

# Results for the Interim Period and the Three Months Ended September 30, 2005 (FY2005-2Q) (Consolidated Basis)

2005.10.21

Company name **Yahoo Japan Corporation** (code number: 4689 TSE 1<sup>st</sup> Section)  
(URL: <http://www.yahoo.co.jp>)

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## 1. Significant Matters Concerning the Preparation of Quarterly Financial Information

- (1) Use of simplifications in accounting methods: No  
 (2) Change in accounting methods in the current fiscal year: No  
 (3) Change in scope of consolidation or application of equity method: Yes  
     New consolidated subsidiary 1      Subsidiary removed from consolidation 0  
     Company newly accounted for by the equity method 1  
     Company no longer accounted for by the equity method 0

## 2. Results for FY2005-2Q (July 1, 2005-September 30, 2005)

### (1) Consolidated Financial Results (Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2005-2Q	41,140 (55.4)	19,014 (38.6)	18,545 (34.1)	11,143 (28.9)
FY2004-2Q	26,476 (50.9)	13,718 (48.7)	13,826 (48.9)	8,641 (46.2)
FY2004 (for reference)	117,779	60,187	60,295	36,521

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2005-2Q	707.08	705.25
FY2004-2Q	2,195.09	2,188.09
FY2004 (for reference)	4,766.03	4,750.62

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

FY2005-2Q: 15,759,477 shares      FY2004-2Q: 3,936,860 shares  
 FY2004: 7,629,257 shares

2. Percentage change figures for quarterly net sales, operating income, ordinary income, and net income represent percentage changes from the corresponding period in the previous fiscal year.

For detailed information regarding consolidated management performance, please see Pages 4~5 and 12~13 of the Attached Materials.

## (2) Consolidated Financial Position

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2005-2Q	151,314	114,648	75.8	7,590.44
FY2004-2Q	100,287	76,328	76.1	20,229.82
FY2004 (for reference)	130,244	96,059	73.8	12,702.14

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

FY2005-2Q: 15,104,373 shares  
FY2004: 7,549,883 shares  
FY2004-2Q: 3,773,073 shares

\* For detailed information regarding changes in financial status, please see Pages 8~9, and 15 of the Attached Materials.

## (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the quarter
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2005-2Q	21,636	-3,632	170	71,539
FY2004-2Q	14,818	-4,831	-108	50,730
FY2004 (for reference)	46,083	-17,119	384	68,992

## 3. Business Outlook for FY2005-3Q (October 1, 2005-December 31, 2005)

	Net sales	Ordinary income	Quarterly net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-3Q	44,600~47,700	18,700~21,150	10,850~12,350

Estimated consolidated net income per share for quarter: ¥ 703.09~ ¥ 800.29

(For reference) Non-Consolidated Business Outlook for FY2005-3Q (October 1, 2005-December 31, 2005)

	Net sales	Ordinary income	Quarterly net income
	Millions of yen	Millions of yen	Millions of yen
FY2005-3Q	38,650~41,350	19,200 ~ 21,550	11,650 ~ 13,100

Estimated non-consolidated net income per share for quarter: ¥ 754.93~ ¥ 848.89

### Forward-Looking Information Used in Performance Estimates

Performance estimates have been made based on the information available to the Company and the Group at the current point in time. Consequently, changes in the underlying factors could cause actual results to differ significantly.

For details regarding the previously mentioned performance estimates, please see Page 6 of the Attached Materials.

Quarterly net income per share estimates have been calculated using the average outstanding shares for the interim period ended September 30, 2005 (15,431,889 shares), though the Company will implement stock split on November 18, 2005.

**[For reference] Non-Consolidated Results for FY2005-2Q (July 1, 2005-September 30, 2005)**

**(1) Non-consolidated Financial Results**

(Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Quarterly net income
	Millions of yen (%)			
FY2005-2Q	36,156 (48.1)	18,794 (37.6)	18,973 (37.9)	11,375 (31.9)
FY2004-2Q	24,411 (49.7)	13,657 (48.3)	13,757 (49.4)	8,624 (48.2)
FY2004 (for reference)	107,407	60,318	60,922	37,157

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2005-2Q	721.84	719.97
FY2004-2Q	2,190.72	2,183.74
FY2004 (for reference)	4,849.47	4,833.79

Notes: 1. Average outstanding shares during the periods

FY2005-2Q: 15,759,477 shares

FY2004-2Q: 3,936,860 shares

FY2004: 7,629,257 shares

2. Percentage change figures for quarterly net sales, operating income, ordinary income, and net income are percentage changes compared with the same quarter in the previous fiscal year.

**(2) Non-consolidated Financial Position**

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2005-2Q	147,960	116,586	78.8	7,718.73
FY2004-2Q	98,408	76,518	77.8	20,280.28
FY2004 (for reference)	126,210	96,830	76.7	12,804.29

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

FY2005-2Q: 15,104,373 shares

FY2004-2Q: 3,773,073 shares

FY2004: 7,549,883 shares

## Attached Materials

### Second Quarter Highlights for the Fiscal Year Ending March 2006

- Yahoo Japan Corporation and its consolidated subsidiaries and affiliates recorded strong growth during the second quarter. Supporting this performance were favorable advertising and business service sales in the Listing Business and business service sales in the Shopping Business. Net sales climbed to ¥41,140 million, rising 5.8% from the first quarter and 55.4% year on year. Ordinary income increased 4.1% from the previous quarter and 34.1% year on year, to ¥18,545 million.
- In advertising sales, Sponsor Site sales rose substantially during the second quarter. Moreover, despite being a period known as the “summer dry spell,” sales of branding advertising increased during the quarter, supported by a growing awareness of the effectiveness of Internet advertising among a broader range of advertisers. As a result, advertising sales for the period reached ¥15,681 million, advancing 11.4% from the first quarter and 86.9% year on year.
- In business services other than advertising, sales of employment information and Business Express services by the Listing Business expanded, while sales of the Shopping Business grew on the strength of higher transaction volumes due to an increase in the number of stores on its shopping site and the increased demand for travel-related services during summer. As a result, business service sales rose 7.5% from the previous quarter and 53.7% year on year, to ¥8,182 million.
- In the Group’s personal service business, although system-use revenues from Yahoo! Auctions declined, this decrease was offset by the strong growth in Yahoo! Premium sales. Consequently, personal service sales expanded to ¥14,534 million, increasing 1.5% from the first quarter and 29.5% year on year.
- In the Shopping Business, the transaction volume of Yahoo! Shopping expanded based on a substantial increase in the number of registered stores. At the end of September, a total of 5,099 stores were registered on Yahoo! Shopping, a 19.6% increase from the previous quarter and a 111.1% rise year on year. Yahoo! Travel also contributed transaction volume increase based on the running of special features related to the summer vacation season and other sales promotions. As a result, the daily average transaction volume of the Shopping Business leapt 16.9% from the previous quarter and 60.9% year on year, to ¥316 million.
- At the end of September, the number of auction stores (merchant stores) on Yahoo! Auctions totaled 4,458, an increase of 16.3% from the first quarter and 47.5% year on year. In addition to business service sales expanding firmly, advertising sales also grew due to strong sales efforts targeting category sponsored. On the other hand, transaction

volume suffered during the July to August summer vacation period, and personal service sales declined due to continued efforts to reinforce security through the implementation of early discover schemes for suspected fraud on auctions and the reinforcement and expansion of staff for removing auction items in violation of laws or policies. Consequently, sales of the Auction Business decreased 1.5% from the previous quarter, to ¥8,214 million. On a year on year basis, however, this figure represented a 34.3% jump in sales.

- The Group made further progress with mobile services during the quarter. Yahoo! Shopping commenced a Yahoo! Mobile Shopping service in the second quarter and Yahoo! Auctions now offers a function enabling its services to be accessed by mobile phones in a manner similar to personal computers. Of the approximately 80 services being offered by the Group, about 50 services are now available to Internet-enabled mobile phones. Furthermore, in October, the Group launched Yahoo! Content Store, a digital content retail store that can be accessed by mobile phones, beginning to offer content portability services in the run up to the scheduled start of a number portability service in 2006.

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

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

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

### Consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 2006 (FY2005-3Q):

Net sales	¥ 44,600 million ~ ¥ 47,700 million
Ordinary income	¥ 18,700 million ~ ¥ 21,150 million
Quarterly net income	¥ 10,850 million ~ ¥ 12,350 million

### Non-consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 2006 (FY2005-3Q):

Net sales	¥ 38,650 million ~ ¥ 41,350 million
Ordinary income	¥ 19,200 million ~ ¥ 21,550 million
Quarterly net income	¥ 11,650 million ~ ¥ 13,100 million

## 1. Consolidated Balance Sheets

(Millions of yen)

	As of Sep. 30, 2005	As of June 30, 2005	Comparison with the previous quarter		As of Sep. 30, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	71,542	53,365	18,177	34.1%	50,730
Accounts receivable trade (*2)	19,665	18,884	781	4.1%	15,718
Inventory	132	167	-35	-21.2%	74
Accounts receivable other	645	717	-72	-10.1%	269
Short-term loans (*3)	4,517	3,375	1,142	33.8%	104
Deferred tax assets	2,565	1,669	895	53.6%	1,345
Other current assets	1,984	1,849	135	7.3%	1,067
Allowance for doubtful accounts	-1,577	-1,378	-198	14.4%	-999
Total current assets	99,476	78,651	20,825	26.5%	68,308
Fixed assets					
Tangible fixed assets					
Buildings and structures	1,584	1,624	-39	-2.4%	1,486
Machinery and equipment	10,883	10,730	153	1.4%	8,956
Other tangible fixed assets	56	51	4	9.3%	0
Total tangible fixed assets (*4)	12,525	12,406	118	1.0%	10,442
Intangible fixed assets					
Goodwill	1,509	1,765	-255	-14.5%	367
Other intangible fixed assets (*5)	5,165	4,157	1,008	24.2%	2,425
Total intangible fixed assets	6,675	5,922	752	12.7%	2,792
Investments and others					
Investment securities (*6)	27,538	26,922	615	2.3%	10,417
Long-term loans (*3)	1,344	2,514	-1,169	-46.5%	5,862
Others	3,780	3,439	340	9.9%	2,553
Allowance for doubtful accounts	-26	-9	-16	171.3%	-90
Total investments and others	32,637	32,867	-229	-0.7%	18,743
Total fixed assets	51,838	51,196	641	1.3%	31,978
<b>Total assets</b>	<b>151,314</b>	<b>129,847</b>	<b>21,467</b>	<b>16.5%</b>	<b>100,287</b>

(Millions of yen)

	As of Sep. 30, 2005	As of June 30, 2005	Comparison with the previous quarter		As of Sep. 30, 2004
	Amount	Amount	Increase/ decrease	Change	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable—trade	1,146	1,299	-152	-11.8%	834
Short-term loans	239	349	-109	-31.4%	204
Accounts payable—other (*7)	10,216	7,916	2,300	29.1%	7,087
Accrued income taxes (*8)	16,242	7,284	8,957	123.0%	10,663
Reserve for point system	934	703	231	32.9%	20
Other current liabilities	5,086	5,414	-328	-6.1%	2,332
Total current liabilities	33,865	22,967	10,898	47.5%	21,142
Long-term liabilities					
Long-term deferred taxes (*9)	1,963	2,482	-518	-20.9%	2,196
Reserve for retirement allowances	14	14	0	0.5%	12
Other long-term liabilities	195	196	-1	-0.6%	291
Total long-term liabilities	2,173	2,693	-519	-19.3%	2,500
<b>Total liabilities</b>	<b>36,039</b>	<b>25,660</b>	<b>10,378</b>	<b>40.4%</b>	<b>23,643</b>
<b>Minority interests in consolidated subsidiaries</b>					
Minority interests in consolidated subsidiaries	626	454	171	37.8%	315
<b>Shareholders' equity</b>					
Common stock (*10)	6,803	6,724	79	1.2%	6,503
Additional paid-in capital	1,884	1,805	79	4.4%	1,584
Retained earnings (*11)	101,100	89,957	11,143	12.4%	63,892
Other securities evaluation adjustment (*12)	4,887	5,272	-384	-7.3%	4,374
Treasury stock	-27	-27	-	-	-26
<b>Total shareholders' equity</b>	<b>114,648</b>	<b>103,731</b>	<b>10,917</b>	<b>10.5%</b>	<b>76,328</b>
<b>Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity</b>	<b>151,314</b>	<b>129,847</b>	<b>21,467</b>	<b>16.5%</b>	<b>100,287</b>

## Main Points Regarding Consolidated Balance Sheets

### Assets

- \*1 The increase in cash and cash equivalents compared with the previous quarter and year on year was principally due to earnings growth based on sales activities.
- \*2 The increase in accounts receivable—trade compared with the previous quarter and year on year is chiefly due to increase in advertising sales and sales from individuals.
- \*3 The increase in short-term loans and the decline in long-term loans compared with the previous quarter and year on year were chiefly due to the transfer of loans made based on a finance scheme for Yahoo! BB business from the long-term loans account to the current assets account because payment is expected within one year.

- \*4 The increase in tangible fixed assets compared with the previous quarter and year on year was mainly due to additional installations, such as servers, etc.
- \*5 The expansion in other intangible fixed assets compared with the previous quarter and year on year was primarily due to growth in software.
- \*6 The increase in investment securities compared with the previous quarter and year on year was principally due to the acquisition of stocks of affiliates.

### **Liabilities**

- \*7 The growth in accounts payable—other from the previous quarter and year on year resulted primarily from the increase in operating expenses.
- \*8 The increase in accrued income taxes compared with the previous quarter and year on year can be mainly attributed to the booking of income taxes and other taxes.
- \*9 Deferred taxes was chiefly due to the mark-to-market of investment securities.

### **Shareholders' Equity**

- \*10 The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.
- \*11 The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.
- \*12 The other securities evaluation adjustment decreased compared with the previous quarter due to the mark to market of investment securities.

## 2. Consolidated Statements of Income (July 1, 2005-September 30, 2005)

(Millions of yen)

	Three months ended Sep. 30, 2005		Three months ended June 30, 2005	Comparison with the previous quarter		Three months ended Sep. 30, 2004
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	41,140	100.0%	38,876	2,263	5.8%	26,476
Cost of sales	3,440	8.4%	3,487	-46	-1.3%	1,885
Gross profit	37,699	91.6%	35,388	2,310	6.5%	24,591
SG&A expenses	18,685	45.4%	16,981	1,704	10.0%	10,872
Personnel expenses (*1)	3,466	8.4%	3,341	124	3.7%	2,136
Business commissions (*2)	2,654	6.5%	2,278	376	16.5%	1,491
Sales commissions	1,877	4.6%	1,807	69	3.9%	1,012
Sales promotion costs (*3)	1,561	3.8%	1,353	208	15.4%	370
Depreciation expenses (*4)	1,537	3.7%	1,358	178	13.2%	1,020
Communication charges	1,333	3.2%	1,376	-43	-3.2%	1,033
Royalties	1,096	2.7%	1,034	62	6.0%	682
Lease and utility expenses (*5)	1,004	2.4%	860	143	16.7%	533
Content provider fees	734	1.8%	666	68	10.2%	605
Payment commissions	545	1.3%	557	-12	-2.2%	270
Allowance for doubtful accounts (*6)	445	1.1%	219	226	103.3%	218
Advertising costs	385	0.9%	355	30	8.5%	208
Compensation payment (*7)	368	0.9%	173	194	112.0%	230
Packing and transport expenses	279	0.7%	251	28	11.2%	163
Administrative and maintenance expenses	255	0.6%	238	17	7.4%	165
Others (*8)	1,138	2.8%	1,106	31	2.8%	729
Operating income	19,014	46.2%	18,407	606	3.3%	13,718
Non-operating expenses (income)	-468	-1.1%	-588	120	-	107
Ordinary income	18,545	45.1%	17,818	726	4.1%	13,826
Extraordinary gains (losses)	351	0.8%	-36	387	-	276
Quarterly income before income taxes	18,896	45.9%	17,782	1,114	6.3%	14,103
Income taxes, inhabitants' taxes and enterprise taxes	8,829	21.5%	7,122	1,707	24.0%	5,635
Adjustment to income taxes	-1,145	-2.8%	321	-1,467	-	-173
Minority interests in gain (loss) of consolidated subsidiaries	69	0.1%	27	41	147.8%	0
Quarterly net income	11,143	27.1%	10,310	833	8.1%	8,641

## Consolidated Statements of Income (April 1, 2005-September 30, 2005)

(Millions of yen)

	Interim period ended Sep. 30, 2005		Interim period ended Sep. 30, 2004	Comparison with the same period of the last fiscal year	
	Amount	% share	Amount	Increase/ decrease	Change
Net sales	80,016	100.0%	50,972	29,044	57.0%
Cost of sales	6,928	8.7%	3,442	3,486	101.3%
Gross profit	73,087	91.3%	47,529	25,558	53.8%
SG&A expenses	35,666	44.5%	20,340	15,326	75.3%
Personnel expenses (*1)	6,807	8.5%	4,207	2,600	61.8%
Business commissions (*2)	4,932	6.2%	2,760	2,172	78.7%
Sales commissions	3,684	4.6%	1,966	1,718	87.4%
Sales promotion costs (*3)	2,915	3.6%	806	2,108	261.4%
Depreciation expenses (*4)	2,896	3.6%	1,840	1,055	57.3%
Communication charges	2,709	3.4%	1,873	835	44.6%
Royalties	2,131	2.7%	1,320	811	61.4%
Lease and utility expenses (*5)	1,864	2.3%	1,013	851	84.0%
Content provider fees	1,401	1.8%	1,131	270	23.9%
Payment commissions	1,103	1.4%	515	587	113.9%
Allowance for doubtful accounts (*6)	664	0.8%	323	341	105.6%
Advertising costs	741	0.9%	371	370	99.5%
Compensation payment (*7)	541	0.7%	354	187	52.9%
Packing and transport expenses	531	0.7%	293	237	81.1%
Administrative and maintenance expenses	494	0.6%	320	173	54.2%
Others (*8)	2,245	2.7%	1,240	1,004	81.0%
Operating income	37,421	46.8%	27,189	10,231	37.6%
Non-operating expenses (income)	-1,057	-1.4%	154	-1,211	-
Ordinary income	36,364	45.4%	27,343	9,020	33.0%
Extraordinary gains (losses)	314	0.4%	546	-231	-42.3%
Interim income before income taxes	36,679	45.8%	27,889	8,789	31.5%
Income taxes, inhabitants' taxes and enterprise taxes	15,952	19.9%	10,424	5,527	53.0%
Adjustment to income taxes	-823	-1.0%	513	-1,337	-
Minority interests in gain (loss) of consolidated subsidiaries	97	0.1%	-1	98	-
Interim net income	21,453	26.8%	16,952	4,500	26.5%

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

### **Net Sales**

The increase in net sales from the previous quarter was primarily due to growth in the advertising and business service sales of Listing Business. Sales of consolidated subsidiaries, on a gross total basis, were ¥5,401 million for the second quarter.

### **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 2,214 up 995, or 81.6%, 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 contracted employees, the settlement operations of personal service sales, and Yahoo! BB's call center.

The increase in business commissions compared with the previous quarter could mainly be attributed to expenses related to temporary and contracted employees.

#### **\*3 Sales promotion costs**

Sales promotion costs increased compared with the previous quarter principally because of the rise in incentive fees paid to advertising agencies and the growth in payment of customer acquisition costs related to business service sales.

#### **\*4 Depreciation expenses**

Depreciation expenses increased compared with the previous quarter and year on year primarily because of the addition of servers and other equipment. In addition, beginning with the current interim period, the useful life of some assets has been shortened.

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

Lease and utility expenses rose compared with the previous quarter and year on year chiefly due to expanded office space as a result of the hiring of more employees.

#### **\*6 Allowance for doubtful accounts**

The primary reasons for the increase in the provision to allowance for doubtful accounts compared with the previous quarter were growth in sales receivables to businesses and individuals, as well as increase in aged sales receivables for individual customers for which the estimated loss percentage is high.

\*7 Compensation payment

The growth in the compensation payment from the previous quarter and year on year can primarily be attributed to the increase in the estimated amount of payment in line with the temporary rise in the percentage of claim application being approved.

\*8 Others

The major components of others were tax and public dues, amortization of goodwill, and purchase of fixtures and fittings.

**Non-Operating Income (Expenses)**

The main component of non-operating income for the quarter was interest earned from loan based on finance scheme on Yahoo! BB business. The main component of non-operating expenses was loss of affiliate on equity method.

**Extraordinary Gains (Losses)**

The major extraordinary gain recorded during the quarter was a gain on change in equity holdings in affiliates, while the major extraordinary loss was a loss on application of impairment accounting in regard to the absorption of the services of a consolidated subsidiary.

**Income Taxes, etc.**

The effective income tax rate for the quarter was 40.7%.

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

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

**Quarterly Net Income**

Net income per share for the quarter amounted to ¥707.08.

### 3. Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Sep. 30, 2005	Six months ended Sep. 30, 2005
<b>Cash flows from operating activities:</b>		
Quarterly (interim) income before income taxes	18,896	36,679
Depreciation and amortization	1,581	2,980
Loss on impairment	62	135
Amortization of goodwill	191	382
Increase in allowance for doubtful accounts	215	187
Additions to reserve for point system	231	457
Increase in reserve for retirement allowances	0	0
Loss on disposal of fixed assets	42	85
Loss on sale of fixed assets	0	21
Gain/ loss on sale of investment securities	-	-37
Exchange gains/ losses	-0	-0
Equity in loss/gain under the equity method	614	1,320
Gain/loss on change in affiliate holding ratio	-413	-413
Proceeds from interest and dividends	-184	-365
Interest expense	1	3
Decrease in inventory	35	48
Increase in accounts receivable trade (*1)	-798	-1,303
Decrease in accounts payable trade	-152	-82
Increase in accounts receivable other	-33	-1,056
Increase in accounts payable other (*2)	1,692	2,939
Increase/decrease in consumption tax payable	14	-533
Payment of bonuses to directors	-160	-160
Other cash flows	-197	-144
Payment of income taxes and other taxes	-4	-16,259
Cash flows from operating activities	21,636	24,886
<b>Cash flows from investing activities:</b>		
Expenditures on tangible fixed assets (*3)	-1,476	-3,456
Expenditures on intangible fixed assets (*4)	-520	-1,543
Expenditures on investment securities (*5)	-1,741	-13,574
Proceeds from sale of investment securities	-	37
Expenditures on increase in equity funds	-23	-84
Proceeds from decrease in equity funds	300	300
Expenditures from acquisition of stock of subsidiaries	-	-376
Proceeds from recovery of lending	26	57
Expenditures on increase in guarantee deposit assets	-354	-633
Proceeds from decrease in guarantee deposit assets	11	12
Proceeds from interest and dividends	148	315
Other cash flows	-3	-3
Cash flows from investing activities	-3,632	-18,949

(Millions of yen)

	Three months ended Sep. 30, 2005	Six months ended Sep. 30, 2005
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loan (*6)	100	340
Redemption of short-term loan (*6)	-200	-400
Proceeds from issuance of shares (*7)	158	223
Proceeds from payments by minority interests	100	100
Expenditures on payments of dividends	-	-3,654
Interest expenses	-1	-3
Other cash flows	13	3
Cash flows from financing activities	170	-3,390
Effect of exchange rate changes on cash and cash equivalents	0	0
Net change in cash and cash equivalents	18,174	2,546
Cash and cash equivalents at the beginning of term	53,365	68,992
Cash and cash equivalents at the end of term	71,539	71,539

## Main Points Regarding Statements of Cash Flows

### Cash Flows from Operating Activities

\*1 Accounts receivable-trade

The increase was chiefly attributable to growth in advertising sales and sales to individuals.

\*2 Accounts payable-other

The increase was primarily attributable to increase in accrued amount payable due to increased operating expense.

### Cash Flows from Investing Activities

\*3 Expenditures on tangible fixed assets

Expenditures were a result of purchase of servers and other equipment.

\*4 Expenditures on intangible fixed assets

Expenditures were chiefly for the purchase of software.

\*5 Expenditures on investment securities

Expenditures were mainly for the purchase of stock of affiliates.

### Cash Flows from Financing Activities

\*6 Proceeds and Redemption of short-term loan

Proceeds and expenditures resulted from the borrowing and redemption of short-term loans of subsidiaries.

\*7 Proceeds from issuance of shares

Proceeds were from the exercise of stock options.

## 4. Segment Information

### FY2005-2Q (July 1, 2005-September 30, 2005)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	11,897 (28.9%)	8,214 (20.0%)	4,808 (11.7%)	4,379 (10.6%)	4,143 (10.1%)	844 (2.1%)	6,907 (16.8%)	41,195 -	-55 (-0.2%)	41,140 (100.0%)
Operating expenses	2,993	3,536	2,959	3,890	2,439	992	2,616	19,428	2,697	22,126
Operating income (Contribution)	8,903 (46.8%)	4,677 (24.6%)	1,849 (9.7%)	489 (2.6%)	1,704 (9.0%)	-148 (-0.8%)	4,290 (22.6%)	21,767 -	-2,753 (-14.5%)	19,014 (100.0%)

### FY2005-1Q (April 1, 2005-June 30, 2005)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	10,109 (26.0%)	8,335 (21.4%)	4,620 (11.9%)	4,226 (10.9%)	3,916 (10.1%)	877 (2.3%)	6,824 (17.6%)	38,911 -	-34 (-0.2%)	38,876 (100.0%)
Operating expenses	2,402	3,132	2,735	3,854	2,255	1,001	2,347	17,730	2,738	20,469
Operating income (Contribution)	7,706 (41.9%)	5,202 (28.3%)	1,885 (10.2%)	372 (2.0%)	1,661 (9.0%)	-124 (-0.7%)	4,477 (24.3%)	21,181 -	-2,773 (-15.0%)	18,407 (100.0%)

### FY2004-2Q (July 1, 2004-September 30, 2004)

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	6,514 (24.6%)	6,114 (23.1%)	4,158 (15.7%)	2,298 (8.7%)	2,223 (8.4%)	398 (1.5%)	4,822 (18.2%)	26,529 -	-52 (-0.2%)	26,476 (100.0%)
Operating expenses	1,536	2,098	1,621	2,162	1,635	405	1,294	10,755	2,001	12,757
Operating income (Contribution)	4,977 (36.3%)	4,015 (29.3%)	2,536 (18.5%)	135 (1.0%)	587 (4.3%)	-7 (-0.1%)	3,527 (25.7%)	15,773 -	-2,054 (-15.0%)	13,718 (100.0%)

**FY2005-Interim Period (April 1, 2005-September 30, 2005)**

(Millions of yen)

	Listing	Auction	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	22,006 (27.5%)	16,549 (20.7%)	9,429 (11.8%)	8,606 (10.8%)	8,060 (10.1%)	1,721 (2.2%)	13,732 (17.2%)	80,107 -	- 90 (-0.3%)	80,016 (100.0%)
Operating expenses	5,395	6,669	5,694	7,744	4,694	1,994	4,964	37,158	5,436	42,595
Operating income (Contribution)	16,610 (44.4%)	9,879 (26.4%)	3,735 (10.0%)	862 (2.3%)	3,365 (9.0%)	-272 (-0.7%)	8,767 (23.4%)	42,948 -	- 5,526 (-14.8%)	37,421 (100.0%)

**FY2004-Interim Period (April 1, 2004-September 30, 2004)**

(Millions of yen)

	Auction	Listing	Yahoo! BB	Shopping	Media	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	12,199 (23.9%)	12,151 (23.8%)	7,967 (15.6%)	4,293 (8.4%)	4,276 (8.4%)	749 (1.5%)	9,412 (18.5%)	51,050 -	-78 (-0.1%)	50,972 (100.0%)
Operating expenses	3,951	2,869	3,110	3,879	3,086	780	2,539	20,216	3,565	23,782
Operating income (Contribution)	8,248 (30.3%)	9,282 (34.1%)	4,857 (17.9%)	413 (1.5%)	1,190 (4.4%)	-31 (-0.1%)	6,873 (25.3%)	30,834 -	-3,644 (-13.4%)	27,189 (100.0%)

## Outline of Businesses

Segment	Main Services and Associated Subsidiaries
Listing Business	Provides search services, such as Keyword Search and Category Search; information listing services, such as Yahoo! Rikunabi and Yahoo! Autos; and regional information services, such as Yahoo! Maps and Yahoo! Phone Book. <ul style="list-style-type: none"> <li>• ALPS MAPPING K.K.</li> <li>• BridalNet, Inc.</li> <li>• Indival, Inc.</li> </ul>
Auction Business	Operates the auction site. <ul style="list-style-type: none"> <li>• Netrust, Ltd.</li> </ul>
Yahoo! BB Business	Offers comprehensive broadband-related services.
Shopping Business	Operates online shopping site. <ul style="list-style-type: none"> <li>• Seven and Y Corp., others</li> </ul>
Media Business	Supplies information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies; and community services, such as Yahoo! Message Boards. <ul style="list-style-type: none"> <li>• Y's Sports Inc.</li> <li>• Y's Insurance Inc.</li> </ul>
Business Solutions (BS) Business	Provides domain/hosting services and Yahoo! Research Internet survey services. <ul style="list-style-type: none"> <li>• Firstserver, Inc.</li> <li>• UniCept, Inc.</li> </ul>
Corporate Common Business	Advertising sales for the top page of Yahoo! JAPAN and Yahoo! Premium revenues. <ul style="list-style-type: none"> <li>• NETGENE Co., Ltd.</li> <li>• VACS Corporation, others</li> </ul>

## 5. Operating Review by Business

The Group employs a business division organizational system. The reason for adopting this type of business organization was to clarify responsibility for profits and losses and cause individual business to do their own business planning and create their own budgets. Moreover, the system is intended to optimize the allocation of human, physical, and financial resources and speed up decisions, thus maximizing results. Business that is not related to any one of 6 businesses but common to all business is termed Corporate Common Business.

The following is an outline of the activities of the six businesses and Corporate Common Business for the period. For the statement of income by business, the net sales have been classified into the following four types of services.

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

### **Net Sales by Business (Second Quarter)**

(Millions of yen)

	Advertising	Business Service	Personal Service	Other	Total
Listing	8,102	3,595	198	-	11,897
Auction	578	1,093	6,541	-	8,214
Yahoo! BB	638	1,436	2,733	-	4,808
Shopping	612	1,024	-	2,742	4,379
Media	3,544	176	421	-	4,143
BS	39	797	8	-	844
Corporate Common Business	2,164	112	4,630	-	6,907
Elimination or Corporate	-	-54	-	-0	-55
Total	15,681	8,182	14,534	2,741	41,140

## Net Sales by Business (Interim Period)

(Millions of yen)

	Advertising	Business Service	Personal Service	Other	Total
Listing	14,898	6,803	304	-	22,006
Auction	1,083	2,099	13,367	-	16,549
Yahoo! BB	1,080	3,004	5,344	-	9,429
Shopping	1,135	1,866	-	5,604	8,606
Media	6,971	309	779	-	8,060
BS	122	1,584	15	-	1,721
Corporate Common Business	4,472	214	9,044	-	13,732
Elimination or Corporate	-	-89	-	-0	-90
Total	29,762	15,793	28,856	5,603	80,016

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

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

This business provides search services, such as Keyword Search and Category Search; information listing services, such as Yahoo! Autos, Yahoo! Real Estate, and Yahoo! Rikunabi; and regional information services, such as Yahoo! Maps, Yahoo! Phone Book, and Yahoo! Gourmet. The business builds revenues by charging fees to the information providers and is developing a paid search business based on Sponsor Site.

Main Services: Keyword Search, Category Search, Yahoo! Product Search, Yahoo! SEARCH, Yahoo! Dictionary, Yahoo! Translation, Yahoo! Knowledge, Yahoo! Autos, Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Education, Yahoo! Marriage, Yahoo! Wedding, Yahoo! Healthcare, Yahoo! Present, Yahoo! Maps, Yahoo! Transit, Yahoo! Traffic Information, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Phone Book, Yahoo! Coupons, Business Express

#### **2) Activities in the Second Quarter**

In the second quarter we continued to expand services, targeting further growth in our user base. In our search services, we improved Yahoo! Translation by adding a range of new functions. Users now can search pages in English, Chinese and Korean using Japanese key words and have the results translated automatically into Japanese. Moreover, it is now simple to use the translation service by mobile phone when away from your personal computer. Among information listing services, we concluded a business alliance with CLASSIFIED Corporation to further improve the content of Yahoo! Real Estate, strengthening our listing of newly built houses (for which CLASSIFIED acts as an advertising sales agent). In addition we expanded our Shotworks services (temporary employment information listing) by starting Shotworks in the Kansai and Tokai regions. Among regional information services, we began an experimental service whereby users of Yahoo! Maps are being requested to provide the latest map update information on such items as facilities that have recently opened or stores that have closed.

## Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 6	<ul style="list-style-type: none"> <li>Concluded an alliance with CLASSIFIED Corporation, which became a sales agent for our New House Information service on Yahoo! Real Estate.</li> </ul>
September 6	<ul style="list-style-type: none"> <li>Commenced Shotworks, a short-term, one-off temporary employment information service, in the Kansai and Tokai regions. Its function has been improved to allow the service to be used by mobile phones in the same way as personal computers.</li> </ul>
September 28	<ul style="list-style-type: none"> <li>In cooperation with ALPS MAPPING K.K., we began an experimental user updating service on Yahoo! Maps.</li> </ul>

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

Monthly page views in September	4,134.19 million page views (+2.1 %)	13.9 % of total page views
Daily average page views in September	137.80 million page views (+2.1 %)	

\*The above figure includes page views of ALPS MAPPING K.K. and BridalNet, Inc.

## Business Express Orders

July 2005	Aug. 2005	Sep. 2005
3,910 contracts	3,878 contracts	3,772 contracts

## 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are Business Express and information listing fees for Yahoo! Rikunabi, Yahoo! Autos, Yahoo! Real Estate, and others.</li> <li>The main components of personal service sales were the sales of BridalNet, Inc. and ALPS MAPPING K.K.</li> <li>The main component of cost of sales was the expenses for producing the maps of ALPS MAPPING K.K.</li> <li>Main items in SG&amp;A are personnel, content provider fees, business commissions, royalty expenses.</li> </ul>
Advertising	8,102	1,307	19.2%	14,898	
Business service	3,595	387	12.1%	6,803	
Personal service	198	93	88.2%	304	
Other	-	-	-	-	
Total	11,897	1,787	17.7%	22,006	
Cost of sales	341	118	53.0%	563	
Gross profit	11,556	1,669	16.9%	21,442	
SG&A expenses	2,652	472	21.7%	4,831	
Operating income	8,903	1,196	15.5%	16,610	
Operating margin	74.8%	-	-	75.5%	

## **(2) Auction Business**

### **1) Major Business**

Based on its Yahoo! Auctions services, this business provides a place where individuals can buy and sell items and companies can sell their goods by auction. In addition, it supports companies to have stores on Yahoo! Auctions.

Main Services: Yahoo! Auctions, Yahoo! Delivery, Yahoo! ezPay

### **2) Activities in the Second Quarter**

During the second quarter, we took a variety of actions to expand service use. We ran a 6<sup>th</sup> Anniversary Campaign that gave away such gifts as Yahoo! Points, a car, and an LCD television set. We also set up a Trial Yahoo! Auction site within Yahoo! Auctions where first-time users can try out the auctioning method without any worries. We expanded our government-related Internet auction services to include six regional and municipal governments, adding auctions for Osaka and Hokkaido to our auctions for Tokyo and Kitakata city and Kagawa and Hiroshima prefectures. In addition, Ministry of Finance will hold public and Internet auctions of modern coins minted in Japan and we were commissioned to handle their Internet auctions. To support medium- to long-term growth, we also continued to strengthen our security measures, implementing early discover schemes for suspected fraud on auctions and reinforcing and expanding the staff for removing auction items in violation of laws or policies.

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

Date	New Services and Service Upgrades
July 4	• Held charity auction commemorating the TV animation show “Play Ball,” based on the famous baseball comic series created by Akio Chiba.
July 8	• In cooperation with DeNA Co., Ltd., and Rakuten, Inc., produced Internet Auction Self-Regulatory Guidelines to eliminate items from auctions that violate intellectual property rights.
July 25	• Were commissioned to handle Internet auctions of gold coins minted in Japan to be held by the Ministry of Finance.
August 23~	• Held government-related Internet public auctions for six regional and municipal governments, including Tokyo and Osaka, Hokkaido, Kitakata city, and Kagawa and Hiroshima prefectures.
August 25~ October 21	• Held an “EXPO 2005 Aichi Japan Asset Auction” in cooperation with Maynards Japan Co., Ltd., featuring items from the exhibitions of the foreign pavilions at the EXPO 2005 Aichi Japan.
August 27~ September 27	• In conjunction with VOGUE NIPPON, held a VOGUE NIPPON Charity Auction featuring such items as the favorite handbags of nine world celebrities and exclusive edition items of famous brands.
August 29~	• In cooperation with SBI artfolio Co., Ltd., held a “Beijing Hanhai Auction in Yahoo! Japan” featuring approximately 60 antiques authenticated by the government of China.
September 21	• Cumulative charity auction total for 2005 exceeds 100 million yen.

September 29	<ul style="list-style-type: none"> <li>Started Trial Yahoo! Auction, a site where first-time users can try out the auctioning method without any worries.</li> </ul>
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### Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in September	6,440.88 million page views (-2.5 %)	21.6 % of total page views
Daily average page views in September	214.69 million page views (-2.5 %)	

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

	July 2005	Aug. 2005	Sep. 2005
Number of auction unique browsers	20.62 million browsers	20.64 million browsers	21.48 million browsers
Number of total listed items (Monthly average)	8.33 million items	8.16 million items	8.54 million items
Number of stores (As of the end of each month)	4,025 stores	4,244 stores	4,458 stores

	Apr. 2005-June 2005	July 2005-Sep. 2005
Daily average number of new listings	667 thousand items	668 thousand items
Daily average transaction volume	¥ 1,732 million	¥ 1,671 million
Average closing price per item	¥ 5,543	¥ 5,602
The average ratio of successful auctions per day	37%	34%

Notes: 1. Daily average transaction volume does not include cancellations or adjustments.

2. The average ratio of successful auctions per day is calculated excluding the ratio for the final days of free listing campaign.

### 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are sales commissions, tenant fees, and registration fees of stores (merchant stores).</li> </ul>
Advertising	578	74	14.8%	1,083	
Business service	1,093	88	8.8%	2,099	
Personal service	6,541	-283	-4.2%	13,367	
Other	-	-	-	-	

Total	8,214	-120	-1.5%	16,549	<ul style="list-style-type: none"> <li>• Sales included in personal service are system-use fees of Yahoo! Auctions and others.</li> <li>• Main items in SG&amp;A are business commissions, communication, payment commissions, and personnel expenses.</li> </ul>
Cost of sales	9	0	5.6%	18	
Gross profit	8,204	-121	-1.5%	16,530	
SG&A expenses	3,527	403	12.9%	6,651	
Operating income	4,677	-524	-10.1%	9,879	
Operating margin	56.9%	-	-	59.7%	

### **(3) Yahoo! BB Business**

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

Yahoo! BB's business activities revolve around its comprehensive broadband service Yahoo! BB. They mainly comprise the acquisition of subscribers over the Web and the provision of some ISP services, such as e-mail, homepage creation, and others.

Main Services: Yahoo! BB, Yahoo! Mail, Yahoo! GeoCities

#### **2) Activities in the Second Quarter**

During the quarter under review, we continued to focus on acquiring new subscribers over the Web. We also strengthened our cooperation as a business partner with regard to acquiring subscribers through other sales channels and worked to increase the total number of Yahoo! BB subscribers and expand our services for all members. To acquire new members, we ran various campaigns, including a campaign for new subscribers to Yahoo! BB Hikari and a Hikari-ni-shiyo! Campaign to promote the switch from our Yahoo! BB ADSL to our Yahoo! BB Hikari service. To enhance the value of being a Yahoo! BB subscriber, we ran live broadcasts of such press conferences as the release of the movie "Shigatsu-no-Yuki" attended by the performers. We also offered members classic movie selections through Yahoo! Streaming. We expanded our Yahoo! Mail services for members in many ways. Among new functions, we introduced Image Block, a function to prevent an e-mail address from being passed on to junk mailers, as well as DomainKeys, a function for validating the domain of a received e-mail. In response to requests from many users, we also greatly expanded the number of addresses that can be blocked and filters that can be applied to e-mail.

## Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 19	<ul style="list-style-type: none"> <li>To prevent Yahoo! Mail from being used to steal personal information by Phishing frauds and junk mail sent using false domains, we introduced DomainKeys, a function that validates the domain of the e-mail received.</li> </ul>
September 13	<ul style="list-style-type: none"> <li>We strengthened the anti-junk mail measures for Yahoo! Mail, and expanded security functions to improve the security and safety of our e-mail service.</li> </ul>

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

Monthly page views in September	3,399.49 million page views (+9.6 %)	11.4 % of total page views
Daily average page views in September	113.31 million page views (+9.6 %)	

## Total Subscriber Lines for Yahoo! BB Services

End of June 2005	End of September 2005
Approximately 4,889 thousand lines (including approximately 1,181 thousand lines marketed by Yahoo! JAPAN)	Approximately 4,972 thousand lines (including approximately 1,176 thousand lines marketed by Yahoo! JAPAN)

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

## 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main component of business service sales is the customer acquisition incentive fees of Yahoo! BB.</li> <li>Main component of personal service sales is the ISP fees for Yahoo! BB.</li> <li>Main items in SG&amp;A expenses are sales promotion, business commissions, personnel and depreciation expenses.</li> </ul>
Advertising	638	197	44.7%	1,080	
Business service	1,436	-130	-8.3%	3,004	
Personal service	2,733	121	4.6%	5,344	
Other	-	-	-	-	
Total	4,808	187	4.1%	9,429	
Cost of sales	254	-15	-5.6%	524	
Gross profit	4,553	202	4.7%	8,904	
SG&A expenses	2,704	238	9.7%	5,169	
Operating income	1,849	-35	-1.9%	3,735	
Operating margin	38.5%	-	-	39.6%	

## **(4) Shopping Business**

### **1) Major Business**

This business operates online shopping site with variety of goods, consisted with stores with high brand names and boutiques with a wide assortment of highly individualistic and appealing goods. It also supplies items related to travel, such as domestic and overseas accommodation and airline tickets, information on travel preparation and online ticket service.

Main Services: Yahoo! Shopping, Yahoo! Books, Yahoo! Computers, Yahoo! Tickets, Yahoo! Beauty, Yahoo! Travel, Yahoo! Business Travel, SevenAndY

### **2) Activities in the Second Quarter**

During the period under review, to further increase the number of registered stores, we focused on getting new stores on board through such measures as strengthening our cooperative relationship with sales agency. As a result, the total number of stores rose to 5,099 at the end of September 2005, a gain of 834 stores, or 19.6% from the end of June 2005. We also targeted expansion in the number of users through the full-scale start of the affiliate marketing program, the opening of Disney Mall—the official Disney shopping site—on Yahoo! Shopping, and the launch of sales promotion programs reflecting seasonal trends, such as a special feature on Ochugen (Summer gifts). In the past, mobile phone users have only been able to purchase books, CDs, and DVDs handled by Seven and Y Corp. However, commencing in July 2005, we substantially improved our services for mobile phone users by opening Yahoo! Mobile Shopping. Mobile phone users can now do shopping out of 2 million items from approximately 2,000 stores on this site. To take advantage of the summer demand, Yahoo! Travel ran a special feature on domestic and overseas resorts during the second quarter. In addition, we reached a fundamental agreement with Recruit Co., Ltd., on jointly providing travel related services over the Internet.

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

Date	New Services and Service Upgrades
July 4	<ul style="list-style-type: none"><li>• Yahoo! Mobile Shopping was opened allowing mobile phone users to purchase items out of 2 million items from approximately 2,000 stores.</li></ul>
July 5	<ul style="list-style-type: none"><li>• Began full-scale development of sales promotion activities based on ValueCommerce's affiliate marketing program (CPA model advertising).</li></ul>
July 15	<ul style="list-style-type: none"><li>• In cooperation with the Walt Disney Internet Group, opened Disney Mall, the official Disney shopping site, on Yahoo! Shopping.</li></ul>
August 2	<ul style="list-style-type: none"><li>• Reached a fundamental agreement with Recruit Co., Ltd., to strengthen our cooperative organization, and jointly providing travel related services over the Internet.</li></ul>
August 4	<ul style="list-style-type: none"><li>• Reached a fundamental agreement with Xavel, Inc., on a capital and business alliance to develop FashionWalker, an e-commerce site for personal computer users.</li></ul>

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

Monthly page views in September	589.46 million page views (+3.8 %)	2.0 % of total page views
Daily average page views in September	19.64 million page views (+3.8 %)	

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

## Daily Average Transaction Volume of Yahoo! Shopping Stores

Apr. 2005-June 2005	July 2005-Sep. 2005
¥ 270 million	¥ 316 million

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

## 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are tenant fees and sales commissions of Yahoo! Shopping and sales commissions of Tavigator, Inc.</li> <li>Main items in other sales are sales of Seven and Y Corp and others.</li> <li>Main item in cost of sales is purchasing costs of Seven and Y Corp.</li> <li>Main items in SG&amp;A are personnel, business commissions, packing and transport, and lease and utility expenses.</li> </ul>
Advertising	612	90	17.2%	1,135	
Business service	1,024	182	21.7%	1,866	
Personal service	-	-	-	-	
Other	2,742	-119	-4.2%	5,604	
Total	4,379	152	3.6%	8,606	
Cost of sales	2,237	-142	-6.0%	4,618	
Gross profit	2,141	295	16.0%	3,988	
SG&A expenses	1,652	178	12.1%	3,126	
Operating income	489	116	31.4%	862	
Operating margin	11.2%	-	-	10.0%	

## (5) Media Business

### 1) Major Business

Our Media business provides users with a variety of desired content and services, thereby stimulating page views and increasing advertising sales. The business also provides fee-based content and services. Services provided include information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies,

Yahoo! Music, and Yahoo! Streaming; and community services, such as Yahoo! Message Boards and Yahoo! Avatar.

Main Services: Yahoo! News, Yahoo! Finance, Yahoo! Insurance, Yahoo! Sports, Yahoo! Weather, Yahoo! Movies, Yahoo! Music, Yahoo! ChakuMelo, Yahoo! Entertainment, Yahoo! TV, Yahoo! Fortune Telling, Yahoo! Games, Yahoo! Comics, Yahoo! Streaming, Yahoo! Member Directory, Yahoo! Message Boards, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! Groups, Yahoo! Delivers

## 2) Activities in the Second Quarter

During the quarter under review, we continued to develop appealing content for viewers and advertisers and to expand sales by planning special features. On Yahoo! Music, we launched Yahoo! Music Sound Station, Japan's first free on-demand music listening service, offering about 100 thousand full-size songs. Strengthening our efforts to work together with other media, we conducted various attention-grabbing projects. In Yahoo! TV, we established a special site for the NHK TV drama series Haru to Natsu, a special series commemorating NHK's 80th anniversary of TV broadcasting. In Yahoo! Games, we enabled users to play online against Kouji Tanigawa, a 9th dan Shogi (Japanese chess) master. Among measures to expand our pay content services, we added seasonal content, such as more menus for well-known fortune tellers on Yahoo! Fortune Telling and a special feature on Summer Mysteries on Yahoo! Streaming.

### Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! Streaming	July 20	<ul style="list-style-type: none"> <li>Ran a Summer Mystery Special Feature showing such horror movies as Ring and Rasen and offering ghost stories told by Jyunji Inagawa, a must for horror story fans.</li> </ul>
Yahoo! Games	August 13	<ul style="list-style-type: none"> <li>Held a Shogi (Japanese chess) event where Kouji Tanigawa, a 9<sup>th</sup> dan player with an eternal master title, played three challengers at a time. Video and sound of the games and playing stage were broadcast.</li> </ul>
Yahoo! Music	August 22	<ul style="list-style-type: none"> <li>Launched Yahoo! Music Sound Station, Japan's first free on-demand music listening service, offering about 100 thousand full-size songs.</li> </ul>
Yahoo! Movies	August 26	<ul style="list-style-type: none"> <li>Started special feature site for Shigatsu-no-Yuki, a movie starring Yong Joon Bae</li> </ul>
Yahoo! TV	September 12	<ul style="list-style-type: none"> <li>Launched special site for Haru to Natsu, a series commemorating NHK's 80th anniversary of TV broadcasting.</li> </ul>

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

Monthly page views in September	8,927.10 million page views (+14.7 %)	30.0% of total page views
Daily average page views in September	297.57 million page views (+14.7 %)	

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

### 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					
Advertising	3,544	118	3.4%	6,971	<ul style="list-style-type: none"> <li>Main component of business service sales is car insurance package estimate request service sales.</li> </ul>
Business service	176	44	33.9%	309	
Personal service	421	63	17.8%	779	
Other	-	-	-	-	
Total	4,143	226	5.8%	8,060	
Cost of sales	122	11	10.6%	233	<ul style="list-style-type: none"> <li>Main component of personal service is sales of fee-based content.</li> <li>Main items in SG&amp;A are sales commissions, personnel, content provider fees, and business commissions expenses.</li> </ul>
Gross profit	4,020	214	5.6%	7,827	
SG&A expenses	2,316	171	8.0%	4,461	
Operating income	1,704	43	2.6%	3,365	
Operating margin	41.1%	-	-	41.8%	

### (6) Business Solutions (BS) Business

#### 1) Major Business

This business utilizes the know-how and technology developed by the Group to offer business solutions to companies and government bodies, including sole proprietors. Specifically, it provides such services as domain and hosting services, the Internet survey service Yahoo! Research, licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C (for end-users) businesses or B-to-B (for sales outlets) businesses, and Web design consulting, etc.

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

#### 2) Activities in the Second Quarter

During the quarter under review, we continued to strengthen our sales capabilities for Yahoo! Research business mainly centered on Yahoo! Research Compact and Yahoo! Research Self. At the end of September, we had a total of about 750 thousand registered monitors, including research, mobile, and research lite monitors. We reached a fundamental agreement with INFO PLANT Co., Ltd., to acquire shares and convert the company to a subsidiary. This action was taken to expand our customer base in the Internet research business and to build an organization that meet the diversifying needs of our customers. In our portal site construction and support services, we launched one site during the quarter

and received one new order and continued our aggressive sales proposals in order to acquire new customers.

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

Monthly page views in September	6.10 million page views (+17.2 %)	0.02 % of total page views
Daily average page views in September	203 thousand page views (+17.2 %)	

Note: Includes the page views of Firstserver, Inc.

### 3) Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> <li>Main components of business service sales are sales of Firstserver, Inc., Yahoo! Research, and Yahoo! WebHosting.</li> <li>Main component of cost of sales is costs for Firstserver, Inc.</li> <li>Main items in SG&amp;A are personnel, amortization of goodwill, business commissions, and lease and utility expenses.</li> </ul>
Advertising	39	-44	-53.1%	122	
Business service	797	9	1.3%	1,584	
Personal service	8	1	21.6%	15	
Other	-	-	-	-	
Total	844	-32	-3.7%	1,721	
Cost of sales	350	1	0.5%	699	
Gross profit	493	-34	-6.6%	1,021	
SG&A expenses	642	-10	-1.6%	1,294	
Operating income	-148	-23	-	-272	
Operating margin	-17.6%	-	-	-15.9%	

### (7) Corporate Common Business– Elimination or Corporate

Revenues and expenses related to advertisements on the top page of Yahoo! JAPAN and revenues and expenses on Yahoo! Premium membership relating to other services of the Company are not allocated to the results of the Group's six businesses, but considered sales and expenses of Corporate Common Business because these revenues and expenses are geared to developing our corporate brand. Sales and expenses from Headquarters are added up to Corporate Common Business.

Main Services: Yahoo! JAPAN Top Page, Yahoo! Kids, My Yahoo!, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert,

Yahoo! Toolbar, Yahoo! Newsletter, Yahoo! Mobile, Yahoo! Volunteer, Yahoo! Bookmark, Yahoo! JAPAN Help Center, Yahoo! Internet Certification, Yahoo! Wallet, Yahoo! Premium, Yahoo! Points, Yahoo! Blogs, Yahoo! Trading, Yahoo! Disaster Information

### Activities in the Second Quarter

In the second quarter, we continued to take measures to increase the number of Yahoo! Premium members and expand our services. We ran a campaign for new Yahoo! Premium members that answered a survey, awarding Yahoo! Points by lottery. We also offered exclusive fortune telling services for Yahoo! Premium members on Yahoo! Fortune Telling. In addition, we increased the storage space for Yahoo! Premium members on Yahoo! Photo and Yahoo! Briefcase to one gigabyte (1GB). To expand services for users, we created a Yahoo! JAPAN Literary Prize program, which carried out a competition for the best novels written by users. Winners' novels appeared on magazines and electronic books. Among other new services, we introduced Yahoo! Trading, a service that allows users to open a trading account at a securities firm over the Internet.

### Number of Premium Member IDs

July 2005	Aug. 2005	Sep. 2005
5.42 million IDs	5.49 million IDs	5.58 million IDs

### Income Statements for the Second Quarter and Interim Period

(Millions of yen)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net sales					(Net Sales) <ul style="list-style-type: none"> <li>Main components of sales of Corporate Common Business are advertising sales on top pages, etc. and Yahoo! Premium fees.</li> <li>Consolidation elimination figures are removed as sales of headquarters.</li> </ul>
Advertising	2,164	-144	-6.2%	4,472	
Business service	57	-9	-14.7%	125	
Personal service	4,630	217	4.9%	9,044	
Other	-0	-0	-	-0	
Total	6,852	62	0.9%	13,641	(SG&A Expenses) <ul style="list-style-type: none"> <li>Main components of SG&amp;A of Corporate Common Business are personnel, business commissions, and sales commissions expenses.</li> <li>Main items in Headquarters SG&amp;A are personnel, depreciation, and business commission expenses.</li> </ul>
Cost of sales	123	-21	-15.0%	269	
Gross profit	6,728	84	1.3%	13,371	
SG&A expenses	5,190	249	5.1%	10,131	
Operating income	1,537	-165	-9.7%	3,240	
Operating margin	22.4%	-	-	23.8%	

## Advertising

### (Advertising Related Sales)

The following is an outline of our advertising business in the quarter under review based on combining as advertising sales the banner, email, and other advertising sales of each business, and related advertising.

### Activities in the Second Quarter

Despite being the so-called summer dry spell, the advertising market was firm overall during the second quarter. The Internet advertising market continued to be particularly robust, with many advertisers, especially National Clients, arranging Internet advertising budgets in preparation for advertising campaigns linking Internet advertising with television and other mass media advertising. In addition to the ongoing popularity of branding advertising, there was notable expansion in Sales Promotion (SP) advertising that emphasizes cost-effective results. Under these circumstances, the Group strengthened its cooperative sales organization with advertising agencies and worked to develop new demand and win large-scale advertising. In particular, targeting National Clients that are highly conscious of branding on the Internet, we aggressively marketed the high-profile and large space advertising, such as Brand Panels for top pages, Super Banners for Yahoo! News-Topics, and Billboard Super Banners whose exposure is determined based on reach. Proposing high-quality advertising products that utilize advanced Flash technology, we increased advertising sales to companies in the high-impact seeking automobile, cosmetics, and movie-related industries. In addition, due to the expansion into SP advertising, we recorded sales growth for our text advertising products, mainly Run Of Center Text and News Top Text, and our e-mail advertising product Yahoo! Delivers, to wide range of industries including real estate firms. Sales of Sponsor Sites were favorable thanks to their active use by the travel industry for sales promotions. Furthermore, our mobile advertising service on Yahoo! Mobile became recognized by a wider range of advertisers during the quarter.

Based on our sales efforts, quarterly advertising business sales rose to ¥15.6 billion, registering another record high.

(Second Quarter)

(Millions of yen)

	Amount	Comparison with the previous quarter		Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Advertising related sales	15,681	1,599	11.4%	7,292	86.9%

(Interim Period)

(Millions of yen)

	Amount	Comparison with the same period in previous fiscal year	
		Increase/decrease	Change
Advertising related sales	29,762	13,857	87.1%

## **Advertising Products**

During the second quarter, sales of high impact products continued to be strong. Sales of such large-sized products as Super Banner and Large Square that use their larger spaces for moving advertising exceeded those of the previous quarter. Billboard Super Banners, which aim to achieve a broad reach, also sold well. During the quarter, the 30-second commercials with video being shown on Yahoo! Music Sound Station, Japan's first full-sized, free-listing music site, drew lots of attention. The advertisements by political parties during the Diet election and by other government bodies also attracted great interest.

For the quarter, rates for high-volume branding-type banner ads ranged from ¥0.15 to ¥0.60 per page view, rates for targeting-type banner ads varied from ¥0.30 to ¥12.00 per page view, and rates for the large-sized Super Banners varied from ¥0.30 to ¥4.00 per page view. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥4.00 to ¥10.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥5.40 million to ¥7.20 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

(Reference)

## **Yahoo! JAPAN CSR Activities**

As an Internet business, our Group carries out a variety of activities to contribute to the healthy development of the emerging Internet society. Our views and record regarding corporate social responsibility (CSR) activities are covered in the Yahoo! JAPAN Sustainability Report 2005.

The report introduces our various CSR activities from three points of view—our relationship with society, our relationship with the Internet community, and our stance on corporate governance and compliance.

\* The Yahoo! JAPAN Sustainability Report 2005 can be viewed at <http://csr.yahoo.co.jp/> (Japanese language only).

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

### **1. Disaster Information Service**

- We launched Yahoo! Disaster Information, a site offering disaster prevention intelligence and other information regarding such disasters as earthquakes, fires, typhoons, and heavy rainfalls (September 15).

### **2. Volunteer Activities**

- We established a special site for the White Band Project, a worldwide movement to eliminate poverty (from July 14 to September 30).
- We created a special site for the Yahoo! JAPAN Pink Ribbon Campaign 2005, which aims to make people aware of the importance of early discovery, diagnosis, and treatment of breast cancer (from June 29 to October 31).
- During the quarter, we solicited contributions on our Internet Charity Contributions site for the victims of Typhoon No. 14 in Japan, Hurricane Katrina in the United States and for the Hohoemi Fund, which aims to wipe out breast cancer, of the Japan Cancer Society.

### **3. 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 second quarter, we held many charity auctions that attracted great interest. Among them, there was an auction of a original soccer ball through the collaboration of the fashion design company Loewe and the Real Madrid profession soccer club. We also held an auction of a right to be an extra in the movie "The Little Men—GAMERA"—a first for our charity auctions. In total, we held 524 charity auctions during the quarter, raising a total of approximately ¥41.89 million. The funds raised for such charities are being donated to the following charities (not listed in any special order).

- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true

- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- Central Community Chest of Japan, which through its Disaster Relief System (Red Feather Charity disaster volunteer and community support systems) provides funding support for NPOs, volunteer groups, and private-sector disaster volunteer centers for support and emergency relief activities for victims in disaster struck regions.
- The Japanese Paralympic Committee (JPC), which supports sports events for disabled people.
- Japan UNICEF, the Japan chapter of the United Nations Children's Fund, works to spread understanding of children's rights and the policies and activities of UNICEF and carries out necessary advocacy and government policy recommendation activities.

#### **4. Environmental Protection Activities**

In cooperation with Maynards Japan Co., Ltd., we held an "EXPO 2005 Aichi Japan Asset Auction" for items displayed or used in the exhibitions of the foreign pavilions at the 2005 World Exposition in Aichi, Japan. Actual items displayed or used in the exhibitions of the Belgium, U.S., Switzerland, and other pavilions were listed for this auction. In the past, most of these items were disposed of and many concerns were voiced over the turning of these cultural and artistic items into waste. Since making effective use of the waste items produced by EXPO 2005 also was in keeping with the intent of EXPO 2005 as its main theme was the environment, the items were sold on Yahoo! Auctions (from August 25 to October 21).

#### **5. Contributing to the Development of Sports Culture**

In August 2005, aiming to contribute to the development of sports culture by giving people an opportunity to realize the beauty of sports, we renewed our official partner contract with the Japan Olympic Committee (JOC). We will now be supporting the 2006 Winter Olympics in Torino and the 2008 Summer Olympics in Beijing as an official partner. At the same time, we also signed an agreement to support the Japanese delegations for the 2006 Winter Paralympics in Torino and the 2008 Summer Paralympics in Beijing. Through our Internet services, we are committed to supporting the development of sports in Japan.

## **Risk Factors**

A number of factors could substantially impact future performance. Major factors contributing to business risk for the Group are discussed below. The Group proactively discloses those items it deems necessary that investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent those risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the issues below before assessing the position of the Group and its future performance. However, it should be noted that the risks listed below do not represent complete coverage of risks that should be considered before investing in the shares of Yahoo Japan Corporation (the "Company").

### **1. Influence of Internet Markets 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 emergence of the Internet as a recognizable force in 1995, and particularly with 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 communications and commercial activity through the Internet and a stable and secure infrastructure for Internet users.

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

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

As nearly the entire catalog of Group services is dependent on the Internet, business operations require 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 users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

## **2) Internet Advertising Market**

### **a. Potentials of the Internet Advertising Market**

Since it began operations in 1996, the Group has been offering search engines and information-related services through its portal site, with advertising as its main source of income. It has grown to become a leading Internet service operator in Japan, with overwhelming user support.

In Japan the Internet-based advertising industry is generally thought to have begun with the Group's start of operations here. According to Dentsu Inc., Internet advertising accounted for about 3% of Japan's total advertising market in 2004, moving ahead of radio advertising for the first time. But this market is still far smaller than those for advertising via leading media like television, newspaper and magazines. In the future, market growth could slow or fall short of our expectations, and the Group will then have less income than anticipated, which could affect its performance.

Along with market growth, the Internet is gaining value as an advertising medium and attracting firms in various industries to expand their advertising. However, its value as an advertising medium has not been adequately established among advertisers, consumers, and advertising agencies. Corporate use of the Internet for advertising has a relatively short history, and it is often done on a test basis with limited budgets. The Group regularly hosts seminars and other informational events to promote understanding and appreciation of Internet advertising in the advertising industry, including both advertisers and agencies. The Group is also enhancing its advertising sales system and ties with advertising companies to expand and stabilize the advertiser base. It is uncertain, however, whether the Internet will ultimately compete with leading media and become established as a profitable advertising medium. There is no guarantee that National Clients, the leading companies that conduct nationwide sales campaigns on relatively large budgets, will come to continually place advertising on the Internet in large volumes, as they do through leading media. That may make it hard for the Group to stabilize advertising income.

The Group projects that advertising through mobile terminals like cellular phones will grow more active than ever, and is working to make its services available through such terminals in addition to personal computers. However, if the weight of Internet access shifts from computers to cellular phones, the Group may see viewer rates fall. That would reduce Group market share, slowing the increase in advertising revenue and impacting earnings.

### **b. Characteristics of Internet Advertising**

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses 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 among advertisers tend to be seasonal. These factors produce underlying short-term fluctuations in the Group's advertising revenue. Further, as the Group's cost structure includes a high proportion of fixed costs, such as personnel and leasing expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Group's earnings stream.

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

The Group develops and sells a variety of advertising products to help fulfill advertiser needs, including products that guarantee exposure periods and numbers of hits, and Sponsor Site services (paid search advertising) operates jointly with Overture K.K.

Products are appearing that employ unconventional advertising methods, such as affiliate ad program (results-based advertising), and the Group intends to keep current with this trend in cooperation with new partners like ValueCommerce Co., Ltd. If the Group fails to properly handle the new approaches required by the evolution of advertising, it could lose advertising income even as costs grow for developing new products and new partnerships with firms that deal with new types of advertising, impacting group performance as a result.

### **d. Trends among Competitors**

Competitors for the Group's advertising business are companies working to earn advertising income by operating portal sites offering search engines and information-related services in Japanese or mainly for Japanese users.

Search engines and information-related services are currently offered through portal sites like Google (Google Inc.), MSN (Microsoft Corp.), infoseek (Rakuten Inc.), goo (NTT-Resonant Inc.), livedoor (livedoor Co., Ltd.) and excite (excite Japan Co., Ltd.). There are many other Websites offering highly specialized information. All compete with the Group's various services.

Operators of these sites include those affiliated with US companies that offer competitive Internet-based services and therefore compete with Yahoo! Inc., which is the primary shareholder of the Company. In this competitive environment, it is uncertain whether the Group can exercise superiority and maintain its dominant position in the industry. Competition could cause price-competition and lower unit prices for the Group's advertising products. In addition to content provider fees and sales commissions paid to advertising agencies and information providers, the Group may have to increase advertising expenses to compete and attract advertisers. That could impact Group performance.

### **3) Personal Services**

#### **a. Market Shifts Due to Increasing Individual Internet Use**

The Group's primary income from businesses targeting individual customers includes system-use fees for Yahoo! Auctions, sales of Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions, Internet service provider fees for Yahoo! BB service, and sales of individually priced contents.

With the spread of broadband communications, the number of Internet users has increased drastically. In this trend, the market for business designed for individuals will likely expand and continue growing. Sooner or later broadband communications in Japan will reach a saturation point and user growth will plateau. To prepare for that time, the Group is taking various measures to build customer satisfaction and promote uses for its range of services. The growth of participation in Yahoo! Auctions, Yahoo! Premium and Yahoo! BB, however, may eventually lose early momentum, which will have significant negative influence on Group earnings.

The market for Yahoo! Auctions has been expanding as participation increases, but with that growth have come reports of incidents never considered in the genesis of the service, such as fraud and illegal listings. To create a safe auction site, the Group will continue instituting measures to comply with legal restrictions and meet societal needs. If these measures fail to have the intended effects and instead cause unanticipated harm, such as discouraging people from participating in Internet auctions, that could reduce Group income from system-use fees for Yahoo! Auctions and the number of Yahoo! Premium members, significantly influencing Group performance.

The spread of broadband communications has allowed the Group to deliver varieties of content to fulfill Internet users' needs, including high-volume services like video and music. The use of this class of content via the Internet will likely expand as Internet users increase. If the delivery of this class of content fails to become a regular part of the lives of users, or access to content using terminal devices other than personal computers becomes the norm, and the Group fails to break into that market, achieving expected earnings could be difficult.

#### **b. Trends among Competitors**

Competitors for the Group business designed for individuals are companies offering electronic commerce, like auctions, IPS services and content delivery in Japanese or mainly for Japanese users.

They include previously mentioned portal site operators; auction sites such as Rakuten Ichiba (Rakuten, Inc.) and BIDDERS (DeNA Co., Ltd.); and IPS services such as @nifty (Nifty Corp.), So-net (Sony Communication Network Corp.), BIGLOBE (NEC Corp.) and OCN (NTT Communications Corp.). Many companies deliver

content and compete with the Group.

In this competitive environment, it is not certain that the Group will be able to exercise superiority and maintain its dominant position in the industry. If participation in the Company's auction site decreases as a result of competition, and the same happens with Yahoo! Premium and Yahoo! BB subscribers as a consequence, the Group could make less from system-use fees and commissions. The probability of commission cuts or major changes in pricing structure due to price competition is not zero. The Group might have to increase advertising expenditures to compete for customers. All these factors could negatively impact Group performance.

#### **4) Business Services**

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

In business services other than advertising, Group income comes mainly from listing services, such as Yahoo! Rikunabi, Yahoo! Autos and Yahoo! Real Estate, and commerce, such as corporate tenant fees and commissions from Yahoo! Auctions and Yahoo! Shopping.

The Group has been expanding the market for listing services, particularly Yahoo! Rikunabi, an employment listing site jointly operated with Recruit Co., Ltd., making the most of the convenience of its Websites and dominant brand power and strength to attract customers. With enhanced sales infrastructure, it is actively attracting retailers to Yahoo! Auctions and Yahoo! Shopping, and will continue to do so to expand commerce income. Despite these efforts, the market may not expand for various reasons. Commercial use of the Internet by corporations may not expand as anticipated, the shift of listing services to the Internet from conventional media, particularly paper media like newspapers, magazines and inserts, may not advance further, the number of users for Group auction and shopping sites and transaction volumes may not increase as anticipated, and there may be insufficient tenants. Group performance could be influenced by these factors.

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

Incentives from SOFTBANK BB Corp. (SBB) for each new Yahoo! BB account represents important income for the Group's business services.

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

It is thought that the start of the Group's Yahoo! BB service was a major stride for broadband communications. According to the latest White Paper on Telecommunication (Ministry of Internal Affairs and Communications), Japan is No. 2 in the world in terms of number of broadband accounts, with the lowest costs and highest speed in the world. Within this market environment, the Group's Yahoo! BB

service, mainly its ADSL service, holds the top customer share in the domestic market.

Nevertheless, due to rapid progress in telecoms technology, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which allows much faster data transfer using optical fiber. So the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By putting effort into sales promotion, taking advantage of its strengths in brand dominance, price-competitiveness and various kinds of campaigns, the Group is working to attract new subscribers. It is possible, however, that the Group will attract fewer accounts than hoped, or see customers switch to competing services and fail to achieve its sales goals, or have to bear heavier costs than projected. Performance could be harmed as a result.

### **c. Trends among Competitors**

Competitors for Group business services are companies operating ADSL business, commerce services such as auction and shopping sites, or listing services via the Internet, , etc. in Japanese or mainly for Japanese users.

Listing services are thought to be an important arena for competition among previously mentioned operators of portal sites and highly specialized information sites. In commerce, there are competitors such as Rakuten Ichiba (Rakuten, Inc.) and BIDDERS (DeNA Co., Ltd.). Competing ADSL services include FLET'S (NTT East and West Corps.), eAccess (eAccess Ltd.) and ACCA (ACCA Networks Co., Ltd.).

In this competitive environment, it is not certain that the Group will be able to exercise superiority and maintain its dominant position in the industry. Competition might result in a decline in listing business or a decrease in retailer participation in Group auction and shopping sites. On top of these factors, increased costs to attract new customers may affect Group performance.

## **5) Revision of Business Forecasts**

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

The Group determines its forecasts for sales and costs based on the assumption of specific rates for use of each of its services, etc. However, the business environment surrounding the Group could change drastically, and actual business results may differ considerably from announced forecasts.

When it recognizes such differences, the Group will announce revisions of its forecasts in a timely manner.

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

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

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

The distribution of information via the Internet and electronic commerce are under review by the Japanese government. While there are currently no regulations governing the advertising operations of the Group, some other countries are 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 intermediaries in distributing information via the Internet. Nevertheless, the passing of the new law may begin moving public opinion toward requiring greater responsibility of information distribution intermediates. It is possible that the introduction of new laws or the implementation of rules on self-regulation will restrict the Group's business.

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 Auction Business**

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

Since September 1, 2003, a revision of legislation concerning the sale of used goods to prevent criminal abuse of Internet auctions is in force. In addition to imposing a registration system on Internet auction operators, the revised law requires operators to make effort to confirm the identities of participants and maintain records of auctions. The law also requires that when an investigative body orders an operator to remove an item from auction based on suspicion of fraud, the operator must do so. However, the scope of the revised law is limited to areas where the Group is already compliant. Further, since no regulations have been placed directly on auction participants, the Group does not expect that the revised law will have significant impact on its auction business.

On June 10, 2005 the Japanese government introduced its "Plan 2005 to Promote Intellectual Property Right Strategy" to carry forward extensive measures to fight the infringement of intellectual property 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, instituting of voluntary rules requiring compliance by auction houses, and closer linkage among the concerned government divisions and auctioneers. When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves that way and will delete their IDs if they do not comply. In partnership with Internet auction houses DeNA Co., Ltd. and Rakuten, Inc., the Group has begun discussion toward making and enforcing voluntary restrictions, and will gradually seek cooperation from related government divisions. To help educate users, it has published on the Web its "Intellectual Property Protection Guide," which defines and explains copyrights, image rights and trademarks, informing potential buyers as well as those who list products for sale.

If these measures do not bring about the expected results, and reports of illegal listings and fraud continue, new legislation could restrict commercial activities using the Internet. Such legislation, depending on the degree of restriction it entails, could have a significant impact on the Company's auction services.

### **c. Potential Legal Restriction on Other Business**

The Group offers Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (securities brokerage service).

For its Yahoo! JAPAN Card program, the Group issues credit cards on its own and offers loans, including cash advances. This brings it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction Law. Under the former, the Company is registered as a moneylender with the Kanto Local Finance Bureau. Recently, there are more cases where debtors demand refunds of interest paid in excess of the legal limit, claiming the interest to be undue profit to creditors. In our service, the Company intends to set interest rates within the range specified in Interest Rate Restriction Law. However, in the case that the interest rates of our service go beyond the legal limit for some reason, possible demands for refund of the excess amount could impact the Company's earnings.

In Yahoo! Trading (securities brokerage service), the Company is under the supervision of the Financial Services Agency and is subject to the Securities and Exchange Law and rules set by Japan Securities Dealers Association. Under the Securities and Exchange Law, the Group registers as a securities broker 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 our efforts, we should be found guilty of violating any of those laws and rules. Any enhancement or rebuilding of the compliance system to prepare for tightening those regulations may raise costs and so could negatively impact the Company's earnings.

## **2) Potential Litigation**

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

The Group has taken multiple measures to improve the security of its systems to build a stronger and safer auction environment. In September 2000 the Group opened a new escrow service (see note 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 posting items on the auction site. In addition, the Group has set up a patrol team to eliminate illegal items from auctions and cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group, whether or not it is responsible for such actions. In fact, groups of users filed 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 allow proper management could lead to increased costs and subsequent negative impact on earnings.

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

Note: The escrow service consists of a company acting as intermediary between the sell and buy sides of the transaction to ensure the smooth transfer of the item and payment. Because this service is provided by third parties and not the Company, it varies with the company used. In general, however, the escrow company receives payment from the purchaser and transfers it to the seller on confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that the item will not be delivered or payment not made.

### **b. Solicitation of Securities Transactions**

In providing its Yahoo! Trading service (securities brokerage service), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated securities houses (see note) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the securities house, but the solicitation could mislead customers into losses. In such cases Group could be subject to demands for damage compensation from the securities house, which temporarily pays damages to customers, depending on the situation.

Note: "Affiliated securities house" is a firm that has signed a consignment agreement with the Company for securities brokerage.

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

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

To avoid conflict with Japanese legal restrictions, the Group established a Banner Advertisement Presentation Standard that internally regulates advertising content and the content of Websites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Group also maintains the right to list Websites and remove Websites listed on its Internet search services at any time. In addition, the Group fully discloses its legal obligations in written contracts with the creators of those Websites with clauses indicating the full responsibility of the creator for the content of a site. For services such as bulletin 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 user. The Group maintains the right to remove content and will do so any time it discovers 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 damage caused to users through Web-browsing or information posting. To protect minors from harmful content, the Group is implementing such programs as Yahoo! Kids. However, no guarantee can be provided that these measures will be sufficient to prevent litigation. The Group could be subject to claims, reprimands or damage suits from users, related parties or government agencies with regard to the content of advertisements, Websites accessed through links on its sites, contributions to community message boards and/or transactions related to its auction business. Resulting decline in user confidence could lead to a drop in hits or a suspension of services.

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

To prevent customers from misunderstanding or being confused about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, the Group takes measures to help clarify their understanding and agreement through user rules and clauses posted on Group sites. Despite these efforts, there remains the possibility that these measures will fail and customers will demand compensation from the Group for damage that is actually the

responsibility of a third party. This could result in additional costs to the Group or harm its brand image, impacting negatively on performance.

The Group assigns all responsibility to the user and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display, or bidding of goods or services offered or the formation or honoring of contracts agreed to while using this service. Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Website 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 difficulty in the delivery of said goods. However, it remains possible that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image. Further, if the proposed treaty regarding the jurisdictions of international courts is approved, it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

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

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover business models as well as technology. As such, it is possible 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 may be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographical boundaries for application of patent rights also remain unclear. Consequently, the Group cannot rule out the possibility of patent issues arising overseas as well as in Japan.

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to say that such problems could not occur.

In such cases, the Group may be sued for compensation, required to pay substantial royalty fees or have to cease providing certain services.

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

Within the recent trend to establish international accounting standards, the Group has taken action appropriately and quickly to change its accounting standards for severance and retirement benefits, financial instruments, and other categories. A significant change in accounting methods for the recognition of stock-option expenses or other income or expense recognition could have a material impact on the Group's profit or loss.

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

#### **1) Group Effort to Achieve Information Security**

Due to the rapid growth of the Internet, a wide variety of information spreads easily through our society. While the development of this technology has broadened the horizons of Internet users and boosted convenience, the other side of the coin is that the security of personal and other information has become a major societal concern. As providers of a range of services over the Internet, the Group must address this issue extremely carefully.

Based on this understanding, the Group has taken proactive steps to ensure information security. Currently we are working to protect the personal information of our customers and other sensitive management information by quickly and effectively implementing necessary measures companywide. This process has been facilitated by the appointment of a Chief Security Officer (CSO) and the establishment of an Information Security Office and giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our Information Security Declaration (see Note 1), setting out the Group's overall information-security efforts. Based on the declaration, we established Information Security Basic Regulations and other in-house rules, clarifying our rules for handling personal information and other important information. At the same time, we set up an organization to manage information security management by establishing the Information Security Council, comprised of information security members from each of our divisions, to promote adherence to our in-house rules. 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) of the nonprofit privacy-protection licensing institution TRUSTe. In August 2004 the

Group acquired Information Securities Management Systems (ISMS) certification, which was developed by the British Standards Institution. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). As of September 30, 2005 Yahoo Japan Corp. and twelve subsidiaries have acquired ISMS certifications. The Group has used these third-party certification systems to implement a third-party check on its operations using global standards to continue to strengthen its information-security regime 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, it might not only impact negatively on performance, but could also result in a loss of public confidence in the Group.

Notes:

#### 1. Information Security Declaration

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

“The customer and other information held by Yahoo Japan Corp. 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 to our customers, vendors, and business partners as well.

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

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

#### 2. 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 Websites 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 the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms with the privacy-protection policies of TRUSTe and meets its license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree to and follow the guidelines of TRUSTe for the processing of consumer complaints.

#### 3. BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0

Taking into consideration both technical security methods and overall organization management, this certification system focuses on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle -- 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 repeated continuously with the goal of improving information security.

## **2) Personal Information**

### **a. Group Effort 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 encourages users to be careful by posting information on incidents of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. It also deals with information access rights within the Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, deliberately or through negligence, by persons related to the Group, to companies with which business alliances have been concluded, to companies to which the Group outsources work, etc. There is also a possibility that a third party may use passwords, etc., to fraudulently access the system, impersonate an authorized person, or use some other method such as Phishing (see note below), whereby they illicitly obtain personal user information resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible, 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, Internal Affairs and Communications, as well as one set up by the National Police Agency. Sharing information with related ministries and agencies and industry associations, the Group is seeking effective measures against this type

of fraud.

Starting 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 came into force. However, the Group had already implemented systems to meet the regulations or requirements of the law and guidelines regarding handling of personal information. The Group, therefore, believes that the enforcement of the law and guidelines will have almost no impact on its operations.

Note: Phishing

This type of fraud involves acquiring personal information by sending email purporting to be from a financial institution or a company, and tricking people into accessing a fraudulent Website, where they are asked to input personal information such as credit card numbers, login IDs and passwords or other sensitive information. Damage from theft using this system is mounting in Europe and the United States, and recently such cases have become common in Japan as well. The National Police Agency has posted warnings about phishing fraud on its Website.

#### **b. Risk of 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 of individuals online as 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 of the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its own issuing credit cards (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. Further, 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 partners or stores registered on Yahoo! Shopping and Yahoo! Auctions site have a significant influence on the Group's efforts.

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

For Yahoo! Trading (securities brokerage services), personal information from application forms for opening accounts and accumulated information about transactions will be obtained and held by our securities-house partner. 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 transfers and management of this information. If personal information is leaked from the Company or the affiliated securities house, the Company could be liable for damage compensation.

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

### **3) Network Security**

Although the Group has established appropriate security systems to ensure the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. In particular, there have been several cases recently of specific Websites or networks being targeted by sending huge volumes of data over short periods to paralyze the Website or network. Although the Group has introduced effective security programs and other

measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results and financial condition.

#### **4. Risk Due to Natural Disaster, Accident and the Like**

In the event of the outbreak of international conflict, terrorist attack or large-scale natural disaster, such as earthquake or tidal wave, the Group expects that its businesses would also be substantially affected.

Specifically, the impact of such events could cause the Group's revenues to decline or the Group could incur extraordinary costs. These conditions might occur due to disruptions in scheduled advertising as a result of temporary restrictions on the operations of the Group's sites. Or, for their own reasons, advertisers might stop or reduce advertising, or request extension of advertising period. Further, the access infrastructure for Yahoo! BB might be interrupted or some other circumstance might arise where subscribers would no longer be able to use the Group's pay services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and related companies or SBB and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to 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 making systems redundant and duplicating and dispersing its data center, but it does not presently have multiple site capacity outside Tokyo.

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

**5. Business with Involved Parties**

**1) Relationship with the SOFTBANK Group**

**a. Positioning within the SOFTBANK Group**

As of September 30, 2005, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of voting shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and areas, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecoms, e-commerce, media and marketing, broadcasting media, technology services, and an overseas fund-investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

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

The Company has signed the following contracts with SOFTBANK BB Corp. (SBB), subsidiary of SOFTBANK CORP., concerning Yahoo! BB business. Yahoo! BB business accounted for 11.8% of Group sales in the interim period ended September 30, 2005. Therefore the following contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: June 20, 2001
Contract term: Indefinite from June 20, 2001~(Perpetual contract)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities <ul style="list-style-type: none"> <li>* To promote Yahoo! BB services</li> <li>* To recruit subscribers of Yahoo! BB services</li> <li>* To operate the Yahoo! BB portal site</li> <li>* To provide mail and Website services</li> <li>* To provide a fee-collection platform</li> </ul>
3) SBB's main responsibilities <ul style="list-style-type: none"> <li>* To provide ADSL service between subscribers and phone offices, install network infrastructure between phone-office buildings, and provide connections to Internet networks</li> <li>* To handle subscriber inquiries and provide technical support</li> <li>* Use charges are ¥990 per month for ADSL and ¥1,290 per month for ISP service. From the ISP charge, the Company takes ¥200 in exchange for service.</li> </ul>

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004 (Automatically renewed every one year)
Contracted party: SOFTBANK BB Corp.
<p>Incentive fees</p> <ul style="list-style-type: none"> <li>* Lump-sum incentive fees (100% upon verification of operational subscriber lines) <ul style="list-style-type: none"> <li>BB Phone services: approx. ¥7,000 per application</li> <li>Yahoo! BB services: approx. ¥15,000 per application</li> <li>Yahoo! BB services + LAN Pack: approx. ¥20,000 per application</li> </ul> </li> <li>* Continuing incentive fees <ul style="list-style-type: none"> <li>BB Phone services: approx. ¥150 per month per continuing subscriber</li> <li>Yahoo! BB services: approx. ¥200 per month per continuing subscriber</li> <li>Yahoo! BB services + LAN Pack: approx. ¥250 per month per continuing subscriber</li> </ul> </li> </ul>

Notes:

1. The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT became SOFTBANK BB Corp. with the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All the merged companies had the same parent company, SOFTBANK CORP.
2. The details of the incentive agreement were changed to those shown above as of April 1, 2004.
3. As of April 2005, the Company pays ¥2,400 per line to SBB after the first subscription fee is charged, sharing the cost of Yahoo! BB subscriber acquisition.

**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. Failures in building infrastructure and problems with service quality could cause subscribers to cancel service quickly and impact Group earnings.

**d. Joint Directorships**

As of September 30, 2005, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follow:

- \* Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK CORP. part-time Director)

\* Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK CORP. President)

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

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

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

### **a. Licensing Agreements with Yahoo! Inc.**

Group operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.5% of voting shares as of September 30, 2005. 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 under a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

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

Note:

Royalty calculation method

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

### **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 valid. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations and presence, there is the possibility that Yahoo! Inc. has not registered trademarks necessary to the Group's business in Japan.

It is also possible that third parties may have acquired domain names that the

Group finds necessary to its business or may use domain names that resemble Yahoo! or the services offered by the Group to carry out unfair competition with or harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

#### **c. Business Tie-up with Overture K.K.**

Based on the business tie-up with Overture K.K., which is a part of Yahoo! Inc. group, the Group's Sponsor Site sales have firmly expanded and become a larger proportion of overall advertising sales. The Group intends to further expand these advertising sales based on the continued good relationship with Overture K.K. However, should the business relationship change or some type of obstruction arise to the smooth operation of Overture K.K., it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

#### **d. Other Joint Directorships**

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

### **3) Share Distribution**

As of September 30, 2005 the major shareholders of Yahoo Japan Corp. held a very high stake in the Company, with over 75% of equity owned by SOFTBANK CORP. and Yahoo! Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares. However, if these efforts fail to make progress, it is possible in a worst-case scenario that the Company could violate the listing standards of the exchanges on which its shares are listed.

The Company has made and intends to continue efforts to increase the liquidity of its stock and the number of shareholders. It has undertaken a number of stock splits in the past and is working to increase recognition of the Company among potential shareholders by conducting vigorous investor-relations programs.

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

### **1) Sales 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, Group revenue from sales agents, such as certain advertising companies and media reps, provides a high proportion of advertising sales. In the 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 change occurs in the business relationships with or sales to or by these customers or agents, or if their business health deteriorates, or problems arise with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

## **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 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 system. These third parties are selected using standards based on suitable technical and operating capabilities, determined by past performance. In addition, the related sections of the Group maintain close contact with these third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise that obstructs operations, or that some other event could cause the system of a third party to which the Group's service is linked to stop. Such events could lead to the loss of sales opportunities and reduce the competitiveness of the Group system, negatively impacting Group performance or in the worst case resulting in termination of the service.

The Group not only relies on the previously mentioned Internet providers, but many of its services depend as well on third parties to which the Group has consigned operations or from which it receives information or support. It is possible that worsening business conditions for these third parties could hinder the operations of the Group, resulting in negative impact on performance.

## **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. Group 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 maintaining 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 making engineering efforts to apply new technology to its services. However, the failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including rising expenditures for localizing work and preparation for new technologies that could be developed in Japan, instead of the United States as anticipated.

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

To respond to the growth and diversification of Internet use and maintain competitive advantage, the Group intends to develop new strategies and businesses, helping provide content and services that fulfill customer needs. To that end, the Group is projecting substantial R&D expenses. However, these expenses could rise beyond those projections, and depending on the required development period, our competitiveness could be reduced despite our 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 that reason, the Group intends to improve operating efficiency by hiring specialists and technically skilled staff and undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to the changing market needs, organizational enhancement for service planning and for system development is also our focus. However, there is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

In addition, the Group has introduced measures to respond to the increase in Internet access using mobile phones and other mobile terminals, which could result in

larger expenditures for service development, compressing Group profits.

## **8. Group Business Operations**

### **1) Maintenance and Control of Service Quality**

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

The Group offers and plans to offer internet users quality information that appeals to users, such as up-to-the-minute news, weather and stock quotes, as well as broadband content such as films and music. Failure to consistently provide high-quality information and content and/or to acquire content at a cost in the projected range could lower traffic and sales below the expected level, subsequently impacting advertising revenue negatively.

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

As already mentioned, advertising contract periods and page views ("hits") are guaranteed for many of our products, and advertising fees are based on them. However, failure to obtain the number of required hits during problems with the Internet connectivity environment and/or problems with the system could force the Group to extend advertising contract periods or devise some other type of compensation that could negatively impact Group advertising revenues.

Moreover, the Group could fail to provide services that meet the needs of advertisers, which could result in loss of sales opportunities as well as reduced demand from advertisers, negatively impacting the Group's advertising sales.

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

To support expected business expansion and continue providing quality services to fulfill customer needs, the Group has a capital-investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after another to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short 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 take care to ensure that unnecessary cash outflows do not occur by closely considering costs and benefits, focusing on keeping system-development and equipment expenses reasonable.

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

#### **d. Diversification and New Business**

The Group plans to further diversify and enter new businesses in order 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, Group profitability may decline temporarily.

In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover investment expenses and that this will significantly impact performance.

## **2) Internal Control System**

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

The Group has undertaken measures such as stricter controls and operational standards for behavior so that problems related to improper conduct by employees or human operational errors are prevented or do not recur. Still, there remains the possibility that such problems can occur in the future in terms of business management and control.

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

In addition to the enhancement of personnel and organization for advertising sales activities and technological development work necessary for business expansion, the Group must increase staff to respond to business diversification: to support the large number of new Websites 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 the efficiency of operations.

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

**c. Continued Support from Senior Management, etc.**

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

In addition, some senior managers participate in one of the Group's personnel incentive measures, the stock-option plan. Depending on the fortunes of the stock market, it is possible that these stock options may not motivate the participants in the plan and indeed may reduce their motivation and cause them to leave the Group.

**d. Risk of Business Growth with a Large Pool of Unspecified Customers**

Along with the expansion of its operations and the ramping-up of its e-commerce business etc. mainly through subsidiaries and affiliates, the proportion of Group business composed of direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to take responsibility for strengthening management of this pool of customers and to take steps such as introducing new systems to improve business efficiency. Despite these measures, it is possible that the Group will be exposed to increased risks related to the settlement and collection of receivables due to rises in the amount of small receivables and uncollected receivables, credit-card settlement problems and the costs of receivables collection.

It is also possible that the nature and quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of services, but they may now shift to inquiries about payments, the return or exchange of services and goods, and matters related to commissioned third parties, such as distribution or settlements. To properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing business practices and computerizing them. It is

possible that the costs of these measures and improvements could negatively affect Group profits. In addition, it does not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

#### **e. Risk of Customer Creditworthiness**

In sales of advertising and other products, the Group carefully examines the credit standing of clients, following a set of internal rules. It also undertakes sufficient precautions so the collection of receivables will not be delayed by taking measures such as making sales through advertising agencies or using credit-card settlements. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the incidence 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. However, it is possible that the Group will be unable to collect payments from cardholders to cover reimbursements due to unrecoverable debt arising from declines in cardholder creditworthiness.

### **3) Operating a Consolidated Group**

The Group has subsidiaries and affiliates of all sizes, and the degree of in-house management varies by size. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect Group performance.

Tie-ups with the Company's services or network or personnel support are essential to the operation of any of the services of its subsidiaries and affiliates. The related sections of the Company work closely with the individual subsidiaries and affiliates to provide that support. However, it is possible that it will become difficult to adequately provide this cooperation or support due to the expansion of the operations of the Company, its subsidiaries and affiliates. This could have a negative impact on Group performance.

Several subsidiaries and affiliates were established and are operating as joint ventures with third parties. Operations of these subsidiaries and affiliates depend substantially on the outside partners, especially in the areas of sales, supply, distribution and systems. At this time, relationships with the joint-venture partners are excellent, and the cooperative relationships with these partners contribute much to the performance of these Group companies. However, if for some reason a situation occurs that obstructs business cooperation or ties with the partners, it could damage

the performance of each company and, depending on the company, it may become impossible to continue operations.

## **9. Risk Related to Funds Procurement and Changes in Interest Rates**

### **1) Funds Procurement for Yahoo! ezPay Service**

Yahoo! ezPay is a payment service provided by Company subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust, Ltd., mediates settlement of the auction transaction.

Since Netrust, Ltd. reimburses the seller of the item one to three business days after the purchaser has made settlement by credit card or Internet bank transfer, the subsidiary must carry the credit-card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. The Group is exploring methods of reducing the volume 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, it is possible the Group will not be able to raise the required funds at reasonable cost. Moreover, the volume of reimbursement funds could increase to a level where, if interest rates rise higher, interest payments to banks or other financial institutions could have a significant negative impact on Group business and performance.

### **2) Funds Procurement for 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 the merchants honoring the card. Since payments will be collected from cardholders monthly while reimbursements to merchants will be made about three times per month, it will be necessary to finance those reimbursements. The Group is considering diversification of its funding sources as the business expands, but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

## **10. Risk Related to Loans and Investments**

### **1) Loans and Investments**

As of September 30, 2005, the companies or organizations in which the Group has

invested pursuant to business ties or forming business ties in the future are as shown below. The Group cannot guarantee that these investments will be recovered.

Further, although there are companies in which the Group has invested that have already publicly listed and produced unrealized gains, these unrealized gains could decline or turn to unrealized losses in the future.

The Group takes the utmost care to ensure that the performance of the companies it invests in is reflected appropriately in its own performance by operating according to in-house rules in accordance with general accounting standards and by applying asset-impairment accounting. Nevertheless, depending on the direction of the performance of those companies, they could have an even greater adverse effect on Group profit or loss in the future.

To pursue business synergies or expansion of Group business, it is anticipated that the Company will further invest or lend funds for capital participation in third-party companies, fund joint ventures, engage in new investments by establishing companies, etc., or provide new loans to meet adequately the capital needs of subsidiaries and affiliates. These investments or loans will be made based on careful investigations and thorough analysis of the risk of said investments or loans and in compliance with in-house procedures. However, if these new investments or loans do not achieve planned levels of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's financial condition in the future.

## **2) Participation in the Finance Scheme for Yahoo! BB**

In the July 17, 2003 meeting of the Board of Directors, based on the following finance scheme, the Group decided to provide a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental Plc., and it is registered in the Cayman Islands. On July 31, 2003 the Group made a loan of ¥5.7 billion that would mature in 42 months.

### Finance Scheme Summary

- \* The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments in a Tokumei Kumiai (TK), an anonymous partnership. This amount is structured as senior and mezzanine loans and a TK investment.
- \* The SPC acquires modems and a modem-rental agreement from SBB, and pays SBB for them using the funds raised.
- \* The SPC operates a modem-rental business and pays principal and interest to lenders and dividends to TK investors using cash flow generated from the underlying assets (rental fee revenues).

\* In cases where modern-rental fees are not paid using underlying assets, SBB will provide credit compensation under terms outlined in the guarantee agreement.

The scheme is based on the assumption that estimated rental fees would be paid from underlying assets and that SBB would provide credit compensation if the rental fees are not paid from underlying assets. If for some reason a situation arises where SBB cannot adequately perform on its pledge to provide credit compensation, it could prevent the recovery of the principal and interest on the Company's portion of the financing.

In principle, the Group's risk in the above finance scheme is limited to the principal and interest on its loan. The Group does not need to make any commitment to invest additional capital in the scheme.

If in the future SBB should decide to raise further funds based on identical or similar finance schemes, the Company will examine the conditions and nature of each scheme separately and determine whether to extend loans based on the merits of each case.

## Main Companies Invested in by Yahoo Japan Corporation

(As of September 30, 2005)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	9.0	5,684	Internet technical-support service		
2	Vector Inc.	OSE Hercules	99/03/26	10.7	1,702	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	Yes
3	SOFTBANK Internet Technology Fund No. 1		00/02/21		927			
4	Aozora Trust Bank, Ltd.		05/04/28	14.9	875	Banking and trust services	Alliance for online banking operations	
5	Oricon Inc.	OSE Hercules	00/03/30	1.5	345	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping	
6	Weathernews Inc.	TSE 1st Section	99/06/01	3.8	328	Weather observation, data collection and analysis, weather forecast, and related information services		
7	DigiOn, Inc.		05/08/22	8.3	200	Multimedia software for PCs, platform software, enterprise business solution		
8	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	166	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping/Auctions tenant	
9	e-Seikatsu Co., Ltd.		05/07/14	5.5	155	ASP Solution, network solution	Alliance for Yahoo! Real Estate	Yes
10	CyberMap Japan Corp.		98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
Shares in affiliated companies								
1	ValueCommerce Co., Ltd.		05/04/11	49.7	9,969	Affiliate program, Internet advertising distribution and management, Internet marketing consulting, server rental, hosting, and domain purchasing services	Alliance for affiliate marketing	Yes
2	All About, Inc.	Jasdaq	04/09/08	35.7	2,213	General information site based on expert guides, Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
3	CREO. CO., LTD.	Jasdaq	05/01/26	36.9	1,463	System development; planning, development and sale of software packages; and others	Business alliance for system development	Yes
4	ampression, Inc. (See Note 3)		05/08/25	33.6	1,386	Operation of a fashion goods shopping site	Alliance for shopping business etc.	
5	JWord Inc.		05/01/28	33.4	791	"JWord" (Japanese keyword search) service	Alliance for Yahoo! JAPAN search services	Yes
6	YUME NO MACHI SOUZOUINKAI CO., LTD.		04/10/20	28.4	362	Internet-based home delivery store information services centered on "Demae Kan" site and planning, development, and operation of e-commerce services	Alliance for Yahoo! Gourmet	Yes
7	Tavigator, Inc.		00/03/07	30.0	167	Internet travel agent and travel information services	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
8	INTAGE Interactive Inc.		02/10/01	49.0	114	Internet-based research services	Alliance for Yahoo! Research	Yes
Investments								
1	Other investments				98			

Notes:

1. In principle, the date of acquisition is the day that the Company became a shareholder.
2. B/S accounting amounts are shown on a consolidated basis in units of millions of yen. As reference, the subsidiaries' non-consolidated B/S accounting amounts are shown in the following table.
3. Effective October 3, 2005, ampression, Inc. changed its name to FashionWalker Inc. Yahoo Japan Corporation also placed a director on its board.

Company	B/S accounting amount (¥M)	Line of business
Firstserver, Inc.	1,971	Information processing services (Server rental, domain registration, and other Internet-related services)
ALPS MAPPING K.K.	810	Planning and creating regional maps, and providing regional map data and regional information services and others
VACS Corporation	240	Development and sale of PC software
BridalNet, Inc.	229	Web-based marriage matchmaking service
NETGENE Co., Ltd.	168	Development of applications for mobile devices
Tricle Inc.	150	Mobile commerce services
Netrust, Ltd.	120	Online settlement-related services
Indival, Inc.	120	Web-based recruiting services
UniCept, Inc.	50	Consulting for Internet business and planning, development and operation of a range of services
Y's Insurance Inc.	30	Life/non-life insurance agency business
Surfmonkey Asia Inc.	26	Inappropriate Internet content blocking/censorship service for homes and schools
Seven and Y Corp.	18	Internet-based sale of publications, CDs, DVDs, etc. and related services
GeoCities Japan Corporation	10	Maintaining domain names ( for maintaining services being offered by the Company )
broadcast.com japan k.k.	10	Maintaining domain names ( for maintaining services being offered by the Company )
Y's Agencies Inc.	10	Planning and sale of ad products
Y's Sports Inc.	0	Collecting sports information and producing articles and content
BridalConcierge Corp.	0	Maintaining domain names ( for maintaining services being offered by the Company )
CURIOCITY CORP.	0	Operation of Internet shopping mall and others
egg-i.inc.	-	Wholly owned subsidiary of NETGENE Co., Ltd. Currently, not in actual operation.
eS!Books Research CORP.	-	Wholly owned subsidiary of Seven and Y Corp. Maintaining domain names.

Note:

Effective October 5, 2005, egg-i.inc. changed its name to NETGENE SOLUTIONS CO.,LTD.