enhancing its service content. In addition, with display advertising in particular, the Group is endeavoring to expand and stabilize its client base of advertisers through methods, such as holding seminars periodically, aimed at increasing the understanding and appreciation of Internet advertising in the advertising industry. With paid search advertising in particular, the Group works to increase its precision in matching the information required by users and the advertising content being listed, seeking to be a media that provides advantages for users and advertisers alike.

Despite these efforts, it is not clear that the Internet will become an established and commercially viable advertising media capable of competing with traditional media. Potentially disruptive factors include that the market might not grow as much as expected or the pace of growth may slow or the Group may not achieve its anticipated levels of advertising revenues. Any of these factors could negatively impact the Group's business performance.

**c. Internet advertising and information listing services may be influenced by short-term economic trends.**

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.

The Internet information listing service also is easily affected by economic trends. In recruiting services especially, there is a trend among client companies to adjust the number of employees being sought in anticipation of economic trends, resulting in information listing income from recruiting services being strongly influenced by such economic trends.

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.

**d. The Group may fail to acquire the same position in the mobile advertising field as it did in the PC field.**

Based on projections that advertising via Internet-enabled terminals such as mobile phones will grow at a quickening pace, the Group is working to enable the provision of its services via such terminals in addition to PCs. If Internet use on mobile phones expands substantially, however, the Group may fail to acquire the same number of mobile Internet users or achieve the same Internet usage time as it did with PCs and thus may see a fall in viewer rates and a corresponding reduction in its market share, which could slow down growth in advertising revenue and negatively impact earnings.

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

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 revenue. 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 printed media such as newspapers, magazines, and flyer inserts, might not advance as hoped. 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, or the number of registered stores might be insufficient. The Group's performance could be influenced by one or more of these factors.

**f. The Group's income could be influenced by a change in the broadband market.**

Broadband provider service Yahoo! BB is operated jointly by the Group and Softbank BB Corporation and mainly provides inexpensive and high-speed DSL services.

Due to progress in communication technology, however, the broadband market has recently shifted from DSL services to faster optical-fiber based FTTH services. To acquire new subscribers under these conditions, Softbank BB Corporation has taken such steps as adding to its existing services by launching Yahoo! BB Hikari, a new broadband integrated service. However, these efforts could be ineffective in acquiring new subscribers or sales as anticipated or existing customers could shift to competitors' services. Moreover, the Group's income may be negatively affected by unexpected expenses.

**g. The Group's earnings may be influenced by a change in the number of pay service users.**

With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for pay services is likely to continue expanding. Sooner or later, broadband and mobile terminal 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 usage of the full range of its services. Growth in the numbers of Yahoo! Auctions participants and of Yahoo! Premium and Yahoo! BB subscribers, who enjoy various special benefits as paid

members, however, might not continue to grow as in the past, which could have a significantly negative influence on the Group's development.

**h. Purchasing pay content via Internet may not become an established practice.**

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

**2) Impact of Competition**

**a. It is uncertain whether the Group will maintain its advantage in the industry because competitors for its services exist.**

The Group's services are centered on the flagship Yahoo! JAPAN portal site, which offers a diverse range of services over the Internet. These include directory and other search engine services; various types of information services, such as news; Internet tool services, such as e-mail; shopping and other e-commerce services; and payment settlement services. The Group has multiple competitors in each of these service areas.

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

The sudden emergence of a start-up company offering an innovative service that gains popularity with users and spreads rapidly through the market is always a possibility in the Internet market. The Group fully intends to continue to gauge user opinions and usage with an eye to offering services that users want. However, it is possible that

a start-up company, or a specific service of such a company, could pose a competitive challenge to existing services. It is possible also that the Group will be obligated to make significant investments in developing new services to maintain its competitive advantage. Either eventuality could have a negative impact on the Group's business performance.

Accordingly, the Group believes that its main competitor in the current market environment is Google (Google Inc.), which holds large shares of the U.S. and European search markets.

### **3) Technological Changes**

**a. Technological innovation in the Internet industry is extremely quick. If a proper response to technological innovation is not made, the Group's business could be greatly affected.**

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. Legal and Institutional Changes**

### **1) Legal Restrictions**

#### **a. Legal restrictions relating to the Internet industry may affect both of the Group and the industry.**

In recent years, there have been some incidents reported in Japan related to viewing or posting sensitive information on the Internet or to dubious business transactions. In response, the market has begun to see some legal restrictions being applied to Internet-based information distribution. To implement a safe, secure and convenient Internet environment, the Group is compliant with laws and has conducted policies and awareness campaigns in cooperation with relevant organizations.

However, if the authorities newly establish or amend laws with some impact on Internet-based information distribution or the Internet industry, the Group's services could be negatively influenced or more compliance expenses required or even the entire Internet industry could be affected.

#### **b. The Group is required to observe the Provider Responsibility Law. Depending on any changes, the Group's business could be restricted.**

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, the passage of a new law could lead to a social consensus in support of requiring greater responsibility of information distribution intermediates. The Group's business could be restricted owing to the introduction of new laws or the implementation of rules on self-regulation.

#### **c. The Group is required to observe the Telecommunication Business Law. Depending on any changes, the Group's business could be restricted.**

The Group is required to observe the Telecommunication Business Law

and related ordinances enforced by relevant government divisions to operate Internet-based information communication services. Changes to this law and related ordinances could restrict the Group's business.

**d. The established Internet Regulation Law for Young People may affect development of the Internet industry.**

Since its establishment, the Group has conducted a variety of measures to contribute to the sound development of the Internet, and has taken steps to protect minors from harmful information, such as the operation of Yahoo! Kids and the introduction of Yahoo! Safety Net. In June 2008, the government passed a bill concerning the improvement of environment where young people can use the Internet safely and securely. Judging from the provisions of that law, the Group expects that the law will have only a minor impact upon its business. Nevertheless, the law created many issues, such as restrictions on freedom of expression or inhibition of filtering development, that could impact the development of the Internet industry in Japan. Consequently, the Group's performance could be affected.

**e. The Group's earnings could be influenced if some legal restrictions are applied to auction services.**

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. 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 fail to 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 an impact on the Group's performance, such as reduction of system use fees due to lower numbers of participants in Yahoo! Auctions, or a contraction in the Yahoo! Premium subscriber base.

**f. The Group's services could be influenced if some legal restrictions are applied to social media services.**

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

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

**g. The Group could be affected by amendment of laws concerning financial 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 activities bring 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. Because authorities revised the Money-Lending Business Control and Regulation Law so as to lower the interest rate

ceiling on loans to match the interest rate ceiling specified in the IRR Law, customers might claim that interest paid in excess of the rate permitted under the IRR Law represents unfair profits, and demand repayment. Based on these actions, the Group believes that the revised law's impact on its business will be minor. The Group already lowered its interest rates in May 2008 before enforcement of the law, and no demand for repayment has occurred as of that date.

In its Yahoo! Trading (financial instruments intermediary services) operations, the Group is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Law and rules set by the 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 or trading system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

**h. In addition to legal restrictions, the Group's business could be influenced by administrative guidance and requirements of the national government, governmental ministries, and local governments.**

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

**2) Litigation**

**a. The victims of auction frauds could pursue legal action against the Group.**

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 an escrow service (see Note 1, below) for online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. In July 2007, the Group began offering “do now, pay later” services (see Note 2, below). In addition, the Group has set up a patrol team to eliminate illegal items from auctions in cooperation with law enforcement agencies and copyright-related groups. 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 Group. 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 to a limited extent. This could raise expenditures for the Group.

Note 1: 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 Group, 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 payment not made.

Note 2: The “Do now, pay later” service is provided as a fundamental fraud measure to eradicate problems with non-delivery of purchased items by allowing the buyer to pay the seller after receiving the product.

**b. Affiliated financial instruments firms may lodge a claim against the Group.**

In providing its Yahoo! Trading (financial instruments intermediary services), the Group 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 transactions from customers, the Group consults with its affiliated financial instruments firms, but such solicitation could mislead customers into making transactions that result in losses. In such cases, the Group could be subject to demands for damage compensation from its affiliated financial instruments firms, which temporarily pay damages to customers, depending on the situation.

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

**c. The Group could be subject to claims, reprimands or damage suits from the people concerned or governmental agencies with regard to Internet advertisements or web sites accessed through links.**

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 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 user privacy. In addition, the Group publishes a disclaimer stating clearly that users bear full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. However, no guarantee can be provided that such measures will be sufficient to avoid litigation. The Group could be subject to claims, reprimands, or damage suits from users, related parties, or governmental agencies with regard to the content of advertisements, Web sites accessed through links on the Group sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or time spent on the Group sites by users, or a suspension of services.

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

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, measures are taken to ensure the understanding and agreement of 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 expenses 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 treaty regarding the jurisdictions of international courts could result in future legal disputes with users of these services outside Japan.

**e. The Group could be subject to claims or damages from third parties on infringement of intellectual property rights such as patents or copyrights owned by third parties.**

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

In 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.

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

**3) Other legal regulations**

**a. The Group often conducts business consignment or outsourcing for system development or content production. If some violation of the Subcontract Law occurs, public trust in the Group could be lost.**

The Group periodically holds training courses for all employees on the Subcontract Law when and after they join the Group to ensure

compliance with the law during business transactions. Despite of these efforts, the Group's creditability could be lost and its performance could be affected if violations of the Subcontract Law occur.

**b. The Group's profits or losses could be influenced if accounting standards and tax systems are changed.**

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 or tax systems could have a material impact on the Group's profits or losses.

**3. Natural Disasters or Emergency Situations**

**1) Due to natural disasters, the Group's operations could be suspended or discontinued.**

Group operations are vulnerable to natural disasters, such as earthquakes or fires and the accompanying building destruction, power outage, network failures and other phenomena. The Group's network infrastructure and human resources are concentrated in Tokyo. To cope with accidents and surges in Internet access, the Group intends to promote 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 group-wide 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.

**2) In case of an emergency situation, the Group's operations could be suspended or discontinued.**

In the event of outbreaks of international conflicts or terrorist attacks, the Group expects that its businesses would also be substantially affected.

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs.

This might occur because of a temporary limitation in the operation of the Group's site, causing 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 pay services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group businesses, 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 some of its services.

#### **4. Business Management**

##### **1) Management Policy and Business Strategies**

**a. If the Group's strategies cannot be formulated and promoted quickly and flexibly in response to changing market needs, its competitive advantage could deteriorate.**

The Group has been promoting four major strategies: "Social Media," "Yahoo! Everywhere," "Personalized Local Information" and "Open Partnership Policy," with a specific management indicator goal of increasing users and service hours per user. These strategies are modified quickly and flexibly according to changes in market or partners' needs and technological or competitive trends.

Nevertheless, if these strategies cannot be modified quickly and properly according to changing needs and technological or competitive trends, the Group's competitive advantage could be compromised due to the delay in promoting these strategies.

##### **2) Technology Development and Improvement**

**a. The Group's R&D efforts aim to meet customer needs but may fail to address such needs properly or result in an R&D delay or**

**failure.**

To respond to the growth and diversification of Internet use and maintain a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet customer needs. To support that process, the Group established a new research institution, Yahoo! JAPAN Research, on April 1, 2007. 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. 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 a delay or failure of R&D programs, excessive expenses or lack of effectiveness due to failure in capturing customer needs. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

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

**b. If continuous improvement of services is not adequately implemented, the Group's services could become obsolete.**

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continually improving the user experience is central to maintaining its competitive advantages. To this

end, the Group focuses widely on (1) improving the visibility and design layout of the display screen with an eye to enhancing operational convenience; (2) tightening the correspondence between the results of search and other information distribution systems and actual user requirements; and (3) accelerating display speeds of the results of search and other information distribution systems.

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

**c. If a capital investment program is not planned and implemented properly, service quality could deteriorate or overinvestment may increase expenditures.**

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group maintains a continuous 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.

**d. If the Group fails to properly provide its services to all types of Internet-enabled terminals, its business development could be affected.**

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 Group has adopted its “Yahoo! Everywhere” strategy, 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 expand usage of the services. In promoting the initiative, the following risks could occur.

To offer Yahoo! JAPAN services to our users via various devices, the Group will have to adopt the information transmission standards of each device with the support of the company that developed it. If the Group cannot adopt those standards, it will not be

able to provide services for that device.

To enable users to easily connect to the Group's sites 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 Yahoo! JAPAN services. The Group also intends to work closely with the companies that develop devices other than mobile phones to ensure easy connectivity. If, however, the Group cannot ensure that these devices will be able to connect smoothly, it could undermine the Group's competitiveness. Furthermore, should the Group incur greater costs than expected in ensuring connectivity, it could impact negatively on the Group's performance.

Each device has its own unique features, such as screen size and input system. Under the "Yahoo! Everywhere" strategy the Group intends to optimize its sites for each of these features in providing information. However, may take longer than expected to optimize the services or the Group'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 Group's performance.

**e. If the Group fails to properly respond to the growing diversity in advertising products, its advertising sales could be affected.**

Many new advertising products incorporating a variety of advertising methods have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products suited to advertisers' specific needs, including products with guaranteed exposure periods and numbers of impressions. The Group also offers Sponsor Site services (paid search 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 Group has developed and launched various advertising products incorporating innovative advertising methods, including behavioral targeting products (see Note, below), which distribute advertising to targeted users based on Internet-usage histories; customized behavioral targeting products, which distribute advertising

to targeted users based on search and browsing histories, demographic profile, and residential information; AD Network, which distributes advertising over a network of partner sites, giving it greater reach than single-site-distribution products; and content-linked advertising products, which distribute advertising to targeted pages based on page-content analysis. Nevertheless, if the Group fails to properly incorporate innovative advertising methods, its advertising revenue could decrease even as the cost of developing new products and forming new partnerships with companies possessing expertise in innovative advertising methods grows. As a result, Group performance could be negatively affected.

### **3) New Business and Services**

#### **a. The Group has promoted business diversification but its new businesses may not contribute to its earnings.**

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

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

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

### **4) Services Provided**

#### **a. The Group's search services, etc., are developed, operated, and maintained by Yahoo! Inc. and others.**

Based on the business tie-up with Overture K.K., the Group's paid search advertising sales have firmly expanded and become a larger proportion of overall advertising sales. However, the platform for search services and paid search advertising is developed, operated, and maintained by Yahoo! Inc. and others. Moreover, Overture K.K. handles the marketing and sales in Japan of advertising products (paid search and content-linked advertising) that use the platform. Some of the

Group's services other than search-related services also are developed, operated, and maintained by Yahoo! Inc., and others. Accordingly, should the Company's business relationship with Yahoo! Inc. change or some type of obstruction to the smooth operation of Yahoo! Inc. arise, it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

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

**b. Some of our advertising products guarantee page views. If the page views are not achieved, the Group will have to provide some form of compensation.**

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. Expenses for Internet connections or capital investment in infrastructure could rise because of the increased use of streaming services or bulk advertising.**

The Group provides streaming services, such as Yahoo! Streaming and Yahoo! Videocast, which use greater bandwidth than services

consisting of only text and images. Advertising products of the Group called “Brand Panel” and “Prime Display,” which allow streaming and interactive advertising, also using greater Internet bandwidth. Since use of these types of services are likely to grow steadily in future, expenses for Internet connections and capital investment in facilities, such as servers necessary for displaying such services, could increase as well.

## **5) Compliance**

### **a. Since there is no guarantee that compliance measures will be effective, compliance problems could occur.**

The Group recognizes that compliance is important for continuous enhancement of corporate value. Consequently, the Group has established various compliance regulations standards for all directors, corporate auditors, and employees to ensure compliance with laws and articles of incorporation. Aiming to achieve thorough observation of those regulations and standards, the Group has posted these regulations and standards on the Intranet and conducts periodic in-house training. However, despite these efforts, it is impossible to avoid compliance risks completely. If a violation occurs, the Group’s brand image and performance could be affected.

## **6) Management and Operation Systems**

### **a. If the Group fails to acquire necessary human resources in line with business expansion or acquires excessive human resources, its business development could be affected.**

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 of and stores registered on the “Yahoo! Shopping” and “Yahoo! Auctions” sites, 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.

**b. If the Group's key personnel resign, its business development could be affected.**

The development of the Group's businesses depends on continued support from senior management and key technical personnel. These include the presidents, directors, and other representatives of each department serving on management committees who possess specialized knowledge and technical expertise concerning the Group and its business. Consequently, if key personnel were to leave and the Group failed to appoint and 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.

**c. The Group has promoted the protection of its intellectual property rights to maintain its competitive advantage but its efforts may not be cost-efficient.**

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

Although rights pertaining to the content provided in Group services to users are legally protected, it is possible that certain content data will be used in a manner other than that sanctioned in the user contract, which could damage the Group's brand image. In addition, increasing costs of minimizing the likelihood of such an eventuality

could negatively affect the Group's business performance. At the same time, expenditures required to enable the Group to utilize those rights as competitive advantages could arise, making it difficult for the Group to gain sufficient benefit from the rights in view of the excessive expenditure entailed.

**d. The Group has business transactions with many individual and corporate customers and thus the costs for settlement or dealing with inquiries may increase.**

Along with the expansion of the Group's business scope and the strengthening of its paid search advertising, pay member services, and pay content, etc., businesses, the Group's opportunities to directly earn income from an unspecific and diverse client base of individuals and corporations have grown steadily.

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 expanded risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems, and the costs of receivables collection.

The nature and quantity of customer inquiries might broaden. Previously, most inquiries were related to service usage, but 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. 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.

## **5. Relationship with Major Stakeholders**

### **1) Major Shareholders**

#### **a. If the parent company's policies or major shareholders change, the Group's business could be considerably affected.**

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

#### **b. The Group's business might compete with those of companies within SOFTBANK Group.**

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.

#### **c. The license agreement with Yahoo Inc. plays a significant role in the Group's business. Any modifications to the agreement may affect the Group's business considerably.**

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

operations. Any modifications to the agreement may affect the Group's business considerably.

Contract name: YAHOO! JAPAN LICENSE AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
1) Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"><li>* 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)</li><li>* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark</li><li>* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li><li>* Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services</li></ul>
2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company
3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below)
Note: Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

**d. International development of the Yahoo! Brand may restrict the expansion of the Group's business.**

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.

**2) Consolidated Group**

**a. Improper management of the consolidated group could impact the Group's performance.**

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

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

**b. Any modifications to the business alliance contract with Overture K.K. could impact the Group's business considerably.**

The Company has signed the following business alliance contract with Overture K.K. to provide services such as paid search advertising. Paid search advertising is one of the Group's key income sources. Therefore, any modifications to the contract could affect the Group's earnings considerably.

Contracting company	Yahoo Japan Corporation (the Company); OVERTURE K.K.(OVKK)(Consolidated subsidiary)
Contract counterparties	OVERTURE SEARCH SERVICES (IRELAND) LIMITED (OSSIL); Yahoo! Inc. (Yahoo)
Contract date	August 31, 2007
Contract term	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. 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  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 contracted services. (The services include advertising platform related to paid search and content-linked 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  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  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  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 search and content-linked advertising services that the Company possesses as of the contract date will not be subject to this contract.</p>
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### 3) Other Major Business Partners

#### a. Any modifications to the business alliance contract with SOFTBANK CORP. could impact the Group's business substantially.

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. Yahoo! BB related business is one of the Group's principal income sources. Therefore, any modifications to this contract could impact the Company's earnings substantially

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.
2) The Company's main roles <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>
3) SBB's main roles <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<ul style="list-style-type: none"><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</li></ul></li></ul></li></ul>

per line per month.

- Subscribers acquired after April 1, 2007: ¥100 per line per month

Contract name: Incentive agreement

Contract date: October 7, 2005

Contract term: One year, beginning October 1, 2004 (automatically renewed each year)

Contracted party: SOFTBANK BB Corp.

• Customer acquisition incentive fees

    Yahoo! BB basic service:

        Approx. ¥15,000 per subscription

    Yahoo! BB + wireless LAN package:

        Approx. ¥20,000 per subscription

• Long-term customer incentive fees

    Yahoo! BB basic service:

        Approx. ¥200 per month per continuing subscriber

    Yahoo! BB + wireless LAN package:

        Approx. ¥250 per month per continuing subscriber

**b. Since Yahoo! BB services are dependent on SOFTBANK BB Corp., the service quality of SOFTBANK BB Corp. could affect the Group.**

The portion of Yahoo! BB business handled by SOFTBAK BB could indirectly but significantly influence Group performance. If SOFTBANK BB 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.

## **6. Finances, Loans and Investments**

### **1) Funds Procurement and Interest Rate Changes**

#### **a. In its Yahoo! ezPay service, the Group borrows funds to bridge the collection of reimbursement funds from buyers.**

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

Because Netrust reimburses the seller of an item one to three business days after the buyer has made settlement by credit card or Internet banking, the subsidiary must carry the credit-card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. 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.

#### **b. In its Yahoo! JAPAN Cards service, the Group also borrows funds to bridge the collection of reimbursement funds from cardholders.**

The Yahoo! JAPAN Card is a credit card that the Group issues and will be providing credit to those who are issued with 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.

## **2) Investments**

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

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

**b. The Group made an investment in BB Mobile Corp. to assist SOFTBANK CORP.'s acquisition of Vodafone K.K. However, anticipated returns might not be obtained.**

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 Group 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 provider of the portal site for SOFTBANK subscribers, while also providing its services to carriers other than SOFTBANK MOBILE. The Group is providing SOFTBANK subscribers 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.

**c. The Group has commenced operations of joint venture TV Bank Corporation through joint investment to strengthen its streaming content business. However, expected returns might not be obtained.**

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.

## **7. Relationship with Competitors and Partners**

### **1) Business Alliances and Contracts**

#### **a. The Group promotes the building of partnerships but there are some risks in doing so.**

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

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

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

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect the Group's performance.
- The Group provides services to partners via proprietary systems and via systems owned by affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a

result of these systems, then the Group's brand image could be tarnished or the Group could be sued for damage compensation, either of which could negatively affect the Group's performance.

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

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

**b. If a paid search advertising partner terminates the partnership with the Group, the Group's earnings could be influenced significantly.**

Overture K.K. provides its paid search advertising services not only to the Group but also to other domestic portal sites and other partners with which it has business agreements. Overture holds the largest share of the paid search advertising market in Japan. The Group intends to continue to expand the number of Overture's 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.

**c. The Group's procurement of various content from external third parties could be affected.**

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

## **2) Collection of Sales Credit Claims**

### **a. The Group examines the credit standing of clients. However, the collection of receivables could be affected.**

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

### **b. The Group may not be able to collect payments from Yahoo! JAPAN Card cardholders.**

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

## **3) Relationship with Third Parties**

### **a. The Group's individual businesses may be dependent on specific customers or suppliers.**

In each of its businesses, the Group may have a degree of dependence either on sales to specific customers or on sales 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 total advertising sales. In its other businesses, as well, the Group has major business transactions with specific companies, which transactions account for a growing percentage of the Group's total sales.

If there were a change in the Group's business relationships with or sales to or by these customers or agents, or deterioration in their business conditions, or a problem with their systems or other facilities,

the viability of the Group's services and its performance could be negatively impacted.

**b. The Group's services are dependent on the providers of Internet connections between the Group and each user.**

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 connection infrastructure should deteriorate and prevent easy use of the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

**c. The Group's own servers are dependent on hardware suppliers.**

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.

**d. Relationships with third-party joint venture partners could deteriorate.**

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

**e. In some cases, the development and operations of services are dependent on specific third parties.**

Among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the relevant sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur owing to a situation at a commissioned third party that the Group cannot manage, 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.

**f. Some of the Group's services are dependent on plug-in software made by third parties.**

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 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.

**g. Some services are dependent on external third parties.**

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

## **8. Information Security**

### **1) Entire Information Security**

**a. The Group has implemented various efforts to achieve information security. However, should information be leaked or unauthorized invasions or computer virus attacks occur, public confidence in the Group could decline.**

Due to the 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", 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) 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 databases. 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.

## **2) Personal Information**

### **a. Personal information that is available for user identification could be leaked causing public confidence in the Group to drop or involving the Group in a legal dispute.**

The Group is obligated to hold personal information for each Yahoo! JAPAN user in order to effectively provide services, including e-commerce.

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. The Yahoo! Security Center on the Yahoo! JAPAN site works to heighten users' awareness

of potential risks by, for example, posting descriptive examples of fraudulent behavior and common methods employed to illicitly obtain personal information, along with suggested security measures to help users protect themselves. In addition, the Group observes strict guidelines regarding internal access to users' personal information, granting access rights only to a very limited number of personnel.

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

Regardless of questions of legal responsibility, the Group's policy is to propose measures aimed at strengthening the management

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

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

#### Note 1: Phishing fraud

Phishing fraud involves obtaining personal information by sending e-mails purportedly from a financial institution or other company that trick the recipients into accessing a fraudulent Web site, where they are asked to input such personal information as credit card numbers, log-in IDs, passwords, or other sensitive information.

#### Note 2: Log-in seal

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

#### Note 3: Refusing spoofed emails

Spoofed emails, purportedly sent from one source but in fact sent from another, can be filtered out, or refused, by users armed with domain validation technology, such as DomainKeys and Sender Policy Framework (SPF). Since July 2005, Yahoo! Mail has featured a DomainKeys function, and in December 2006 we introduced an SPF

function in a concerted effort to prevent phishing and other malicious mails from landing in Yahoo! Mail service inboxes. Now, with our introduction of SPF technology to the receiving server, users can filter out mail purporting to be from “yahoo.co.jp” or from other providers that utilize DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

#### Note 4: Anti-phishing browser

This is a browser equipped with a password entry column only for access authentication in its address bar field. An entered password is handled by the authentication server in a cryptographic protocol and is not sent directly to the server. Therefore, the password cannot be stolen even when entered at a false site carelessly.

#### Note 5: OpenID

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

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

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

#### **b. Personal information may be leaked by business alliance partners or from stores registered on Yahoo! Shopping or 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. 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 Group in a way that complies with the Personal Information Protection Act. The Group has been extremely careful about the transfer and management of this information. If personal information is leaked from the Group or affiliated financial instruments firm partners, the Group could be 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 fail to handle the anonymous service properly and the names of the sender and receiver of an item be divulged, the Group could face a legal suit for compensation or suffer damage to its brand image, 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 the Group was responsible.

### **3) Communication Privacy**

#### **a. Information related to communication privacy could be leaked tarnishing the Group's brand image and drawing into legal disputes.**

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

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

### **4) Network Security**

#### **a. Attacks on or unauthorized invasions of the Group's networks could occur, affecting the Group's services.**

Although the Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from invasion of computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such damage. Recently, there have been several incidents of specific Web sites or networks

being targeted by huge volumes of data sent simultaneously from multiple terminals over brief periods of time with the intention of paralyzing the targeted Web site or network. Although the Group has implemented effective security programs and strengthened its monitoring systems in preparation for such an attack, there is no guarantee that such an attack can be averted. Such obstructive actions could seriously damage the Group's business, operating results, and financial condition.

## **5) Fraudulent Use**

### **a. Fraudulent use of the Group's settlement-related services by a malicious user may cause damage.**

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. 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, which would result in greater-than-anticipated costs.

## **6) Behavioral History Information**

### **a. The Group's behavioral targeting advertising services may be affected if the use of behavioral history information is restricted.**

Behavioral targeting advertising, which targets users according to

Internet-usage histories, is designed to distribute advertisements for products or services only to users whose Internet-usage histories indicate a preference for or interest in the advertised products or services. With this product, advertisers achieve enhanced advertising distribution efficiency, Internet sites realize more efficient site monetization, and users receive banner ads that are relevant and of personal interest. Recently, highly detailed targeting has become possible by including users' click histories, visits to major advertisers' sites, grouping (age and gender), and area information in addition to behavioral histories.

With regard to the collection and use of behavioral history information, the Group is very careful to respect the privacy of individual users. Behavioral history information used for behavioral targeting advertising includes the Yahoo! JAPAN services viewed by users, or, more specifically, users' browsers, in addition to keywords employed when using Yahoo! Search. This information is used only for the purpose of grouping users, or users' browsers, on the basis of similar preferences and interests, not for analysis of preferences and interests of specific users. Moreover, the Group does not regularly collect behavioral history information from any of its business partner sites. The Group wants to collect such information from a business partner site, in consideration of the privacy of the partner site's users a Web Beacon is posted on the site announcing the collection and use of the behavioral history information of users of the site. Site users who do not want their behavioral history information to be used can prevent its usage by changing a setting on the Yahoo! JAPAN site.

Although the Group believes it is taking adequate precautions to respect users' privacy, it is possible that some users who object to the use of their behavioral history information could cause damage to the Group's brand image. Moreover, if for the same reason, sales of behavioral targeting advertising become impossible, this could have a detrimental impact on the Group's business results.

## **9. Corporate Governance**

### **1) Corporate Governance System**

#### **a. The internal control system may not work effectively, affecting business operations or increasing operating expenses.**

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. Also, the increase in business man-hours for enhanced internal control may negatively affect the Group's earnings.