

Results for the Three Months Ended December 31, 2007 (FY2007-3Q) (Consolidated and Non-consolidated Basis)

2008.1.30

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

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(Amounts less than one million yen are omitted)

1. Results for FY2007-3Q (October 1, 2007-December 31, 2007)

(1) Consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2007-3Q	70,067 (28.5)	31,290 (13.0)	30,828 (15.8)	17,177 (13.2)
FY2006-3Q	54,522 (16.9)	27,699 (31.1)	26,630 (29.5)	15,172 (20.0)
FY2007-9 months	187,802 (21.2)	91,045 (18.7)	88,660 (19.3)	46,443 (10.6)
FY2006-9 months	154,992 (22.4)	76,699 (31.0)	74,337 (30.6)	41,979 (23.1)
FY2006	212,552	106,232	102,824	57,963

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007-3Q	283.99	283.55
FY2006-3Q	250.93	250.51
FY2007-9 months	767.90	766.78
FY2006-9 months	694.34	693.04
FY2006	958.66	956.70

(2) Consolidated Financial Position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-3Q	337,010	233,700	68.6	3,824.38
FY2006-3Q	287,547	177,547	61.2	2,910.57
FY 2006	318,428	192,385	59.9	3,153.24

(3) Consolidated Cash Flows

(Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the periods
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2007-3Q	9,577	15,565	-10,132	81,907
FY2006-3Q	13,485	-2,679	-10,142	51,461
FY2007-9 months	46,230	-12,867	-26,163	81,907
FY2006-9 months	41,282	-152,676	64,982	51,461
FY2006	72,710	-160,403	65,033	75,212

2. Cash Dividends

	Dividends per share		
(Record date)	Interim	Year end	Full year
FY2006	Yen -	Yen 96.00	Yen 96.00
FY2007	-	-	107.00~110.00
FY2007 (Estimates)	-	107.00~110.00	

3. Consolidated Business Outlook for FY2007-4Q (January 1, 2008-March 31, 2008) and Full Fiscal year

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-4Q	72,800~76,600	31,750~34,550	31,600~34,400	18,400~20,050	304.17~331.44
FY2007- full year	260,602~ 264,402	122,795~ 125,595	120,260~ 123,060	64,843~66,493	1,071.91~ 1,099.18

* Forward-looking Information Used in Performance Estimates

[Caution regarding forward-looking statements]

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

For details regarding the previously mentioned performance estimates, please see Page 5 of Qualitative Information and Financial Statements (3. Performance Outlook)

4. Others

(1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): Yes

New consolidated subsidiary: 1 (Overture K.K.)

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

(3) Changes in accounting method from the latest consolidated fiscal year: Yes

[Note: For details, please refer to Page 6, Qualitative Information and Financial Statements, 4. Others.]

[For reference]

1. Non-consolidated Results for FY2007-3Q (October 1, 2007-December 31, 2007)

(1) Non-consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2007-3Q	56,080 (11.0)	30,430 (11.3)	30,346 (11.4)	17,913 (11.2)
FY2006-3Q	50,528 (25.3)	27,343 (30.8)	27,233 (29.6)	16,103 (21.1)
FY2007-9 months	161,910 (12.6)	89,507 (17.9)	89,243 (16.9)	47,761 (7.0)
FY2006-9 months	143,737 (29.9)	75,897 (30.4)	76,339 (30.2)	44,635 (24.3)
FY2006	197,230	105,121	105,412	61,592

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007-3Q	296.16	295.70
FY2006-3Q	266.33	265.88
FY2007-9 months	789.69	788.54
FY2006-9 months	738.27	736.89
FY2006	1,018.69	1,016.60

(2) Non-consolidated Financial Position

(Amounts less than one million yen are omitted)

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-3Q	323,007	239,735	74.2	3,961.53
FY2006-3Q	284,380	181,995	64.0	3,009.34
FY2006	315,506	197,677	62.6	3,268.24

2. Non-consolidated Business Outlook for FY2007-4Q (January 1, 2008-March 31, 2008) and Full Fiscal year

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-4Q	57,800~61,100	30,650~33,350	30,500~33,200	18,100~19,700	299.21~325.66
FY2007-full year	219,710~223,010	120,157~122,857	119,743~122,443	65,861~67,461	1,088.74~1,115.19

[Qualitative Information and Financial Statements]

1. Qualitative Information regarding Consolidated Sales Performance

Highlights for the Three Months Ended December 31, 2007

- The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates improved during the third quarter. Net sales rose 14.8% from the previous quarter and 28.5% year on year, to ¥70.0 billion. Operating income amounted to ¥31.2 billion, increasing 4.0% from the second quarter and 13.0% from a year earlier. Ordinary income totaled ¥30.8 billion, gaining 5.2% over the last quarter and 15.8% over the same period last year. Third quarter net income increased to ¥17.1 billion, up 31.5% from the second quarter and 13.2% year on year.
- In the advertising business, sales of display advertising were robust, supported by firm sales of behavioral advertising and growth in sales of Prime Display, which the Group began marketing as a strategic product in October. Paid listing advertising sales again surged ahead from the previous quarter because of the further expansion of the paid listing advertising market, increased use of search services, start of the listing advertising service started during the previous quarter, which takes into consideration a quality index and the bidding price in determining the listing order, and the consolidation of Overture K.K.'s sales since the start of the quarter (September). Advertising sales amounted to ¥36.7 billion, rising 24.4% from the previous quarter and 69.0% from a year earlier.

In business services other than advertising, sales of Yahoo! Real Estate increased sharply, reflecting the large growth in the number of listings. Yahoo! Shopping and Yahoo! Auctions made further progress with increasing the number of merchant stores. Yahoo! Shopping implemented complete renewals of their personal computer and mobile sites, refreshing the design and operation of the sites and improving the functions for stores. As a result of the renewal, use of the sites increased, especially of the mobile site. At the end of December, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 30,223, expanding by 5,162 stores, or 20.6% year on year. Research-related sales also grew sharply from the third quarter last year. Business service for the third quarter totaled ¥14.7 billion, increasing 4.5% from the previous quarter and 14.5% year on year.

In the personal service business, Yahoo! Auctions' revenues from system-use fees grew from the second quarter on the strength of various sales promotions run in conjunction with the year-end sales campaign. On the other hand, overall sales struggled because of an increase in the proportion of B-to-C auctions, sales of which are recorded as business service, and a slump in transaction volume for special categories compared with the same quarter last year. In addition, there were some effects resulting from cancellations of new memberships following the end of a Yahoo! Premium campaign offering free membership for

the rest of the year that started in June 2007. As a result, however, the number of Yahoo! Premium member IDs rose to 6.74 million at the end of December 2007, representing a net increase of 430,000 IDs, or 6.9% from a year earlier. Income from Yahoo! BB's ISP fees declined substantially from the same period last year because of the impact of the revision of the contract with SOFTBANK BB Corp. Overall, personal service sales for the quarter increased 6.8% from the previous quarter and decreased 6.7% from a year earlier, to ¥18.6 billion.

During the quarter, the Company began discussions with eBay Inc., the United States' largest Internet auction company, on a business alliance that would strengthen support and guidance for mutual market entry into Japan and the United States. The overall aim of the alliance would be the creation and expansion of a new international auction market.

Effective January 1, the Company renewed the top page of Yahoo! JAPAN. The transition went smoothly, and in addition to page views increasing, advertisers and advertising companies were pleased with the new top page advertising products.

2. Qualitative Information on Consolidated Financial Conditions

Please refer to Page 8, Main Points Regarding Consolidated Balance Sheets for the Third Quarter, and Page 14, Main Points Regarding Consolidated Statements of Cash Flows for the Third Quarter and Year-To-Date Nine-Month Period.

3. Performance Outlook

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

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

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

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

The following "Consolidated Performance Estimates for Fiscal Year Ending March 31, 2008 (FY2007)" is the aggregation of FY2007-4Q estimates together with the accumulated actual results of FY2007-1Q to 3Q.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-4Q) (January 1, 2008 to March 31, 2008)

Net sales	¥72,800 million ~ ¥76,600 million
Operating income	¥31,750 million ~ ¥34,550 million
Ordinary income	¥31,600 million ~ ¥34,400 million
Net income	¥18,400 million ~ ¥20,050 million

Consolidated Performance Estimates for the Fiscal Year Ending March 31, 2008 (FY2007) (April 1, 2007 to March 31, 2008)

Net sales	¥260,602 million ~ ¥264,402 million
Operating income	¥122,795 million ~ ¥125,595 million
Ordinary income	¥120,260 million ~ ¥123,060 million
Net income	¥64,843 million ~ ¥66,493 million

Non-consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-4Q) (January 1, 2008 to March 31, 2008)

Net sales	¥57,800 million ~ ¥61,100 million
Operating income	¥30,650 million ~ ¥33,350 million
Ordinary income	¥30,500 million ~ ¥33,200 million
Net income	¥18,100 million ~ ¥19,700 million

Non-consolidated Performance Estimates for the Fiscal Year Ending March 31, 2008 (FY2007) (April 1, 2007 to March 31, 2008)

Net sales	¥219,710 million ~ ¥223,010 million
Operating income	¥120,157 million ~ ¥122,857 million
Ordinary income	¥119,743 million ~ ¥122,443 million
Net income	¥65,861 million ~ ¥67,461 million

4. Others

(1) Reclassification of significant subsidiaries during the period

(Reclassification due to change in scope of consolidation):

As of August 31, 2007, the Company acquired 100% of the shares of Overture K.K., converting it to a consolidated subsidiary.

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

(3) Changes in accounting method from the latest consolidated fiscal year:

Since this consolidated fiscal year, tangible fixed assets that are acquired after April 1, 2007 use the depreciation method stipulated by the new corporate tax law. However, the impact on operating income, ordinary income and quarterly net income is minor.

5. Consolidated Financial Results for the Third Quarter

(1) Consolidated Balance Sheets for the Third Quarter

(Millions of yen)

	As of Dec. 31, 2006	As of Dec. 31, 2007	Increase/ decrease		As of Sept. 30, 2007
	Amount	Amount	Amount	Change (%)	Amount
Assets					
Current assets					
Cash and cash equivalents (*1)	51,461	81,907	30,446	59.2	86,897
Notes and accounts receivable-trade (*2)	27,842	34,535	6,692	24.0	30,003
Deferred tax assets	2,901	3,215	314	10.8	3,735
Other current assets (*3)	8,004	12,666	4,661	58.2	11,852
Allowance for doubtful accounts	-2,188	-2,341	-152	7.0	-2,430
Total current assets	88,020	129,983	41,962	47.7	130,058
Fixed assets					
Property and equipment					
Buildings and structures (*4)	1,490	3,415	1,924	129.2	3,451
Machinery and equipment	12,687	12,822	135	1.1	12,930
Other property and equipment	390	49	-340	-87.4	36
Total property and equipment	14,568	16,287	1,719	11.8	16,418
Intangible fixed assets					
Software (*5)	9,779	11,339	1,560	16.0	11,130
Goodwill (*6)	3,695	4,765	1,070	29.0	5,238
Other intangible fixed assets	32	31	-0	-2.9	32
Total intangible fixed assets	13,507	16,137	2,629	19.5	16,401
Investments and others					
Investment securities (*7)	165,304	163,807	-1,496	-0.9	161,301
Deferred tax assets	1,853	3,755	1,902	102.6	3,858
Other assets (*8)	4,316	7,041	2,725	63.1	7,064
Allowance for doubtful accounts	-22	-2	19	-88.7	-2
Total investments and other assets	171,451	174,602	3,150	1.8	172,222
Total fixed assets	199,527	207,026	7,499	3.8	205,041
Total assets	287,547	337,010	49,462	17.2	335,100

(Millions of yen)

	As of Dec. 31, 2006	As of Dec. 31, 2007	Increase/ decrease		As of Sept. 30, 2007
	Amount	Amount	Amount	Change (%)	Amount
Liabilities					
Current liabilities					
Accounts payable-trade (*9)	840	6,308	5,468	650.7	3,713
Short-term debt	20,120	20,120			20,120
Accounts payable-other (*10)	11,648	12,873	1,225	10.5	16,162
Income tax payable (*11)	14,874	14,026	-848	-5.7	24,756
Provision for Yahoo! Points	1,796	2,210	414	23.1	2,148
Other current liabilities (*12)	10,710	17,759	7,048	65.8	12,697
Total current liabilities	59,990	73,299	13,308	22.2	79,598
Long-term liabilities					
Long-term debt (*13)	50,000	30,000	-20,000	-40.0	40,000
Other long-term liabilities	10	10	0	3.0	9
Total long-term liabilities	50,010	30,010	-19,999	-40.0	40,009
Total liabilities	110,000	103,309	- 6,691	-6.1	119,608
Net assets					
Shareholders' equity					
Common stock (*14)	7,163	7,317	154	2.2	7,227
Capital surplus (*14)	2,244	2,398	154	6.9	2,308
Retained earnings	163,913	220,519	56,605	34.5	203,342
Treasury stock	- 28	- 28	-0	0.1	- 28
Total shareholders' equity	173,293	230,208	56,914	32.8	212,851
Unrealized gains on available-for-sales securities(*15)	2,711	1,140	-1,571	-57.9	514
Stock acquisition rights	17	90	73	429.8	65
Minority interests	1,524	2,261	737	48.4	2,060
Total net assets	177,547	233,700	56,153	31.6	215,491
Total liabilities and net assets	287,547	337,010	49,462	17.2	335,100

Main Points Regarding Consolidated Balance Sheets for the Third Quarter

Assets

- *1 The increase in cash and cash equivalents compared with the end of the previous third quarter was mainly due to revenue growth driven by greater sales activities.
- *2 The growth in notes and accounts receivable-trade from a year earlier can principally be attributed to an increase in receivables in the advertising business due to the conversion of Overture K.K. to a consolidated subsidiary.
- *3 The growth in other current assets from a year earlier was mainly due to the growth in debt related to credit card operations and the increase in payments receivable of Yahoo! ezPay.
- *4 The increase in buildings and structures compared with the same period in the previous fiscal year was primarily the result of a move by a portion of the office and expanded office floor space.

- *5 Software increased year on year principally due to the increase in commissioned development of systems for the Company.
- *6 Goodwill expanded from a year earlier due to the consolidation of Overture K.K.
- *7 Investment securities declined from a year earlier mainly because of an evaluation loss recorded on the stock of ValueCommerce Co., Ltd., and the delisting of Internet Research Institute, Inc.
- *8 The growth in other assets in investments and others compared with the same period in the previous fiscal year was principally due to deposits related to the move by a portion of the office and the expansion of floor space.

Liabilities

- *9 The increase in accounts payable-trade compared with the end of the same period of the last year resulted principally from the conversion of Overture K.K. to a consolidated subsidiary.
- *10 The increase in accounts payable-other year on year was mainly due to the acquisition of stock and the conversion of Overture K.K. to a consolidated subsidiary.
- *11 The decrease in income tax payable year on year primarily was attributed to the increase in interim tax payments.
- *12 The increase in other current liabilities from a year earlier was mainly due to the conversion of Overture K.K. to a consolidated subsidiary and an increase in the deposits of Yahoo! ezPay.
- *13 The decline in long-term debt from the same period in the previous fiscal year resulted from repayments.

Net Assets

- *14 The increase in common stock compared with the end of the previous third quarter was due to the exercise of stock options.
- *15 The decrease in unrealized gains on available-for-sale securities from a year earlier was due to the delisting of Internet Research Institute, Inc., and other factors.

(2) Consolidated Statements of Income for the Third Quarter

(Millions of yen)

	Three months ended Dec. 31, 2006	Three months ended Dec. 31, 2007	Increase/ decrease		Three months ended Sept. 30, 2007
	Amount	Amount	Amount	Change(%)	Amount
Net sales	54,522	70,067	15,544	28.5	61,047
Cost of sales	2,098	9,971	7,873	375.2	4,795
Gross profit	52,423	60,095	7,671	14.6	56,252
Selling, general and administrative expenses	24,724	28,805	4,080	16.5	26,167
Personnel expenses (*1)	4,867	6,070	1,202	24.7	5,263
Business commissions (*2)	3,411	4,053	641	18.8	4,050
Sales commissions	2,491	2,859	367	14.8	2,807
Depreciation and amortization (*3)	2,080	2,488	408	19.7	2,256
Communication charges	2,028	2,109	80	4.0	2,020
Lease and utility expenses (*4)	1,186	1,990	804	67.8	1,667
Royalties	1,559	1,983	424	27.2	1,748
Payment commissions (*5)	1,012	1,454	442	43.7	1,128
Content provider fees	1,156	1,386	230	19.9	1,291
Sales promotion costs (*6)	1,982	1,153	-828	-41.8	1,033
Administrative and maintenance expenses	478	492	14	3.0	472
Amortization of goodwill	339	472	132	39.1	400
Allowance for doubtful accounts	606	421	-184	-30.5	481
Advertising costs	263	399	135	51.5	296
Tax and public dues	248	307	59	24.0	280
Others (*7)	1,012	1,161	149	14.8	968
Operating income	27,699	31,290	3,591	13.0	30,085
Non-operating expenses (income)	-1,069	-461	607	-	-780
Ordinary income	26,630	30,828	4,198	15.8	29,304
Extraordinary losses (gains)	-52	-807	-755	-	-3,722
Quarterly income before income taxes	26,577	30,020	3,442	13.0	25,582
Income taxes, inhabitants' taxes and enterprise taxes	11,356	12,410	1,053	9.3	12,835
Adjustment to income taxes	-66	231	298	-	-468
Minority interests in gains of consolidated subsidiaries	115	201	85	73.9	154
Quarterly net income	15,172	17,177	2,004	13.2	13,060

Consolidated Statements of Income for Year-To-Date Nine-Month Period

(Millions of yen)

	Nine months ended Dec. 31, 2006	Nine months ended Dec. 31, 2007	Increase/ decrease	
	Amount	Amount	Amount	Change(%)
Net sales	154,992	187,802	32,810	21.2
Cost of sales	6,281	17,173	10,892	173.4
Gross profit	148,710	170,629	21,918	14.7
Selling, general and administrative expenses	72,011	79,583	7,572	10.5
Personnel expenses	13,985	16,400	2,414	17.3
Business commissions	10,252	11,842	1,589	15.5
Sales commissions	7,414	8,332	917	12.4
Depreciation and amortization	5,692	6,807	1,114	19.6
Communication charges	5,944	6,197	252	4.3
Lease and utility expenses	3,714	4,577	862	23.2
Royalties	4,402	5,341	939	21.3
Payment commissions	2,626	3,687	1,060	40.4
Content provider fees	3,362	3,926	563	16.8
Sales promotion costs	5,428	3,237	-2,191	-40.4
Administrative and maintenance expenses	1,280	1,570	289	22.6
Amortization of goodwill	1,044	1,245	200	19.2
Allowance for doubtful accounts	1,681	1,449	-232	-13.8
Advertising costs	1,443	950	-492	-34.1
Tax and public dues	691	844	153	22.2
Others	3,043	3,172	129	4.3
Operating income	76,699	91,045	14,346	18.7
Non-operating expenses (income)	-2,361	-2,384	-23	-
Ordinary income	74,337	88,660	14,323	19.3
Extraordinary losses (gains)	-304	-4,531	-4,226	-
Income before income taxes	74,032	84,129	10,097	13.6
Income taxes, inhabitants' taxes and enterprise taxes	31,902	36,460	4,558	14.3
Adjustment to income taxes	-147	733	880	-
Minority interests in gains of consolidated subsidiaries	299	492	193	64.5
Net income	41,979	46,443	4,464	10.6

Main Points Regarding Consolidated Statements of Income for the Third Quarter

Net Sales

The growth in net sales for the third quarter can be attributed mainly to an increase in the sales of the Advertising and Business Services businesses and the conversion of Overture K.K. to a consolidated subsidiary.

Cost of Sales

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

Selling, General and Administrative Expenses

***1 Personnel expenses**

At the end of the quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 3,717 up 756, or 25.5%, from the end of the same quarter in the previous fiscal year.

***2 Business commissions**

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

The increase in quarterly operations commission fees from a year earlier were primarily due to growth and in expenses for temporary and contract employees and in operations commission fees for the credit card business and to the conversion of Overture K.K. to a consolidated subsidiary.

***3 Depreciation and amortization**

The increase in quarterly depreciation and amortization year on year can mainly be attributed to the increased purchase of software and of fixed assets in conjunction with the move of a portion of the office and expansion of floor space.

***4 Lease and utility expenses**

The main reasons for the growth in lease and utility expenses compared with the same period in the previous fiscal year were the move of a portion of the office and expansion of floor space and the conversion of Overture K.K. to a consolidated subsidiary.

***5 Payment commissions**

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

***6 Sales promotion costs**

The decline in sales promotion costs from a year earlier was chiefly due to the termination of sales promotion costs in Yahoo! BB operations as a result of the revision of the business alliance contract with SOFTBANK BB Corp.

***7 Others**

The major expenses in others during third quarter were payments and bonuses, recruiting expenses, and fixtures and fittings expenses.

Non-Operating Income (Expenses)

The main components of non-operating expenses for the third quarter were equity in loss under the equity method and interest expenses for debts.

Extraordinary Gains (Losses)

The major extraordinary loss recorded during the third quarter was office moving expenses for a subsidiary.

Income Taxes, etc.

The effective income tax rate for the third quarter was 42.1%.

Quarterly Net Income

Net income per share amounted to ¥283.99 for the quarter.

(3) Consolidated Statements of Cash Flows for the Third Quarter and Year-To-Date Nine-Month Period

(Millions of yen)

	Three month ended Dec. 31, 2006	Three months ended Dec. 31, 2007	Nine months ended Dec. 31, 2007
Cash flows from operating activities:			
Income before income taxes for the periods	26,577	30,020	84,129
Depreciation and amortization	2,198	2,638	7,227
Increase in accounts receivable-trade	-856	-3,522	-1,539
Increase/decrease in accounts payable-trade	39	2,595	5,271
Payment of income taxes and other taxes	-17,472	-23,106	-50,984
Other cash flows	2,998	951	2,126
Cash flows from operating activities	13,485	9,577	46,230
Cash flows from investing activities:			
Expenditures on time deposits	-	-	-20,000
Proceeds from time deposits	-	20,000	20,000
Expenditures on tangible fixed assets	-1,734	-1,534	-5,317
Expenditures on intangible fixed assets	-1,251	-1,002	-2,979
Expenditures on investment securities	-880	-2,083	-8,009
Proceeds from acquisition of newly consolidated subsidiaries' stocks	-	-	3,030
Other cash flows	1,187	185	409
Cash flows from investing activities	-2,679	15,565	-12,867
Cash flows from financing activities:			
Redemption of long-term debt	-10,000	-10,000	-20,000
Dividends paid	-	-	-5,805
Other cash flows	-142	-132	-357
Cash flows from financing activities	-10,142	-10,132	-26,163
Net change in cash and cash equivalents	663	15,009	7,200
Cash and cash equivalents at the beginning of the periods	50,797	66,897	75,212
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-	-	-504
Cash and cash equivalents at the end of the periods	51,461	81,907	81,907

Main Points Regarding Consolidated Statements of Cash Flows for the Third Quarter and Year-To-Date Nine-Month Period

Cash Flows from Operating Activities

Despite the payment of income taxes, cash flows provided by operating activities increased mainly due to growth in net income, amounting to ¥9,577 million in the third quarter. The year-to-date total for the three quarters was cash inflows of ¥46,230 million.

Cash Flows from Investing Activities

Despite expenditures on investment securities and fixed assets, cash flows provided by investing activities amounted to ¥15,565 million, primarily due to the maturity of time deposits. The year-to-date total for the three quarters was cash outflows of ¥12,867 million.

Cash Flows from Financing Activities

Expenditures on redemption of long-term debt were the principal cause of cash flows used in financing activities of ¥10,132 million for the third quarter. The year-to-date total for the three quarters was cash outflows of ¥26,163 million.

(4) Segment Information

1) Outline of Businesses

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

2) Quarterly Results

FY2007-3Q (October 1, 2007-December 31, 2007)

(Millions of yen)

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

FY2006-3Q (October 1, 2006-December 31, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	21,720 (39.8%)	12,897 (23.7%)	19,953 (36.6%)	54,570 -	-48 (-0.1%)	54,522 (100.0%)
Operating expenses	9,635	7,550	7,042	24,229	2,594	26,823
Operating income (Contribution)	12,084 (43.6%)	5,346 (19.3%)	12,910 (46.6%)	30,341 -	-2,642 (-9.5%)	27,699 (100.0%)

FY2007-2Q (July 1, 2007-September 30, 2007)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	29,518 (48.4%)	14,129 (23.1%)	17,422 (28.5%)	61,070 -	-22 (-0.0%)	61,047 (100.0%)
Operating expenses	13,783	8,438	5,852	28,074	2,888	30,962
Operating income (Contribution)	15,734 (52.3%)	5,691 (18.9%)	11,570 (38.5%)	32,996 -	-2,910 (-9.7%)	30,085 (100.0%)

3) Year-To-Date Nine-Month Period**FY2007 (April 1, 2007-December 31, 2007)**

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	90,746 (48.3%)	42,963 (22.9%)	54,158 (28.8%)	187,868 -	-65 (-0.0%)	187,802 (100.0%)
Operating expenses	44,257	25,361	18,169	87,787	8,969	96,757
Operating income (Contribution)	46,489 (51.1%)	17,602 (19.3%)	35,989 (39.5%)	100,081 -	-9,035 (-9.9%)	91,045 (100.0%)

FY2006 (April 1, 2006-December 31, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	64,258 (41.5%)	35,091 (22.6%)	55,766 (36.0%)	155,115 -	-123 (-0.1%)	154,992 (100.0%)
Operating expenses	28,720	21,193	20,468	70,381	7,910	78,292
Operating income (Contribution)	35,537 (46.3%)	13,897 (18.1%)	35,298 (46.0%)	84,733 -	-8,034 (-10.4%)	76,699 (100.0%)

Advertising Business

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

In the third quarter, we commenced sales of a new strategic product Prime Display. The product was very well received by advertisers, particularly national clients, because of the high degree of freedom in advertising expression made possible by its size, which we expanded to 300 pixels (vertical) x 250 pixels (horizontal) to make it extremely eye-catching. Use of megabanners, which deliver larger sized advertising using advanced flash technology, increased, with sales of Brand Panel growing favorably. Looking for branding benefits, national clients placed a great many of these types of advertisements.

Behavioral targeting advertising, which targets users according to their past history of usage, was popular. The spread of regional behavioral targeting advertising that adds regional information into the mix resulted in growing use of this type of advertising by not only real estate-related companies, but also finance, all types of employment services, automobile, transportation, and leisure-related companies. Furthermore, there was an increase in sales of demographic behavioral targeting advertising, which is distributed according to specific users, by cosmetic- and toiletry-related companies targeting the ladies market.

Paid listing advertising revenues advanced significantly from a year earlier because of the further expansion of the market and the greater use of search services. As another growth factor, the listing advertising service started during the previous quarter continued to be in good demand, which takes into consideration a quality index and the bidding price in determining the listing order. In addition, the inclusion of the performance of Overture K.K. in consolidated results as of September boosted quarterly sales. Mobile advertising revenues also rose substantially because of the strong growth in the use of paid listing advertising.

Consequently, interim advertising business sales amounted to ¥36.7 billion.

Advertising Products

During the third quarter, in addition to the smooth start of sales of Prime Display advertising, sales of Brand Panel, Large Square Rectangle Box, and other advertising increased from the same period in the previous fiscal year. In addition, demand was high for special features created through tie-ups with specific advertisers. We aggressively developed this market, a ramen special feature created in collaboration with Toyo Suisan Kaisha, Ltd., attracting a great deal of attention.

As an advertising delivery service, we started offering AD Partner and Yahoo! Web Owner Center, a portal site for supporting homepage or blog site operators.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.21 to ¥1.68 per impression, rates for targeting-type banner ads varied from ¥0.16 to ¥6.50 per impression, and rates for the large-sized Prime Displays varied from ¥0.21 to ¥5.00 per impression. Rates for the

group-specific e-mail advertising Yahoo! Delivers were ¥3.50 to ¥8.00 per mailing. Rates for Network Prime Displays for national clients varied from ¥0.18 to ¥1.44.

Business Services Business

During the quarter, sales of Yahoo! Real Estate jumped sharply from the same period in the previous fiscal year because of the increase in the number of listings. Although sales of Yahoo! Rikunabi were sluggish, the sales of Shotworks, an employment listing service for short-term or part-time jobs, surged ahead due to the expansion in its sales area. Tenant fees and sales commissions for Yahoo! Shopping and Yahoo! Auctions also advanced favorably from the third quarter last year. Yahoo! Shopping implemented measures to improve the degree of convenience of its services for merchant stores and shoppers during the quarter. It conducted a full renewal of its personal computer and mobile sites in December, renewing the design of the sites with a focus on functionality. In addition, it enabled merchant stores to freely set the Yahoo! Points award ratio for their own stores. As a result, use of Yahoo! Shopping expanded, especially on the mobile site. Moreover, Yahoo! Shopping endeavored to increase use through a variety of other measures, including conducting such events as the 10 Times Yahoo! Points Renewal Commemoration campaign and special bargain sales and seasonal sales promotions, such as Christmas and year-end sales promotions. Continuing to concentrate on acquiring new stores, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 30,223 at the end of December 2007, increasing by 5,162 stores, or 20.6% year on year. Total commercial transaction volume for the calendar year from January to December 2007 amounted to ¥934.8 billion, rising 6.9% year on year. In other areas, the conversion of Interscope Inc., to a subsidiary pushed up research-related sales substantially. Overall, business service sales amounted to ¥14.7 billion for the third quarter.

e-Commerce Related Performance Figures

Yahoo! Shopping Number of Stores, etc.

	December 2006	December 2007
Number of shopping unique browsers	16.70 million browsers	14.67 million browsers
Number of shopping store unique browsers	16.87 million browsers	18.72 million browsers
Number of stores (As of the end of each month)	13,535 stores	15,881 stores

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

Shopping Related Transaction Volume

	October 2006-December 2006	October 2007-December 2007
Daily average transaction volume	¥ 510 million	¥ 587 million

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

Yahoo! Auctions Number of Total Listed Items, etc.

	December 2006	December 2007
Number of auction unique browsers	30.21 million browsers	31.30 million browsers
Number of total listed items (Monthly average)	12.76 million items	16.50 million items
Number of stores (As of the end of each month)	11,526 stores	14,342 stores

Yahoo! Auctions Transaction Volume etc.

	October 2006-December 2006	October 2007-December 2007
Daily average number of new listings	914 thousand items	891 thousand items
Daily average transaction volume	¥21.87 million	¥21.12 million
Average closing price per item	¥5,884	¥5,378
Average ratio of successful auctions per day	28%	23%

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

Personal Services Business

During the third quarter, Yahoo! Auctions took various steps to stimulate greater use. It conducted seasonal sales promotions, such as “Year-End Yahoo! Auctions Market,” and a campaign to award Yahoo! Points to bidders and winners of auctions. As a result, income from system-use fees grew favorably. Nevertheless, overall sales struggled compared with the third quarter last year because of an increase in the proportion of B-to-C auctions, the transaction volume of auto body was sluggish, the toy and game segments were less robust than in the previous year, and transaction volume was negatively affected by stricter measures to prevent brand-name item frauds and to eliminate illegal goods. The use of Yahoo! JAPAN IDs on Yahoo! Auctions steadily increased in terms of item listings, bidding, and winning bids. Efforts to attract new Yahoo! Premium member, such as a 3-months for new members who have used Yahoo! Auctions campaign, were successful. There were some effects resulting from cancellations of new memberships following the end of a Yahoo! Premium campaign offering free membership for the rest of the year that started in June 2007. As a result, however, supported by, the number of Yahoo! Premium member IDs rose to 6.74 million at the end of December 2007, representing

a net increase of 430,000 IDs, or 6.9% from a year earlier. Yahoo! BB's ISP fee income declined substantially compared with the same period in the previous fiscal year due to the impact of the revision of the contract with SOFTBANK BB Corporation in the first quarter. Among pay content services, sales of Yahoo! Partner and Yahoo! Comics grew sharply while sales of Yahoo! Mail, Yahoo! Fortune Telling, and other pay content services also increased favorably. Moreover, the Company began discussions with eBay Inc., the United States' largest Internet auction company, on a business alliance that would strengthen support and guidance for mutual market entry into Japan and the United States. The overall aim of the alliance would be the creation and expansion of a new international auction market.

Consequently, personal service sales for the third quarter amounted to ¥18.6 billion.

(5) Operating Review

1) Search Business

Main Services:

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

In the third quarter, the Search Business concentrated on its goal of making search services available “everywhere” and connecting everyone through social media. We also endeavored to further improve the functions of our search result displays. As well as adding a search function that directly displays news articles for keyword searches, we started offering Yahoo! Search Ranking, a keyword ranking information service that utilizes Yahoo! JAPAN’s abundant search data to rank and graph the most popular and attention-grabbing keywords. Moreover, to make our services available everywhere, we released a software keyboard for Nintendo’s Wii[®] console and search result screen software for the Sony PSP[®] console.

2) Auction Business

Main Services:

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

During the third quarter, we continued to implement measures aimed at expanding users. Among those measures were an 8th anniversary campaign commemorating the start of Yahoo! Auctions; seasonal sales promotions, such as a Year-End Yahoo! Auctions Market offering nabe cooking sets, Osechi ryori (traditional New Year’s dishes), and consumer electronics goods; a no system-use charge for listing items campaign; and a campaign awarding Yahoo! Points for bidders and auction winners. To improve services for users and create a new Internet auction market, we began discussing a business alliance with eBay Inc., the largest Internet auction company in the United States. In other areas, as part of our basic fraud prevention measures targeting the eradication of trouble with auctioned items not arriving, we made it obligatory to either use our “Do Now, Pay Later” or “Payment on Delivery” services for certain item categories where such fraud has been rampant. We also carried out activities to increase awareness about not trading Yahoo! Japan IDs. In addition, we prompted the greater use of the Internet auctions by public bodies, hosting Internet auctions by 35 regional and municipal governments, 20 of which participated in such public Internet auctions for the first time.

3) Member Services Business

Main Services:

Yahoo! Premium, Yahoo! BB, Yahoo! Insurance, Yahoo! Trading, Yahoo! Tickets, Yahoo! LiveTalk, Yahoo! Partner, Yahoo! Marriage, Yahoo! Delivers, Yahoo! Keitai Shop, Yahoo! New Item Navigation

In the third quarter, in addition to boosting the degree of satisfaction of members, the Member Services Business concentrated on expanding the number of members of Yahoo! Premium and other member ship services of Yahoo! JAPAN. Seeking to acquire new members for Yahoo! Premium, we continued our campaign offering free Yahoo! Premium membership for the rest of the year new members who have used Yahoo! Auctions and started a 3-month of free Yahoo! Premium campaign. For Yahoo! Insurance, we began offering the group casualty insurance service Chokotto Hoken exclusively to Yahoo! Premium members. Premium members can buy casualty insurance for as little as ¥40 a month and pay for it with Yahoo! Wallet. Among measures to boost customer satisfaction, we offered on Yahoo! Live Talk special live events, etc. to which only members are invited by lot, featuring such celebrities as Miki Imai and the Blue Man Group.

During the quarter, we decided to launch Yahoo! Fan Club, a members-only service that directly links fans with celebrities, in collaboration with OriconDD Inc.

Number of Premium Member IDs

December 2006	December 2007
6.30 million IDs	6.74 million IDs

Total Subscriber Lines for Yahoo! BB

End of December 2006	End of December 2007
Approximately 5,161 thousand lines (including approximately 1,139 thousand lines marketed by Yahoo! JAPAN)	Approximately 4,943 thousand lines (including approximately 1,018 thousand lines marketed by Yahoo! JAPAN)

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

4) Regional Services Business

Main Services:

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

During the third quarter, the Regional Services Business focused on improving information coverage related to regional activities, providing enriched services based on submitted

information, offering abundant information related to users' activities, and expanding and improving mobile versions of services. For our Yahoo! Maps, we strengthened the social media function of the service by making it possible with Wai Wai Map (beta version) to set the scope of public viewing of maps made and who can participate in the map making. In addition, we worked to increase the degree of convenience of Yahoo! Maps by making its scroll and aerial map services applicable to the world map. Among other efforts to increase the number of users, we added a function to the regionally oriented community service Yahoo! Get Local (beta version) that allows users to post comments. We also expanded the service area of Shotworks, an employment listing service for short-term or part-time jobs, to all Japan.

5) Media Business

Main Services:

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

During the quarter under review, the Media Business continued to emphasize planning and development of content and services that would be supported by users and advertisers. For Yahoo! News, we made it possible to view back numbers of topics as well starting to list titles as archives. We also focused on strengthening the personalization functions, adding such functions as recommendations of articles, "Readers who read this article also read these articles," based on the preferences or usage of users. For Yahoo! Streaming, we commenced a Monthly Course service in which users can view the available streaming videos as much as they like for one monthly price, and began offering an Easy! Playlist service that enables the creation of lists of streaming videos based on the user's favorite themes. Among other efforts to expand and improve services, Yahoo! Politics started live video streaming of Diet sessions. In Yahoo! Sports, we pursued our goal of making our services available everywhere by, along with the arrival of the winter season, making it possible to look up information on ski slope conditions nationwide.

6) Shopping Business

Main Services:

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

In our Shopping Business, we conducted a full renewal of the personal computer and mobile Yahoo! Shopping sites, working to improve the degree of convenience for shoppers and merchant stores alike. Along with the site renewal, we carried out such commemorative campaigns as awarding Yahoo! Points and special bargain sales and such seasonal sales promotions as winter bonus sales and year-end gift giving special features. As a result, Yahoo!

Shopping posted record high transaction volume for the quarter. Among other efforts to promote greater site use and acquire new users, we launched PREMIUM BRAND AVENUE, an outlet shopping site for imported brand-name merchandise, in collaboration with Mitsui & Co., Ltd. We also held an event that provided the popular “Backorder Gourmet” service for Ginza Mitsukoshi gourmet items on Yahoo! Shopping. As a result of focusing on the acquisition of new stores, the total number of stores rose to 15,881 at the end of December 2007, an increase of 2,346 stores, or 17.3% from a year earlier.

7) Social Net Business

Main Services:

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

Acting as the driver of the development of social media on Yahoo! Japan, the Social Business continued to work to increase the added-value content of related services and to link up with various services of Yahoo! JAPAN. During the quarter, we made a decision to provide Yahoo! Mail Academic Edition email services, which do not require a special server or system, to students and other related people at educational institutions free of charge. We also strengthened our spam protection measures by adding a function on that allows users to refuse spoofed email. Among efforts to improve functions in other areas, on Yahoo! Blogs, we began offering the Yahoo! Safety Net Comment Checker, a service that warns against inappropriate content. We made further progress with measures to make our services available everywhere by commencing a mobile version of Yahoo! Videocast, a video posting service that enables users to view and post video content using mobile phones.

8) Lifestyle Business

Main Services:

Yahoo! Autos, Yahoo! Music, Yahoo! Movies, Yahoo! Rental DVD, Yahoo! Fashion, Yahoo! Beauty, Yahoo! Wedding, Yahoo! Consumer Electronics Navigator, Yahoo! Books, Yahoo! Comics, Yahoo! Games, Yahoo! Fortune Telling, Yahoo! ChakuMelo, Yahoo! Pet, Yahoo! Second Life,

In our Lifestyle Business, we continued our efforts to provide social media services in lifestyle related fields that require a high degree of expertise or interest. During the quarter, we added Toei Corporation as a new distributor of movies for our Online Theater pay content service that allows users to watch movies whenever they want at home or elsewhere. The addition of the new distributor has expanded our selection of popular Japanese movies. We also launched

Yahoo! Pet, an information service for all aspects of pet lifestyles. In addition to a rich selection of content focused on dogs and cats, following registration of themselves and their pet's profile, pet owners can enjoy communicating each other through the posting and viewing of photographs or growth and development records, etc.

9) Mobile Business

Main Services:

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

During the third quarter, we continued to endeavor to increase the degree of customer satisfaction with our Yahoo! Keitai service for SOFTBANK mobile phones and our mobile version of Yahoo! JAPAN for i-mode and EZweb formats. We announced oneSearch, a new mobile search concept that aims to understand the intent of users and provide the most appropriate search results. As the first stage, we substantially upgraded the functions of the mobile version of Yahoo! Search on Yahoo! Keitai. We also launched a mobile version (beta version) of Yahoo! Desktop, which enables users to place search, weather, and other widgets on the display of a mobile phone.

To make further progress with providing services "everywhere," we began offering a mobile version of Yahoo! Dictionary, a service that allows users to search Japanese, English and Japanese/English dictionaries for free using mobile phones. We also launched a mobile version of Yahoo! Videocast, a video posting service. Among other efforts to improve the degree of user convenience, we renewed the design and upgraded spam protection and other functions of the mobile version of Yahoo! Mail.

Number of Page Views

	December 2006	December 2007
Yahoo! Mobile page views	2,110 million page views	3,393 million page views
Daily Average Yahoo! Mobile page views	68 million page views	109 million page views

10) New Business Office

Main Services:

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

Settlement Related

During the third quarter, we took various measures to expand and improve services and to increase their use. We began a service that enables Yahoo! JAPAN ID users with an account

with The Japan Net Bank, Ltd., to convert Yahoo! Points into cash. We also expanded the scope of the items for which Yahoo! Points can be used to Yahoo! Gourmet, Yahoo! Game, and Yahoo! Videocast. In addition, we started a collection service for donations to regional government bodies on Yahoo! Public Payments, making it possible to donate nationwide by credit card for the first time.

Travel Related

During the quarter, Yahoo! Travel worked to expand its services and increase user convenience. It renewed all pages on the domestic accommodations reservation page and started listing travel plans by Ikkyu.com, a popular luxury hotel and Japanese inn reservation site. Aiming to expand the number of customers and rooms available Yahoo! Travel formed a capital alliance with BestReserve Co., Ltd., which operates the online accommodation reservation site, BestReserve.

Research Related

We endeavored to expand the sales of Yahoo! Research through aggressive sales promotion activities, starting to offer new products developed by collaboration with Yahoo Japan Value Insight Corporation. We continued to work on increasing the number of monitors and diversifying demographics. At the end of December 2007, the total number of registered monitors amounted to 1.61 million, the largest organization of research monitors in Japan.

Others

During the quarter, Yahoo Japan Corporation made presentations and demonstrations on its everywhere concept at CEATEC JAPAN 2007, Asia's largest international visual, information, and communications exhibition. In addition, the Company announced a joint development with Sharp Corporation for an Internet Portal site for Sharp's LCD TV, AQUOS. Furthermore, it launched Yahoo! On Business, a portal site offering support for all aspects of business solutions to business owners.

11) Service Supervising Division

Main Services:

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

During the third quarter, before completely renewing the top page of the Yahoo! JAPAN site, we launched a promotion site outlining the renewal. On Yahoo! Kids, we ran campaigns and special features, working to provide services that children and family could use to enjoy the Internet. These services included a Cinnamoroll Special Feature 2007 that introduced the latest movies and games of popular animation characters and various special features on Christmas, Year-end, and New Year. In addition to further our efforts to make our services available

everywhere, we commenced a mobile version of our Yahoo! Kids service to all mobile phone carriers in Japan. The service has a Security Guide function that allows the mobile phone to be used safely by children for such content as games and picture books.

(Reference)

Yahoo! JAPAN Page Views etc.

	December 2006	December 2007
Total Monthly Page Views	36,265 million page views	40,071 million page views
Daily Average Total Monthly Page Views	1,169 million page views	1,292 million page views
Number of Yahoo! JAPAN Unique Browsers	125.71 million browsers	155.06 million browsers
Number of Active User IDs on Yahoo! JAPAN	18.28 million IDs	21.36 million IDs

Notes:

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

New Services

Date	New services and service upgrades
October 1	Yahoo! Insurance started offering the group casualty insurance service Chokotto Hoken exclusively to Yahoo! Premium members.
October 10	Made it possible for users with 1,000 Yahoo! Points or more to convert them into cash.
November 1	Launched Yahoo! Pet, an information service to support all aspects of pet lifestyles.
November 12	Began Yahoo! Search Ranking, a service that ranks popular topics based on our search data base.
November 29	Renewed the Yahoo! Shopping site.
December 3	Launched Yahoo! On Business, a support site for business owners.
December 4	Began business alliance discussions with eBay Inc, the largest Internet auction company in the U.S.A.
December 10	Decided to provide Yahoo! Mail Academic Edition free to educational institutions.
December 12	Expanded the coverage area of Yahoo! Maps from Japan to the world.
December 13	Launched Yahoo! Web Owner Center, a portal site offering support for web or blog site operators, and AD Partner, and advertisement distribution service.

Yahoo! JAPAN CSR Activities

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

<http://forgood.yahoo.co.jp/>

The “Yahoo! JAPAN Sustainability Report 2007” (<http://csr.yahoo.co.jp/>, Japanese language only) posted on the previously mentioned site introduces our various CSR activities from three points of view—a good relationship with our customers, carrying out appropriate corporate activities, and making a social contribution.

Starting September 2007, the Group has been included in the FTSE4Good Index, a major socially responsible investment index.

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

1. Volunteer Activities

- People can now search for the charity of their choice through a charity theme listing page showing which of the two methods Yahoo! Volunteer uses to collect Internet Charity Contributions, Yahoo! Wallet (purchase of wallpaper) and Yahoo! Points, can be used.
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
 - “Fight Hunger,” the school food campaign of the Japanese Association of the United Nations World Food Programme (WFP).
 - “Support the Peace Winds Japan Campaign,” in order to provide Peace Winds Japan’s “Life-giving Water” to all people.
 - Year-End Help Each Other charity fund of the Central Community Chest of Japan
 - World Vision Japan’s “Christmas Charity Campaign”
 - The Japan Red Cross Society’s “Help Someone Overseas Relief Fund”

2. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the third quarter, we again held many charity auctions featuring athletes and famous people. Among them, we auctioned a Fernandes TEHT guitar used by Tomoyasu Hotei and an ART CAR featuring the art of Katsuhiko Hibino. In total, we held 704 charity auctions during the quarter, raising a total of ¥24,691,452. The year-to-date figures for the period from January to December 2007 were 2,733 auctions and a total of ¥130,271,273.

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

- The “LIFE&LIVE Project Charity Committee,” and organization that carries out a variety

of activities to preserve the Hokkaido Kosei Nenkin Kaikan

- “Green Cross Japan,” the Japn chapter of the global environmental protection body Green Cross International
- The Japan Paralympic Support Council (JPSC), a specified nonprofit organization, which supports sport events for disabled people
- “Make a Wish[®] Japan,” a volunteer organization that makes the dreams of children with serious illnesses come true.
- “Central Community Chest of Japan” taking community chest activities symbolizing a red feather

3. Others

- We accepted applications for the 3rd Yahoo! JAPAN Literary Awards. In addition to publishing the winning stories in Shogakukan’s magazine Kirara, the winners were published as digital books on Timebook Town. (October 10 to December 3, 2007)
- Ran a special feature “Relive the Excitement! Let’s Bring the 2016 Olympics to Tokyo!” on the bid for the Olympics and with interviews with medalists of the previous Olympic games. (From October 30, 2007)
- Working with police organizations through Japan, we commenced listing information on wanted criminals with the aim of increasing the efficiency of searching for important information on them by gathering such information together. (From November 1, 2007)
- In response to the increase in the number of searches for suicide-related words, we began linking such word searches to suicide prevention measures, such as an encouraging messages or hot-line sites, which appear on the search result page when a suicide-linked word is used. (From December 1, 2007)
- We posted a sample (pictures) of the special seminar given by a famous sports player that was one of the prizes awarded to the group of winners in our Support Sports Project, which aims to contribute to the promotion and development of sports in Japan. (From December 20, 2007).

(6) Risk Factors

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

1. Impact of Internet Market and Competition

1) Influence of Internet Markets and Infrastructure

a. Dependence on the Growth of Internet Usage

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

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

b. Dependence on the Infrastructure for Internet Connection

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

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

c. Dependence on Internet Connection Devices

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

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

2) Building Partnerships in the Internet Market

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

In the advertising business, the Group is endeavoring to expand advertising networks, such

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

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

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

3) The Social Media Services Market

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

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

4) Markets of Individual Business Segments

a. Internet Advertising Business

i. Potential of the Internet Advertising Market

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

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations. Since that time, the Internet advertising market has grown significantly, accounting for 6.0% of the total advertising market in calendar year 2006, according to a recent DENTSU INC. report. During the same year, Internet advertising expenditures exceeded those for radio and nearly equaled those for magazines. The Internet advertising market is still far smaller than the advertising markets for television and newspapers, however. In the future, growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated income, which could negatively affect Group performance.

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

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

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

ii. Characteristics of Internet Advertising

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

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

iii. Greater Variation in Advertising Products

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

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

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

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

b. Business Services

i. Trends in Corporate Internet Use and Market Change

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

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

ii. Influence of Changes in the Broadband Market

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

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

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

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

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

c. Personal Services

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

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

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

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

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

5) Competitors

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

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

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

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

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

6) Revision of Business Forecasts

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

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

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

2. Legal and Institutional Changes

1) Potential Legal Restrictions

a. Legal Restrictions Related to the Internet

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

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

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

b. Potential Legal Restrictions on Yahoo! Auctions

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

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

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

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

c. Possibility of Legal Restrictions on Social Media Typed Content

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

holder's request to remove any illegal content.

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

d. Potential Legal Restriction on Other Services

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

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

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

2) Potential Litigation

a. Illegal Acts by Auction Participants

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see Note1, below) for online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further

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

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

Note 1: The escrow service consists of a company acting as an intermediate between the sell and buy sides of a transaction to ensure the smooth transfer of the item and payment. Provided by third parties and not the Company, this service varies according to the escrow company used. In general, however, the escrow company receives payment from the buyer and transfers it to the seller upon confirming the buyer's receipt of the correct item in good condition. This service eliminates concerns that the item will not be delivered or payments not made.

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

b. Solicitation of Financial Instruments Transactions

In providing its Yahoo! Trading (financial instruments intermediary services), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated financial instruments firms (see Note, below) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the

financial instruments firm, but the solicitation could mislead customers into losses. In such cases, the Company could be subject to demands for damage compensation from the financial instruments firm, which temporarily pays damages to customers, depending on the situation.

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

c. Information Distribution via the Internet

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

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

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

d. Third-Party Responsibility

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, measures

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

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

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

The Japanese Patent Office (JPO) recently began filing patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover not only technology but also business models. The Company considers our intellectual property to be important management assets. We have a team specialized in the activities concerning intellectual property, including the investigation, filing, employee education. However, the possibility exists that third parties in possession of these patents will make claims or file suit against the Group and that the Group will be forced to pay large royalties to acquire said patents or have to cease providing certain services.

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

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however,

it is impossible to be certain that such problems will not occur. In such cases, the Group might be sued for compensation, required to pay substantial royalty fees, or be forced to cease providing certain services.

4) Changes in Accounting Standards

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

3. Information Security Management

1) Group Efforts to Promote Information Security

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

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures groupwide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1, below), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems and access to stored data is tightly restricted. In April 2002, the Company obtained the right to use the TRUSTe mark (see Note 2, below) of the nonprofit privacy protection licensing institution TRUSTe. In August 2004, the Group acquired Information Security Management Systems (ISMS) (see Note 3, below) certification. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0. In November 2007, the Group was the first in Japan to receive ISO 15408 certification (See Note 4, below) for its development of a monitoring system to prevent information leakage from its data bases.

The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

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

Note1: Information Security Declaration

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

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

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

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

Note2: TRUSTe Certification Institution and the TRUSTe mark

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

*Note3: BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0*Taking into consideration both technical security methods and overall organization management, these certification

systems focus on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle—Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management team revises, improves, and processes)—is continuously repeated with the goal of improving information security levels. At December 31, 2007, a total of 10 companies, including the Company and 9 subsidiaries, were certified.

Note4: ISO 15408

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

2) Personal Information

a. Group Efforts to Protect Personal Information

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

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

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, either deliberately or through negligence, by persons related to the Group, by companies with which business alliances have been concluded, or by companies to which the Group outsources work. Recently, there have been multiple cases of personal information stored on personal computers being unknowingly leaked onto networks by virus-infected personal computers of users of file-sharing software called Winny. There is also a possibility that third parties will fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ other methods such as phishing (see Note 1, below), whereby they illicitly obtain personal user information, resulting in damage to users. As of March 2007, to prevent against phishing attacks, the Company has introduced a log-in seal system (see Note 2, below) whereby users register a seal that

appears on the log-in screen into which they input their ID and password. Since December 2007, the Company has added to Yahoo! Mail a function allowing users to refuse spoofed email. The Company continues to implement measures with the intension of eliminating damage caused by malicious users. However, there is no guarantee that these measures will be sufficient. If some problems happen despite the efforts of the Group, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

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

Starting in April 2005, the Personal Information Protection Act and guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. The Group's handling of personal information is in accordance with the provisions of this law.

Note 1: Phishing fraud

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

Note 2: Log-in seal

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

Note 3: Refusing spoofed email

Much of the email recognized as spam contains spoofed emails sent by people pretending to

be someone else or another company. These spoofed emails can be filtered out by the user using domain validation technology (DomainKeys or SPF) to check the address. Since July 2005, Yahoo! Mail has offered a Domain Keys function and introduced an SPF function in December 2006 as measures to prevent the malicious use of Yahoo! Mail services. Now, by introducing this new measure for the receiving server, the user can filter out emails pretending to be from “yahoo.co.jp” or from email pretending to be from a provider that has introduced DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

b. Fraudulent Use of Credit Cards

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

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

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

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

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

For Yahoo! Trading (financial instruments intermediary services), personal

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

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

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

3) Behavioral History Information

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

With regard to the collection and use of behavioral history information, the Company is very careful to protect the privacy of users. For behavioral targeting advertising, the Company uses behavioral history information derives from what kind of services the user (more correctly the

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

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

4) Network Security

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

4. International Conflicts, Terrorist Attacks, and Natural Disasters

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

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group's site, causing a disruption in planned advertising business. Or, for their own reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstances arise whereby users would no longer be able to use the Group's paid services. In addition, there is the risk that operations and earnings could be affected by

damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and SOFTBANK CORP. and their related companies and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

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

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

5. Business with Involved Parties

1) Relationship with the SOFTBANK Group

a. Positioning within the SOFTBANK Group

Our parent company, SOFTBANK CORP., has a variety of companies operating under its umbrella that are active in a range of fields and areas. The SOFTBANK Group's business segments include Internet Culture, Broadband Infrastructure, e-Commerce, Mobile Communications, Fixed-line Telecommunications, and Others (Broadcasting Media, Technology Services, Media and Marketing, Overseas Funds, and Others). The Group plays a central role in the Internet Culture segment and is also involved in the Broadband Infrastructure segment through its collaboration with SOFTBANK BB Corp. in providing the comprehensive broadband service Yahoo! BB. In the Others segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

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

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

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
<p>1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main responsibilities</p> <ul style="list-style-type: none"> * Promoting Yahoo! BB services * Recruiting subscribers for Yahoo! BB services * Operating the Yahoo! BB portal site * Providing mail and Web site services * Providing a fee-collection platform <p>3) SBB's main responsibilities</p> <ul style="list-style-type: none"> * Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks * Handling subscriber inquiries and providing technical support * From the ISP charge, the Company takes the following in exchange for services rendered: <ul style="list-style-type: none"> - Subscribers acquired by March 31, 2005: ¥100 per line per month - 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. - Subscribers acquired after April 1, 2007: ¥100 per line per month

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

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

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

c. Dependence on SOFTBANK BB Corp.

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

d. Joint Venture for Streaming Content

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

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

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

e. Investment in Mobile Phone Business

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

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

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

f. Possibility of Competition within the SOFTBANK Group

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

g. Joint Directorships

As of December 31, 2007, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

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

director)

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

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

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

h. Joint Auditors

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

2) Business Relationship with the Yahoo! Inc. Group

a. License Agreement with Yahoo! Inc.

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

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

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

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

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

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

Note:

Royalty calculation method

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

b. The Yahoo! Brand and Cooperation Overseas

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

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

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

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

c. Other Joint Directorships

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

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

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

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

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

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

6. Dependence on Specific Customers and Third Parties

1) Dependence on Specific Customers

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

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

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

2) Dependence on Third Parties

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

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party. These

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

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

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

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

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

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

7. Technological Innovation and Research and Development

1) Keeping Up with Technology

The computer industry is well known for technological innovation. The Internet industry is

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

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

2) Research and Development

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

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to changing market needs, the Group is also focusing on organizational enhancement for service planning and for system development. Even so, the Group might fail to achieve targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than anticipated. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

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

8. Group Business Operations

1) Services Provided by Overture K.K.

a. Service Agreement with Overture K.K.

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

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

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

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

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

c. Partnership in Paid Listing Advertising

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

2) Maintenance and Control of Service Quality

a. Acquisition of Quality Information and Content

The Group offers and plans to continue offering Internet users quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content

such as films and music. However, should the Group not be able to acquire information and content as expected or the costs of acquiring the information and content be higher than anticipated, use of the Group's services by Internet users might decline, possibly resulting in a failure of the Group to achieve its projected earnings.

b. Advertising Guarantee

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

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

c. Constant Improvement of Services

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

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

d. Equipment Investment for Quality Service

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group maintains a capital-investment program of comparatively large

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

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

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

e. Diversification and New Business

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

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

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

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

The Group believes that its intellectual property rights are an important facet of its ability to demonstrate competitive advantages in the market and that it is essential for the Group to

produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names. Most of the Group's services provide contents to users that involve copyrights and other legal rights, and users are able to utilize that content within the scope of the user contract they have agreed to.

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

3) Internal Control System

a. Operations and Management

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

b. Human Resource Management as Business Expands

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

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

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

c. Continued Support from Senior Management

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

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

d. Doing Business with a Large Pool of Unspecified Customers

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

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

e. Collection of Sales Credit Claims

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

defaults.

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

4) Consolidated Group Operations

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

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

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

9. Funds Procurement and Changes in Interest Rates

1) Investment in Mobile Phone Business

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

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

2) Yahoo! ezPay Service

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

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

3) Yahoo! JAPAN Card Service

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

10. Loans and Investments

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

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

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

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