# Results for the Three Months Ended December 31, 2009 (FY2009-3Q)

January 27, 2010


| | | | |
|---|---|---|---|
| Company Name: | Yahoo Japan Corporation | Share Listings: | 1st section of TSE and JASDAQ |
| Code No.: | 4689 | URL: | http://www.yahoo.co.jp |
| Representative: | Masahiro Inoue, President and CEO | Tel: | 03-6440-6000 |
| Contact: | Akira Kajikawa, Director and CFO | | |


Scheduled Securities Report Submission Date: February 10, 2010

Scheduled Dividend Payment Date: -

(Amounts less than one million yen are omitted)

## 1. Consolidated Results for FY2009-3Q (April 1, 2009-December 31, 2009)

(1) Consolidated Financial Results for the Cumulative Period (April 1, 2009-December 31, 2009)

(Figures in parenthesis are % change YoY)

| | Revenue | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | (%) | Millions of yen | (%) | Millions of yen | (%) | Millions of yen | (%) |
| FY2009-3Q | 206,620 | (4.0) | 105,114 | (6.1) | 104,663 | (6.9) | 60,165 | (7.4) |
| FY2008-3Q | 198,614 | ー | 99,057 | ー | 97,919 | ー | 56,027 | ー |

| | Net income per share-primary | Net income per share-diluted |
|---|---|---|
| | Yen | Yen |
| FY2009-3Q | 1,035.68 | 1,034.84 |
| FY2008-3Q | 939.41 | 938.34 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Ratio of equity capital | Net assets per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| FY2009-3Q | 376,150 | 287,639 | 75.7 | 4,908.97 |
| FY2008 | 311,551 | 236,469 | 75.2 | 4,029.47 |

(For reference) Equity capital: FY2009 3Q ¥ 284,807 million FY2008 ¥ 234,144 million

## 2. Cash Dividends

| | Dividends per share | | | | |
|---|---|---|---|---|---|
| (Record date) | 1Q | 2Q | 3Q | Year end | Full year |
| | Yen | Yen | Yen | Yen | Yen |
| FY2008 | ー | 0.00 | ー | 130.00 | 130.00 |
| FY2009 | ー | 0.00 | ー | ー | ー |
| FY2009 (Estimates) | ー | ー | ー | 279.00 - 285.00 | 279.00 - 285.00 |

Note: Revision in dividends scheduled for the quarter: Yes

## 3. Consolidated Business Outlook for FY2009 (April 1, 2009 – March 31, 2010)

(Figures in parenthesis are % change YoY)

| | Revenue | | Operating income | | Ordinary income | | Net income | | Net income per share-primary |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | (%) | Millions of yen | (%) | Millions of yen | (%) | Millions of yen | (%) | Yen |
| FY2009 | 275,920 - 279,320 | (3.8 - 5.1) | 140,814 - 143,214 | (4.6 - 6.4) | 140,263 - 142,663 | (5.5 - 7.3) | 80,965 - 82,465 | (8.4 - 10.4) | 1,393.74 - 1,419.56 |

Note: Revisions in quarterly consolidated performance forecasts: Yes

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

## 4. Others

(1) Changes in significant subsidiaries during the period (changes in significant subsidiaries causing changes in scope of consolidation): Yes

Excluded 1 company (Overture K.K.)

* Effective October 1, 2009, the consolidated subsidiary Overture K.K. was absorbed by the Company through a merger.

(2) Application of simplified accounting treatment and special accounting treatment in preparing quarterly consolidated financial statements: None

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

1) Changes due to accounting standards revisions: None

2) Changes other than 1): None

(4) Number of stocks issued (common stock)

1) Number of stocks issued at the end of quarter (including treasury stocks)

FY2009-3Q 58,114,458 stocks FY2008 58,107,980 stocks

2) Number of treasury stocks at the end of quarter

FY2009-3Q 96,615 stocks FY2008 0 stock

3) Average number of stocks (quarterly consolidated cumulative period)

FY2009-3Q 58,092,296 stocks FY2008-3Q 59,641,060 stocks

## 5. Business Results

(1) Performance Highlights

- At the end of the third quarter, the Company posted cumulative quarter revenues of ¥206.6 billion, up 4.0% from a year earlier. Cumulative quarterly operating income expanded 6.1% year on year, to ¥105.1 billion while cumulative quarterly ordinary income advanced 6.9%, to ¥104.6 billion. Cumulative quarterly net income totaled ¥60.1 billion, increasing 7.4% from the same period in the previous fiscal year.

| | Cumulative Quarterly Revenues | Year on Year Change |
|---|---|---|
| Advertising Business | ¥102.6 billion | -1.0% |
| Business Services Business | ¥48.0 billion | +16.7% |
| Personal Services Business | ¥56.7 billion | +5.5% |
| Total | ¥206.6 billion | +4.0% |

- In the third quarter, the Company generated revenues of ¥70.9 billion, increasing 5.9% from the third quarter last year. Operating income rose 9.9% from a year earlier, to ¥36.4 billion while ordinary income increased 10.9%, to ¥36.4 billion. Third quarter net income totaled ¥20.8 billion, expanding 9.0% year on year. Quarterly revenue expanded than expected and operating and ordinary income increased approximately 10% because of 1) the clearer recovery trend in advertising revenues, 2) a firm growth of transaction value of Yahoo! Shopping, and 3) enhanced efforts to increase business efficiency and cut unnecessary costs.

| | Quarterly Revenues | Year on Year Change |
|---|---|---|
| Advertising Business | ¥35.3 billion | +1.2% |
| Business Services Business | ¥16.5 billion | +20.2% |
| Personal Services Business | ¥19.3 billion | +5.3% |
| Total | ¥70.9 billion | +5.9% |

- In the advertising business, though sales of display advertising declined from the third quarter last year under the impact of reduced advertising by advertisers in some industries, such as human resources-related industries, the sales of display advertising grew more than 10% quarter on quarter thanks to the growth of advertising spending from several industries such as financial services, transportation/leisure, and beverage/cigarettes. As a result, the degree of year-on-year decline was greatly improved compared to the year-on-year decline in the previous quarter. In addition to a sharp growth in sales of the high brand impact Brand Panel, both year on year and compared with the previous quarter, reaching a record high, the recovery trend in sales of behavioral targeting advertising was further strengthened. Paid search advertising continued to experience a decline in advertising from such industries as human resources services, real estate and consumer finance. However, sales of Interest Match® expanded further, supporting year-on-year growth in listing advertising. Overall, third quarter advertising business sales amounted to ¥35.3 billion, rising 1.2% year on year.

- In the business services business, as a result of Yahoo! Shopping's efforts to expand use of its services by carrying out sales promotions for the year-end sales campaign and newly introducing special benefits Star Club service in October, the quarterly transaction value of Yahoo! Shopping expanded about 20% year on year, reaching a record high. Yahoo! Auctions also achieved a year-on-year increase in sales, assisted by the upward revision in store royalties implemented as of December 2008. Despite of a year-on-year decline, Yahoo! Rikunabi's sales rose slightly on a quarter-by-quarter basis following the second quarter. Moreover, the revenues related to IDC Frontier Inc.'s data center operations contributed to growth compared with the third quarter last year, supporting a 20.2% year-on-year increase in sales of the business services business, to ¥16.5 billion.

- In the personal services business, Yahoo! Premium worked to expand and improve member benefits through such actions as holding an exclusive sale for members in collaboration with Star Club, and implemented measures to acquire new members. As a result, despite the increase of membership fees made to improve the services for Yahoo! Premium members in December 2008, the number of Yahoo! Premium membership IDs at December 31, 2009, continued to increase, rising to 7.58 million, up 4.4% from the third quarter last year. Quarterly Yahoo! Premium sales also expanded significantly year on year. In our Yahoo! Auctions operations, overall transaction value declined compared with the same quarter a year earlier due to the continued decrease in the average final price on auctions caused by consumers' desire for cheaper prices under the impact of the downturn in the economy. However, thanks to measures to increase use of our services, such as conducting a free auction item listing campaign, the number of item listings and winning bidders rose compared with the third quarter last year, resulting in an improvement in the degree of year-on-year decline in transaction value quarter on quarter. Overall, third quarter sales of the personal service business amounted to ¥19.3 billion, up 5.3% from a year ago.

- Advertising on GyaO!, our official video distribution service, got off to a good start, turning a profit on a monthly basis in December.

(2) Consolidated Financial Results

(i). Consolidated Balance Sheets for the Third Quarter

(Millions of yen)

| | | As of Dec. 31, 2008 | As of Dec. 31, 2009 | Increase/decrease | | As of Sept. 30, 2009 |
|---|---|---|---|---|---|---|
| | | Amount | Amount | Amount | Change (%) | Amount |
| **Assets** | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | (*1) | 74,891 | 99,307 | 24,416 | 32.6 | 90,255 |
| Notes and accounts receivable-trade | (*2) | 33,907 | 35,829 | 1,921 | 5.7 | 33,542 |
| Inventory assets | | 194 | 198 | 3 | 1.9 | 209 |
| Deferred tax assets | (*3) | 2,918 | 5,432 | 2,513 | 86.1 | 5,359 |
| Other current assets | (*4) | 17,119 | 22,967 | 5,847 | 34.2 | 15,929 |
| Allowance for doubtful accounts | | -1,493 | -1,432 | 61 | -4.1 | -1,365 |
| Total current assets | | 127,537 | 162,301 | 34,764 | 27.3 | 143,931 |
| Fixed assets | | | | | | |
| Tangible fixed assets | | | | | | |
| Buildings and structures | | 3,000 | 6,797 | 3,797 | 126.6 | 6,833 |
| Machinery and equipment | | — | 5,776 | 5,776 | — | 5,697 |
| Tools, furniture and fixtures | | 12,314 | 9,223 | -3,090 | -25.1 | 9,824 |
| Land | | — | 5,001 | 5,001 | — | 5,001 |
| Other tangible fixed assets | | 19 | 205 | 186 | 965.4 | 196 |
| Total tangible fixed assets | (*5) | 15,333 | 27,004 | 11,670 | 76.1 | 27,553 |
| Intangible fixed assets | | | | | | |
| Software | | 12,052 | 10,806 | -1.245 | -10.3 | 11,390 |
| Goodwill | (*6) | 2,458 | 4,841 | 2,382 | 96.9 | 5,038 |
| Other intangible fixed assets | | 56 | 30 | -26 | -46.9 | 54 |
| Total intangible fixed assets | | 14,567 | 15,678 | 1,110 | 7.6 | 16,483 |
| Investments and other assets | | | | | | |
| Investment securities | (*7) | 161,160 | 157,408 | -3,751 | -2.3 | 157,632 |
| Deferred tax assets | | 5,377 | 7,210 | 1,832 | 34.1 | 7,395 |
| Others | | 6,456 | 6,692 | 235 | 3.6 | 6,657 |
| Allowance for doubtful accounts | | -57 | -145 | -87 | 150.2 | -145 |
| Total investments and other assets | | 172,936 | 171,166 | -1,770 | -1.0 | 171,539 |
| Total fixed assets | | 202,838 | 213,848 | 11,010 | 5.4 | 215,575 |
| **Total assets** | | 330,375 | 376,150 | 45,774 | 13.9 | 359,507 |

(Millions of yen)

| | | As of Dec. 31, 2008 | As of Dec. 31, 2009 | Increase/decrease | | As of Sept. 30, 2009 |
|---|---|---|---|---|---|---|
| | | Amount | Amount | Amount | Change (%) | Amount |
| **Liabilities** | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable-trade | (*8) | 5,062 | 7,006 | 1,943 | 38.4 | 6,373 |
| Short-term bank loans | (*12) | 20,020 | 10,000 | -10,020 | -50.0 | 20,000 |
| Accounts payable-other | | 11,237 | 11,762 | 525 | 4.7 | 10,467 |
| Income taxes payable | (*9) | 13,648 | 30,845 | 17,197 | 126.0 | 30,116 |
| Provision for Yahoo! Points | (*10) | 2,531 | 3,742 | 1,211 | 47.9 | 3,352 |
| Other current liabilities | (*11) | 21,030 | 24,859 | 3,829 | 18.2 | 19,464 |
| Total current liabilities | | 73,529 | 88,217 | 14,687 | 20.0 | 89,773 |
| Long-term liabilities | | | | | | |
| Long-term debt | (*12) | 10,000 | — | -10,000 | -100.0 | — |
| Other long-term liabilities | | 143 | 294 | 150 | 104.9 | 320 |
| Total long-term liabilities | | 10,143 | 294 | -9,849 | -97.1 | 320 |
| **Total liabilities** | | 83,673 | 88,511 | 4.837 | 5.8 | 90,093 |
| **Net assets** | | | | | | |
| Shareholders' equity | | | | | | |
| Common stock | (*13) | 7,428 | 7,485 | 57 | 0.8 | 7,460 |
| Capital surplus | | 2,509 | 2,566 | 57 | 2.3 | 2,541 |
| Retained earnings | (*14) | 234,378 | 277,137 | 42,759 | 18.2 | 256,276 |
| Treasury stock | (*15) | -0 | -2,863 | -2,863 | — | — |
| Total shareholders' equity | | 244,315 | 284,326 | 40,010 | 16.4 | 266,278 |
| Unrealized gain on available-for-sale securities | | 236 | 480 | 244 | 103.1 | 387 |
| Stock acquisition rights | | 216 | 400 | 183 | 84.6 | 346 |
| Minority interests | | 1,933 | 2,431 | 498 | 25.8 | 2,399 |
| **Total net assets** | | 246,702 | 287,639 | 40,937 | 16.6 | 269,413 |
| **Total liabilities and net assets** | | 330,375 | 376,150 | 45,774 | 13.9 | 359,507 |

Main Points Regarding Consolidated Balance Sheets for the Third Quarter

Assets

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

*2 The increase in notes and accounts receivable—trade compared with the third quarter last year can be attributed mainly to the consolidation of IDC Frontier Inc.

*3 The growth in deferred tax assets was primarily due to an increase in taxable income resulting from an increase in accrued enterprise taxes.

*4 The expansion in other current assets from the same period a year earlier can be mainly attributed to the increase in credit related to Yahoo! ezPay operations and Yahoo! JAPAN card.

*5 The growth in tangible fixed assets from the same quarter last year was principally due to the inclusion of fixed assets related to mergers.

*6 The year-on-year increase in quarterly goodwill was due to the purchase of subsidiary shares.

*7 Although additional purchases of investment securities were made during the quarter, the balance decreased year on year primarily because of impairment losses.

Liabilities

*8 The increase in accounts payable-trade year on year resulted principally from an increase in traffic acquisition cost (TAC) along with the growth in listing advertising sales.

*9 The increase in income taxes payable from the same quarter last year was attributable to lower payment of interim income taxes compared with the previous fiscal year.

*10 The growth in Provision for Yahoo! Points from the same quarter a year earlier was primarily due to increases in the amount of Yahoo! Points awarded by auction stores.

*11 The increase in other current liabilities from a year earlier was mainly due to growth in debts received by Yahoo! ezPay and prepayments received for listing advertising.

*12 The declines in short-term bank loans and long-term debts compared with the same period in the previous fiscal year resulted from repayments.

Net Assets

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

*14 Growth in net income supported an increase in retained earnings year on year despite the decline in retained earnings in the previous fiscal year due to the purchase and cancellation of the Company’s own stocks.

*15 The increase in treasury stock compared with one year earlier resulted from meeting the requirement of purchasing stock related to the Overture K.K. merger.

(ii). Consolidated Statements of Income

Results for the cumulative period (April 1, 2009-December 31, 2009) (Millions of yen)

| | Nine months ended Dec. 31, 2008 | Nine months ended Dec. 31, 2009 | Increase/ decrease | |
|---|---|---|---|---|
| | Amount | Amount | Amount | Change (%) |
| Revenue | 198,614 | 206,620 | 8,005 | 4.0 |
| Cost of sales | 21,129 | 24,760 | 3,630 | 17.2 |
| Gross profit | 177,484 | 181,859 | 4,374 | 2.5 |
| Selling, general & administrative expenses | 78,427 | 76,745 | -1,681 | -2.1 |
| Personnel expenses | 19,520 | 22,529 | 3,008 | 15.4 |
| Business commissions | 12,314 | 9,586 | -2,728 | -22.2 |
| Communication charges | 6,997 | 7,093 | 96 | 1.4 |
| Depreciation expenses | 7,890 | 6,616 | -1,274 | -16.2 |
| Royalties | 5,888 | 5,936 | 47 | 0.8 |
| Content provider fees | 4,523 | 5,193 | 670 | 14.8 |
| Sales promotion costs | 3,911 | 5,177 | 1,266 | 32.4 |
| Lease and utility expenses | 5,441 | 4,655 | -786 | -14.4 |
| Sales commissions | 3,222 | 3,007 | -214 | -6.7 |
| Administrative and maintenance expenses | 1,752 | 1,743 | -9 | -0.5 |
| Taxes and public dues | 896 | 1,147 | 250 | 27.9 |
| Amortization of goodwill | 565 | 698 | 133 | 23.6 |
| Advertising expenses | 938 | 641 | -297 | -31.7 |
| Payment commissions | 670 | 528 | -141 | -21.1 |
| Allowance for doubtful accounts | 648 | 511 | -137 | -21.2 |
| Others | 3,245 | 1,680 | -1,565 | -48.2 |
| Operating income | 99,057 | 105,114 | 6,056 | 6.1 |
| Non-operating income | 499 | 234 | -265 | -53.1 |
| Non-operating expenses | 1,637 | 684 | -952 | -58.2 |
| Ordinary income | 97,919 | 104,663 | 6,744 | 6.9 |
| Extraordinary gains | 1,072 | 50 | -1,022 | -95.3 |
| Extraordinary losses | 1,706 | 2,235 | 528 | 31.0 |
| Income before income taxes | 97,285 | 102,478 | 5,193 | 5.3 |
| Income taxes, inhabitants' taxes and enterprise taxes | 39,862 | 43,516 | 3,653 | 9.2 |
| Adjustment to income taxes | 882 | -1,449 | -2,332 | — |
| Minority interests in net income | 512 | 246 | -266 | -51.9 |
| Net income | 56,027 | 60,165 | 4,138 | 7.4 |

Results for the quarter (October 1, 2009-December 31, 2009) (Millions of yen)

| | | Three months ended Dec. 31, 2008 | Three months ended Dec. 31, 2009 | Increase/decrease | |
|---|---|---|---|---|---|
| | | Amount | Amount | Amount | Change (%) |
| Revenue | | 66,986 | 70,941 | 3,954 | 5.9 |
| Cost of sales | | 7,085 | 8,517 | 1,431 | 20.2 |
| Gross profit | | 59,901 | 62,424 | 2,522 | 4.2 |
| Selling, general & administrative expenses | | 26,749 | 25,988 | -760 | -2.8 |
| Personnel expenses | (*1) | 6,865 | 7,793 | 928 | 13.5 |
| Business commissions | (*2) | 3,799 | 3,203 | -595 | -15.7 |
| Communication charges | | 2,474 | 2,305 | -168 | -6.8 |
| Depreciation expenses | (*3) | 2,903 | 2,241 | -662 | -22.8 |
| Sales promotion costs | (*4) | 1,234 | 2,106 | 872 | 70.7 |
| Royalties | | 1,980 | 2,029 | 48 | 2.5 |
| Content provider fees | | 1,652 | 1,649 | -3 | -0.2 |
| Lease and utility expenses | (*5) | 1,868 | 1,521 | -346 | -18.6 |
| Sales commissions | | 1,129 | 1,120 | -8 | -0.8 |
| Administrative and maintenance expenses | | 601 | 570 | -31 | -5.2 |
| Taxes and public dues | | 297 | 345 | 48 | 16.2 |
| Advertising expenses | | 316 | 200 | -116 | -36.7 |
| Amortization of goodwill | | 135 | 196 | 61 | 45.3 |
| Allowance for doubtful accounts | | 261 | 190 | -71 | -27.3 |
| Packaging and delivery | | 83 | 71 | -12 | -14.5 |
| Others | (*6) | 1,144 | 440 | -703 | -61.5 |
| Operating income | | 33,152 | 36,435 | 3,283 | 9.9 |
| Non-operating income | | 128 | 119 | -9 | -7.6 |
| Non-operating expenses | | 453 | 142 | -310 | -68.6 |
| Ordinary income | | 32,827 | 36,412 | 3,584 | 10.9 |
| Extraordinary gains | | 122 | ― | -122 | -100.0 |
| Extraordinary losses | | 218 | 858 | 640 | 293.3 |
| Quarterly income before income taxes | | 32,731 | 35,553 | 2,821 | 8.6 |
| Income taxes, inhabitants' taxes and enterprise taxes | | 12,710 | 14,492 | 1,782 | 14.0 |
| Adjustment to income taxes | | 714 | 48 | -666 | -93.2 |
| Minority interests in gains of consolidated subsidiaries | | 174 | 151 | -22 | -12.7 |
| Quarterly net income | | 19,133 | 20,860 | 1,727 | 9.0 |

Main Points Regarding Consolidated Statements of Income for the Third Quarter

Revenue

Revenue for the third quarter increased mainly because of growth in the sales of the Business Services Business.

Cost of Sales

Cost of Sales for the third quarter grew compared with a year earlier due to costs related to the data center operations following the merger of those operations starting with the current fiscal year.

Selling, General and Administrative Expenses

*1 Personnel expenses

At the end of the quarter, the total number of employees of the Group amounted to 4,919, up 573 employees, or 13.2%, from the same quarter in the previous fiscal year.

*2 Business commissions

The decrease in business commissions year on year in the third quarter occurred because of a contraction in business commissioned outside the Group resulting from efforts to streamline such activities as maintenance, operations and development.

*3 Depreciation expenses

The decline in depreciation expenses year on year in the third quarter primarily resulted from a decrease in the purchase of assets based on achieving greater efficiency in capital investment.

*4 Sales promotion costs

The year-on-year increase in quarterly sales promotion costs can mainly be attributed to a rise in affiliate expenses for Yahoo! Auctions and other services.

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*5 Lease and utility expenses

Lease and utility expenses declined year on year mainly because of efforts to concentrate and reduce office space.

*6 Others

The major expenses in others during the third quarter were compensation, travel and transportation, and fixtures and fittings.

Non-Operating Income (Expenses)

The main components of non-operating income for the third quarter were foreign exchange gains and interest received. The main components of non-operating expenses for the quarter were losses on disposal of fixed assets and interest expenses for borrowing.

Extraordinary Gains (Losses)

The major extraordinary loss for the quarter was loss on evaluation of investment securities.

Income Taxes, etc.

The effective income tax (including income tax adjustments) burden ratio for quarterly income before income tax for the third quarter was 40.9%.

Minority Interests in Gains of Consolidated Subsidiaries

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

Quarterly Net Income

Net income per share amounted to ¥359.30 for the quarter.

(iii). Consolidated Statements of Cash Flows

(Millions of Yen)

| | Three months ended Dec. 31, 2008 | Three months ended Dec. 31, 2009 | Nine months ended Dec. 31, 2009 |
|---|---|---|---|
| | Amount | Amount | Amount |
| **Cash flows from operating activities:** | | | |
| Income before income taxes for the periods | 32,731 | 35,553 | 102,478 |
| Depreciation and amortization | 3,060 | 2,580 | 7,548 |
| Increase/decrease in accounts receivable-trade | 648 | -1,874 | -215 |
| Increase/decrease in accounts payable-trade | -209 | 632 | 1,624 |
| Payment of income taxes and other taxes | -26,346 | -13,749 | -15,783 |
| Other cash flows | 2,036 | 423 | 2,538 |
| Cash flows from operating activities | 11,921 | 23,566 | 98,191 |
| **Cash flows from investing activities:** | | | |
| Expenditures on time deposits | — | — | -1,000 |
| Expenditures on tangible fixed assets | -1,085 | -753 | -3,605 |
| Expenditures on intangible fixed assets | -1,128 | -413 | -1,686 |
| Expenditures on investment securities | — | -500 | -579 |
| Other cash flows | -185 | 217 | 1,323 |
| Cash flows from investing activities | - 2,399 | -1,449 | -5,548 |
| **Cash flows from financing activities:** | | | |
| Redemption of long-term debt | -10,000 | -10,000 | -20,000 |
| Expenditures on purchase of treasury stock | -0 | -2,863 | -2,863 |
| Dividends paid | -9 | -4 | -7,516 |
| Other cash flows | -1,389 | -196 | -837 |
| Cash flows from financing activities | -11,399 | -13,065 | -31,217 |
| Net change in cash and cash equivalents | -1,878 | 9,051 | 61,426 |
| Cash and cash equivalents at the beginning of the periods | 76,769 | 89,255 | 36,996 |
| Decrease in cash and cash equivalents from the consolidation of subsidiaries | — | — | -115 |
| Cash and cash equivalents at the end of the periods | 74,891 | 98,307 | 98,307 |

Main Points Regarding Consolidated Statements of Cash Flows for the Third Quarter

Cash Flows from Operating Activities

Principally due to the booking of quarterly net income cash flows provided by operating activities amounted to ¥23.5 billion in the third quarter.

Cash Flows from Investing Activities

Cash flows used in investing activities for third quarter amounted to ¥1.4 billion, primarily due to the purchase of tangible fixed assets and investment securities.

Cash Flows from Financing Activities

Cash flows used in financing activities for third quarter amounted to ¥13 billion and can be attributed mainly to redemption of long-term debt and the purchase of treasury stock.

As a result, the net change in cash and cash equivalents for the third quarter amounted to ¥9 billion, and cash and cash equivalents at the end of the period was ¥98.3 billion, up 31.3% from a year earlier.

(3) Performance Outlook

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 fiscal year ending March 31, 2010 shown below have been estimated by adding the forecast for the fourth quarter to the actual results of the fiscal year 2009 – 1Q to 3Q.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2010 (FY2009-4Q) (January 1, 2010 to March 31, 2010)

| | |
|---|---|
| Revenue | ¥ 69,300 million ~ ¥ 72,700 million |
| Operating income | ¥ 35,700 million ~ ¥ 38,100 million |
| Ordinary income | ¥ 35,600 million ~ ¥ 38,000 million |
| Quarterly net income | ¥ 20,800 million ~ ¥ 22,300 million |

Consolidated Performance Estimates for the Cumulative Period of the Fiscal Year Ending March 31, 2010 (April 1, 2009 to March 31, 2010)

| | |
|---|---|
| Revenue | ¥ 275,920 million ~ ¥ 279,320 million |
| Operating income | ¥ 140,814 million ~ ¥ 143,214 million |
| Ordinary income | ¥ 140,263 million ~ ¥ 142,663 million |
| Net income | ¥ 80,965 million ~ ¥ 82,465 million |

## 6. Segment Information

(1) Outline of Businesses

| Type of Business | Major Services |
|---|---|
| Advertising | Internet advertising and related revenues<br>・ Display advertising revenues<br>Banner, text, e-mail, and video advertising<br>・ Listing advertising (pay per performance advertising) revenues<br>Paid search advertising, interest-linked advertising, content-linked advertising, affiliate advertising, etc. |
| Business Services | Revenue to corporations other than advertising<br>・ Information listing fees for Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Autos, and others<br>・ Tenant and royalty fees for BtoC auctions at Yahoo! Auctions and Yahoo! Shopping<br>・ Yahoo! BB customer acquisition and continual incentive fees<br>・ Yahoo! Research, Yahoo! Business Express, Yahoo! WebHosting, and other revenues<br>・ Data center-related revenues |
| Personal Services | Revenues from services for individuals<br>・ System use fees for Yahoo! Auctions<br>・ Yahoo! Premium revenues<br>・ Content fees, Yahoo! BB ISP fees and others |

(2) Cumulative and Quarterly Results by Segment

Results for the cumulative period of the fiscal year ended March 31, 2009 (April 1, 2008-December 31, 2008) (Millions of yen)

| | Advertising Business | Business Services Business | Personal Services Business | Total | Elimination or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Revenue | 103,747 | 41,197 | 53,778 | 198,723 | -108 | 198,614 |
| Operating income | 54,177 | 15,790 | 38,758 | 108,726 | -9,669 | 99,057 |

Results for the cumulative period of the fiscal year ending March 31, 2010 (April 1, 2009-December 31, 2009) (Millions of yen)

| | Advertising Business | Business Services Business | Personal Services Business | Total | Elimination or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Revenue | 102,675 | 48,070 | 56,741 | 207,487 | -867 | 206,620 |
| Operating income | 57,862 | 16,998 | 39,754 | 114,615 | -9,501 | 105,114 |

Results for the third quarter of the fiscal year ended March 31, 2009 (October 1, 2008-December 31, 2008) (Millions of yen)

| | Advertising Business | Business Services Business | Personal Services Business | Total | Elimination or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Revenue | 34,912 | 13,766 | 18,360 | 67,040 | -53 | 66,986 |
| Operating income | 18,029 | 5,129 | 13,413 | 36,572 | -3,420 | 33,152 |

Results for the third quarter of the fiscal year ending March 31, 2010 (October 1, 2009-December 31, 2009) (Millions of yen)

| | Advertising Business | Business Services Business | Personal Services Business | Total | Elimination or Corporate | Consolidated |
|---|---|---|---|---|---|---|
| Revenue | 35,333 | 16,553 | 19,335 | 71,221 | -280 | 70,941 |
| Operating income | 20,097 | 5,772 | 13,642 | 39,513 | -3,077 | 36,435 |

Advertising Business

During the quarter under review, although the overall economy recovered somewhat, business conditions remained weak in some industries. Under these circumstances, we endeavored to win advertising by further strengthening our collaboration with advertising agencies and making sales proposals that fit client needs.

Overall display advertising continued to be affected by a decrease in spending by advertisers in certain industries, such as human resources-related industries and the consumer finance industry. Although display advertising decreased year on year, the degree of decrease was improved substantially as compared with the year-on-year drop in the previous quarter. During the quarter, signs of a recovery in advertising began to emerge. With the exception of the consumer finance industry, this emerging recovery trend was particularly evident among financial services companies. Advertising from the beverage/cigarettes, transportation/leisure, and automobile-related companies also was on the rise compared with the previous fiscal year and quarter. Looking at trends by advertising product, sales of high branding impact Brand Panel rose sharply year on year and quarter on quarter, hitting record levels. In addition, though sales of behavioral targeting advertising, which distributes advertising to users according to their past history of usage, did not come up to last year's third quarter sales slightly, sales growth over the previous quarter came mainly from real estate-related, transportation/leisure, and automobile-related companies, indicating a firming up of the recovery trend. During the quarter, demographic targeting advertising was frequently used to target women for cosmetics/toiletries and esthetics/beauty-related marketing and in promotions aimed at specific age groups by the beverage/cigarettes, transportation/leisure, and other industries. In our area targeting advertising operations, further progress was made in getting advertisers understand the advertising benefits of distributing regionally specific advertising, producing a significant increase in the amount of advertising from real estate- and transportation-related companies. In addition, advertising from the infrastructure industry, such as electric power and gas companies, increased in each region and retail and distribution companies began using this type of advertising more frequently. Furthermore, our GyaO! advertising service, which just began in earnest, got off to a good start, especially with its Pilot Vision and Interactive Vision products.

The sales of overall listing advertising rose year-on-year. Paid search advertising continued to experience a decline in advertising from major advertisers in certain industries, such as human resources services, consumer finance, real estate-related, and others. However, advertising by the information services industry, year-end sales campaign related goods and services, and financial services-related industries other than consumer finance rose. Sales of Interest Match®, which distributes advertising based on users' preferences and interests, expanded further due to an increase in the number of distribution destinations and an drastic increase in advertisers using the product thanks to an Interest Match® Forum we held in October and sales promotions run in different regions.

In mobile advertising, there was sharp growth in sales of Interest Match® advertising. Mobile display advertising sales also expanded substantially year on year due to the increase in advertising for Yahoo! Keitai and advertising tied up with special features.

Consequently, third quarter advertising business sales amounted to ¥35.3 billion, increasing 1.2% year on year.

Business Services Business

During the quarter under review, we took various steps to expand use of our services. We started the Star Club service, which awards special benefits to users according to a ranking determined by their use of the various services of Yahoo! JAPAN. We also increased the proportion of Yahoo! Points awarded for purchases and implemented special benefit campaigns, such as a ¥1 start sale invitation. Furthermore, we ran sales promotions targeting the year-end sales campaign. As a result, quarterly transaction value increased year on year, with quarterly transaction value for Yahoo! Shopping expanding approximately 20% from the third quarter last year to reach a record high. Mobile sales also grew substantially. Despite of a year-on-year decline, Yahoo! Rikunabi's sales increased slightly on a quarter-by-quarter basis following the second quarter. Although sales of Yahoo! Research and the customer acquisition incentive fees from Yahoo! BB declined, the year-on-year growth in revenues of IDC Frontier Inc.'s data center operations contributed to an overall increase from the prior year.

Consequently, sales of the business services business rose 20.2% year on year, to ¥16.5 billion.

e-Commerce Related Performance Figures

Yahoo! Shopping Number of Stores, etc.

| | December 2008 | December 2009 |
|---|---|---|
| Total of shopping unique browsers | 25.31 million browsers | 33.01 million browsers |
| Number of stores<br>(As of the end of each month) | 16,488 stores | 17,299 stores |

Note: The total of shopping unique browsers for December 2009 includes the number of accesses through mobile services.

Shopping Related Transaction Value

| | October 2008 - December 2008 | October 2009 - December 2009 |
|---|---|---|
| Daily average transaction value | ¥ 636 million | ¥ 718 million |

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

Yahoo! Auctions Number of Total Listed Items, etc.

| | December 2008 | December 2009 |
|---|---|---|
| Number of auction unique browsers | 31.54 million browsers | 38.87 million browsers |
| Number of total listed items (Monthly average) | 18.17 million items | 22.50 million items |
| Number of stores (As of the end of each month) | 16,185 stores | 16,842 stores |

Note: The total of auction unique browsers for December 2009 includes the number of accesses through mobile services.

Yahoo! Auctions Transaction Value etc.

| | October 2008 - December 2008 | October 2009 - December 2009 |
|---|---|---|
| Daily average number of new listings | 1,019 thousand items | 1,234 thousand items |
| Daily average transaction value | ¥2,041 million | ¥1,992 million |
| Average closing price per item | ¥5,220 | ¥4,900 |
| The average ratio of successful auctions per day | 19% | 16% |

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

Personal Services Business

During the third quarter, we worked to acquire new Yahoo! Premium members and expand and increase the value of Yahoo! Premium membership through such activities as conducting a Yahoo! Premium free membership campaign and a Quintuple Yahoo! Points campaign exclusively for Yahoo! Premium members. In addition, we worked to strengthen collaboration with non-Group partners to provide special benefits for members, such as offering a discount on Fujikyu Highland free pass tickets offered by FUJIKYU HIGHLAND. In our Yahoo! Premium service, we continued to implement measures aimed at acquiring new members and raising the value of membership. As a result, despite the increase of membership fees made to improve the services for Yahoo! Premium members in December 2008, the number of Yahoo! Premium membership IDs as of December 31, 2009 reached a record high of 7.58 million, rising by 320 thousand IDs or 4.4% from the end of the third quarter a year earlier. Quarterly Yahoo! Premium sales also grew substantially year on year. In our Yahoo! Auctions operations, overall transaction value declined compared with the same quarter a year earlier due to the continued decrease in the average final price on auctions under the impact of the downturn in the economy. However, we pressed forward with our efforts to increase use of our services with such measures as conducting a free auction item listing campaign and a campaign offering a higher proportion of Yahoo! Points jointly with Yahoo! Shopping. Consequently, the number of item listings and winning bidders rose compared with the third quarter last year and the degree of year-on-year decline in transaction value also improved quarter on quarter. In pay content services, sales of Yahoo! Partner and Yahoo! Games rose year on year.

Consequently, third quarter sales of the personal service business amounted to ¥19.3 billion, up 5.3% from a year earlier.

Number of Yahoo! Premium Member IDs (at the end of the month)

| December 2008 | December 2009 |
|---|---|
| 7.26 million IDs | 7.58 million IDs |

## 7. Operating Review by Business Group

(1) Media Business Group

The Media Business Group plans various services used for listing advertising; collaborates with its content partners who provide information, and works with advertising agencies in planning and selling advertising products. Through these efforts, the Media Business Group seeks to offer websites that both users and advertisers will support.

During the quarter under review, in cooperation with RECRUIT CO., LTD., we set up within the Yahoo! JAPAN site PC and mobile versions of a web site for R25, a free magazine distributed by RECRUIT CO., LTD. in the Tokyo metropolitan area. At the same time, we renewed the site and began listing new features. We also strengthened the links between both versions by adding a magazine article clip function for the My R25 page (accessible with a Yahoo! JAPAN ID) that enables the clipped article to be viewed interchangeably on either PCs or mobile devices. Among other upgrades, we conducted a major renewal of Yahoo! Music, expanding the functionality of the personalized music service My Music and adding such functions as a service that makes music recommendation based on a user's music preferences. Furthermore, we further strengthened our GyaO! service partnership with TV stations through such measures as starting online previews of TV drama programs and newly adding the Mainichi Broadcasting System On Demand service to our GyaO! Store.

Main revenues

- Display advertising (banner, text, email, and video advertising) sales
- Sales of listing advertising (pay per performance advertising) through advertising agencies
- Sales of Yahoo! Research and other services

(2) BS Business Group

By offering information oriented to regions and users' lifestyles, the Business Services (BS) Business Group seeks to enrich the lives of users and to provide an information listing site where companies doing Internet businesses can effectively distribute information, expand and enhance their services, and utilize the strong advertising power of the site.

During the third quarter, we made proposals to advertisers about the effectiveness of Interest Match®, which distributes advertising based on users' preferences and interests, through such measures as holding forums about Interest Match®. We also expanded and improved the content of our Yahoo! BEAUTY services, adding a fingernail catalog function enabling users to search for fingernail styles using such categories as design, motif, seasonal themes or event scenes. The function was added as new content on the site's salon search page. In addition, we strove to achieve progress with making our services more convenient as well as offering them everywhere with such actions as renewing the iPhone component of our Yahoo! Maps services, making it possible to use scrollable maps, and adding such functions as underground mall or nearby-location searches.

Main revenues

- Sales of listing advertising (pay per performance advertising) through online services
- Listing fees from Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Travel, and other services
- Sales of Yahoo! Business Express, Yahoo! WebHosting, and other services
- Revenues related to the data centers

(3) Consumer Business Group

The Consumer Business Group plans and undertakes sales promotions for commerce-related services, primarily such as Yahoo! Auctions and Yahoo! Shopping; membership services, such as Yahoo! Premium; services for individuals, such as pay content services; and settlement services, such as Yahoo! Wallet. Through these services, the group aims to promote distribution activities over the Internet and to enhance the convenience of users.

During the quarter under review, we introduced Star Club, a membership system that awards special benefits to users in accordance with their use of Yahoo! JAPAN services. Moreover, we made efforts to expand transaction value through various campaigns offered jointly by Yahoo! Auctions and Yahoo! Shopping, such as an exclusive Star Club members sale and a "Get double points" campaign. As a result, the combined transaction values of Yahoo! Auctions and Yahoo! Shopping hit a record high during the quarter. In our Yahoo! Premium operation, we focused on enhancing membership value and acquiring new members through such actions as running a "Two Months Free Membership" campaign and a cooperative campaign with Yahoo! Points. In other areas, we worked to promote open strategy through such measures as enabling the mutual conversion of nanaco points and Yahoo! Points.

Main revenues

- Tenant and royalty fees of Yahoo! Auctions and Yahoo! Shopping
- Yahoo! BB incentive fees
- Yahoo! Auctions system-use fees
- Yahoo! Premium revenues
- Content and Yahoo! BB ISP fees

(4) Business Strategy Group

In addition to planning services that promote the open strategy, the Business Strategy Group works to acquire business partners based on alliances and strengthen those relationships. As well as planning and preparing marketing infrastructure, the Group also creates and implements an overall marketing strategy to increase the brand value of Yahoo! JAPAN and further expand the scope of its open strategy.

During the third quarter, we promoted the Yahoo Japan Group's open strategy through various activities. Among others, we collaborated with ORIX Corporation to introduce services by ORIX Group companies that award Yahoo! Points and enabled users of BANDAI CHANNEL, operated by BANDAI CHANNEL CO., LTD., to make payments for services through Yahoo! Wallet when they logged into the site with a Yahoo! JAPAN ID. We also took steps to expand participation on Official Channel Powered by Yahoo! JAPAN, a service used by the media, companies, and groups to distribute video promotions using Yahoo! JAPAN's system. As a result, many public organizations newly began using the services.

(5) Operations Group

The Operations Group promotes the stability and efficiency of the overall systems of the Group and oversees the stable operations of the data center. Through its efforts to create a secure operating environment for the Group's systems, the Operations Group has established a control system to prevent such incidents as service interruptions. In addition, the Operations Group promotes enhancement of customer satisfaction through the operation of the contact center.

During the quarter under review, we made efforts to expand the use of our cloud computing services by running a start-up phase no-charge campaign for the NOAH Platform Service, the cloud computing system development platform service that IDC Frontier Inc. began offering in June 2009. In addition, Nomura Real Estate Development Co., Ltd., started using the service during the quarter. In our customer services, we worked to further increase the degree of customer satisfaction by strengthening the customer response systems of Yahoo Japan Customer Relations Corporation's Kochi and Oita centers.

(6) R&D Group

The R&D Group houses the engineers who develop and improve the functions of the Group's services. The Group also integrates the development of the basic platform for advertising, searches, fee collection, and other services, aiming to achieve development efficiency, flexible business resource allocation, and improve technological capabilities. It also pursues improvements in service quality and operability by unifying formulation, compilation, and design.

During the third quarter, we made efforts to upgrade the convenience of our Yahoo! Search services through such actions as introducing Yahoo! Search Plug-In, a new function that enables the easy display on the search results page of a greater variety of useful information than in the past, including photographs of shops or locations, addresses, telephone numbers, and review ratings. We also took various steps to further increase the use of our services. We made Yahoo! Mail Academic Edition, our web email service for academic institutions, available to about 10,000 staff members at Tokyo University and publicly released Office Version Yahoo! JAPAN Top Page (beta version), a version of our top page designed for office use and focusing on both contents and functions that are frequently used. Endeavoring to promote the use of our services everywhere, we worked to increase the easy use of our services through such measures as optimizing displays for iPhones.

**(Reference)**

Yahoo! JAPAN Page Views etc.

| | December 2008 | December 2009 |
|---|---|---|
| Total Monthly Page Views | 41,111 million page views | 42,779 million page views |
| Daily Average Total Monthly Page Views | 1,326 million page views | 1,379 million page views |
| Yahoo! Mobile Page Views | 4,991 million page views | 6,381 million page views |
| Daily Average Yahoo! Mobile Page Views | 161 million page views | 205 million page views |
| Number of Yahoo! JAPAN Unique Browsers | 189.74 million browsers | 196.80 million browsers |
| Number of Active User IDs on Yahoo! JAPAN | 23.63 million IDs | 24.95 million IDs |

Notes:

・RSS distribution feeds are eliminated from the calculation of Total Monthly Page Views.

・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.

Main Services Launched and Enhanced during the Quarter

| Date | New services and service upgrades |
|---|---|
| Oct. 15 | Introduced Star Club, a service that awards special benefits to users according to the amount they use Yahoo! JAPAN services. |
| Nov. 6 | Implemented renewals of Yahoo! Music, such as significant functional enhancement and addition of more functions. |
| Dec. 3 | Set up R25 brand PC and mobile sites on Yahoo! JAPAN in collaboration with RECRUIT CO., LTD. |
| Dec. 15 | Started partnership with ORIX Corporation to get Yahoo! Points whenever using ORIX groups' services. |
| Dec. 16 | Added Yahoo! Search Plug-In, a new function enabling display of search results in an organized, easy-to-see format. |

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 LIFE ENGINE Report 2009" (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

Through Internet Charity Contributions, we collect and donate charity funds using the two methods of Yahoo! Wallet (purchase of wallpaper) and Yahoo! Points. The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter:

－Japanese Red Cross Society's "Emergency Relief Funds for Overseas Victims of Cyclones and Earthquakes."

－Non-profit organization (NPO) Charity Platform's "Say Love—Make 1 Million Children Smile Project."

－The "Toryanse Fund Campaign" of the Executive Committee of Nippon Broadcasting System's Radio Charity Musicthon."

Charity Activities

As part of our social contribution efforts, we regularly host charity actions through Yahoo! Auctions and donate all the funds raised. During the third quarter, we again held many charity auctions featuring athlete and famous people.

Others

・ Started gathering signatures from the public for a request to lift the ban on the use of the Internet for political campaigning during the election period. (From October 28, 2009)

- Announced the winning entries of our Internet Creative Awards 2009, an awards program that searches out the future potential of the Internet, and develops and supports the talent of the participants (November 19, 2009)
- Launched the Vancouver Olympics support site “Vancouver Olympics and Paralympics—Let’s Cheer for Our Japanese Team.” (From December 1, 2009)
- Jointly with Shinagawa Joshi Gakuin, we started a “Yahoo! Auctions x Shinagawa Joshi Gakuin Corporate Collaboration Support Campaign” that introduced the best business plans created by the junior high-school students. (From December 22, 2009)

## 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) Macroeconomic Trends, Internet Markets, and Users**

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

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

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

**b. The Internet's further expansion as a major advertising media is uncertain.**

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations in 1996. Since that time, the Internet advertising market has grown significantly, accounting for 10.4% of the total advertising market in calendar year 2008, according to a recent DENTSU INC. report, making it the third-largest advertising market, after the television and newspaper advertising markets.

The Group engages in a range of activities aimed at enhancing its advertising media value. In the area of display advertising, for example, the Group is endeavoring to expand and stabilize its client base of corporate advertisers and advertising agencies through various means, including periodic seminars aimed at promoting a greater understanding and appreciation of Internet advertising within the advertising industry. In listing advertising, meanwhile, the Group is working to more precisely match the content of advertisements appearing on search results pages with the information that users request, thereby seeking to be a more valuable media for both users and advertisers.

Despite these efforts, it is unclear that the Internet will further expand as an established and commercially viable advertising media capable of competing with traditional media. Potentially disruptive factors include unexpectedly low market expansion, a tapering off of growth, or the Group's failure to achieve anticipated levels of advertising revenues. Any of these factors could negatively impact the Group's business performance.

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

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

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

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

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

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

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

Based on projections that advertising via Internet-enabled terminals such as 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 mobile Internet use expands substantially, however, the Group might fail to acquire the user numbers or usage times that it commands in the PC market and thus may see a fall in viewer rates and a corresponding reduction in market share. As a result, advertising revenue growth could taper off, with negative consequences for earnings.

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

To expand the market for information listing services, such as Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT Co., Ltd., the Group is leveraging the convenience of its Web sites and its dominant brand strength to attract new customers. Using an enhanced sales infrastructure, the Group is endeavoring to expand the e-commerce revenues of Yahoo!

Auctions and Yahoo! Shopping. Despite these efforts, the market might not expand for any of various reasons. The shift of information listing services to the Internet from traditional media, particularly printed media such as newspapers, magazines, and flyer inserts, might not proceed as expected. The number of users of the Group's auction and shopping sites might not increase as anticipated. Transaction volumes of those sites might be less than expected. One or more of these factors could negatively influence the Group's performance.

**g. Technological change in the broadband market could affect the Group's income.**
Yahoo! BB, the Group's comprehensive broadband service operated jointly by the Company and SOFTBANK BB Corp. (SBB), mainly provides inexpensive, high-speed DSL services. Owing to rapid progress in telecommunications technology, the broadband market is shifting from DSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. To acquire new subscribers in this environment, SBB has introduced Yahoo! BB Hikari with FLET'S, a new comprehensive broadband service employing FTTH technology. Even so, the Group might not be able to achieve projected levels of new subscribers or sales, or existing customers might shift to competing services. Moreover, unanticipated expenses might arise. All of these factors could negatively affect the Group's income.

**h. A slowdown in the growth rate of users of fee-based services could affect Group revenues.**
With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for fee-based services has also expanded. Sooner or later, however, broadband and mobile phone 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, Yahoo! Premium members, and Yahoo! BB subscribers, however, might lose its momentum, which could have a significantly negative influence on Group revenues.

**i. The popularity of fee-based services and content via the Internet might decrease.**
The spread of broadband communications has enabled the Group to deliver a variety of fee-based 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, on the other hand, such content fails to become a regular part of the lives of users, or if access to fee-based content via devices other than PCs becomes the norm, and if the Group fails to successfully break into the non-PC market, the achievement of expected earnings could be difficult.

**2) Competition**
**a. With competitors in each of its service areas, the Group might have difficulties maintaining its dominant position in the Japanese Internet market.**
The Group's services are centered on the flagship Yahoo! JAPAN portal site, which offers a diverse range of services over the Internet. These include directory and other search engine services; various types of information services such as news; Internet tool services such as e-mail; shopping and other e-commerce services; and payment settlement services. The Group has multiple competitors in each of these service areas.

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

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

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

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

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

**4) Technological Change**
**a. Failure to respond quickly and appropriately to technological innovation could greatly affect the Group's business.**
The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Group's services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates nearly identical services in the U.S. market, 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 obsolete and erode their competitiveness. Furthermore, the Group might also be forced to bear an increasing financial burden owing to original development in Japan, including higher 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. New laws or amendments relating to the Group or to the Internet industry as a whole could negatively affect the Group's provision of services.**

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

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

* A Ministry of Health, Labour and Welfare ordinance enforced along with the Pharmaceutical Affairs Act revised in June 2009 has limited the type of OTC drugs available over the Internet to Type 3 pharmaceutical products that have relatively few side effects. As a result, pharmaceuticals transaction volume on the Internet is expected to decline in future.

* The revised Copyright Act was passed during the 171st session of the Diet. The revised act will be enforced in January 2010. As a result of the revisions, Web crawling used for search services and the copying of information for display in search results are recognized as being legal, eliminating the compliance problem of having a server that provides such search services located in Japan. In addition, the provision made within the law for displaying the pictures of copyrighted materials in an auction,enables sellers of auction items to do so with more confidence.

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

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

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

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

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

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

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

Reports have been made recently 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 properly identify themselves and will revoke their IDs if they do not comply. In collaboration with Internet auction operators DeNA and Rakuten, the Group has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Group is actively working to devise measures to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, the Group has published on its Web site "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures fail to bring about the expected results and reports of illegal listings and fraud continue, legislation could be enacted restricting commercial activity carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could negatively affect the Group's earnings by, for example, discouraging participation in Yahoo! Auctions, which would result in reduced system-use fees. Legislation could also result in a contraction in the Yahoo! Premium subscriber base.

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

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

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

**g. The formulation of new laws or the amendment of laws concerning financial services could affect the Group.**
The Group offers the Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (financial instruments intermediary services).

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

In its Yahoo! Trading (financial instruments intermediary services) operations, the Company is under the supervision of the Financial Services Agency and is subject to the Financial Instruments and Exchange Act and rules set by the Japan Securities Dealers Association. Under the Financial Instruments and Exchange Act, the Company registers with the Prime Minister as a financial instruments intermediary business. Although the Group is committed to compliance with these rules and regulations, it could be subject to penalties, such as a loss of registration, if, despite all efforts, it should be found guilty of violating any of those laws and rules. Strengthening or revising the compliance system or trading system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.
* In June 2009, the Act on Settlement of Funds (Funds Settlement Act) was enacted. The details of the enforcement of the law are not yet clear because they will be decided by the ordinance now being considered. However, depending on the content of the ordinance, there is a possibility that some settlement businesses will be affected, such as having to submit notifications as fund transfer businesses or being required to insure funds being transferred. In addition, because companies other than banks will now be able to enter the fund transfer business, new competitors are expected to enter the market. Consequently, competition will intensify, which could negatively affect the Group's business performance.

**h. In addition to legal restrictions, official administrative guidance and governmental requirements could affect the Group's service provision and performance.**
In addition to the application of the aforementioned legal restrictions, self-regulatory systems 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. Victims of auction fraud might take legal action against the Group.**
The Group has taken various measures to improve systems security to build a safer and more stable auction environment. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. In July 2007, the Group began offering a "do now, pay later" service (see Note, below). In addition, the Group has set up a patrol team to eliminate illegal items from auctions in cooperation with law enforcement agencies and copyright-related groups.

Although groups of users did file a suit against Yahoo! Auctions for damage compensation for not receiving auction items after sending payment, the Group was determined to have won the case on October 27, 2009 when the Supreme Court dismissed the appeal by the groups of users and upheld the previous decision that the Group was not libel because they did draw attention to the dangers, such as introducing cases where trouble had occurred between users of the auction service.
However, 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. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to ensure proper management could lead to increased costs and, as a result, reduced earnings.

The Group has instituted a system of limited compensation for users who have suffered damages as a result of illegal activity. This system could raise expenditures for the Group.

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

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

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

**c. The Group could be subject to claims, reprimands, or damage suits by users or governmental agencies with regard to the content of advertisements or of Web sites accessed through links on Group sites.**
To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates the content of advertisements and of Web sites accessed through advertisement links. As expressed in a written contract with each advertiser, the advertiser accepts full responsibility for the content of advertisements. The Group also maintains the right to remove at any time Web sites listed on its Internet directory search services. In addition, the Group fully discloses its legal obligations in written contracts with the creators of such Web sites with clauses stating that creators are fully responsible for the content of Web 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 Web content that is in violation of its contracts with users and will do so upon discovering such Web content.

Through such internal regulation, the Group prohibits illegal and slanderous content on its sites and protects user privacy. In addition, the Group publishes a disclaimer stating clearly that users bear full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. However, no guarantee can be provided that such measures will suffice to stave off 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 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 Group sites, or to a suspension of services.

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

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

The Group assigns all responsibility to 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 damage claims by third parties for infringement of intellectual property rights, such as patents or copyrights owned by third parties.**

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

In addition, the extent to which patent rights can be applied remains unclear. 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 forced to cease providing certain services.

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

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

**3) Other Legal Regulations**

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

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

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

Against the backdrop of the recent trend to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards and others. 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 and Emergency Situations**

**1) Natural Disasters**

**a. Group operations could be suspended or discontinued as a result of natural disasters.**

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

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

**2) Emergency Situations**

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

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

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group's site, causing 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 Internet service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain some of its services.

**4. Business Management**

**1) Management Policy and Business Strategies**

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

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

If management fails to quickly and properly modify these strategies according to changing needs and technological or competitive trends, the Group's competitive advantage could be compromised.

**2) Technological Development and Improvement**

**a.** Although the Group's R&D efforts aim to meet user needs through the implementation of new strategies and the start-up of new businesses, such efforts might in fact fail to adequately 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 a failure to satisfy customer needs. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

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

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continuously improving the user experience is central to maintaining its competitive advantage. To this end, the Group focuses 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 searches and other information services and actual user requirements; and (3) accelerating display speeds of the results of searches and other information services.

To maintain and increase its competitive advantage, the Group must continue to invest in such service improvements. Should these capital investments not be appropriately made, the Group could experience a decline in its competitiveness or in its brand image. Moreover, the level of investments required for achieving service improvements could rise. Either of these eventualities could adversely affect the 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 expenditures increase.**

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. With the acquisition of IDC Frontier Inc., the Group now has a large-scale data center. This action has enabled stable and efficient operations of Group servers and resultant cost reductions.

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 prevent unnecessary cash outflows 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. In addition, greater than normal losses may be recorded because of disposal of current facilities.

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

In recent years, the range of Internet-enabled terminals has grown to include mobile phones, video-game consoles, TVs, car navigation systems, and PDAs, resulting in a vastly improved Internet-connection infrastructure beyond PC terminals. Responding to this trend, the Group has adopted the Yahoo! Everywhere strategy promoting Internet usage via a wide range of devices in addition to PCs, including mobile phones, video-game consoles, TVs, and car navigation systems, with the goal of increasing accessibility to and boosting usage times of Yahoo! JAPAN services. In promoting this strategy, the following risks are implied:

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

Enabling users to easily connect to Group sites from their various devices is an important element of the Group’s competitiveness. For example, a Y! Button on SOFTBANK mobile phones provides easy and direct connection to Yahoo! JAPAN services. The Group also intends to work closely with 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, it may take longer than expected to optimize the services, or the Group’s services could be inferior to the services of other companies that customize 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. Failure to properly incorporate innovative advertising methods could adversely affect the Group’s advertising revenue.**

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

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

**3) New Businesses**

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

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

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

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

**4) Services Provided**

**a. The platform for the Group’s search services and various targeting advertising products is developed, operated, and maintained by Yahoo! Inc. and other companies.**

Paid search advertising sales have expanded as a proportion of the Group’s total advertising sales. The platform for the Group’s search services, paid search advertising, and targeting advertising, however, is developed, operated, and maintained by Yahoo! Inc. and other companies. Moreover, the Group handles the marketing and sales in Japan of advertising products (paid search and content-linked advertising) that use the platform. In addition to those services, certain other Group services also are developed, operated, and maintained by Yahoo! Inc.

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

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

Advertising contract periods and page views are guaranteed for many of our products, with advertising fees based on those two parameters. Failure to attain the number of required page views due to problems with the Internet connection environment or to similar problems could 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 could negatively impact Group advertising revenues.

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

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

**5) Compliance**

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

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

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

**6) Management and Operation Systems**

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

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, the Group must increase staff in response to business diversification to support the operation and management of services required by the recent surge in Internet users, and to handle billing and provide customer support for fee-based services.

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

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

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

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

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

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

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

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

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

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

The Group has formed a special team responsible for strengthening the management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, the Group might be exposed to expanded risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems, and the costs of receivables collection.

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

**5. Relationship with Major Stakeholders**

**1) Major Shareholders**

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

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

The shareholder agreement between SOFTBANK CORP. and Yahoo! Inc., the Company's major shareholders, places certain restrictions on the sale or purchase of Yahoo Japan Corporation's stock. The main points of the shareholder agreement are as follows:

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

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

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

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

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

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

| Contract name: YAHOO! JAPAN LICENSE AGREEMENT |
|---|
| Contract date: April 1, 1996 |
| Contract term: From April 1, 1996; termination date unspecified<br>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:<br>* 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)<br>* Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark<br>* Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan<br>* Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services<br>2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company<br>3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below)<br>Note:<br>Royalty calculation method<br>{(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% |

* In July 2009, Yahoo! Inc. and Microsoft Corporation announced a business alliance regarding their Internet search and advertising businesses. The details of the business alliance are not finalized yet because the tie-up is still under review by relevant authorities for possible complications under the U.S. antitrust law. However, at present, the Group believes that the business alliance will have no effect on its license agreement with Yahoo! Inc.

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

The establishment and proliferation of the Yahoo! brand are considered important to the Group, both for attracting users and advertisers and for expanding its business. The importance of brand recognition is increasing rapidly with the 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 Yahoo! Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Group in the form of weaker brand presence. In addition, some agreements with overseas Yahoo! Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are in force. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations, and presence, there is the possibility that Yahoo! Inc. has not registered trademarks necessary to the Group's business in Japan.

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

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

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

| | |
|---|---|
| Contract counterparties | Yahoo! Sarl; Yahoo! Inc. (Yahoo) |
| Contract date | August 31, 2007 |
| Contract term | August 31, 2007, to August 30, 2017 (10 years) |
| Main details | ADVERTISER AND PUBLISHER SERVICES AGREEMENT<br>1. Basic roles of each party<br>Yahoo! Sarl will dedicate robust efforts to develop and enhance the contracted services and advance the competitiveness of the services. The Company will dedicate robust marketing efforts to advance customer adoption of the contracted services to enhance the Company revenue generated under this agreement.<br>Yahoo! Sarl and the Company, via a joint steering committee, will agree to a roadmap of improvements and developments to carry out customization of contracted services for the Japanese market to optimize services for the market.<br>2. Exclusive provision of contracted services by Yahoo! Sarl<br>In Japan, 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 matched 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.)<br>3. Service fee payments to Yahoo! Sarl by the Company<br>The Company shall pay to Yahoo! Sarl a service fee calculated as a rate prearranged for each year on the Company revenues (gross revenues earned by the Company or companies for which it owns 20% or more of the voting rights) associated with the use of the contracted services or Yahoo! Sarl’s technologies or systems.<br>4. The Company's exclusive rights in Japan<br>The Company has the exclusive rights in Japan for provision of the search- and advertising-related services of Yahoo! Sarl, Yahoo Inc., or its subsidiaries.<br>5. Exclusive obligation regarding contracted services<br>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 Yahoo! Sarl’s contracted services. If Yahoo! Sarl’s performance issues arise based on a material breach of the service level stipulated in the arrangement, which may cause serious negative impact to the business of the Company, the joint steering committee will find a solution to 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. |

**2) Consolidated Group Management**

**a. Inadequate consolidated management coordination could impact the Group’s performance.**

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

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

**3) Other Major Business Partners**

**a. Any modifications to the business alliance contract with SOFTBANK BB Corp. could affect the Group’s earnings.**

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

| |
|---|
| Contract name: Business alliance contract |
| Contract date: March 31, 2007 (original contract signed on June 20, 2001) |
| Contract term: June 20, 2001 ~ (indefinite term) |
| Contracted party: SOFTBANK BB Corp. |
| 1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.<br>2) The Company’s main roles<br>* Promoting Yahoo! BB services<br>* Recruiting subscribers for Yahoo! BB services<br>* Operating the Yahoo! BB portal site<br>* Providing mail and Web site services<br>* Providing a fee-collection platform<br>3) SBB’s main roles |

| |
|---|
| * Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks<br>* Handling subscriber inquiries and providing technical support<br>* From the ISP charge, the Company takes the following in exchange for services rendered:<br>- Subscribers acquired by March 31, 2005: ¥100 per line per month<br>- Subscribers acquired during the period from April 1, 2005, until March 31, 2007: ¥200 per line per month until the 36th month from the month of application. From the 37th month, ¥100 per line per month.<br>- Subscribers acquired on or 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<br>Yahoo! BB basic service:<br>Approx. ¥15,000 per subscription<br>Yahoo! BB＋wireless LAN package:<br>Approx. ¥20,000 per subscription<br>・Long-term customer incentive fees<br>Yahoo! BB basic service:<br>Approx. ¥200 per month per continuing subscriber<br>Yahoo! BB＋wireless LAN package:<br>Approx. ¥250 per month per continuing subscriber |

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

The portion of Yahoo! BB business handled by SBB could indirectly but significantly influence Group performance. If SBB fails to complete construction on time and services to subscribers are delayed, the Group would be unable to account for projected sales on time and could lose business opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel services early, 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 might be required to borrow funds to bridge the collection of reimbursement funds from buyers.**

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

Because Netrust reimburses the seller of an item one to three business days after the buyer has made settlement by credit card or Internet banking, the subsidiary must carry the credit-card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. 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 funding sources. 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 negative impact on the Group's business and performance.

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

The Yahoo! JAPAN Card is a credit card issued by the Group and through which the Group provides credit to persons issued with the card. The Group reimburses payments made by cardholders to merchants honoring the card. Because payments are collected from cardholders once a month while reimbursements to merchants are made about three times a month, it will be necessary to finance those reimbursements. Although the Group is considering diversifying its funding sources as the business expands, obtaining the necessary funding for making reimbursements to merchants at a suitable cost could prove to be impossible.

**2) Investments**

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

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

Moreover, although some of the public companies in which the Group has invested have already produced an evaluation profit or loss, these evaluation profits could decline or the evaluation losses could increase in 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 stock market or performance of the companies in which the Group has invested, they could have an increasingly adverse effect on the Group's profit or loss in the future.

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

**b. The Company’s investment in BB Mobile Corp. in support of SOFTBANK CORP.’s acquisition of Vodafone K.K. might yield returns that fall short of expectations.**

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

The Group has expanded its mobile Internet services provided to SOFTBANK MOBILE in its capacity as the 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.

**7. Relationship with Competitors and Partners**

**1) Business Alliances and Contracts**

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

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

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

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

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect the Group’s performance.
- The Group provides services to partners via proprietary systems and via systems owned by affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then the Group’s brand image could be tarnished or the Group could be sued for damage compensation, either of which could negatively affect the Group’s performance.
- Because the quality and reputation of our partners’ services reflect on the reputation and credibility of the Group, any problems with our partners’ services could tarnish the Group’s brand image.
- AD Partner is a distribution service for display advertising and content-linked text advertising mainly to personal homepages and blogs. This service aims to boost the brand image and advertising effects for advertisers as well as to reward sites that meet our selection standards by distributing advertising only to such sites. Should advertisers not get their expected advertising effects or personal site owners not get their expected rewards, however, it might become impossible to place ads or extend the network as expected, which could have a negative impact on the Group’s performance.

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

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

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

The Group offers and plans to continue offering Internet users quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content such as films and music. However, should the Group not be able to acquire information and content as expected or the costs of acquiring 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. Economic and business deterioration might make the collection of receivables from certain clients more difficult or impossible.**

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

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

**3) Relationship with Third Parties**
**a. Each of the Group's businesses has a degree of dependence on specific customers or suppliers.**
In each of its businesses, the Group has a degree of dependence either on sales to specific customers or on sales by specific advertising agencies other than the involved parties described above.

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

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

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

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

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

**8. Information Security**
**1) Group Efforts to Promote Information Security**
**a. Information leaks, network invasions, or computer virus attacks could erode public confidence in the Group.**
Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of Internet technology has broadened the horizons of Internet users and boosted convenience, it has also turned the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group is obligated to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures groupwide. To facilitate this process, we have appointed a Chief Security Officer (CSO) to carry out their mission. The President of the Company himself has announced our "Information Security Declaration," setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Secure Sockets Layer) systems and access to stored data is tightly restricted. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification. In November 2007, the Group was the first in Japan to receive ISO 15408 certification for its development of a monitoring system to prevent information leakage from its databases. In November 2008, the Group obtained Information Security Standard (PCI DSS) certification for its Yahoo! Wallet credit card settlement service. The Group has used these third-party certification systems to implement objective, global-standard checks of its operations with the goal of further strengthening its information security measures and fulfilling its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee that the Group's information security systems are perfectly maintained. 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. Leaks of personal information required for user identification could damage the Group's credibility and lead to legal**

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

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. The Yahoo! Security Center on the Yahoo! JAPAN site works to heighten users' awareness of potential risks by, for example, posting descriptive examples of fraudulent behavior and common methods employed to illicitly obtain personal information, along with suggested security measures to help users protect themselves. In addition, the Group observes strict guidelines regarding internal access to users' personal information, granting access rights only to a very limited number of personnel.

Nevertheless, the Group cannot completely eliminate the possibility that users' personal information will be leaked outside the Group, either deliberately or through negligence, by Group 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 conducted open testing of an anti-phishing browser (see Note 4, below) that provides basic protection against phishing and is currently offering a phishing warning function in the Yahoo! Toolbar. As of January 2008, the Group began issuing OpenIDs (see Note 5, below), in addition to offering an authentication bureau service to improve information security by eliminating the storage and management of IDs on other sites. Although the Group continues to implement such measures with the goal of minimizing the damage caused by ill-intentioned users, there is no guarantee that these measures will be sufficient. If problems occur despite our efforts to thwart them, the Group's services could be adversely affected and its brand image tarnished. Furthermore, the Group could become a target of lawsuits.

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

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

Note 1: Phishing fraud
Phishing fraud involves obtaining personal information by sending e-mails purportedly from a financial institution or other company that trick the recipients into accessing a fraudulent Web site, where they are asked to input such personal information as credit card numbers, log-in IDs, passwords, or other sensitive information.

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

Note 3: Refusing spoofed e-mails
Spoofed e-mails, purportedly sent from one source but in fact sent from another, can be filtered out or refused by users armed with domain validation technology, such as DomainKeys or Sender Policy Framework (SPF). Since July 2005, Yahoo! Mail has featured a DomainKeys function, and in December 2006 we introduced an SPF function in a concerted effort to prevent phishing and other malicious 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 using a cryptographic protocol but is not sent directly to the server. Therefore, the password cannot be stolen even when carelessly entered on a fake site.

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

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

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

**b. Leaks of personal information by stores registered on Yahoo! Shopping or Yahoo! Auctions, or by business alliance partners, could damage the Group's credibility and lead to legal disputes.**

Personal information obtained through 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 the 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 personal information management as well as 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 affiliated financial instruments firm partners. A portion of this information will be transferred to the Group in a way that complies with the Act on the Protection of Personal Information. The Group has been extremely careful about the transfer and management of this information. If personal information is leaked from the Group or affiliated financial instruments firm partners, the Group could be sued for damage compensation.

The anonymous delivery service offered by Yahoo! Auctions involves the anonymous processing of item deliveries by the transport company commissioned to handle this service. However, if the commissioned transport company should fail to handle the anonymous service properly and the names of the sender and receiver of an item 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.

Yahoo! Shopping sends the personal information input by customers on its site to the store from which the item was purchased. Therefore, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that personal information on customers is not disclosed to other individuals or bodies, stores are strongly prohibited from using that information for purposes other than the delivery of items or sales promotions and are suitably instructed to properly control the information.

To clear credit card payments, stores may use the settlement system of the Group's subsidiary Netrust, Ltd., as their settlement method or deal directly with the credit card companies. If stores use the Netrust settlement service, there is no necessity for the stores to keep records of the credit card numbers since they are passed on to the credit card companies through Netrust. If the stores deal directly with the credit card companies, the Group provides strict instructions and reminders to control the information on credit card numbers input by customers in the same manner as other personal information. Nevertheless, it is possible that if information leaks occur despite the implementation of these measures, a loss of Group credibility result, regardless of whether or not the Group was responsible.

**3) Communication Privacy**

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

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

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

**4) Network Security**

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

Although the Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from invasion by computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such damage. Recently, there have been several incidents of specific Web sites or networks being targeted by huge volumes of data sent over brief periods of time with the intention of paralyzing the targeted Web site or network. Although the Group has implemented effective security programs and strengthened its monitoring systems in preparation for such an attack, there is no guarantee that such an attack can be averted. Such obstructive actions could disrupt the Group's business or services and in some cases impact on operating results.

**5) Fraudulent Use**

**a. Fraudulent use could result in damage claims.**

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

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

**6) Behavioral History Information**

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

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

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

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

**9. Corporate Governance**

**1) Corporate Governance System**

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

The Group has implemented stricter controls and operational standards to prevent or reduce the recurrence of problems related to improper employee conduct or human operational error. In April 2006, the Company established the Internal Control Office as an independent organization under the direct supervision of the President. The Internal Control Office works to ensure effective and efficient business activities, accurate financial reporting, and full legal compliance, as well as maintain appropriate corporate governance. Despite these efforts, problems related to business management and control issues could arise in the future. Moreover, increased costs stemming from efforts to improve internal control could negatively affect the Group's earnings.