Results for the Three Months Ended June 30, 2010 (FY2010-1Q)

July 27, 2010

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

Scheduled Securities Report Submission Date: August 10, 2010

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 FY2010-1Q (April 1, 2010 - June 30, 2010)

(1) Consolidated Financial Results (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	(%)
FY2010-1Q	70,506	(4.2)	37,606	(9.8)	37,573	(10.2)	21,656	(12.6)
FY2009-1Q	67,635	(3.2)	34,263	(4.1)	34,085	(5.2)	19,238	(0.4)

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2010-1Q	373.29	372.96
FY2009-1Q	331.07	330.81

(2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2010-1Q	404,812	316,618	77.5	5,408.83
FY2009	418,262	312,273	74.0	5,335.79

(For reference) Equity capital: FY2010-1Q ¥313,798 million FY2009 ¥309,555 million

2. Cash Dividends

	Dividends per share				
	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2009	—	0.00	—	288.00	288.00
FY2010	—				
FY2010 (Estimates)		—	—	—	—

Note: Revision in dividends scheduled for the quarter: None

Payment of dividends for FY2010 is not determined at this time.

3. Consolidated Business Outlook for FY2010 (April 1, 2010 – March 31, 2011)

(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
FY2010-2Q (Cumulative)	139,506 - 142,506	(2.8 - 5.0)	74,206 - 76,206	(8.1 - 11.0)	74,373 - 76,373	(9.0 - 11.9)	43,456 - 44,656	(10.6 - 13.6)	749.05 - 769.74
Full Year	—	—	—	—	—	—	—	—	—

Note: Revisions in quarterly consolidated performance forecasts: Yes

* Performance estimates for the next quarter are disclosed instead of those for the full year.

4. Others

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

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

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

1) Changes due to accounting standards revisions: Yes

2) Changes other than 1): None

(4) Number of stocks issued (common stock)

1) Number of stocks issued at the end of quarter (including treasury stocks)	FY2010-1Q	58,119,962 stocks	FY2009	58,118,909 stocks
2) Number of treasury stocks at the end of quarter	FY2010-1Q	103,955 stocks	FY2009	103,955 stocks
3) Average number of stocks	FY2010-1Q	58,015,318 stocks	FY2009-1Q	58,108,331 stocks

5. Business Results

(1) Performance Highlights

- Performance in the First Quarter (April 1, 2010 - June 30, 2010)

	2009-1Q	2010-1Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥67.6 billion	¥70.5 billion	+¥2.8 billion	+4.2%
Operating Income	¥34.2 billion	¥37.6 billion	+¥3.3 billion	+9.8%
Ordinary Income	¥34.0 billion	¥37.5 billion	+¥3.4 billion	+10.2%
Quarterly Net Income	¥19.2 billion	¥21.6 billion	+¥2.4 billion	+12.6%

Compared with the same quarter in the previous fiscal year, the revenues from listing advertising and display advertising increased and those from information listing services and Yahoo! Shopping also contributed to the quarterly growth. In addition, as a result of continued efforts to cut costs, such as targeting greater efficiency in business operations, communication charges, depreciation expenses and others declined, providing an approximately 10% increase in operating income and ordinary income.

Revenue and Operating Income by Segment

	2009-1Q	2010-1Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Media Business				
Revenue	¥23.5 billion	¥25.6 billion	+¥2.0 billion	+8.7%
Operating income	¥10.9 billion	¥13.0 billion	+¥2.1 billion	+19.2%
BS Business				
Revenue	¥17.4 billion	¥18.4 billion	+¥0.9 billion	+5.7%
Operating income	¥7.4 billion	¥8.8 billion	+¥1.4 billion	+19.5%
Consumer Business				
Revenue	¥26.4 billion	¥26.2 billion	-¥0.1 billion	-0.5%
Operating income	¥18.0 billion	¥17.6 billion	-¥0.4 billion	-2.4%
Adjustments				
Revenue	¥0.2 billion	¥0.1 billion	–	–
Operating income	-¥2.2 billion	-¥2.0 billion	–	–
Total				
Revenue	¥67.6 billion	¥70.5 billion	+¥2.8 billion	+4.2%
Operating income	¥34.2 billion	¥37.6 billion	+¥3.3 billion	+9.8%

Notes: 1. As of this quarter, the Company has changed the method of presentation of segment information. Figures for revenue and operating income of the same quarter in the previous fiscal year have been adjusted to reflect this change in presentation.

2. Figures of the Adjustments represent the revenues from consolidated subsidiaries not belonging to any reporting segment, inter-segment transactions and wholly corporate expenses.

- In the Media Business, the quarterly revenue from listing advertising through advertising agencies increased year on year. Paid search advertising revenue rose because of greater advertising by department stores, mail order, shopping malls, and travel and leisure companies. Interest-based advertising revenue also continued to expand. Display advertising revenue expanded on the strength of increased advertising by automobile and related parts; finance, insurance, and securities; and real estate companies. Revenues from the high brand impact Brand Panel and from behavioral targeting advertising also posted year-on-year quarterly growth, as did mobile advertising revenue.

- In the BS Business, in listing advertising (online order), there was a short-term falloff in the growth rate of interest-based advertising revenue due to stricter listing guidelines introduced to raise advertising quality. However, continued growth in advertising, mainly by medium- and small-sized companies resulted in an overall increase in advertising-related revenues year on year. Yahoo! Real Estate and Yahoo! Rikunabi posted growth in information listing fees compared with the same quarter last year as their recovery trend strengthened. Revenue from Yahoo! Travel also registered a year-on-year gain. Among data center-related revenues, use of cloud computing services increased.

- In the Consumer Business, efforts to expand use of Yahoo! Shopping by running sales promotions featuring the Star Club service resulted in higher transaction value, which pushed up revenues. In particular, mobile transaction value for Yahoo!

Shopping soared because of expanded and improved campaigns targeting mobile phone users. Moreover, through a business alliance with the Alibaba Group's Taobao, the partners launched separate services mutually selling items from China and Japan (Yahoo! China Mall and Tao Japan). In other areas, the number of Yahoo! Premium membership IDs increased year on year, supporting growth in revenues. However, Yahoo! Auctions' transaction value continued to contract because of the declining unit price of winning bids, resulting in lower revenues compared with a year earlier.

- In addition to renewing the top page of Yahoo! JAPAN for the iPhone version, we took steps to increase the degree of convenience for iPhone users, such as optimizing display of our various services.

- In our cloud computing services that are expected to additionally grow in application, there was an increase in use of the NOAH Platform Service offered by IDC Frontier Inc. that is superior in expandability and reliability. The Group as a whole plans to further expand its cloud computing services for medium- to small-sized companies.

(2) Overview of Business Results by Business Segment

Effective for the first quarter consolidated accounting period for the current fiscal year, the Group is applying the Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information (ASBJ Statement No.17 (Revised 2009)) and the Implementation Guidance for Accounting Standard for Disclosures about Segments of an Enterprise and Related information (ASBJ Statement No.20 (2008)).

Our reporting segments are the fundamental units used to periodically review our operating results at the board of directors in order to decide on allocation of business resources and evaluate business performance. Financial information on each segment is available.

Each of our business groups independently manages their services and carries out business activities aimed at improving services and expanding revenues. Consequently, the current business segments are categorized on a business group basis, with business segment reporting comprising the three segments of the Media Business, BS Business, and Consumer Business.

(2) Consolidated Financial Results

(i). Consolidated Statements for Income and Main Points for the First Quarter

(Millions of yen)

		Three months ended June 30, 2009	Three months ended June 30, 2010	Increase/decrease	
		Amount	Amount	Amount	Change (%)
Revenue		67,635	70,506	2,870	4.2
Cost of sales		7,871	7,627	-244	-3.1
Gross profit		59,763	62,878	3,115	5.2
Selling, general & administrative expenses		25,500	25,271	-228	-0.9
Personnel expenses	*1	7,285	7,985	700	9.6
Business commissions		3,241	3,231	-9	-0.3
Communication charges		2,507	2,285	-221	-8.8
Royalties		1,972	2,049	76	3.9
Depreciation expenses		2,152	1,948	-203	-9.5
Content provider fees		1,759	1,644	-114	-6.5
Lease and utility expenses		1,553	1,560	7	0.5
Sales promotion costs		1,417	1,545	128	9.0
Sales commissions		909	1,057	148	16.3
Administrative and maintenance expenses		588	526	-61	-10.5
Taxes and public dues	*2	505	352	-153	-30.3
Advertising expenses		240	249	8	3.5
Amortization of goodwill	*3	312	210	-101	-32.7
Allowance for doubtful accounts		123	181	58	46.8
Compensation		83	122	39	47.0
Others	*4	847	318	-528	-62.4
Operating income		34,263	37,606	3,343	9.8
Non-operating income		44	133	88	196.2
Non-operating expenses		222	166	-56	-25.3
Ordinary income		34,085	37,573	3,488	10.2
Extraordinary gains		—	163	163	—
Extraordinary losses		1,240	1,199	-40	-3.3
Quarterly net income before income taxes		32,845	36,538	3,693	11.2
Income taxes		13,533	14,758	1,224	9.1
Income taxes, inhabitants' taxes and enterprise taxes		14,032	11,016	-3,016	-21.5
Additional tax payment or rebate		—	26,450	26,450	—
Adjustment to income taxes		-498	-22,708	-22,209	—
Quarterly net income before minority interests		19,311	21,779	2,468	12.8
Minority interests in gains of consolidated subsidiaries		73	123	49	67.5
Quarterly net income		19,238	21,656	2,418	12.6

Revenue

Revenue for the first quarter increased year on year mainly because of growth in advertising revenue and recoveries in information listing revenues from Yahoo! Real Estate and Yahoo! Rikunabi.

Selling, General and Administrative Expenses

*1 Personnel expenses

The higher personnel expenses compared with the first quarter in the previous fiscal year was mainly attributed to increases in bonus and overtime payments. At the end of the quarter, the total number of employees of the Group amounted to 4,981, up 36 employees, or 0.7%, from the same quarter in the previous fiscal year.

*2 Taxes and public dues

The year-on-year decrease in quarterly taxes and public dues was principally due to the booking of enterprise tax for payment in excess of assessment made in the same quarter last year.

*3 Amortization of goodwill

The main reason that the amortization of goodwill decreased compared with the same quarter in the previous fiscal year was a reduction in the amortization amounts for Brainer.jp and Overture K.K.

*4 Others

The major expenses in others during the first quarter were travel and transportation, packaging and delivery, and investigation.

Non-Operating Income (Expenses)

The main components of non-operating income for the first quarter were exchange gain and interest received. The main component of non-operating expenses for the quarter was losses on disposal of fixed assets and investment loss on equity method.

Extraordinary Gains (Losses)

The major extraordinary gain for the quarter was gain on reversal of advances received, while the major loss was the effect of application of the Accounting Standard for Asset Retirement Obligations.

Income Taxes, etc.

The effective income tax (including income tax adjustments) burden ratio for quarterly income before income tax for the first quarter was 40.4%.

The item “Additional tax payment or tax rebate” booked in the first quarter arises from an assessment by the Tokyo Regional Taxation Bureau based on the tax treatment used by the Company in which it used the net operating losses carried forward of SOFTBANK IDC Solutions Corp. (IDC) after succeeding to those net operating losses carried forward by acquiring the shares of IDC from SOFTBANK Corp., and carrying out a merger with IDC, resulting in an inappropriate reduction in the Company’s tax burden.

Although negative goodwill has occurred as a result of a provision in the contract stating that SOFTBANK Corp., would adjust the purchase price of the IDC shares to cover the additional tax payment should it be assessed, in consideration of the current situation of the value of the deferred tax assets that were booked at the time of the merger with IDC being impaired by the assessment made by the taxation bureau, the Company has decided that it would be more appropriate to disclose the transaction in “Adjustment to income taxes” on its consolidated income statement.

The Company plans to submit a request for reconsideration to the national tax tribunal, bring an action depending on the circumstances, and thoroughly arguing the legitimacy of our claim on this matter.

Minority Interests in Gains of Consolidated Subsidiaries

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

Quarterly Net Income

Net income per share amounted to ¥373.29 for the quarter.

(ii). Consolidated Balance Sheets and Main Points for the First Quarter

(Millions of yen)

		As of June 30, 2009	As of June 30, 2010	Increase/decrease		As of March 31, 2010
		Amount	Amount	Amount	Change (%)	Amount
Assets						
Current assets						
Cash and cash equivalents	*1	52,409	103,241	50,832	97.0	139,238
Notes and accounts receivable-trade		33,540	34,491	950	2.8	37,391
Inventory assets		222	192	-29	-13.3	201
Deferred tax assets		4,021	4,048	27	0.7	6,687
Other current assets	*2	16,779	47,452	30,672	182.8	21,279
Allowance for doubtful accounts		-1,371	-1,514	-143	10.5	-1,455
Total current assets		105,602	187,912	82,310	77.9	203,342
Fixed assets						
Tangible fixed assets						
Buildings and structures		6,969	7,088	118	1.7	6,631
Machinery and equipment		5,696	5,907	210	3.7	5,702
Tools, furniture and fixtures		10,451	9,410	-1,041	-10.0	9,220
Land		5,001	5,002	0	0.0	5,002
Other tangible fixed assets		145	420	274	189.4	562
Total tangible fixed assets		28,264	27,828	-435	-1.5	27,120
Intangible fixed assets						
Software	*3	11,981	9,683	-2,297	-19.2	10,026
Goodwill		5,622	4,686	-936	-16.7	4,896
Other intangible fixed assets		55	27	-28	-51.3	28
Total intangible fixed assets		17,659	14,396	-3,262	-18.5	14,950
Investments and other assets						
Investment securities	*4	158,055	160,776	2,720	1.7	159,993
Deferred tax assets		7,121	7,359	237	3.3	6,313
Others		6,701	6,613	-88	-1.3	6,615
Allowance for doubtful accounts		-129	-74	55	-42.7	-72
Total investments and other assets		171,748	174,674	2,925	1.7	172,849
Total fixed assets		217,672	216,899	-772	-0.4	214,920
Total assets		323,274	404,812	81,537	25.2	418,262

(Millions of yen)

		As of June 30, 2009	As of June 30, 2010	Increase/decrease		As of March 31, 2010
		Amount	Amount	Amount	Change (%)	Amount
Liabilities						
Current liabilities						
Accounts payable-trade	*5	5,847	6,884	1,036	17.7	7,502
Short-term bank loans	*6	20,000	—	-20,000	-100.0	10,000
Accounts payable-other	*7	11,100	12,163	1,063	9.6	13,099
Income taxes payable	*8	13,735	37,635	23,899	174.0	47,107
Provision for Yahoo! Points		3,113	3,964	850	27.3	3,919
Other current liabilities	*9	20,232	25,107	4,875	24.1	23,940
Total current liabilities		74,030	85,755	11,725	15.8	105,569
Long-term liabilities	*10	359	2,438	2,078	577.8	419
Total liabilities		74,389	88,194	13,804	18.6	105,988
Net assets						
Shareholders' equity						
Common stock	*11	7,450	7,531	81	1.1	7,521
Capital surplus		2,531	2,612	81	3.2	2,602
Retained earnings	*12	235,615	305,437	69,821	29.6	300,496
Treasury stocks	*13	—	-3,068	-3,068	—	-3,068
Total shareholders' equity		245,596	312,512	66,915	27.2	307,550
Unrealized gain on available-for-sale securities	*14	608	1,286	677	111.3	2,004
Stock acquisition rights	*15	300	500	200	66.8	450
Minority interests		2,379	2,318	-60	-2.6	2,267
Total net assets		248,884	316,618	67,733	27.2	312,273
Total liabilities and net assets		323,274	404,812	81,537	25.2	418,262

Assets

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

*2 The expansion in current assets from the same period a year earlier was mainly attributed to the increase in accounts due and credit related to Yahoo! ezPay operations. The increase in accounts due principally resulted from the additional tax payment related to the tax treatment used in the merger with SOFTBANK IDC Solutions Corp. being booked to accounts due because SOFTBANK Corp. was responsible for this payment under the merger agreement.

*3 Although there were purchases, etc. of software during the quarter, the balance for the quarter was down from the same quarter in the previous fiscal year primarily due to amortization.

*4 The increase in investment securities during the quarter compared with a year earlier resulted mainly from purchases.

Liabilities

*5 The year-on-year increase in accounts payable-trade resulted principally from an increase in TAC along with the growth in listing advertising revenue.

*6 The decline in short-term bank loans compared with the same period in the previous fiscal year resulted from repayments.

*7 The increase in accounts payable-other from the first quarter last fiscal year was mainly attributed to growth in affiliate expenses related to Yahoo! Auctions and other services and to growth in the use of Yahoo! Points in the stores.

*8 Income taxes payable were higher compared with the same quarter last year because of receiving a correction notice for income taxes.

*9 The increase in other current liabilities from a year earlier was mainly due to growth in the debt of Yahoo! ezPay and the advance on listing advertising.

*10 The increase in other long-term liabilities from a year earlier primarily resulted from application of the Accounting Standard for Asset Retirement Obligations, and booking the obligations.

Net Assets

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

*12 The growth in net income contributed to a year-on-year increase in retained earnings despite the decline caused by the payment of dividends.

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

*14 The year-on-year increase in unrealized gain on available-for-sale securities was mainly attributed to evaluation gains on other securities due to an increase in market prices.

*15 The increase in stock acquisition rights from the same period a year earlier was due to the granting of stock options.

(iii). Consolidated Statements of Cash Flows and Main Points for the First Quarter

(Millions of Yen)

	Three months ended June 30, 2009	Three months ended June 30, 2010
	Amount	Amount
Cash flows from operating activities:		
Quarterly net Income before income taxes	32,845	36,538
Depreciation and amortization	2,443	2,257
Increase/decrease in accounts receivable-trade	1,560	3,136
Increase/decrease in accounts payable-trade	466	-610
Payment of income taxes and other taxes	-3,531	-46,474
Other cash flows	2,351	-390
Cash flows from operating activities	36,136	-5,542
Cash flows from investing activities:		
Expenditures on time deposits	-1,000	-1,000
Expenditures on tangible fixed assets	-2,319	-1,580
Expenditures on intangible fixed assets	-753	-508
Expenditures on investment securities	—	-2,002
Proceeds from sales of investment securities	6	0
Other cash flows	647	707
Cash flows from investing activities	-3,418	-4,383
Cash flows from financing activities:		
Redemption of long-term debt	-10,000	-10,000
Dividends paid	-7,555	-16,710
Other cash flows from financing activities	-633	-123
Cash flows from financing activities	-18,188	-26,834
Net change in cash and cash equivalents	14,528	-36,760
Cash and cash equivalents at the beginning of the periods	36,996	138,238
Increase/decrease in cash and cash equivalents from the consolidation of subsidiaries	-115	-236
Cash and cash equivalents at the end of the periods	51,409	101,241

<u>Cash Flows from Operating Activities</u>

Principally due to the payment of income taxes, etc., cash flows used in operating activities amounted to ¥5.5 billion in the first quarter.

<u>Cash Flows from Investing Activities</u>

Cash flows used in investing activities for the first quarter amounted to ¥4.3 billion, primarily due to the purchase of investment securities and tangible fixed assets.

<u>Cash Flows from Financing Activities</u>

Cash flows used in financing activities for first quarter amounted to ¥26.8 billion and was attributed mainly to the payment of dividends and the repayment of debt.

As a result, the net change in cash and cash equivalents for the first quarter amounted to a decline of ¥36.7 billion and cash and cash equivalents at the end of the period was ¥101.2 billion, up 96.9% from a year earlier.

(3) Performance Outlook

The Group believes that in its performance estimates, the calculation of fiscal performance figures with a high degree of reliability is extremely difficult because of the large fluctuations in the Group's business environment.

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

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

Consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 31, 2011 (FY2010-2Q) (July 1, 2010 to September 30, 2010)

Revenue	¥ 69,000 million - ¥ 72,000 million
Operating income	¥ 36,600 million - ¥ 38,600 million
Ordinary income	¥ 36,800 million - ¥ 38,800 million
Quarterly net income	¥ 21,800 million - ¥ 23,000 million

Consolidated Performance Estimates for the Cumulative Period of the Fiscal Year Ending March 31, 2011 (April 1, 2010 to September 30, 2010)

Revenue	¥ 139,506 million - ¥ 142,506 million
Operating income	¥ 74,206 million - ¥ 76,206 million
Ordinary income	¥ 74,373 million - ¥ 76,373 million
Quarterly net income	¥ 43,456 million - ¥ 44,656 million

6. Segment Information

Reporting Segments and Their Business Information

Reporting Segment	Major Businesses
Media Business	・ Display advertising Banner, text, e-mail, and video advertising ・ Listing advertising (through advertising agencies) Paid search advertising, interest-based advertising and others ・ Revenue from Yahoo! Research, etc.
BS Business	・ Listing advertising (online orders) Paid search advertising, interest-based advertising and others ・ Information listing fees for Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Autos and others ・ Data center-related revenues ・ Revenues from Yahoo! WebHosting, Yahoo! Business Express, 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 ・ Yahoo! BB incentive fees and others

<Activities of the Media Business Group and Business Overview for the Quarter>

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

(Major Activities)

During the quarter under review, we took steps to increase our value as an advertising media. We launched a special feature on the 2010 FIFA World Cup South Africa, which was high popular, receiving approximately 2.5 times as many page views as the previous World Cup. Another big hit in our GyaO! video streaming advertising activities was a tie-up special feature using a Fuji Television Network produced web drama to also promote sales for Toyota Motor. Among measures to expand our services and their usage, Yahoo! Politics ran the special feature Upper House Elections 2010 and Yahoo! FASHION began providing online information distribution services for the magazines ELLE ONLINE, 25ans (vingt cinq ans), and MEN'S CLUB.

(Business Overview)

In the quarter under review, the Media Business Group's revenues from listing advertising through advertising agencies and display advertising rose year on year.

Various product categories contributed to the growth in overall revenue from listing advertising through advertising agencies. There was an increase in paid search advertising by department stores, mail order, shopping malls, and travel and leisure companies. Interest-based advertising revenue also continued to expand, posting a large year-on-year increase.

Display advertising revenue expanded year on year on the strength of increased advertising by finance, insurance, and securities; automobile and related parts; and real estate companies. Looking at product performance, revenue from the high brand impact Brand Panel surged compared with a year earlier and Prime Display revenue also grew year on year. Behavioral targeting advertising revenue increased due to greater advertising mainly by real estate/construction companies. The growth in demographic targeting advertising revenue came from increased advertising by food product, esthetics/beauty and other companies targeting women. The main advertisers supporting growth in area targeting advertising were real estate/construction companies.

Mobile advertising revenue recorded year-on-year expansion. Display advertising from information/communications services-related companies increased. Revenues from paid search advertising and interest-based advertising also advanced compared with the first quarter last year.

Consequently, revenue from the Media Business Group in the first quarter climbed 8.7%, to ¥25.6 billion, while operating income rose 19.2%, to ¥13.0 billion. Media Business Group revenue accounted for 36.3% of the overall revenue.

<Activities of the BS Business Group and Business Overview for the Quarter>

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

(Major Activities)

During the first quarter, we worked to further expand our advertising revenue by holding information meetings for medium- and small-sized business interested in using listing advertising and by expanding and enhancing the network of online advertising agencies that support advertisers to post advertising through online systems. Among efforts to increase our services, Yahoo! Travel newly started collaborating with the ANA Group, beginning to accept reservations for travelers using ANA's Dynamic Package. This product enables customers to freely purchase different combinations of plane tickets and accommodation plans. Moreover, we introduced a new trial product, *yubichiz*, a web map service that takes advantages of the special features of iPad, such as a large, high-definition, multi-touch screen.

(Business Overview)

In the first quarter, revenue from listing advertising (online order) continued to expand and those from information listing service were also up year on year.

Among advertising-related revenues, there was increased demand for advertising ordered online from medium- and small-sized companies and paid search advertising revenue advanced year on year. Conversely, there was a short-term falloff in the growth rate of interest-based advertising revenue due to stricter listing guidelines introduced to raise advertising quality. However, mobile advertising revenue continued to record high growth. Yahoo! Real Estate and Yahoo! Rikunabi posted growth in information listing fees compared with the same quarter last year as their recovery trend strengthened. Revenue from Yahoo! Travel also registered a year-on-year gain. Among data center-related revenues, use of the cloud computing services offered by IDC Frontier Inc. increased.

As a result, the BS Business Group's first quarter revenue rose 5.7% year on year, to ¥18.4 billion, and operating income jumped 19.5%, to ¥8.8 billion. BS Business Group revenue contributed 26.2% of the overall revenue.

<Activities of the Consumer Business Group and Business Overview for the Quarter>

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

(Major Activities)

During the quarter under review, we formed a business alliance with the Alibaba Group's Taobao, based on which the partners launched separate services to mutually sell items from China and Japan (Yahoo! China Mall and Tao Japan). In other areas, we launched the special feature Ordered Gourmet Foods Championship, an event jointly hosted with Seven & I Holdings Co., Ltd. Among other highlights, we concluded a business alliance with DeNA Co., Ltd., for the purpose of entering the personal computer social gaming market.

(Business Overview)

In the first quarter, Yahoo! Shopping posted revenue growth based on increased transaction value and Yahoo! Premium also record revenue growth due to growth in the number of Yahoo! Premium membership IDs. However, overall Consumer Business Group revenue edged down slightly year on year overall due to a decline in Yahoo! Auctions' transaction value.

Yahoo! Shopping endeavored to increase usage by conducting a variety of point campaigns based on the Star Club service as well as running seasonal sales promotions. As a result, Yahoo! Shopping's transaction value did expand. In particular, mobile transaction value for Yahoo! Shopping soared because of expanded and improved campaigns targeting mobile phone users. During the quarter, Yahoo! Premium continued to expand and improve its exclusive member services and strengthened its collaboration with external partners on special benefits for members program. As a result, the number of Yahoo! Premium membership IDs at June 30, 2010, climbed to 7.60 million, up 2.0% from a year earlier, and revenue from Yahoo! Premium also expanded from the previous fiscal year. In our Yahoo! Auctions operations, although smartphone use of Yahoo! Auctions expanded, transaction value declined year on year because of the continued fall in the unit price of winning bids. On the other hand, in pay content services, revenues from Yahoo! Partner and Yahoo! Games rose compared with a year earlier.

Accordingly, the first quarter revenue from the Consumer Business Group edged down 0.5% year on year, to ¥26.2 billion, and operating income slid 2.4%, to ¥17.6 billion. Consumer Business Group revenue generated 37.3% of the overall revenue.

<Other main activities during the quarter>

• In collaboration with Toyota Finance Corporation, we launched QUICPay (Yahoo! Point), a service combining Yahoo! Point services and the QUICPay electronic money system.

• In addition to renewing the top page of Yahoo! JAPAN for the iPhone version, we began offering a Yahoo! Messenger application for iPhones. We pursued greater smartphone compatibility through such measures as strengthening iPhone-directed advertising listing services.

• We launched the TV version of Yahoo! Shopping, which allows users to view and use Yahoo! Shopping services on Internet-enabled televisions.

• We upgraded the algorithm of the search engine for the mobile version of Yahoo! Search. The new version substantially improves the relevancy of results using keyword searches, making mobile phone searches even more convenient.

• At FUJI-Q HIGHLAND, we ran the EVANGELION Special Feature 2010 that listed the details of PROJECT EVANGELION: 1/1 REAL EVA-01 CONSTRUCTION that was creating life-sized scenes from the animation movie series as well as offering exclusive applications utilizing popular characters from the animation series for Yahoo! Toolbar, Yahoo! Widgets, and iPhones.

• We decided to offer Yahoo! Mail Academic Edition services to Tohoku University and four other academic institutions.

(Major social contribution activities during the quarter)

• In our environmental awareness Yahoo! JAPAN Green Project, we conducted a joint project with the Ministry of the Environment which included dealing with the submissions of ideas received for the 25 Actions CO_2 Reduction campaign linked to the Challenge 25 Campaign, the national movement for global warming prevention being promoted by the Japan’s government.

• In cooperation with NetSTAR Inc. and Digital Arts Inc., we established the Parental Filtering Study Group. This group researches and considers existing conditions and issues regarding filtering services and makes recommendations to parents and to filtering service vendors.

• The Tokushima Prefecture’s disaster prevention service’s Safety Confirmation Mail service decided to adopt Yahoo! Mail as its key system.

• We co-sponsored the Lets Go Miyazaki! Support Victims of Miyazaki Prefecture’s Foot-in-Mouth Disease with the Yomiuri Giants baseball team and the Central Community Chest of Japan. We also promoted the Miyazaki Prefecture’s Foot-in-Mouth Disease Victim Relieve Fund of the Central Community Chest of Japan on our Internet Charity Contributions site.

• In Yahoo! Politics having a purpose of offering honest information to raise interest in and knowledge of politics, we launched a personal political contribution service that allows users to make a personal contribution for a politician of their choice using Yahoo! Wallet or credit-card transactions.

7. Risk Factors

Major risk factors with regard to the businesses of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) as of the publication date of this document are discussed below. The Group proactively discloses those risk factors it deems necessary that potential investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent 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 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. The Internet's continued progress as an advertising media is uncertain.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations in 1996. Since that time, the Internet advertising market has grown significantly, accounting for 11.9% of the total domestic advertising market in calendar year 2009, according to a recent DENTSU INC. report, overtaking newspapers for the No. 2 spot, behind 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 agencies 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 for both users and advertisers.

Although the Internet has established itself as a commercially viable advertising media capable of competing with other major media, 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. Short-term economic trends could affect Internet advertising and information listing services.

The advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first that companies reduce. Internet advertising, in particular, has a brief history, and changes in more developed markets, such as the United States, could affect the Japanese market. Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand from advertisers for advertising space tend to be seasonal. These factors produce underlying short-term fluctuations in the Group's advertising revenue stream.

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

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

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

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

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

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

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

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

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

g. Technological change in the broadband market could affect the Group's income.
Yahoo! BB, the Group's comprehensive broadband service operated jointly by the Company and SOFTBANK BB Corp. (SBB), mainly provides inexpensive, high-speed DSL services. Owing to rapid progress in telecommunications technology, the broadband market is shifting from DSL service to fiber-to-the-home (FTTH) service, which uses optical fiber to achieve faster data transmission. To acquire new subscribers in this environment, SBB has introduced Yahoo! BB hikari with FLET'S*, a new comprehensive broadband 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 Group 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 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 overall Group revenues.

i. The popularity of fee-based service content via the Internet 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 via the Internet 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, and if the Group fails to successfully break into the non-PC market, the achievement of expected earnings could be difficult.

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

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

The Group fully intends to continue gauging user opinions and usage 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 believes that its main competitor in the current market environment is Google (Google Inc.), which holds large shares of the U.S. and European search markets.

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

Today, users can choose from several types of browser software for viewing Web sites and from a range of information devices including PCs, mobile phones, smartphones, 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 Group services, thereby negatively affecting Group revenues.

4) Technological Change
a. Failure to respond quickly and appropriately to technological innovation could greatly affect the Group's business.
The computer industry is well known for technological innovation. The Internet industry is continuously developing new

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

Responding to these conditions so as to sustain a strong competitive position requires close cooperation with Yahoo! Inc., which operates nearly identical services in the U.S. market, the center of innovation in Internet technologies. Together with Yahoo! Inc., the Group is constantly developing new technologies geared to service improvement. The failure of Yahoo! Inc. or the Group to remain at the forefront of technological innovation could render their services obsolete, resulting in reduced competitiveness. Furthermore, the Group might be forced to bear an increasing financial burden owing to higher localization costs and to increased investments made in preparation for the possibility that technological innovation in Japan will at some point surpass that in the United States, with new technologies being developed in Japan instead of in the United States.

2. Legal and Institutional Changes

1) Legal Restrictions

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

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

The introduction of new laws or amendments to existing laws relating to the Group or the Internet industry as a whole could result in increased compliance-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 Law Concerning the Limits of Liability for Damages of Specified Telecommunications Service Providers and the Right to Request Disclosure of Identification Information of the Senders (Provider Liability Limitation Law) has been in force since May 2002. This law merely clarifies the scope of liability for illegal behavior previously established by civil law and therefore does not increase the liability of businesses that act as intermediates in Internet-based information distribution. 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 Law 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 Law and related ordinances enforced by relevant government divisions. Amendments to this law or to related ordinances could restrict the Group's business.

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

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

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

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

If these measures fail to bring about the expected results and reports of illegal 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 by, for example, discouraging participation in Yahoo! Auctions, which would result in reduced system-use fees. Legislation could also result in a contraction in the Yahoo! Premium subscriber base.

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

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

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

g. The formulation of new laws or amendments to existing laws concerning financial services could affect the Group.

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

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

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

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.

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 eliminate illegal items from auctions 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 on October 27, 2009, on which date the Supreme Court dismissed an appeal by 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, lower 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 Group sites.

To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates the content of advertisements and of Web sites accessed through advertisement links. As expressed in a written contract with each advertiser, the advertiser accepts full responsibility for the content of advertisements. The Group also maintains the right to remove at any time Web sites listed on Yahoo! Category. In addition, the Group fully discloses its legal obligations in written contracts with the creators of such Web sites with clauses stating that creators are fully responsible for the content of Web sites. For such services as message boards, blogs, and auctions, where users can exchange information freely, the Group indicates clearly in its contracts with users that illegal or 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 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. 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 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, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services, or Web site content of the many retailers employing these services. Nor does the Group guarantee that users of these services will 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 said goods. 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. Further, 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.

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

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

In 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 also remain unclear. Consequently, the Group cannot rule out the possibility of patent issues arising overseas, in addition to in Japan.

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

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

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

3) Other Legal Regulations

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

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

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

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

3. Natural Disasters and Emergency Situations

1) Natural Disasters

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

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

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

2) Emergency Situations

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

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

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group's site, causing 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 interrupted or some other circumstances arise whereby users would no longer be able to use 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 or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group businesses, such as Yahoo! Inc. and SOFTBANK CORP. and their related companies and other Internet service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain some of its services.

4. Business Management

1) Management Policy and Business Strategies

a. Failure to quickly and properly modify strategies in response to changing market 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 start-up of new businesses, such efforts might fail to adequately address such needs or result in an R&D delay or failure.

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

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies with proven records in the business. To respond quickly to changing market needs, the Group is also focusing on organizational enhancement for service planning and for system development. Even so, the Group might fail to achieve targeted sales and profit for reasons such as the delay or failure of R&D programs, excessive expenses, or lack of effectiveness due to a failure to satisfy customer needs. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

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

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new services. In such an environment, the Group believes that continuously improving the user experience is central to maintaining its competitive advantage. To this end, the Group focuses 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 experience a decline in its competitiveness or in its brand image. Moreover, the level of investments required for achieving service improvements could rise. Either of these eventualities could adversely affect the business performance of the Group. Also, although the Group conducts adequate surveys and tests to determine the likely effects of planned improvements to or renewal of services, the actual effects could result in a reduction of the number of users or of page views, which would have a negative impact on the Group's business performance due to reduced advertising revenues.

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 customer 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 acquisition of IDC Frontier Inc., the Group now has a large-scale data center. This action has enabled stable and efficient operations of Group servers, thereby reducing costs.

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 the personal information of customers, and expanding systems to appropriately respond to the growth and diversification of user inquiries. Further, 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 constant technological innovation and rapidly changing customer 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 mobile phones or smartphones, video-game consoles, TVs, 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 for that device.

Enabling users to easily connect to Group sites via any Internet-enabled device is an important element of the Group's competitiveness. For example, a Y! Button on SOFTBANK mobile phones provides easy and direct connection to Yahoo! JAPAN services. The Group also intends to work closely with 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 intends to optimize 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 each advertiser, including products with guaranteed exposure periods and page views. The Group also offers Sponsor Site services (paid search advertising); an affiliate ad program, operated in cooperation with ValueCommerce Co., Ltd.; and content-linked advertising, which analyzes Web page content and then distributes advertising suited to that content.

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

3) New Businesses

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

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

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

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

4) Services Provided

a. The Group's search services rely on platforms that are developed, operated, and maintained by Yahoo! Inc. or other companies.

The Group's search services, including paid search advertising, rely on platforms that are developed, operated, and maintained by Yahoo! Inc. or other companies. For its part, the Group handles the marketing and sales in Japan of paid search advertising. In addition, certain other Group services are developed, operated, and maintained by Yahoo! Inc.

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

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

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

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

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

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

5) Compliance

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

The Group recognizes that legal and regulatory compliance is a prerequisite for enhancing corporate value. Consequently, the Group has established various compliance regulations standards for all directors, corporate auditors, and employees to ensure compliance with laws and articles of incorporation. Aiming to achieve thorough observation of those regulations and standards, the Group has posted 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 performance could be affected.

6) Management and Operation Systems

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

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, the Group must increase staff in response to business diversification to support the operation and 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 of staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems with users of and stores registered on the Yahoo! Shopping and Yahoo! Auctions sites, and affect operational efficiency.

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

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

The development of the Group's businesses depends on continued support from senior management and key technical personnel. These include the presidents, directors, and other representatives of each department who possess specialized knowledge and technical expertise concerning the Group and its businesses. Consequently, if key personnel were to leave and the Group failed to replace them, the continuation and development of some business 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 copyrights and other legal rights. Users are allowed to utilize that content within the scope of the user contract to which they have agreed.

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

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

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

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

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

5. Relationship with Major Stakeholders

1) Major Shareholders

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

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

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

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

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

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

The Group is working with SOFTBANK CORP. 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.).
Contracted party: Yahoo! Inc.
1) Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services) * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services 2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3) Royalties to be paid by the Company to Yahoo! Inc. (see Note, below) Note: Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

* In July 2009, Yahoo! Inc. and Microsoft Corporation announced a business alliance regarding their Internet search and advertising businesses. In addition, the European Commission and the U.S. Department of Justice both approved the Internet search and advertising tie-ups under this agreement in February 2010. At present, the Group believes that the business alliance will have no effect on its license agreement with Yahoo! Inc.

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

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

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

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

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

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

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

2) Consolidated Group Management

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

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

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

3) Other Major Business Partners

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

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

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology. 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)
Contracted party: SOFTBANK BB Corp.
・Customer acquisition incentive fees Yahoo! BB basic service: Approx. ¥15,000 per subscription Yahoo! BB＋wireless LAN package: Approx. ¥20,000 per subscription ・Long-term customer incentive fees Yahoo! BB basic service: Approx. ¥200 per month per continuing subscriber Yahoo! BB＋wireless LAN package: Approx. ¥250 per month per continuing subscriber

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

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

6. Finances, Loans, and Investments

1) Funds Procurement and Interest Rate Changes

a. In its Yahoo! ezPay service, the Group might be required to borrow funds to bridge the collection of reimbursement funds from buyers.

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

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

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

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

2) Investments

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

The Group makes investments as a result of business 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, etc., or provide new loans to adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risks of said investments or loans based on thorough analysis and compliance with in-house procedures. However, if these new investments or loans do not achieve the originally projected level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's future financial condition.

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

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

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

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

7. Relationship with Competitors and Partners

1) Business Alliances and Contracts

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

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

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

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

•Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect the Group's performance.

•The Group provides services to partners via proprietary systems and via systems owned by affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then the Group's brand image could be tarnished or the Group could be sued for damage compensation, either of which could negatively affect the Group's performance.

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

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

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

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

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

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

2) Collection of Sales Credit Claims

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

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

b. The Group might be unable to collect payments from certain Yahoo! JAPAN Card holders.

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

3) Relationship with Third Parties

a. Each of the Group's businesses has a degree of dependence on specific customers or suppliers.

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

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

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

b. Relationships with third-party joint venture partners could deteriorate.

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

c. In some cases, system development and operations essential to services are commissioned to specific third parties.

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

d. Some services are dependent on external third parties.

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

8. Information Security

1) Group Efforts to Promote Information Security

a. Information leaks, network invasions, or computer virus attacks could erode public confidence in the Group.

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

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

Nevertheless, these actions do not guarantee 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.

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 a target of lawsuits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yahoo! Shopping sends personal information provided by site users directly to stores where users have made purchases. Accordingly, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that customers' 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 Group'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 customers' 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

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

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

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

4) Network Security

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

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

5) Fraudulent Use

a. Fraudulent use could result in damage claims.

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users' IDs, passwords, and credit card information, or use fraudulently obtained Yahoo! JAPAN Cards to make payments. As examples of fraud on Yahoo! Auctions, malicious users 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 lower the brand image of Yahoo! JAPAN.

6) Behavioral History Information

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

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

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

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

9. Corporate Governance

1) Corporate Governance System

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

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