Results for the Three Months Ended December 31, 2011 (FY2011-3Q)

January 25, 2012

Company Name:	Yahoo Japan Corporation	Share Listings:	1st section of TSE and JASDAQ
Code No.:	4689	URL:	http://www.yahoo.co.jp
Representative:	Masahiro Inoue, President and CEO	Tel:	03-6440-6000
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Scheduled Securities Report Submission Date: February 8, 2012

Scheduled Dividend Payment Date: –

Quarterly Results Supplementary Briefing Materials to Be Created: Yes

Quarterly Results Investors Meeting to Be Held: Yes (for Financial Analysts)

(Amounts less than one million yen are omitted)

1. Consolidated Results for FY2011-3Q (April 1, 2011 - December 31, 2011)

(1) Consolidated Financial Results for the Cumulative Period (Figures in parenthesis are % change YoY)

	Revenue		Operating income		Ordinary income		Net income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2011-3Q	222,181	(2.6)	121,200	(3.4)	122,690	(4.4)	72,954	(7.6)
FY2010-3Q	216,633	(4.8)	117,222	(11.5)	117,502	(12.3)	67,801	(12.7)

Note: Comprehensive income: FY2011-3Q ¥72,641 million (6.9%) FY2010-3Q ¥67,950 million (-%)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2011-3Q	1,257.87	1,257.63
FY2010-3Q	1,169.21	1,168.32

(2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital
	Millions of yen	Millions of yen	%
FY2011-3Q	515,653	439,972	84.7
FY2010	471,745	385,105	81.1

(For reference) Equity capital: FY2011-3Q ¥436,754 million FY2010 ¥382,384 million

2. Cash Dividends

	Dividends per share				
	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2010	–	0.00	–	318.00	318.00
FY2011	–	0.00	–		
FY2011 (Estimates)				336.00 - 342.00	336.00 - 342.00

Note: Revision in dividends scheduled for the quarter: Yes

3. Consolidated Business Outlook for FY2011 (April 1, 2011 – March 31, 2012)

(Figures in parenthesis are % change YoY)

	Revenue	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Yen
FY2011	299,781 - 304,581 (2.5 - 4.2)	163,300 - 166,600 (2.3 - 4.4)	165,290 - 168,590 (3.2 - 5.2)	97,154 - 99,154 (5.4 - 7.6)	1,675.12 - 1,709.60

Note: Revisions in quarterly consolidated performance forecasts: Yes

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

4. Others

(1) Changes in significant subsidiaries during the period: None

(2) Application of accounting methods specific to producing quarterly consolidated financial statements: None

(3) Changes in the accounting principles, procedures and presentation methods

1) Changes due to accounting standards revisions: None

2) Changes other than 1): None

3) Changes in accounting estimate: None

4) Restatement: None

(4) Number of stocks issued (common stock)

1) Number of stocks issued at the quarter end (including treasury stocks)	FY2011-3Q	58,180,912	FY2010	58,177,294
2) Number of treasury stocks at the quarter end	FY2011-3Q	180,601	FY2010	180,433
3) Average number of stocks (cumulative during the quarter)	FY2011-3Q	57,998,245	FY2010-3Q	57,989,451

5. Business Results

(1) Business Performance Analysis

■ **Cumulative Performance in the Third Quarter (April 1, 2011 - December 31, 2011)**

• Despite the impact of the earthquake disaster at the beginning of the period, cumulative revenue and profits grew compared with the same period in the previous fiscal year. These gains were supported by an increase in advertising revenue, substantial expansion in game related-revenues, and growth in revenues of information listing services, such as Yahoo! Rikunabi and Yahoo! Real Estate.

	2010 1Q-3Q	2011 1Q-3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥216.6 billion	¥222.1 billion	+¥5.5 billion	+2.6%
Operating Income	¥117.2 billion	¥121.2 billion	+¥3.9 billion	+3.4%
Ordinary Income	¥117.5 billion	¥122.6 billion	+¥5.1 billion	+4.4%
Quarterly Net Income	¥67.8 billion	¥72.9 billion	+¥5.1 billion	+7.6%

During the cumulative period under review, while the Great East Japan Earthquake continued to have a negative impact on some business areas at the beginning of the period, listing and display advertising revenues increased. Besides sharp expansion in game-related services revenues, information listing services revenues, such as Yahoo! Rikunabi and Yahoo! Real Estate, also increased. Among e-commerce-related operations, the revenue of Yahoo! Shopping grew, with smartphone transaction value particularly expanding substantially.

Sales promotion costs increased because of aggressive sales measures taken especially in Yahoo! Shopping. However, communication charges fell because of greater efficiency enabled by the Group's possession of its own data center. Overall, cumulative revenue and profits for the period both advanced year on year.

Cumulative Revenue and Operating Income by Segment (April 1, 2011 - December 31, 2011)

	2010 1Q-3Q	2011 1Q-3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Media Business				
Revenue	¥80.2 billion	¥80.1 billion	-¥0.07 billion	-0.1%
Operating income	¥42.5 billion	¥43.7 billion	+¥1.2 billion	+2.8%
Business-services Business				
Revenue	¥56.7 billion	¥60.8 billion	+¥4.0 billion	+7.1%
Operating income	¥27.8 billion	¥30.5 billion	+¥2.7 billion	+9.8%
Consumer Business				
Revenue	¥79.1 billion	¥80.8 billion	+¥1.6 billion	+2.1%
Operating income	¥52.5 billion	¥51.5 billion	-¥1.0 billion	-2.0%
Adjustments				
Revenue	¥0.4 billion	¥0.3 billion	–	–
Operating income	-¥5.7 billion	-¥4.6 billion	–	–
Total				
Revenue	¥216.6 billion	¥222.1 billion	+¥5.5 billion	+2.6%
Operating income	¥117.2 billion	¥121.2 billion	+¥3.9 billion	+3.4%

Note: Figures of the Adjustments represent the revenues not belonging to any reporting segment, inter-segment transactions and general corporate expenses.

■ **Performance Highlights for the Third Quarter (October 1, 2011 - December 31, 2011)**

• Besides revenue growth for listing and display advertising, game-related services revenues and information listing services revenues, such as Yahoo! Rikunabi and Yahoo! Real Estate, also increased.

	2010 3Q	2011 3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥75.0 billion	¥76.5 billion	+¥1.5 billion	+2.0%
Operating Income	¥41.1 billion	¥41.8 billion	+¥0.6 billion	+1.6%
Ordinary Income	¥41.3 billion	¥42.3 billion	+¥1.0 billion	+2.4%
Quarterly Net Income	¥24.7 billion	¥25.3 billion	+¥0.6billion	+2.7%

During the quarter under review, listing advertising continued to increase, supported by progressive expansion of the use of advertising companies with a local orientation. Moreover, efforts to strengthen sales activities through upgraded collaboration with such companies and other measures produced listing advertising growth, particularly from small and medium-sized companies. Display advertising by cosmetics/toiletries, real estate, transportation/leisure, and other companies also grew. In addition, game-related services revenues and information listing services revenues, such as Yahoo! Rikunabi and Yahoo! Real Estate, increased. In terms of costs, sales promotion costs rose year on year because of greater Yahoo! Points expenses, but communication charges fell because of greater efficiency enabled by the Group's possession of its own data center.

Revenue and Operating Income by Segment (October 1, 2011 – December 31, 2011)

	2010 3Q	2011 3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Media Business				
Revenue	¥28.1 billion	¥28.0 billion	-¥0.1 billion	-0.6%
Operating income	¥15.4 billion	¥15.2 billion	-¥0.2 billion	-1.6%
BS Business				
Revenue	¥19.2 billion	¥20.3 billion	+¥1.1 billion	+5.9%
Operating income	¥9.5 billion	¥9.9 billion	+¥0.4 billion	+4.5%
Consumer Business				
Revenue	¥27.5 billion	¥28.0 billion	+¥0.5 billion	+1.9%
Operating income	¥18.1 billion	¥17.7 billion	-¥0.3 billion	-2.1%
Adjustments				
Revenue	¥0.08 billion	¥0.09 billion	–	–
Operating income	-¥1.9 billion	-¥1.1 billion	–	–
Total				
Revenue	¥75.0 billion	¥76.5 billion	+¥1.5 billion	+2.0%
Operating income	¥41.1 billion	¥41.8 billion	+¥0.6 billion	+1.6%

Note: Figures of the Adjustments represent the revenues not belonging to any reporting segment, inter-segment transactions and general corporate expenses.

Reporting Segment	Major Revenues
Media Business	・ Listing advertising (through advertising companies) Paid search advertising, interest-based advertising ・ Display advertising Banner, text, e-mail, video, and others
Business-services Business	・ Listing advertising (through online) Paid search advertising, interest-based advertising ・ Information listing revenues for Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Auto, and others ・ Data center-related revenue ・ Revenues from Yahoo! WebHosting, Yahoo! Travel, and others
Consumer Business	・ Tenant, royalty, and system-use fees for Yahoo! Auctions ・ Tenant and royalty fees for Yahoo! Shopping ・ Yahoo! Premium revenue ・ Content fees and Yahoo! BB ISP fees

■ **Media Business**

• Revenue from listing advertising through advertising companies decreased despite an increase in advertising from mail order, recruitment and human resource-related, and other companies because of a substantial decline in advertising from Internet information services companies.
• Overall revenue from display advertising was up.

In the Media Business, despite an increase in paid search advertising from mail order, recruitment and human resource-related, fashion and accessory-related, and other companies, revenue from listing advertising through advertising companies decreased compared with the same quarter last year. The drop in revenue can be attributed to a substantial decline in advertising from Internet information services companies. In contrast, overall display advertising revenue grew compared with the third quarter last year because of an increase in advertising from cosmetics/toiletries, real estate-related, and transportation/leisure companies. By advertising product category, there was an increase in advertising from companies favoring the beneficial results of targeting advertising, resulting in record-high revenue from behavioral and demographic targeting advertising. Brand Panel advertising revenue also was up compared with a year earlier. Our GyaO! operations also recorded revenue growth year on year because of increases in movie, broadcasting-related, and leisure-related advertising and an increase in tie-up advertising. Also, we started sales of Brand Panel advertising on the start page of the smartphone version of Yahoo! Japan.
As a result, third quarter revenue from the Media Business amounted to ¥28.0 billion, contracting 0.6% from a year earlier under the impact of the decline in revenue from listing advertising through advertising companies. The revenue from the Media Business accounted for 36.6% of total revenue. Operating income decreased 1.6%, to ¥15.2 billion.

■ **Business-services Business**

• Revenue from listing advertising (through online) increased.
• In information listing services, revenues from Yahoo! Rikunabi and Yahoo! Real Estate grew.
• Among data center-related revenue, revenue from cloud computing service substantially expanded.

In the Business-services Business, for listing advertising (through online), we proceeded with expansion of the use of advertising companies with a local orientation and stepped up our efforts to strengthen sales activities through upgraded collaboration with such companies and other measures. As a result, advertising increased particularly from small and medium-sized companies, and paid search advertising and interest-based advertising both expanded year on year. Among information listing services, Yahoo! Rikunabi revenue was up sharply from a year earlier because of the expanded information listings on Rikunabi NEXT, From A navi, and others. Yahoo! Real Estate posted year-on-year growth in revenue due to new housing listings. Moreover, use of Yahoo! Local increased, due to our running various types of campaigns to aim promotion of use, resulting in the cumulative number of times that users clicked the Keep button exceeding two million. Keep is a function that allows users to bookmark information of stores, facilities or other places they are interested in. Data center-related revenue achieved growth compared with the third quarter last year, with revenue from IDC Frontier Inc.'s cloud computing service jumping sharply due to the continued robust use of the service by social app development companies and others.
Consequently, quarterly revenue from the Business-services Business increased 5.9% compared with the same quarter last year to ¥20.3 billion, accounting for 26.7% of total revenue. Operating income rose 4.5%, to ¥9.9 billion.

■ **Consumer Business**

• Revenues from game-related services moved up sharply, particularly for Yahoo! Mobage services and the Sengoku IXA online game.
• Smartphone transaction value of Yahoo! Shopping grew substantially. Also, Yahoo! Shopping transaction value hit a record monthly high in December.

In the Consumer Business, the overall transaction value of Yahoo! Shopping increased substantially. Contributing to this growth were a year-on-year expansion in smartphone transaction value based on a strengthening of bonus points campaigns and various sales promotion campaigns, such as Motto Motto Matsuri, including those for personal computer users.
In Yahoo! Auctions operations, transaction value rose compared with the third quarter last year because of an increase in the average winning bid.
For Yahoo! Premium, we targeted growth in members through campaigns to acquire new members and other measures. As a result, the number of Yahoo! Premium membership IDs on December 31, 2011 increased by 130,000 IDs year on year, to 7.82 million IDs and revenue also rose from a year earlier.
In our pay content services, the number of registered users of the services of Yahoo! Mobage, a personal computer based social gaming platform, increased to more than six million and the number of registered users of the Sengoku IXA online game climbed above 700,000. We also aimed promotion of use by such measures as running various types of campaigns for existing users. As a result, game-related services revenues posted a substantial gain compared with the same quarter last year. Based on a business alliance with SQUARE ENIX CO., LTD., we began offering a new major game title, MONSTER×DRAGON.
Since we carried out aggressive sales strategies for Yahoo! Shopping, causing sales promotion costs to rise, operating income of Consumer Business segment was slightly down compared with the same quarter last year.
As a result, quarterly revenue from the Consumer Business amounted to ¥28.0 billion, rising 1.9% from the third quarter in the previous fiscal year, accounting for 36.6% of total revenue. Operating income, however, declined 2.1%, to ¥17.7 billion.

■ **Groupwide Common Topics**

• Concluded a business tie-up with Credit Saison Co., Ltd., with the goal of improving customer convenience, introducing various measures, such as linking ID log-ins and point usage and listing information on Yahoo! Local.
• Began offering Yahoo! Box service, a new storage service that allows users to easily store and view large volumes of data in various file formats using personal computers, smartphones, mobile phones, and other devices.
• Launched Yahoo! Bookstore, a general digital bookstore service with a wide range of categories, including comics, novels, and photograph collections.

[Major Service Improvements]

• With the aim of making the Internet auction market sounder, concluded a memorandum with Coach, Inc. on measures to be taken to eliminate the distribution of fake goods on Yahoo! Auctions.
• Jointly with Hakuhodo DY Media Partners Inc., began full-scale operations of the online store X BRAND STORE that sells selected goods listed on X BRAND sites.
• Started providing a social plug-in on Yahoo! Shopping for ITMG Corporation's social shopping network (Shopal).
• On GyaO!, began distributing the latest news on dating, fashion, and beauty through a permanent category Women's Navi, which targets women in their 20s. In addition, offered an exclusive live distribution of Asia's largest music award show 2011 Mnet Asian Musical Awards (MAMA). Viewers of the MAMA show exceeded 200,000.
• Launched Yahoo! Market, Japan's largest Android apps portal site.
• Formed business alliance with RightScale, Inc., of the United States, deciding to offer IDC Frontier Inc.'s cloud computing service globally.
• Commenced listing group coupons offered by the four major coupon companies, including Groupon and Ponpare, on Yahoo! Local. The service enables users to view and search coupon information all in one place.
• Added au Kantan Kessai (Easy Payment) and Softbank Mobile Phone Payment as payment methods for mobile purchases on Yahoo! Shopping.
• Launched Yahoo! Matchmaking Party, a service that offers marriage partner searching parties, events and seminars, on Yahoo! Matchmaking, our online marriage matchmaking service.
• Launched Yahoo! Finance Stock Price Map, a dedicated iPad app with such functions as providing at-a-glance charts of all stock prices.

• On Yahoo! Search, carried out a renewal of Image Search and Video Search, greatly increasing the number of search results viewable on a single page. In addition, began offering a smartphone version of the Video Search service.
• Began full-scale usage of vipo, a cloud-based commercial video distribution platform, for such services as a smartphone-oriented distribution system for a video portal site (NTV2 site) and image and video promotion of companies.

[Major Social Contribution Activities]

• For the East Japan Earthquake Picture Project, we expanded its function as a comprehensive record of the disaster by making it possible to post disaster-related information listed on other external sites.
• With the aim of providing information rapidly during disasters and to create an environment that helps reduce the burden on administrative functions, the Company formed an “Agreement on Distributing, etc., Information Related to Disasters” separately with the cities of Kochi and Himeji.
• In our Christmas Special Feature 2011, we worked in collaboration with the Harajuku Omotesando Keyaki Organization in holding charity auctions and a stamp rally for the Omotesando illumination event, and helping with other events.
• The Group ran a Red Ribbon Special Feature 2011 to raise awareness about preventing HIV infection in conjunction with World AIDS Day.
• Creating a method that enables people affected by the Great East Japan Earthquake to sell appealing products from the Tohoku region on their own, the Group started FUKKO DEPARTMENT, a service that aims to set up a new model for revitalizing the region.
• The Group launched Fukko now, a website that collects and provides information on the activities of volunteer groups that continue to conduct assistance activities in the regions stricken by the Great East Japan Earthquake.

■ Yahoo! JAPAN Usage Data (Quarterly Disclosure Information)

Indicator (Quarterly average)	FY2010-3Q	FY2011-3Q
Number of Yahoo! JAPAN total monthly page views (millions) (*1)	48,043	49,663
Number of Monthly mobile phone page views (millions)	8,248	10,894
Number of Yahoo! JAPAN monthly unique browsers (millions) (*2)	215.41	253.53
Number of Yahoo! JAPAN monthly active users IDs (millions) (*3)	24.84	26.01
Number of Yahoo! Premium member IDs (quarter-end) (millions)	7.68	7.82
Yahoo! Auctions		
Number of monthly unique browsers (millions)	36.56	37.96
Number of stores (quarter-end) (stores)	17,439	17,023
Transaction value (quarterly total) (billions of yen)	181.2	182.6
Unit price of winning bid (yen)	4,905	5,021
Winning bid ratio (%)	14	11
Shopping Related		
Number of monthly unique browsers (millions)	36.04	43.82
Number of stores (quarter-end) (stores)	20,933	20,513
Transaction value (quarterly total) (billions of yen) (*4)	76.3	83.0
Yahoo! Auctions + Shopping Related		
Transaction value (quarterly total) (billions of yen)	257.6	265.6
Mobile transaction value (quarterly total) (billions of yen) (*5)	51.0	69.6

(*1) To disclose data that more accurately reflects usage conditions, page views and other events occurring when starting up the toolbar are not counted.

(*2) Number of browsers that accessed Yahoo! JAPAN services each month

(*3) Number of Yahoo! JAPAN IDs that are logged in each month

(*4) Including Yahoo! Shopping, Yahoo! Ticket and Yahoo! Travel

(*5) Previously, transactions were only counted in Yahoo! Auctions mobile transaction value if a final bid was made through a mobile device.
However, as of January 1, 2011, the definition was changed to include all bids through mobile devices. Past data has not been retroactively adjusted.

We have changed the method of calculation of Yahoo! JAPAN monthly unique browsers, Yahoo! JAPAN monthly active users IDs, Yahoo! Auctions monthly unique browsers, Yahoo! Shopping monthly unique browsers, to exposures on users' browsers, calculated using CSC (Client Side Counting), from distributions from web servers.

(2) Consolidated Financial Results

(i). Analysis of Consolidated Statements of Income

Results for the Cumulative Period (April 1, 2011 - December 31, 2011)

(Millions of yen)

	Nine months ended Dec. 31, 2010	Nine months ended Dec. 31, 2011	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	216,633	222,181	5,548	2.6
Cost of sales	21,897	20,873	-1,023	-4.7
Gross profit	194,735	201,307	6,571	3.4
Selling, general & administrative expenses	77,513	80,107	2,593	3.3
Personnel expenses	24,285	24,849	564	2.3
Business commissions	9,890	11,037	1,146	11.6
Sales promotion costs	5,156	8,012	2,856	55.4
Depreciation expenses	6,230	6,574	343	5.5
Royalties	6,269	6,413	143	2.3
Lease and utility expenses	4,676	5,115	438	9.4
Content provider fees	4,903	4,695	-207	-4.2
Communication charges	6,460	4,464	-1,996	-30.9
Sales commissions	3,385	3,534	149	4.4
Administrative and maintenance expenses	1,534	1,654	119	7.8
Taxes and public dues	966	958	-8	-0.9
Advertising expenses	1,323	957	-365	-27.6
Compensation	324	488	164	50.8
Amortization of goodwill	689	354	-334	-48.6
License fees	161	353	191	118.9
Others	1,256	643	-612	-48.8
Operating income	117,222	121,200	3,977	3.4
Non-operating income	545	1,865	1,320	242.1
Non-operating expenses	265	374	109	41.3
Ordinary income	117,502	122,690	5,188	4.4
Extraordinary gains	1,022	244	-777	-76.0
Extraordinary losses	3,516	291	-3,225	-91.7
Quarterly net income before income taxes	115,008	122,644	7,636	6.6
Income taxes, etc.	46,814	49,358	2,543	5.4
Income taxes, inhabitants' taxes and enterprise taxes	42,092	46,550	4,458	10.6
Additional tax payment or rebate	26,450	—	-26,450	—
Adjustment to income taxes	-21,727	2,807	24,535	—
Quarterly net income before minority interests	68,193	73,285	5,092	7.5
Minority interests in gains of consolidated subsidiaries	391	331	-59	-15.2
Quarterly net income	67,801	72,954	5,152	7.6

Analysis of Consolidated Statements of Income for the Third Quarter (October 1, 2011 - December 31, 2011)

(Millions of yen)

		Three months ended Dec. 31, 2010	Three months ended Dec. 31, 2011	Increase/decrease	
		Amount	Amount	Amount	Change (%)
Revenue		75,022	76,540	1,517	2.0
Cost of sales		6,924	7,142	217	3.1
Gross profit		68,097	69,397	1,299	1.9
Selling, general & administrative expenses		26,932	27,591	659	2.4
Personnel expenses	*1	8,289	8,208	-80	-1.0
Business commissions	*2	3,377	3,718	340	10.1
Sales promotion costs	*3	2,102	2,941	838	39.9
Depreciation expenses		2,198	2,406	208	9.5
Royalties		2,176	2,210	34	1.6
Lease and utility expenses		1,550	1,756	205	13.3
Content provider fees		1,601	1,624	23	1.5
Communication charges	*4	2,064	1,516	-547	-26.5
Sales commissions		1,222	1,224	2	0.2
Administrative and maintenance expenses		501	548	46	9.3
Taxes and public dues		301	322	21	7.2
Advertising expenses	*5	665	308	-357	-53.7
Compensation		95	223	128	134.1
Allowance for doubtful accounts		185	164	-20	-11.3
License fees		61	141	79	128.1
Others	*6	538	274	-263	-48.9
Operating income		41,165	41,806	640	1.6
Non-operating income		309	662	353	114.3
Non-operating expenses		104	85	-18	-17.7
Ordinary income		41,370	42,383	1,012	2.4
Extraordinary gains		415	162	-253	-60.9
Extraordinary losses		224	26	-198	-88.0
Quarterly net income before income taxes		41,561	42,518	957	2.3
Income taxes, etc.		16,684	17,032	347	2.1
Income taxes, inhabitants' taxes and enterprise taxes		14,821	15,771	950	6.4
Adjustment to income taxes		1,863	1,261	-602	-32.3
Quarterly net income before minority interests		24,876	25,486	609	2.5
Minority interests in gains of consolidated subsidiaries		171	109	-62	-36.4
Quarterly net income		24,704	25,377	672	2.7

Revenue

Revenue for the third quarter increased compared with the same period in the previous fiscal year mainly because of growth in advertising revenue and in game-related services revenues.

Selling, General and Administrative Expenses

*1 Personnel expenses

At the end of the quarter, the total number of employees of the Group amounted to 5,049, an increase of 316 employees, or 6.7%, from the same quarter in the previous fiscal year.

*2 Business commissions

The increase in business commissions compared with a year earlier resulted primarily from growth in expenses related to maintenance and operations.

*3 Sales promotion costs

The year-on-year growth in quarterly sales promotion costs can mainly be attributed to an increase in Yahoo! Points expenses and an increase in search engine promotion expenses.

*4 Communications charges

Communications charges fell compared with the third quarter last year mainly because of greater efficiency in operating and data transfer costs based on the Group now having its own data center.

*5 Advertising expenses

Advertising expenses decreased year on year primarily because of a decline in the use of television commercials.

*6 Others

The main components of others were fixtures and fittings, amortization of goodwill, and travel and transportation.

Non-Operating Income (Expenses)

The primary components of non-operating income for the third quarter were interest received and equity method investment gain, while the main charge in non-operating expenses was loss on disposal of fixed assets.

Extraordinary Gains (Losses)

The major extraordinary gain for the quarter was gain on sales of investment securities.

Income Taxes, etc.

The effective income tax (including income tax adjustments) burden ratio for quarterly income before income tax for the third quarter was 40.1%.

Minority Interests in Gains of Consolidated Subsidiaries

Minority interests in gains reflect the profits and losses of the consolidated subsidiaries in the interests of shareholders other than the Company.

Quarterly Net Income

Net income per share amounted to ¥ 437.54 for the quarter.

(ii). Analysis of Consolidated Balance Sheets for the Third Quarter

(Millions of yen)

		As of Dec. 31, 2010	As of Dec. 31, 2011	Increase/decrease		As of Sept. 30, 2011
		Amount	Amount	Amount	Change (%)	Amount
Assets						
Current assets						
Cash and cash equivalents	*1	147,574	216,267	68,692	46.5	213,155
Notes and accounts receivable-trade	*2	36,137	41,448	5,311	14.7	34,651
Inventory assets		159	146	-12	-8.0	117
Deferred tax assets		4,135	4,440	305	7.4	4,777
Other current assets	*3	26,996	30,737	3,741	13.9	24,400
Allowance for doubtful accounts		-1,574	-1,546	27	-1.8	-1,486
Total current assets		213,428	291,493	78,065	36.6	275,617
Fixed assets						
Tangible fixed assets						
Buildings and structures		6,944	8,171	1,227	17.7	6,942
Machinery and equipment		6,074	7,661	1,587	26.1	5,833
Tools, furniture and fixtures		9,480	11,985	2,505	26.4	10,657
Land		5,002	5,425	423	8.5	5,425
Other tangible fixed assets		316	295	-20	-6.6	3,439
Total tangible fixed assets	*4	27,817	33,539	5,721	20.6	32,298
Intangible fixed assets						
Software	*5	9,206	10,280	1,073	11.7	10,100
Goodwill	*6	4,734	1,024	-3,709	-78.4	1,132
Other intangible fixed assets		435	376	-58	-13.5	389
Total intangible fixed assets		14,376	11,681	-2,695	-18.7	11,622
Investments and other assets						
Investment securities	*7	163,874	41,111	-122,763	-74.9	42,017
Long-term receivables-other	*8	—	123,580	123,580	—	123,580
Deferred tax assets		6,264	5,991	-272	-4.4	6,297
Others	*9	6,444	8,375	1,931	30.0	8,008
Allowance for doubtful accounts		-47	-120	-72	153.4	-119
Total investments and other assets		176,535	178,938	2,403	1.4	179,786
Total fixed assets		218,729	224,159	5,429	2.5	223,707
Total assets		432,158	515,653	83,494	19.3	499,324

(Millions of yen)

		As of Dec. 31, 2010	As of Dec. 31, 2011	Increase/decrease		As of Sept. 30, 2011
		Amount	Amount	Amount	Change (%)	Amount
Liabilities						
Current liabilities						
Accounts payable-trade		6,067	5,720	-347	-5.7	7,708
Accounts payable-other		15,103	15,970	867	5.7	15,469
Income taxes payable		15,132	16,084	952	6.3	31,336
Provision for Yahoo! Points		3,846	4,163	316	8.2	3,869
Other current liabilities	*10	28,787	31,056	2,268	7.9	24,257
Total current liabilities		68,938	72,995	4,056	5.9	82,641
Long-term liabilities		2,294	2,685	390	17.0	2,671
Total liabilities		71,233	75,680	4,447	6.2	85,313
Net assets						
Shareholders' equity						
Common stock	*11	7,795	7,942	146	1.9	7,933
Capital surplus	*11	2,877	3,023	145	5.1	3,014
Retained earnings	*12	351,430	430,836	79,406	22.6	405,034
Treasury stocks		-5,604	-5,608	-4	0.1	-5,608
Total shareholders' equity		356,499	436,193	79,693	22.4	410,372
Accumulated other comprehensive income		1,761	561	-1,200	-68.1	568
Valuation difference on available-for-sale securities	*13	1,761	561	-1,200	-68.1	569
Deferred gains or losses on hedges		—	-0	-0	—	-1
Stock acquisition rights		590	736	145	24.7	696
Minority interests		2,074	2,482	408	19.7	2,373
Total net assets		360,925	439,972	79,047	21.9	414,011
Total liabilities and net assets		432,158	515,653	83,494	19.3	499,324

[Comparison with the end of the last fiscal year]

Total assets at the end of the third quarter amounted to ¥515.6 billion, up ¥43.9 billion compared with the end of the last fiscal year. The increase can be attributed to an increase of ¥27.5 billion in cash and cash equivalents.

Total liabilities decreased ¥10.9 billion, to ¥75.6 billion as a result of a decline of ¥17.3 billion in income taxes payable.

Net assets totaled ¥439.9 billion, rising ¥54.8 billion because of a ¥54.9 billion increase in retained earnings.

[Comparison with the same quarter in the previous fiscal year]

Assets

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

*2 Notes and accounts receivable-trade rose year on year primarily due to the concentration of payment collection agencies into one agency with longer sight of collection, for the settlement service for companies, and to an increase in advertising revenue.

*3 The expansion in other current assets from the same period a year earlier can be mainly attributed to the increase in credit related to the settlement services for Yahoo! Shopping and Yahoo! JAPAN card.

*4 The increase in tangible fixed assets compared with a year earlier was mainly the result of start up of data center operations and purchases of servers and network-related equipment.

*5 Software increased year on year despite a decline in amortization expenses primarily because of purchases.

*6 The decrease in goodwill from the third quarter last year was primarily due to the revised downward assessment of goodwill. The downward revision in goodwill resulted from a lump-sum adjustment of the purchase price of IDC Frontier Inc. (IDCF) shares acquired by the Company from SOFTBANK CORP. in recognition of the revised IDCF income tax assessment received in March 2011.

*7 Investment securities declined compared with the same quarter last year because of the sale of shares of BB Mobile Corp., to SOFTBANK CORP.

*8 Long-term receivables-other increased from a year earlier because the sale of shares of BB Mobile Corp. was booked in receivables. The Group expects to receive payment of the sale amount by March 31, 2013.

*9 Under Investments and other assets, Others grew year on year principally because of accrued interest related to the sale of BB Mobile Corp. shares and because of an increase in deposits for additional office floor space rental.

Liabilities

*10 The increase in other current liabilities from a year earlier mainly resulted from an increase in the debts of Yahoo! Shopping’s settlement service.

Net Assets

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

*12 Growth in net income supported an increase in retained earnings year on year despite the decline caused by the payment of dividends.

*13 The year-on-year decrease of valuation difference on available-for-sale securities can be mainly attributed to a decline in market prices of investment securities.

(iii). Analysis of Consolidated Statements of Cash Flows for the Third Quarter

(Millions of Yen)

	Three months ended Dec. 31, 2010	Three months ended Dec. 31, 2011	Nine months ended Dec. 31, 2011
	Amount	Amount	Amount
Cash flows from operating activities:			
Quarterly net Income before income taxes	41,561	42,518	122,644
Depreciation and amortization	2,516	2,840	7,743
Increase/decrease in accounts receivable-trade	-2,521	-6,105	-3,817
Increase/decrease in accounts payable-trade	-68	-1,988	-1,405
Payment of income taxes and other taxes	-28,941	-30,859	-63,681
Other cash flows	793	519	-5,940
Cash flows from operating activities	13,339	6,924	55,542
Cash flows from investing activities:			
Proceeds from time deposits	—	2,000	2,000
Expenditures on tangible fixed assets	-1,706	-4,284	-8,699
Expenditures on intangible fixed assets	-438	-629	-1,829
Proceeds from sales of investment securities	164	1,078	1,183
Other cash flows	-537	45	-160
Cash flows from investing activities	-2,517	-1,789	-7,504
Cash flows from financing activities:			
Income on issue of new shares	484	17	32
Dividends paid	-6	-9	-18,405
Other cash flows from financing activities	-14	-32	-84
Cash flows from financing activities	462	-24	-18,457
Net change in cash and cash equivalents	11,284	5,111	29,579
Cash and cash equivalents at the beginning of the periods	134,290	211,155	186,687
Cash and cash equivalents at the end of the periods	145,574	216,267	216,267

Cash and cash equivalents as of the end of the third quarter amounted to \216.2 billion, up \70.6 billion from a year earlier.

The following are the movements in the main components of cash flows and the factors contributing to those changes for the quarter under review.

Cash flows from operating activities amounted to a cash inflow of ¥6.9 billion despite the payment of income taxes and other taxes, mainly because of an increase in quarterly net income.

Cash flows from investing activities amounted to a cash outflow of ¥1.7 billion despite proceeds from time deposits, primarily due to outlays for the purchase of tangible fixed assets.

(3) Performance Outlook

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

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

The Consolidated Performance Estimates for the Cumulative Period of the Fiscal Year Ending March 31, 2012 shown below represent the sum of the actual cumulated consolidated performance up to the third quarter and the estimated performance for the fourth quarter of the fiscal year ending March 31, 2012.

Consolidated Performance Estimates for the Fourth Quarter of the Fiscal Year Ending March 31, 2012 (FY2011-4Q) (January 1, 2012 to March 31, 2012)

Revenue	¥77,600 million - ¥82,400 million
Operating income	¥42,100 million - ¥45,400 million
Ordinary income	¥42,600 million - ¥45,900 million
Quarterly net income	¥24,200 million - ¥26,200 million

Consolidated Performance Estimates for the Cumulative Period of the Fiscal Year Ending March 31, 2012 (April 1, 2011 to March 31, 2012)

Revenue	¥299,781 million - ¥304,581 million
Operating income	¥163,300 million - ¥166,600 million
Ordinary income	¥165,290 million - ¥168,590 million
Quarterly net income	¥97,154 million - ¥99,154 million

6. Risk Factors

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

1. Impact of Internet Markets and Competition

1) Macroeconomic Trends, Internet Markets, and Users

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

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

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

b. Continuous growth in the Group's advertising media value is uncertain.

The Internet-based advertising industry in Japan is generally thought to have begun with the Company's start of operations in 1996. Since then, the Internet advertising market has grown significantly, accounting for 13.3% of the total domestic advertising market in calendar year 2010, according to a recent DENTSU INC. report. Internet advertising is now the second largest advertising market in Japan, following the television advertising market.

The Group engages in a range of activities aimed at enhancing its advertising media value. In the area of display advertising, for example, the Group is endeavoring to expand and stabilize its client base of corporate advertisers and advertising companies through various means, including periodic seminars aimed at promoting a greater understanding and appreciation of Internet advertising within the advertising industry. In the area of listing advertising, meanwhile, the Group is working to improve the match between advertisements and the interests of each user, thereby becoming a more valuable media both for users and for advertisers.

However, further progress in this regard could be hindered by such factors as extremely slow growth in the Internet advertising market or a premature tapering-off of growth in the market. As a result, the Group might not achieve anticipated levels of advertising revenues, which would negatively impact its business performance.

c. Cyclical macroeconomic trends could contribute to underlying volatility in the Group's advertising-based revenue and earnings streams.

The advertising business is highly susceptible to trends in the overall economy. During downturns, advertising expenditures are among the first that companies reduce. Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand from advertisers for advertising space tend to be seasonal. These factors could contribute to underlying volatility in the Group's advertising revenue stream.

Information listing services, in particular, are influenced by macroeconomic trends. In recruitment-related services, for example, client companies tend to base recruitment activities on labor market forecasts. Such macroeconomic trends, therefore, strongly influence revenues from recruitment-related information listing services.

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

d. Trends in advertising budget allocations could affect the Group's advertising revenues.

Generally in Japan, major corporations outsource the bulk of their advertising activities to advertising companies. In addition to how the advertising budget is allocated among the various media, for example, Internet, television, and newspapers, the amount of advertising the Group receives mainly depends on the inclinations of major corporate advertisers and the amount of discretion granted to advertising companies. While the Group has implemented various measures to enhance Yahoo! JAPAN's appeal as an advertising media, including efforts to boost the effectiveness of its advertising products, trends in advertising budget allocations among the various media could affect the Group's advertising revenues.

e. The Group might fail to attain a share of the mobile advertising market comparable to its share of the PC market.

Based on projections that advertising via Internet-enabled terminals such as smartphones and tablets will grow at a quickening pace, the Group is working to enable the provision of its services via such terminals in addition to PCs. If mobile Internet use expands substantially but the Group fails to acquire the share of user numbers or usage times that it commands in the PC market, it might suffer a drop in viewer rates and a corresponding reduction in market share. As a result, the Group's advertising revenue growth could taper off, with negative consequences for earnings.

f. Markets for the Group's information listing and e-commerce services might not expand as anticipated.

To expand the market for information listing services, such as Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT CO., LTD., the Group is leveraging the convenience and dominant brand strength of the Yahoo! JAPAN site to attract new customers. Using an enhanced marketing infrastructure, the Group is endeavoring to expand revenues from Yahoo! Auctions and Yahoo! Shopping. Despite these efforts, the market might not expand for any of various reasons. The shift of information listing services to the Internet from traditional media, particularly printed media such as newspapers, magazines, and flyer inserts, might not proceed as expected. The number of users of the Group's auction and shopping services might not increase as anticipated, and associated transaction values might be less than expected. Any of these factors could negatively affect the Group's performance.

g. Technological change in the broadband market could affect the Group's income.

Yahoo! BB, the Group's comprehensive broadband service operated jointly by the Company and SOFTBANK BB Corp. (SBB), mainly provides inexpensive, high-speed DSL services. Owing to rapid progress in telecommunications technology, the broadband market is shifting from DSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. To acquire new subscribers in this environment, SBB has introduced Yahoo! BB hikari with FLET'S*, a comprehensive broadband FTTH service. Even so, the Group might be unable to achieve projected levels of new subscribers or sales, or existing customers might shift to competing services. Moreover, unanticipated expenses might arise. Any of these factors could negatively affect the Group's income.

*FLET'S is a trademark of NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION (NTT EAST) and NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (NTT WEST).

h. A slowdown in the growth rate of users of member services and other fee-based services could affect the Group's revenues.

With the spread of broadband and mobile communications in recent years, the number of Internet users has increased dramatically, fueling growth in the number of potential users of Yahoo! JAPAN member services and other fee-based services. (The Group's premier member service, Yahoo! Premium, grants to subscribers special members-only benefits and entitlements, including unrestricted participation in Yahoo! Auctions.) Eventually, however, broadband and mobile phone proliferation in Japan will reach a saturation point and growth in the number of Internet users will begin to slow. If, as a result, growth in the number of users of Yahoo! JAPAN member services and other fee-based services also slows, so too is growth in revenue derived from these services likely to decline. To offset the expected decline in revenue growth, the Group is implementing various measures to promote broader usage of Yahoo! JAPAN member services and other fee-based services. Despite these efforts, it is possible that revenues derived from member services and other fee-based services will begin to show slower growth, which could negatively impact the Group's overall revenues.

i. The popularity of fee-based service content might decrease.

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

2) Competition

With competitors in each of its service areas, the Group might have difficulties maintaining its dominant position in the Japanese Internet market.

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

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

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

The Group considers Google Japan which offers "Google" to be its main competitor in the current market environment.

3) Social infrastructure and Other Companies' Products and Services

In providing its services, the Group relies on the products and services of other companies, including electricity, servers, Internet connection lines, information devices, and software.

Many of the products and services necessary for the provision of the Group's services, such as electricity, servers, Internet connection lines, users' information devices and software, are provided by other companies. The smooth, uninterrupted provision of such products and services by other companies is a prerequisite to the successful provision of the Group's services.

The Group particularly depends on electricity to run its servers and other equipment and facilities in order to properly provide its Yahoo! JAPAN services. In preparation for the event that power blackouts, usage restrictions, or other situations should disrupt the stable supply of electricity, the Group is proceeding with the setting up of redundancy for its data center and independent power generation facilities. Moreover, should power blackouts, usage restrictions, or other situations occur, the Group will move quickly and appropriately to deal with it on a group-wide basis. Nevertheless, should the Group not be able to continue operations or properly restore services following a power loss incident that occurred for some unanticipated reason or detail or for some other reason, it could have a negative impact on the Group's services. Moreover, higher electricity charges could adversely affect the Group's profits.

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

4) Technological Change

Failure to respond quickly and appropriately to technological innovation could greatly affect the Group's business.

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

To keep up with the market and maintain competitiveness, the Group plans to implement innovative technologies as it continuously improves and expands services. Nevertheless, if the Group is slow to implement new technologies emerging in the market and its services become obsolete as a result, it could suffer a decline in competitiveness.

2. Legal and Institutional Changes

1) Legal Restrictions

a. New laws or amendments relating to the Group or to the Internet industry as a whole could negatively affect the Group's provision of services.

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

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

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

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

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

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

d. The recently established Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People could impinge upon the development of the Internet industry in Japan.

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

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

Reports have been made of illegal items being listed on Yahoo! Auctions, and cases of fraud have been identified. When sellers subject to the law list branded products for auction, the Group instructs them to properly identify themselves and will revoke their IDs if they do not comply. In collaboration with Internet auction operators DeNA and Rakuten, the Group has formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, the Company is actively working to devise measures to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, the Group has published on its Web site "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures fail to bring about the expected results and reports of illegal or fraudulent merchandise continue, legislation could be enacted restricting commercial activity carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could negatively affect the Group's earnings.

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

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

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

g. The formulation of new laws or amendments to existing laws concerning financial services could affect the Group.
As financial services, the Group offers the Yahoo! JAPAN Card service and Yahoo! Trading (financial instruments intermediary services).

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

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

h. In addition to legal restrictions, official administrative guidance and governmental requirements could affect the Group's service provision and performance.
In addition to the application of the aforementioned legal restrictions, self-regulatory systems applicable to companies in the industry with regard to information communication or other businesses under the administrative guidance and requirements of the national government, governmental ministries, or local governments could adversely impact the Group's service provision and performance.
* In June 2010, the Company received notification from the Tokyo Regional Taxation Bureau of a revision to its tax payment related to the Company's conversion of SOFTBANK IDC Solutions Corp. (IDC) into a consolidated subsidiary in February 2009 and subsequent absorption via merger the following March. Refuting the taxation bureau's revision, after going through the process of submitting a request for reconsideration to the National Tax Tribunal and filing to revoke the said decision in April 2011, the Company is now fighting the claims in the Tokyo District Court.

2) Litigation
a. Victims of auction fraud might take legal action against the Group.
The Group has implemented various measures to improve systems security for a safer and more stable auction environment. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. In July 2007, the Group began offering a "do now, pay later" service (see Note, below). In addition, the Group has set up a patrol team to search out and eliminate auction listings of illegal items in cooperation with law enforcement agencies and copyright-related groups.

A lawsuit brought against the Group by certain users of Yahoo! Auctions seeking damage compensation relating to the non-receipt of paid auction items was ruled definitively in the Group's favor in October 2009, on which date the Supreme Court dismissed an appeal by the said users, effectively upholding its initial judgment that the Group was not liable for damages because it had not only forewarned Yahoo! Auctions users of the potential for auction fraud but also offered advice on how to detect and avoid it by citing actual examples of fraud.

Despite this ruling in the Group's favor, the strong likelihood that auction fraud will to some extent continue to exist implies that certain Yahoo! Auctions users might again take legal action against the Group, whether or not the Group is responsible. Moreover, the implementation of additional measures to further strengthen systems security in order to prevent criminal activity, including an expansion of patrol capabilities, could entail increased costs and, as a result, reduced earnings.

The Group has instituted a system guaranteeing limited compensation for users who have been victimized by auction fraud. This compensation system could lead to higher expenditures for the Group.

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

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

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

c. The Group could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements or of Web sites accessed through links on the Group's sites.
To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates the content of advertisements and of Web sites accessed through advertisement links. As expressed in a written contract with each advertiser, the advertiser accepts full responsibility for the content of advertisements. For such services as message boards, blogs, and auctions, where users can exchange information freely, the Group indicates clearly in its contracts with users that illegal or slanderous content is prohibited and that full responsibility lies with users. The Group maintains the right

to remove Web content that is in violation of its contracts with users and will do so immediately upon discovering such Web content.

Through such internal regulation, the Group prohibits illegal and slanderous content on its sites and protects user privacy. In addition, the Group publishes a disclaimer stating clearly that users bear full responsibility for Web browsing and information posting, and that the Group accepts no responsibility for damages incurred by users as a result of Web browsing or information posting. However, there is no guarantee that such measures will suffice to stave off litigation. The Group could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements, Web sites accessed through links on Group sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or time spent on Group sites, or to a suspension of certain Group services.

d. Interested parties could demand compensation from the Group regarding content procured from other non-Group companies.

The Group procures content for such information services as topical news, weather reports, and stock prices and for such entertainment services as videos and music from other companies and provides it to Internet users. The content providers agree to take responsibility for the content in their contracts and to quickly investigate and deal with claims should they occur from interested parties. However, if, despite the implementation of those measures, the interested parties should demand compensation from the Group for a matter for which the responsibility really should be assigned solely to the content provider, the Group may incur substantially expenses and a loss of brand image that could impact negatively on Group performance.

* In June 2011, the Tokyo District Court brought down a decision recognizing the Company’s responsibility and requiring compensation for listing a photograph received from a news service on Yahoo! News. The Company filed an appeal in the same month.

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

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

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

f. The Group could be subject to damage claims by third parties for infringement of intellectual property rights, such as patents or copyrights owned by third parties.

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

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

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

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

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

3) Other Legal Regulations

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

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

b. Changes to accounting standards or tax codes could have a material impact on the Group's profits or losses.
Against the backdrop of the recent trend in Japan to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards. Even so, significant changes to accounting standards or tax codes could have a material impact on the Group's profits or losses.

3. Disasters and Emergency Situations

1) Disasters

The Group's operations are potentially vulnerable to natural disasters.
The Group's operations, like those of many other corporations in Japan, are potentially vulnerable to disasters such as earthquakes and fires and large-scale accidents as well as the destruction of buildings, power outages, and network failures resulting therefrom. The Group's network infrastructure and human resources are mainly concentrated in Tokyo. To cope with natural disasters and resultant surges in Internet access, the Group is committed to improving its network infrastructure by duplicating and dispersing its server capacity and data centers.

The Group has taken steps to ensure that it can respond quickly and appropriately Groupwide in the event that such incidents occur. Nevertheless, should the Group not be able to continue operations or quickly recover operations after such an incident because it occurred for an unforeseen reason or was of an unforeseen kind; or resulted in a stoppage of, decline in, or postponement of advertising caused by the advertisers' situation; or resulted in users abandoning the Group's pay services, it could have a negative impact on the Group's operations, business performance and brand image,

* If the impact of the Great East Japan Earthquake goes on for a prolonged period, another disaster occurs or a problem with stable electricity supply occurs, it could have a negative impact on our services for a certain period of time.

2) Emergency Situations

The Group's operations could be affected by international conflicts, terrorist attacks, or other emergency situations.
In the event of outbreaks of international conflicts or terrorist attacks, the Group expects that its businesses would also be substantially affected.

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of Yahoo! JAPAN, causing disruption to planned advertising business. Or, for their own reasons advertisers might cancel, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be disrupted or some other circumstances arise whereby users would no longer be able to access the Group's fee-based services. In addition, operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries that would impede the Group's links to business alliances in those countries. In the worst-case scenario, the Group's offices could be physically disabled. If other companies closely related to the Group's businesses, such as SOFTBANK CORP. and its related companies and other Internet service providers, were hit with the same conditions, it is possible that the Group could be rendered incapable of maintaining some of its services.

4. Business Management

1) Management Policy and Business Strategies

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

If management fails to modify these strategies as required, the Group's competitive advantage could be compromised.

2) Technological Development and Improvement

a. Although the Group's R&D efforts aim to meet user needs through the implementation of new strategies and the establishment of new businesses, such efforts might fail to adequately address user needs or result in R&D delays or failures.
To respond to the growth and diversification of Internet use and maintain a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet user needs. To support that process, the Group established a new research institution, Yahoo! JAPAN Research, in April 2007. Although R&D expenses directly related to these efforts to date have been limited, future R&D expenditures could exceed projections, depending on the time period required for development, resulting in diminished Group competitiveness.

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by engaging cooperatively with other companies boasting proven records of accomplishment in their respective business fields. To respond quickly to changing market needs, the Group is also focusing on strengthening its service planning and system development. Even so, the Group might fail to achieve targeted sales and profits owing to delays or failures of R&D programs, excessive expenses, or a failure to adequately address user needs. Moreover, focusing R&D investment on developing new strategies and businesses might hinder the development and operation of existing Group services. In addition, technical and operational issues could ultimately result in user demands for compensation from the Group.

b. Failure to effectively implement a program aimed at continuously improving services could eventually render the Group's services obsolete.
The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continuously improving the user experience is central to maintaining its competitive advantage. To this end, the Group focuses broadly on (1) improving the visibility and design layout of the display screen with an eye to enhancing operational convenience; (2) tightening the correspondence between the results of searches and

other information services and actual user requests; and (3) accelerating display speeds of the results of searches and other information services.

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

c. Inadequate planning and implementation of capital investment programs could result in lower service quality and higher expenditures.

To support future business expansion and facilitate ongoing provision of quality services that meet user needs, the Group maintains a continuous capital-investment program of comparatively large scale relative to the size of current operations. Against a background of continuing growth in the Internet user base, increasing rates of broadband connectivity, and expanding Internet accessibility, the Group is obligated to add new and upgrade existing network-related facilities to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception over short time periods. With the recent acquisition of a proprietary large-scale data center, the Group benefits not only from stable and efficient operations of its servers but also from cost reductions.

Consequently, the Group anticipates a growing need for ever larger capital investments made in a timely manner to build systems and networks for smoothly controlling large volumes of communications traffic, strengthening security systems to protect settlement services and users' personal information, and expanding systems to appropriately respond to the growth and diversification of user inquiries. Furthermore, in line with its expanding business scope the Group will be required to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group intends to minimize cash outflows by closely considering costs and benefits and by keeping a tight rein on system development and equipment-related expenditures.

Although the Group believes that business expansion will result in earnings growth sufficient to provide operating cash flows to cover increased costs and cash outflows, insufficient and/or delayed returns on capital investments could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by continuous technological innovation and rapidly changing user needs, the useful lives of new or upgraded facilities might be shorter than planned. Accordingly, depreciation timeframes might be shorter and depreciation costs higher compared with those of previous facilities. By corollary, the accelerated disposal of existing facilities might result in higher-than-expected losses.

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

In recent years, the range of Internet-enabled terminals has grown to include smartphones, tablets, video-game consoles, TVs, and car navigation systems, resulting in a vastly expanded Internet-connection infrastructure for information terminals other than PCs. Responding to this trend, the Group has adopted the Yahoo! Everywhere strategy promoting Internet usage via a wide range of devices, with the goal of increasing accessibility to and boosting usage times of Yahoo! JAPAN services. In promoting this strategy, the following risks are implied:

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

Enabling users to easily connect to Yahoo! JAPAN via any Internet-enabled device is a key element supporting the Group's competitiveness. For example, a Y! Button on SOFTBANK mobile phones provides easy and direct connection to Yahoo! JAPAN services. The Group also intends to work closely with companies that have developed Internet-enabled devices other than mobile phones to ensure easy connectivity. Failure to achieve smooth Internet connectivity via such devices could undermine the Group's competitiveness. Furthermore, should higher-than-expected costs be incurred in achieving connectivity, the Group's performance could be negatively impacted.

Each device has unique features, such as screen size and input system. Under the Yahoo! Everywhere strategy the Group is optimizing Yahoo! JAPAN sites for each of these features. Achieving this goal might take longer than expected, or the Group's services might be inferior to other companies' optimized services, resulting in an erosion of competitiveness. Moreover, higher-than-expected optimization-related expenditures could adversely affect the Group's performance.

e. Failure to properly incorporate innovative advertising methods could adversely affect the Group's advertising revenue.

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Group develops and sells a variety of advertising products suited to the specific needs of individual advertisers, including products with guaranteed exposure periods and page views. The Group also offers Sponsored Search® services (paid search advertising) and an affiliate ad program, operated in cooperation with ValueCommerce Co., Ltd.

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

f. Conversion to Google's search engine and paid search advertising distribution system could negatively affect the Group's performance.

In July 2010, the Company decided to convert its search engine and paid search advertising distribution system to those of Google Inc. (Google). This change could negatively affect the Group's future performance, particularly with regard to search-related services.

3) New Businesses

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

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

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

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

4) Services Provided

a. Development, operation, and maintenance of the Group's search services are commissioned to Google and others.

The Group's paid search advertising revenues are expanding and account for a steadily increasing share of overall advertising sales. Currently, the Group is using the search engine and paid search advertising distribution system of Google.

In the future, should the Company's business relationship with Google change or Google's smooth service operations be obstructed, the Group's performance or some of its sustainable services could be negatively affected.

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

Advertising contract periods and page views are guaranteed for many of the Group's products, with advertising fees based on those two parameters. Failure to attain the required number of page views due to problems with the Internet connection environment or to similar problems could obligate the Group to extend advertising contract periods or to provide some other form of compensation, which could negatively impact the Group's advertising revenues.

Moreover, the Group might fail to provide services that meet the needs of certain advertisers, which could result in reduced demand from those advertisers. This could negatively impact the Group's advertising revenues.

c. Expenses for additional Internet connections and capital investment in infrastructure could rise in line with expanding bandwidth requirements.

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

5) Compliance

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

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

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

6) Management and Operation Systems

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

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

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

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

b. The resignation of key personnel could temporarily hinder the Group's continuous business development.

The development of the Group's businesses depends on continuing support from senior management and key technical personnel, including the president and directors of the Company as well as representatives of each department who possess specialized knowledge and technical expertise concerning the Group and its businesses. Consequently, if key personnel were to leave and the Group failed to replace them, the continuous development of certain businesses could be temporarily hindered.

In addition, some senior managers participate in the stock-option plan, one of the Group's personnel incentive measures. Rather than motivate participants, however, the stock-option plan might have the opposite effect and be a cause of their leaving the Group.

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

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

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

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

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

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

Furthermore, the Group must deal with a broad array of customer inquiries about use of services, payment, return or exchange of goods and services, matters relating to third party vendors commissioned by the Group such as distribution or settlement, and other matters. To properly respond to customer inquiries, the Group is in the process of increasing staff, strengthening and expanding its management organization, and improving efficiency by standardizing and computerizing businesses. The costs of these measures and improvements could negatively affect the Group's profits. In addition, these measures do not guarantee that all customers will be sufficiently satisfied, implying potential damage to the Group's brand image and a negative impact on the Group's performance.

5. Relationship with Major Stakeholders

1) Major Shareholders

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

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

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

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

The Company is not the central party in this shareholder agreement. The shareholder agreement between SOFTBANK CORP. and Yahoo! Inc. shall, by principle, be executed in accordance with the law and the Company's articles of incorporation, and, moreover, the agreement does not significantly fetter the Company's operations or its pursuit of business.

From this point of view, the Company believes that the agreement does not represent an invasion of the rights of other shareholders.

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

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

Contract name	YAHOO! JAPAN LICENSE AGREEMENT
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified 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.).
Counterparty	Yahoo! Inc.
Main details	1) Licensing rights granted by Yahoo! Inc. to the Company: • Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services) • Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark • Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan • Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services 2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below) Note: Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

d. Issues related to the management of the Yahoo! brand overseas could restrict the expansion of the Group's business.
The establishment and proliferation of the Yahoo! brand are considered important to the Group, both for attracting users and advertisers and for expanding its business. The importance of brand recognition is increasing rapidly with the growth in the number of Internet services and low barriers to entry in the Internet business. Especially given the intensifying competition among Internet companies, expenditures for establishing the Yahoo! brand and boosting brand recognition could increase substantially.

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

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

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

Contract name	ADVERTISER AND PUBLISHER SERVICES AGREEMENT
Contract date	July 27, 2010 (Original contract dated August 31, 2007)
Contract term	August 31, 2007, to August 30, 2017 (10 years)
Counterparties	Yahoo! Sarl and Yahoo! Inc.
Main details	1) Exclusive rights regarding Yahoo! Sarl services

	The Company and its subsidiaries for which it holds more than 50% of the voting rights will have exclusive rights in Japan for those advertising-related services of Yahoo! Sarl (with the exception of paid search advertising distribution technologies) adopted as contracted services through the procedure given in the contract. However, the Company makes no promise to exclusively use Yahoo! Sarl's paid search advertising distribution technologies and may freely choose and adopt other third-parties' paid search advertising distribution technologies. 2) Payment for Yahoo! Sarl's services The Company shall pay to Yahoo! Sarl a service fee multiplied by a rate prearranged for each year on the Company revenues (gross revenues earned by the Company and its subsidiaries for which it holds 20% or more of the voting rights) associated with the use of services contracted from Yahoo! Sarl (including use of other third-parties' paid search advertising distribution technologies). 3) The Company's option right Should the Company desire, the search and paid search advertising distribution technologies that Yahoo! Inc. has the right to provide may be offered to the Company on a non-exclusive basis. Provision of those services will be based on contracts separately formed with Yahoo! Inc. and Microsoft Corporation. 4) Cooperation regarding transfer of customer data When the Company decides to use technologies other than those of Yahoo! Inc. or Microsoft Corporation, Yahoo! Sarl will cooperate with the Company regarding the transfer of customer data.

f. Any modifications to the business contract with Google Asia Pacific Pte Ltd. could affect the Group's earnings.
The Company has signed the following business alliance contract with Google Asia Pacific Pte Ltd. to provide services such as search and paid search advertising distribution technologies, key income sources for the Group. Therefore, any modifications to the contract could affect the Group's earnings.

Contract name	Google SERVICE AGREEMENT
Contract date	July 27, 2010
Contract term	July 27, 2010, to October 31, 2012
Counterparty	Google Asia Pacific Pte Ltd.
Main details	1) Non-exclusive provision of search and paid search advertising distribution technologies by counterparty The counterparty shall provide its search and paid search advertising distribution technologies to the Group on a non-exclusive basis, which will be used by the Group to offer its own brand of services. 2) Differentiation of search services Both parties are entitled to freely develop and use additional functions for the search results in order to differentiate their search results. The Company may decide on its own whether to display the other party's search results. 3) Payment for counterparty's services Payment for the counterparty's services shall be the sum of a certain amount fixed for each year and an amount calculated using the standard for excess amounts on any revenue of the Company Web site in excess of a specific amount. The payment for the counterparty's services provided by the Company to partners shall be an amount calculated using a determined method on the annual revenues received from each partner's Web site.

2) Consolidated Group Management
Inadequate consolidated management coordination could impact the Group's performance.
The Group has subsidiaries and affiliates of all sizes with varying degrees of in-house management. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand. If these measures are not implemented in a timely manner, the Group's performance could be negatively affected.
Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of the businesses of the Company and of its subsidiaries and affiliates, which could negatively impact the Group's performance.

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

Contract name	Business alliance contract
Contract date	March 31, 2007 (original contract signed on June 20, 2001)
Contract term	June 20, 2001~ (indefinite term)

Counterparty	SOFTBANK BB Corp.
Main details	1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology. 2) The Company's main roles: ・Promoting Yahoo! BB services ・Recruiting subscribers for Yahoo! BB services ・Operating the Yahoo! BB portal site ・Providing mail and Web site services ・Providing a fee-collection platform 3) SBB's main roles: ・Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks ・Handling subscriber inquiries and providing technical support ・From the ISP charge, the Company takes the following in exchange for services rendered: - Yahoo! BB ADSL etc. subscribers acquired: ¥100 per line per month - Yahoo! BB hikari with FLET'S/Yahoo! BB hikari FLET'S course subscribers acquired: ¥60 per line per month - Yahoo! BB for Mobile subscribers acquired: ¥50 per line per month

Contract name	Incentive agreement
Contract date	October 7, 2005
Contract term	One year, beginning October 1, 2004 (automatically renewed each year)
Counterparty	SOFTBANK BB Corp.
Main details	Incentive fees ・ New customer acquisition incentive fees Yahoo! BB basic service: Approx. ¥15,000 per subscription Yahoo! BB＋wireless LAN package: Approx. ¥20,000 per subscription ・ Long-term customer incentive fees Yahoo! BB basic service: Approx. ¥200 per month per continuing subscriber Yahoo! BB＋wireless LAN package: Approx. ¥250 per month per continuing subscriber

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

6. Finances, Loans, and Investments
1) Funds Procurement and Interest Rate Changes
a. In its Yahoo! ezPay service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from buyers.
Yahoo! ezPay is a payment service provided by the Company's subsidiary Netrust, Ltd., whereby on the request of the seller and buyer of an item listed on Yahoo! Auctions. Netrust acts as the intermediate in the settlement of the transaction.
Because Netrust reimburses the seller of an item one to three business days after the buyer has made settlement by credit card or Internet banking, the subsidiary must carry the credit-card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. If the pace of growth of this service should substantially exceed expectations, then the Group might not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a negative impact on the Group's business and performance.

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

2) Investments
The Group often makes investments in or loans to other companies. In some cases, appropriate returns might not be obtained on the investments or loans, or the funds could become irrecoverable.
The Group makes investments as a result of business tie-ups or with an eye to forming business tie-ups in the future. The Group cannot guarantee that these investments are recoverable.
Some of the public companies in which the Group has invested have already produced evaluation profits or losses. In the future, evaluation profits could decline or turn into evaluation losses; moreover, evaluation losses could worsen.

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

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

7. Relationship with Competitors and Partners

1) Business Alliances and Contracts

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

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

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

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

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

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

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

c. The Group's procurement of information and broadband content from third parties could be affected.

The Group offers and plans to continue offering Internet users high-quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content such as films and music. However, should the Group not be able to acquire information and content as expected or the costs of acquiring information and content be higher than anticipated, use of the Group's services by Internet users might decline, possibly resulting in a failure of the Group to achieve its projected earnings.

d. As the Group pursues business alliances with other sites and corporations, unforeseen problems could prevent the achievement of Group objectives.

The Group is pursing business alliances with other sites and corporations in an effort to expand usage of its services. Even if the Group offers its services via such business alliances based on its own guidelines, in some cases the Group might be unable to achieve its objectives owing to troubles caused by business alliance partners, including leaks of personal information due to deficient information management systems, service disruptions caused by inadequate systems, and lengthy delays in service development.

Conversely, certain business alliance partners might fail to provide agreed-upon services owing to problems caused by the Group, in which case those business alliance partners might demand some form of compensation.

Either situation could have a negative impact on user numbers and, as a result, the Group's business performance.

2) Collection of Sales Credit Claims

a. Economic and business deterioration might make the collection of receivables from certain clients more difficult or impossible.

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

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

3) Relationship with Third Parties
a. Each of the Group's businesses depends to some extent on specific customers or sales agents.
In each of its businesses, the Group depends to some extent either on sales to specific customers or on sales by specific sales agents other than the related parties described above.

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

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

b. Relationships with third-party joint venture partners could deteriorate.
Several Group companies have established and operate joint ventures with third parties. These joint ventures depend substantially on the non-Group partners, especially in the areas of sales, supplies, distribution, and systems. Currently, the cooperative relationships between joint-venture partners are excellent and contribute to the performances of the Group companies involved. However, if for some reason cooperative relationships between joint-venture partners deteriorated, the performance of each company could be damaged and, in certain cases, its operations discontinued.

c. In some cases, system development and operations essential to services are commissioned to specific third parties.
Among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the relevant sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, a system development delay could occur owing to a situation at a commissioned third party that the Group cannot manage, or a situation could arise whereby obstruction of operations or some other event causes the stoppage of third-party systems to which the Group's services are linked. Such events could lead to a loss of sales opportunities and reduce the competitiveness of the Group's systems, negatively impacting the Group's performance or in the worst case resulting in the termination of the services. In addition, third-party mishandling of delivery-related services provided through convenience stores could damage our brand image.

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

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

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

Nevertheless, these actions do not guarantee perfect maintenance of the Group's information security systems. If, under some circumstance, a problem such as an information leak were to occur, it could impact negatively on performance and erode public confidence in the Group and negatively impact performance.

2) Personal Information
a. Leaks of personal information required for user identification could damage the Group's credibility and lead to legal disputes.

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

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

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

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

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

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

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

Note 3: Refusing spoofed e-mails
Spoofed e-mails, purportedly sent from one source but in fact sent from another, can be filtered out or refused by users armed with domain validation technology, such as DomainKeys or Sender Policy Framework (SPF). Since July 2005, Yahoo! Mail has featured a DomainKeys function, and in December 2006 we introduced an SPF function in a concerted effort to prevent phishing and other malicious e-mail from landing in Yahoo! Mail service inboxes. Moreover, receiving servers are also armed with these technologies, and users can filter out e-mail purporting to be from "yahoo.co.jp" or from other providers that utilize DomainKeys or SPF technology. SPF technology is widely used by the major Internet providers and mobile phone carriers in Japan.

Note 4: Anti-phishing browser
This is a browser equipped with a password entry column only for access authentication in its address bar field. An entered password is handled by the authentication server using a cryptographic protocol but is not sent directly to the server. Therefore, the password cannot be stolen even when carelessly entered on a fake site.

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

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

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

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

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

The Group outsources the bulk of Yahoo! JAPAN Card services with the intention to take full advantage of available expertise in personal information management as well as to promote variable cost flexibility. Although the Group has been extremely careful in choosing its business partner for this service, the Group could be sued for damages should its business partner leak personal information.

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

Regarding the anonymous delivery service offered by Yahoo! Auctions involves the anonymous processing of item deliveries by the transport company commissioned to handle this service. However, if the commissioned transport company should fail to handle the anonymous service properly and the names of the sender and receiver of an item were divulged, the Group could face a lawsuit for compensation or suffer damage to its brand image, which could adversely affect its business performance.

Yahoo! Shopping sends personal information provided by buyers directly to stores where buyers have made purchases. Accordingly, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that buyers' personal information is not disclosed to other individuals or entities, stores are given clear instructions on proper methods of information control and are strictly prohibited from using personal information for purposes other than the delivery of items or sales promotions.

To clear credit card payments, stores may use the settlement system of the Company's subsidiary Netrust, Ltd., or deal directly with credit card companies. Stores opting to use the Netrust settlement system cannot maintain records of credit card numbers, as these are provided directly to credit card companies by Netrust. Stores opting to deal directly with credit card companies are provided with strict instructions to control buyers' credit card numbers in the same manner used to control other personal information. Despite such measures, information leaks might occur, resulting in a loss of Group credibility, regardless of whether or not the Group was responsible.

3) Communication Privacy

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

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

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

4) Network Security

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

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

5) Fraudulent Use

Fraudulent use could result in damage claims.

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

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

6) Behavioral History Information

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

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

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

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

9. Corporate Governance

Corporate Governance System

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

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