

# Results for the Interim Period Ended September 30, 2007 (FY2007-2Q) (Consolidated Basis)

2007.10.24

Company name: Yahoo Japan Corporation

Share Listings: 1<sup>st</sup> section of TSE and JASDAQ

Code No. 4689

(URL: <http://www.yahoo.co.jp>)

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(Amounts less than one million yen are omitted)

## 1. Consolidated Results for FY2007-Interim (April 1, 2007-September 30, 2007)

### (1) Consolidated Financial Results

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2007-Interim	117,735 (17.2)	59,755 (21.9)	57,832 (21.2)	29,265 (9.2)
FY2006-Interim	100,469 (25.6)	49,000 (30.9)	47,707 (31.2)	26,806 (25.0)
FY2006	212,552 -	106,232 -	102,824 -	57,963 -

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2007-Interim	483.90	483.23
FY2006-Interim	443.41	442.53
FY2006	958.66	956.70

(For reference) Equity in earnings of affiliated companies: FY2007-Interim (¥-1,709 million) FY2006-Interim (¥-1,777 million) FY2006 (¥-3,522 million)

### (2) Consolidated Financial Position

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-Interim	335,100	215,491	63.7	3,527.83
FY2006-Interim	285,922	162,689	56.4	2,667.54
FY2006	318,428	192,385	59.9	3,153.24

(For reference) Equity capital: FY2007-Interim (¥213,365 million) FY2006-Interim (¥ - ) FY2006 (¥190,692 million)

### (3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the periods
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2007-Interim	36,653	-28,432	-16,030	66,897
FY2006-Interim	27,796	-149,997	75,125	50,797
FY2006	72,710	-160,403	65,033	75,212

## 2. Cash Dividends

(Record date)	Dividends per share		
	Interim	Year end	Full year
	Yen	Yen	Yen
FY2006	-	96.00	96.00
FY2007	-	-	To be determined
FY2007 (Estimates)	-	To be determined	

## 3. Consolidated Business Outlook for FY2007-3Q (October 1, 2007-December 31, 2007)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-3Q	68,400~70,800	29,700~31,100	29,350~30,800	16,600~17,500	274.47~289.35

[For reference]

### 1. Non-consolidated Results for FY2007-Interim (April 1, 2007-September 30, 2007)

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

(Figures in parenthesis are % change YoY)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2007-Interim	105,829 (13.5)	59,076 (21.7)	58,897 (19.9)	29,847 (4.6)
FY2006-Interim	93,208 (32.6)	48,553 (30.2)	49,105 (30.6)	28,531 (26.1)
FY2006	197,230 -	105,121 -	105,412 -	61,592 -

	Net income per share-primary
	Yen
FY2007-Interim	493.52
FY2006-Interim	471.94
FY2006	1,018.69

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

	Total assets	Net assets	Ratio of equity capital	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FY2007-Interim	323,002	220,991	68.4	3,652.83
FY2006-Interim	283,606	166,332	58.6	2,750.99
FY2006	315,506	197,677	62.6	3,268.24

(For reference) Equity capital: FY2007-Interim (¥220,925million) FY2006-Interim (¥ - ) FY2006 (¥197,646 million)

## 2. Non-consolidated Business Outlook for FY2007-3Q (October 1, 2007-December 31, 2007)

	Net sales	Operating income	Ordinary income	Net income	Net income per share-primary
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
FY2007-3Q	54,600~56,400	29,050~30,400	28,900~30,250	17,150~17,950	283.56~296.79

[Caution regarding forward-looking statements]

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

For details regarding business outlook, please refer to page 6 (1. Business Results (2) Analysis of Business Results, (3) Performance Outlook) .

## 4. Business Results

### (1) Performance Highlights

#### Highlights for the Interim Period and the Second Quarter of Fiscal Year Ending March 31, 2008

The performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates improved during the interim period. Net sales advanced 17.2% year on year, to ¥117.7 billion. Operating income amounted to ¥59.7 billion, increasing 21.9% from a year earlier. Ordinary income totaled ¥57.8 billion, rising 21.2% from the same period last year. Interim net income increased to ¥29.2 billion, up 9.2% year on year.

In the second quarter, net sales climbed 7.7% from the previous quarter and 19.2% year on year, to ¥61.0 billion. Operating income amounted to ¥30.0 billion, expanding 1.4% from the previous quarter and 20.3% from a year earlier. Ordinary income totaled ¥29.3 billion, increasing 2.7% from the previous quarter and 18.3% from the same period last year. Net income decreased to ¥13.0 billion, down 4.0% year on year and 19.4% from the previous quarter.

In the advertising business, the overall market remained in a stagnant mood brought on by a curtailing of advertising by advertisers. Under these conditions, the Group focused its sales efforts on advertising products that meet the needs of advertisers, such products with strong branding benefits and behavioral targeting products. As a result, display advertising sales grew favorably compared with the same quarter in the previous fiscal year. Paid search advertising sales surged ahead even after adjusting for the effect of the conversion of Overture K.K. to a consolidated subsidiary because of the start of a listing advertising service that takes into consideration a quality index and the bidding price. Consequently, interim advertising sales amounted to ¥ 54.0 billion, increasing 27.0% from a year earlier. Advertising sales for the second quarter grew 20.4% from the previous quarter and 38.6% from a year earlier, to ¥29.5 billion.

In business services other than advertising, sales of Yahoo! Real Estate rose substantially, reflecting the expanded product lineup and the large growth in the number of listings. As a result of efforts by Yahoo! Auctions and Yahoo! Shopping to increase the number of merchant stores, the number of merchant stores registered on these sites totaled 29,436 at the end of September, expanding by 7,132 stores, or 32.0% year on year. Consequently, tenant fees and sales commissions also rose significantly. Research-related sales grew sharply due to, among other efforts, the active sales of new products by Yahoo Japan Value Insight Corporation, a subsidiary formed by the merger of two Group consolidated subsidiaries. Overall, interim business service sales grew 27.0% from a year earlier, to ¥28.1 billion. Business service sales for the second quarter totaled ¥14.1 billion, increasing 0.4% from the previous quarter and 23.5% year on year.

In the personal services business, Yahoo! Auctions' revenues from system-use fees remained at previous levels because, in addition to the lack of growth in transaction volume, the proportion of B-to-C auctions rose along with the growth of store numbers. Yahoo! Premium recovered to record a net increase in the number of members. This net growth resulted from efforts to build membership through new member campaigns aimed at users

with Yahoo! Auctions bidding experience as a result of the relaxed conditions for participation in auctions. Overall, personal service sales for the interim period decreased 0.7% from a year earlier, to ¥35.5 billion. This decline was partially due to the substantial drop in Yahoo! BB's ISP fee income year on year because of the impact of the revision of the contract with SOFTBANK BB Corp. Personal service sales for the second quarter decreased 3.9% from the previous quarter and 5.9% from a year earlier, to ¥17.4 billion.

In September, the Company started to consolidate Overture K.K. The single month consolidation impact on Net Sales for the first half of the fiscal year was an increase of 3 billion yen, meanwhile the impact on profits was negligible. (See "Impact of consolidation of Overture K.K." in page 17)

Aiming to expand business opportunities through partner sites, the Company began offering the online payment service Yahoo! Wallet to non-Group companies in August. In addition, the Company took steps to enlarge the ad network used to deliver advertising to partner sites. Effective October 1, the Company has established a Partner Solutions Division, to promote further expansion and reinforcement of partner site business.

The Company recorded an extraordinary loss due to an evaluation of the asset with a drop in the market price of the stock of ValueCommerce Co., Ltd.

## (2) Performance Outlook

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

The Company and its Group view 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.

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

### Consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-3Q) (October 1, 2007 to December 31, 2007)

Net sales	¥68,400 million ~ ¥70,800 million
Operating income	¥29,700 million ~ ¥31,100 million
Ordinary income	¥29,350 million ~ ¥30,800 million
Net income	¥16,600 million ~ ¥17,500 million

### Non-consolidated Performance Estimates for the Third Quarter of the Fiscal Year Ending March 31, 2008 (FY2007-3Q) (October 1, 2007 to December 31, 2007)

Net sales	¥54,600 million ~ ¥56,400 million
Operating income	¥29,050 million ~ ¥30,400 million
Ordinary income	¥28,900 million ~ ¥30,250 million
Net income	¥17,150 million ~ ¥17,950 million

### **(3) Analysis of Business Results**

#### **Interim Business Climate**

According to the 2007 White Paper on Telecommunications (Ministry of Internal Affairs and Communications), the Internet penetration rate among the population of Japan is 68.5%. The White Paper estimates that there are 87.54 million Internet users in Japan, and that 67.9% of Internet-using households have broadband services. In addition, there are a total of 26.44 broadband subscribers, up approximately 13.5% from the previous year, indicating the shift to faster and more enjoyable Internet access environments.

Along with the progress in Internet usage and access environments, in addition to the traditional uses of the Internet, such as web site browsing, e-mail, Internet auctions, and e-commerce, there has been wide growth in consumer-generated media and services, such as blogs and social network services (SNS). In particular, the spread of consumer-generated media has resulted in its transformation from one-directional information communications, where an individual receives information from an existing media, to a horizontal form of information communications, where multiple individuals send to or share information with a non-specified number of people. This new Internet trend is expected to have a major impact on our social economic system as a whole.

Against this backdrop, as one of Japan's leading Internet service companies, the Yahoo! JAPAN Group aimed to provide "life engine" services, which can be applied to every facet of our lives. We expanded and improved our services by converting them to social media and took steps to make our services available "everywhere" by such measures as strengthening our mobile services. Moreover, we worked to diversify our income sources to further solidify our management structure. Among the actions we have taken are the establishment an "open system" that expands business opportunities through partner sites by providing our advertising delivery and payment collection services to companies outside the Group.

As a result, consolidated net sales of the Group for the interim period advanced 17.2% year on year, to ¥117.7 billion. Operating income amounted to ¥59.7 billion, increasing 21.9% from a year earlier. Ordinary income totaled ¥57.8 billion, rising 21.2% from the same period last year. Interim net income increased to ¥29.2 billion, up 9.2% year on year.

## (4) Interim and Quarterly Business Performance

### a. Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of Sept. 30, 2006	As of Sept. 30, 2007	Increase/decrease		As of June 30, 2007
	Amount	Amount	Amount	Change (%)	Amount
<b>Assets</b>					
Current assets					
Cash and cash equivalents (*1)	50,801	86,897	36,096	71.1	55,373
Notes and accounts receivable-trade (*2)	27,014	30,003	2,988	11.1	28,372
Short-term loans (*3)	1,344	-	-1,344	-100.0	-
Deferred tax assets	3,113	3,735	622	20.0	3,210
Other current assets (*4)	6,448	11,852	5,403	83.8	8,931
Allowance for doubtful accounts	-2,382	-2,430	-47	2.0	-2,455
Total current assets	86,340	130,058	43,718	50.6	93,431
Fixed assets					
Property and equipment (*5)					
Buildings and structures	1,560	3,451	1,890	121.2	3,378
Machinery and equipment	12,769	12,930	161	1.3	12,829
Other property and equipment	152	36	-116	-76.2	32
Total property and equipment	14,482	16,418	1,935	13.4	16,240
Intangible fixed assets					
Software (*6)	9,119	11,130	2,011	22.1	10,798
Goodwill	4,035	5,238	1,203	29.8	3,687
Other intangible fixed assets	27	32	4	18.2	32
Total intangible fixed assets	13,181	16,401	3,219	24.4	14,518
Investments and others					
Investment securities (*7)	166,505	161,301	-5,204	-3.1	165,856
Deferred tax assets	1,173	3,858	2,685	228.9	3,411
Others (*8)	4,260	7,064	2,804	65.8	5,984
Allowance for doubtful accounts	-22	-2	20	-89.2	-23
Total investments and others	171,917	172,222	304	0.2	175,228
Total fixed assets	199,581	205,041	5,460	2.7	205,987
<b>Total assets</b>	<b>285,922</b>	<b>335,100</b>	<b>49,178</b>	<b>17.2</b>	<b>299,419</b>



(Millions of yen)

	As of Sept. 30, 2006	As of Sept. 30, 2007	Increase/decrease		As of June 30, 2007
	Amount	Amount	Amount	Change (%)	Amount
<b>Liabilities</b>					
Current liabilities					
Accounts payable-trade (*9)	802	3,713	2,910	362.8	915
Short-term borrowings	20,199	20,120	-79	-0.4	20,120
Accounts payable-other (*9)	11,222	16,162	4,940	44.0	10,888
Income tax payable (*10)	21,070	24,756	3,686	17.5	11,429
Provision for Yahoo! Points	1,536	2,148	612	39.8	2,173
Other current liabilities (*11)	8,322	12,697	4,375	52.6	11,249
Total current liabilities	63,152	79,598	16,446	26.0	56,776
Long-term liabilities					
Long-term debt (*12)	60,070	40,000	-20,070	-33.4	40,000
Other long-term liabilities	9	9	0	4.1	10
Total long-term liabilities	60,079	40,009	-20,070	-33.4	40,010
<b>Total liabilities</b>	<b>123,232</b>	<b>119,608</b>	<b>-3,624</b>	<b>-2.9</b>	<b>96,787</b>
<b>Net assets</b>					
Shareholders' equity					
Common stock (*13)	7,100	7,227	127	1.8	7,215
Capital surplus	2,181	2,308	127	5.9	2,296
Retained earnings (*14)	148,734	203,342	54,608	36.7	190,281
Treasury stock	-28	-28	-	-	-28
Total shareholders' equity	157,987	212,851	54,863	34.7	199,764
Unrealized gains on available-for-sale securities (*15)	3,295	514	-2,781	-84.4	1,025
Stock acquisition rights	4	65	61	-	44
Minority interests	1,402	2,060	658	46.9	1,796
<b>Total net assets</b>	<b>162,689</b>	<b>215,491</b>	<b>52,802</b>	<b>32.5</b>	<b>202,631</b>
<b>Total liabilities and net assets</b>	<b>285,922</b>	<b>335,100</b>	<b>49,178</b>	<b>17.2</b>	<b>299,419</b>

## Main Points Regarding Consolidated Balance Sheets for the Second Quarter

### Assets

- \*1 The increase in cash and cash equivalents compared with the end of the previous interim period was mainly due to revenue growth driven by greater sales activities.
- \*2 The growth in notes and accounts receivable-trade from a year earlier can principally be attributed to greater advertising revenues.
- \*3 The decrease in short-term loans year on year is chiefly due to the recovery of loans made based on a finance scheme for Yahoo! BB's business.
- \*4 The growth in other current assets from a year earlier was mainly due to the growth in claimable assets related to credit card operations.
- \*5 The increase in property and equipment compared with the same period in the previous fiscal year was primarily the result of a move by a portion of the office and expanded office floor space.
- \*6 Software increased year on year principally due to the increase in commissioned development of systems for the Company.
- \*7 Investment securities declined from a year earlier mainly because of the drop in market

value of investment securities and an evaluation loss recorded on the stock of ValueCommerce Co., Ltd.

- \*8 The growth in others in investments and others compared with the same period in the previous fiscal year was principally due to deposits related to the move by a portion of the office and the expansion of floor space.

### **Liabilities**

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

### **Net Assets**

- \*13 The increase in common stock compared with the end of the previous interim period was due to the exercise of stock options.
- \*14 The growth in retained earnings year on year can be attributed to the increase in net income.
- \*15 The decrease in the unrealized gains on available-for-sale securities from a year earlier was mainly due to the decline in the market prices of investment securities.

**b. Interim Consolidated Statements of Income (April 1, 2007-September 30, 2007)**

(Millions of yen)

	Half year ended September 30, 2006	Half year ended September 30, 2007	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Net sales	100,469	117,735	17,265	17.2
Cost of sales	4,182	7,201	3,019	72.2
Gross profit	96,286	110,533	14,246	14.8
Selling, general and administrative expenses	47,286	50,777	3,491	7.4
Personnel expenses (*1)	9,118	10,330	1,212	13.3
Business commissions (*2)	6,841	7,789	948	13.9
Sales commissions	4,923	5,472	549	11.2
Depreciation and amortization (*3)	3,612	4,318	706	19.5
Communication charges	3,916	4,088	171	4.4
Royalties	2,842	3,358	515	18.1
Lease and utility expenses	2,528	2,586	57	2.3
Content provider fees	2,206	2,539	333	15.1
Payment commissions (*4)	1,614	2,232	618	38.3
Sales promotion costs (*5)	3,445	2,083	-1,362	-39.5
Administrative and maintenance expenses	802	1,077	274	34.3
Allowance for doubtful accounts	1,075	1,027	-47	-4.4
Amortization of goodwill	705	773	68	9.6
Advertising costs (*6)	1,179	551	-628	-53.3
Taxes and public dues	443	537	93	21.2
Others (*7)	2,030	2,010	-19	-1.0
Operating income	49,000	59,755	10,755	21.9
Non-operating expenses and income	-1,292	-1,922	-630	-
Ordinary income	47,707	57,832	10,125	21.2
Extraordinary losses and gains	-252	-3,723	-3,470	-
Interim income before income taxes	47,454	54,109	6,654	14.0
Income taxes, inhabitants' taxes and enterprise taxes	20,545	24,050	3,505	17.1
Adjustment to income taxes	-80	501	582	-
Minority interests in net income	183	291	107	58.6
Interim net income	26,806	29,265	2,459	9.2

## Quarterly Consolidated Statements of Income (July 1, 2007-September 30, 2007)

(Millions of yen)

	Three months ended Sept. 30, 2006	Three months ended Sept. 30, 2007	Increase/ decrease		Three months ended June 30, 2007
	Amount	Amount	Amount	Change (%)	Amount
Net sales	51,202	61,047	9,844	19.2	56,687
Cost of sales	2,146	4,795	2,648	123.4	2,406
Gross profit	49,056	56,252	7,196	14.7	54,281
Selling, general and administrative expenses	24,046	26,167	2,121	8.8	24,610
Personnel expenses (*1)	4,679	5,263	583	12.5	5,067
Business commissions (*2)	3,442	4,050	608	17.7	3,738
Sales commissions	2,408	2,807	398	16.5	2,665
Depreciation and amortization(*3)	1,906	2,256	350	18.4	2,061
Communication charges	1,942	2,020	77	4.0	2,067
Royalties	1,455	1,748	292	20.1	1,610
Lease and utility expenses	1,241	1,667	425	34.3	919
Content provider fees	1,159	1,291	132	11.4	1,247
Payment commissions (*4)	803	1,128	324	40.4	1,104
Sales promotion costs (*5)	1,802	1,033	-769	-42.7	1,050
Administrative and maintenance expenses	463	472	9	2.0	604
Allowance for doubtful accounts	466	481	14	3.2	546
Amortization of goodwill	353	400	47	13.3	372
Advertising costs (*6)	729	296	-433	-59.4	254
Taxes and public dues	233	280	46	20.1	257
Others	956	968	12	1.3	1,042
Operating income	25,009	30,085	5,075	20.3	29,670
Non-operating expenses and income	-244	-780	-535	-	-1,142
Ordinary income	24,765	29,304	4,539	18.3	28,527
Extraordinary losses and gains	-676	-3,722	-3,046	-	-0
Quarterly Income before income taxes	24,089	25,582	1,493	6.2	28,527
Income taxes, inhabitants' taxes and enterprise taxes	11,584	12,835	1,251	10.8	11,215
Adjustment to income taxes	-1,183	-468	715	-	970
Minority interests in gains of consolidated subsidiaries	85	154	69	81.4	137
Quarterly net income	13,603	13,060	-542	-4.0	16,204

### Main Points Regarding Consolidated Statements of Income for the Interim and the Second Quarter

#### Net Sales

The year-on-year growth in net sales for the interim period and the second quarter can be mainly attributed to an increase in the sales of the Advertising Business.

#### Cost of Sales

The year-on-year growth in cost of sales for the interim period and the second quarter primarily resulted from the conversion of Overture K.K. to a consolidated subsidiary.

## **Selling, General and Administrative Expenses**

- \*1 Personnel expenses  
At the end of the interim period, after eliminating overlap, the total number of directors and employees of the Group amounted to 3,690 up 691, or 23.0%, from the end of the same period in the previous fiscal year.
- \*2 Business commissions  
The main business commissions for the interim and for the quarter were expenses for temporary and contract employees, the settlement operations of the Personal Services Business, and operations commission fees for the credit card business. The increase in interim business commissions from a year earlier were primarily due to growth in operations commission fees for the credit card business and in expenses for temporary and contract employees.
- \*3 Depreciation and amortization  
The increase in interim and quarterly depreciation and amortization year on year can mainly be attributed to the increased purchase of software.
- \*4 Payment commissions  
The expansion in interim and quarterly payment commissions year on year was mainly due to the increase in the transaction balance of Yahoo! ezPay.
- \*5 Sales promotion costs  
The decline in sales promotion costs from a year earlier and a quarter earlier was chiefly due to the termination of sales promotion costs in Yahoo! BB operations as a result of the revision of the business alliance contract with SOFTBANK BB Corp.
- \*6 Advertising costs  
The decrease in interim advertising costs from a year earlier and a quarter earlier was principally in reaction to the TV commercials and other advertising activities carried out in the second quarter of the previous year.
- \*7 Others  
The major expenses in others during the interim period were fixtures and fittings and travel and transportation expenses.

## **Non-Operating Expenses and Income**

The main components of non-operating expenses for the interim period and second quarter were equity in loss under the equity method and loss on interest payment.

## **Extraordinary Losses and Gains**

The major extraordinary gain recorded during the interim period and second quarter was a reversal from doubtful accounts, while the major extraordinary loss was a loss on evaluation of the stock of ValueCommerce Co., Ltd.

## **Income Taxes, etc.**

The effective income tax rates for the interim period and second quarter were 45.4% and 48.3%, respectively.

## **Interim and Quarterly Net Income**

Net income per share amounted to ¥483.90 for the interim and ¥215.95 for the quarter, respectively.

## c. Interim and Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended Sept. 30, 2006	Three months ended Sept. 30, 2007	Half year ended Sept. 30, 2007
<b>Cash flows from operating activities:</b>			
Income before income taxes for the periods	24,089	25,582	54,109
Depreciation and amortization	2,019	2,396	4,588
Increase/decrease in accounts receivable-trade	-654	69	1,982
Increase in accounts payable-trade	23	2,782	2,676
Payment of income taxes and other taxes	-37	-21	-27,877
Other cash flows	2,347	989	1,174
Cash flows from operating activities	27,787	31,798	36,653
<b>Cash flows from investing activities:</b>			
Deposit in term saving account	-	-	-20,000
Expenditures on property and equipment	-1,602	-1,214	-3,783
Expenditures on intangible fixed assets	-1,299	-661	-1,977
Expenditures on investment securities	-25,750	-924	-5,925
Acquisition of newly consolidated subsidiaries' stocks	-	3,030	3,030
Collection of loans receivable	1,169	0	0
Other cash flows	1,542	-527	223
Cash flows from investing activities	-25,940	-297	-28,432
<b>Cash flows from financing activities:</b>			
Redemption of long-term loan	-35	-	-10,000
Dividends paid	-	-	-5,805
Other cash flows	88	22	-225
Cash flows from financing activities	53	22	-16,030
Net change in cash and cash equivalents	1,900	31,524	-7,809
Cash and cash equivalents at the beginning of the periods	48,896	35,373	75,212
Decrease in cash and cash equivalents from the removal of consolidated subsidiaries	-	-	-504
Cash and cash equivalents at the end of the periods	50,797	66,897	66,897

### Main Points Regarding Consolidated Statements of Cash Flows for the Interim and the Second Quarter

#### Cash Flows from Operating Activities

Despite the payment of income taxes, cash flows provided by operating activities increased due to growth in net income and other factors, amounting to ¥36,653 million in the interim period, and to ¥31,798 million in the quarter.

#### Cash Flows from Investing Activities

Despite an increase in cash from the acquisition of Overture K.K., expenditures on property and equipment and on deposits in term saving account, resulted in cash flows used in investing activities of ¥28,432 million for the interim period. The quarterly cash flows used in investing activities were ¥297 million.

#### Cash Flows from Financing Activities

Expenditures on redemption of long-term loans and on payments of dividends resulted in cash flows used in financing activities of ¥16,030 million for the interim period. The quarterly cash flows used in financing activities were ¥22 million.

## d. Segment Information

### Outline of Businesses

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

### Interim Results

#### FY2007-Interim (April 1, 2007-September 30, 2007)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	54,037 (45.9%)	28,196 (23.9%)	35,545 (30.2%)	117,779 -	-43 (-0.0%)	117,735 (100.0%)
Operating expenses	23,575	16,658	11,948	52,182	5,797	57,979
Operating income (Contribution)	30,462 (51.0%)	11,538 (19.3%)	23,596 (39.5%)	65,596 -	-5,841 (-9.8%)	59,755 (100.0%)

#### FY2006-Interim (April 1, 2006-September 30, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	42,537 (42.3%)	22,193 (22.1%)	35,813 (35.6%)	100,544 —	-75 (-0.0%)	100,469 (100.0%)
Operating expenses	19,085	13,642	13,425	46,152	5,316	51,469
Operating income (Contribution)	23,452 (47.9%)	8,551 (17.5%)	22,388 (45.7%)	54,392 —	-5,392 (-11.1%)	49,000 (100.0%)

## Quarterly Results

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

(Millions of yen)

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

### FY2006-2Q (July 1, 2006-September 30, 2006)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	21,299 (41.6%)	11,436 (22.3%)	18,516 (36.2%)	51,252 —	-49 (-0.1%)	51,202 (100.0%)
Operating expenses	9,552	7,129	6,808	23,489	2,703	26,192
Operating income (Contribution)	11,747 (47.0%)	4,307 (17.2%)	11,708 (46.8%)	27,762 —	-2,752 (-11.0%)	25,009 (100.0%)

### FY2007-1Q (April 1, 2007-June 30, 2007)

(Millions of yen)

	Advertising Business	Business Services Business	Personal Services Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	24,519 (43.3%)	14,066 (24.8%)	18,122 (32.0%)	56,709 —	-21 (-0.1%)	56,687 (100.0%)
Operating expenses	9,792	8,220	6,096	24,108	2,908	27,017
Operating income (Contribution)	14,727 (49.6%)	5,846 (19.7%)	12,026 (40.5%)	32,600 —	-2,930 (-9.8%)	29,670 (100.0%)

## Advertising Business

### Interim Results

During the interim period, the overall market remained in a stagnant mood brought on by a curtailing of advertising by advertisers. Amid these circumstances, we endeavored to win advertising by strengthening our collaboration with advertising companies and making sales proposals that match client needs. As a result, products with strong branding benefits, such as Brand Panel and Large Square, which use megabanners that deliver advertising using advanced flash technology, were especially popular with national clients, particularly major automobile, beverage, cosmetic, and toiletry-related advertisers.

In addition, sales surged for behavioral targeting advertising that targets users according to their past history of usage. This growth reflected increased demand, especially among financial,



cosmetics, and toiletries-related advertisers, for this product. The Group focused its sales efforts on area behavioral targeting advertising, which combines behavioral advertising with regional distribution, and demographic behavioral targeting advertising, which combines distribution to specific groups with behavioral targeting. During the period, the Group received area behavioral targeting advertising from real estate, regional banking, and moving-related companies. Our demographic behavioral targeting advertising services provided opportunities to gain advertising from fashion brand companies, mainly companies targeting the ladies market, and from temporary employment companies. Furthermore, there was substantial use of display advertising by political parties and government agencies during the upper house elections held in July, signifying that Internet became a major advertising media for election-related issues. Paid search advertising revenues rose sharply from a year earlier, partially because of the steady growth of the market and of the effect of the start of a listing advertising service that takes into consideration a quality index and the bidding price in determining the listing order. The Company introduced this service in July. In addition, the Company began to strengthen its collaboration with Overture K.K. which was acquired by the Company and has been consolidated from September. Mobile advertising revenues also rose substantially because of the particularly strong growth in the use of paid search advertising. Consequently, interim advertising business sales amounted to ¥54.0 billion, increasing 27.0% year on year, and accounting for 45.9% of net sales.

### **Advertising Products**

During the second quarter, sales of Brand Panel, Square Rectangle Box, and behavioral targeting advertising increased from the same period in the previous fiscal year. In addition, special features created through tie-ups with specific advertisers also increased.

One of the highlights of the quarter was a collaboration with Nissan Motors for the advertising of the Nissan Skyline and Wai Wai Map (beta version). A special feature on “Scenic Places Only Accessible by Car,” which introduced beautiful spots in Japan that make people want to take a drive and recommended tourist spots, drew a great deal of attention.

For the quarter, rates for high-volume branding-type advertising products ranged from ¥0.18 to ¥0.71 per impression, rates for targeting-type advertising products varied from ¥0.16 to ¥6.50 per impression, and rates for the large-sized Super Banners varied from ¥0.08 to ¥3.60 per impression. Rates for the group-specific e-mail advertising Yahoo! Delivers were ¥3.50 to ¥8.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥8.50 million to ¥12.00 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

### **Impact of consolidation of Overture K.K.**

Overture K.K. distributes paid search advertisement and others to its partner sites including Yahoo! JAPAN, with the request of advertisers. With the partner sites listing advertisement on their pages, Overture K.K. pays TAC\* to them in return.

\*TAC=Traffic Acquisition Cost

Overture K.K. pays fees to partner sites in return of using space on their pages.

By the consolidation of Overture K.K., the following sales items were newly added to the Group's Consolidated Net Sales; 1) Total revenue from paid search advertisement posted on Yahoo! JAPAN, excluding the TAC paid to Yahoo! JAPAN (TAC is eliminated for consolidation), and 2) Total revenue from advertisement posted on partner sites other than Yahoo! JAPAN. Also, to the Cost of sales, the following items were newly added, 1) TAC that Overture K.K. pays to partner sites, and 2) Advertisement distribution system usage fee that Overture K.K. pays to Overture Search Services Ireland Limited, consolidated subsidiary of Yahoo Inc.

## **Business Services Business**

### **Interim Results**

During the interim, we continued to concentrate on acquiring information listing business, resulting in substantial growth year on year. Sales of Yahoo! Rikunabi grew solidly while sales of Yahoo! Real Estate increased 2.5 times from a year earlier. Yahoo! Shopping and Yahoo! Auctions continued their efforts to acquire more merchant stores. As a result, the number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 29,436 at the end of September 2007, increasing by 7,132 stores, or 32.0% year on year. Along with this growth, tenant fees and sales commissions also surged ahead compared with the same period in the previous fiscal year. To increase the number of users, Yahoo! Shopping launched an 8<sup>th</sup> anniversary commemoration sale; seasonal sales promotion special features, such Chugen (Summer gift) and Summer Bonus, and Senior Citizens' Day; and a variety of special features, such as popular consumer items. Total commercial transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket amounted to ¥453.5 billion in the interim period, rising 8.3% year on year. In other areas, Yahoo Japan Value Insight Corporation, which was formed in July 2007 through a merger between INFO PLANT CO., LTD., and Interscope Inc., began offering new products. As a result of aggressive sales promotion activities, research-related sales expanded greatly.

Overall, business service sales amounted to ¥28.1 billion in the interim period, increasing 27.0% year on year, and accounting for 23.9% of net sales.

### **e-Commerce Related Performance Figures**

#### **Yahoo! Shopping Number of Stores, etc.**

	September 2006	September 2007
Number of shopping unique browsers	16.70 million browsers	15.09 million browsers
Number of shopping store unique browsers	(See note below)	16.53 million browsers
Number of stores (As of the end of each month)	12,407 stores	15,718 stores

Note: Number of shopping unique browsers is the number of browsers which accessed Yahoo! Shopping (shopping.yahoo.co.jp, etc.) each month while the number of shopping store unique browsers is the number of browsers which accessed Yahoo! Shopping Store (store.yahoo.co.jp) each month. Yahoo Shopping Store began disclosing the number of shopping store unique browsers as of December 2006.

#### **Shopping Related Transaction Volume**

	July 2006-September 2006	July 2007-September 2007
Daily average transaction volume	¥ 461 million	¥561 million

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

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

	September 2006	September 2007
Number of auction unique browsers	29.29 million browsers	30.71 million browsers
Number of total listed items (Monthly average)	11.16 million items	15.66 million items
Number of stores (As of the end of each month)	9,897 stores	13,718 stores

### **Yahoo! Auctions Transaction Volume etc.**

	July 2006-September 2006	July 2007-September 2007
Daily average number of new listings	725 thousand items	813 thousand items
Daily average transaction volume	¥ 1,817 million	¥ 1,858 million
Average closing price per item	¥ 5,603	¥ 5,450
The average ratio of successful auctions per day	28%	22%

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

## **Personal Services Business**

### **Interim Results**

During the interim period, Yahoo! Auctions took various steps to stimulate greater use. It ran a campaign in which bidders could win Yahoo! Points. To promote a greater volume of items, it allowed users to list up to 3 items per month without system-use charges. It also conducted a free item listing campaign for the mobile version of Yahoo! Auctions. Together with the promotions mentioned above, we focused on preventing the inappropriate use of the auction site, changing the participation criteria. The former rule that Yahoo! JAPAN ID holders were able to bid on any items on Yahoo! Auction changed, and now they, if they don't hold Yahoo! Premium membership or others, are not able to bid on the item of more than ¥5,000. It had some effect on the growth in transaction volume, which was mediocre. Together with an increase in the proportion of B-to-C auctions along with the growth of store numbers, revenues from system-use fees remained at the same level. We also endeavored to build Yahoo! Premium membership. Along with the change in participation criteria for Yahoo! Auctions, we conducted a campaign targeting users with bidding experience, offering free Yahoo! Premium membership for the rest of the year. Consequently, the number of Yahoo! Premium member IDs rose to 6.49 million at the end of September 2007, representing a net increase of 60 thousand IDs, up 1.0% from a year earlier. Yahoo! BB's ISP fee income declined substantially compared with the same period in the previous fiscal year due to the impact of the revision of the contract with SOFTBANK BB Corp in the previous quarter. Among pay content services, sales of Yahoo! Partner grew favorably. We also concentrated on building the sales of Yahoo! Mail, Yahoo! Fortune Telling, Yahoo! Comics, Yahoo! Marriage, and other pay content services.

Consequently, personal service sales for the interim period amounted to ¥35.5 billion, rising 0.7% from a year earlier and generated 30.2% of net sales.

## **e. Operating Review**

### **(1) Search Business**

Main Services:

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

In the second quarter, the Search Business concentrated on its pursuit of making search services available “everywhere” and connecting everyone through social media. We made it possible on Yahoo! Search to search the photographs on Flickr, an online photo management and sharing site under the umbrella of Yahoo! Inc. We worked to expand the number of users of the mobile version of Yahoo! Answers, strengthening functions, such as enabling registration by mobile phone as well as submitting questions and answers. In addition, on Sponsor Sites, we began an advertising listing service that orders search results according to a quality index and bidding price, aiming to increase advertising effectiveness and the degree of customer satisfaction. Among other measures taken during the quarter, we endeavored to reinforce our collaboration with Overture K.K., now a consolidated subsidiary of the Group.

### **(2) Auction Business**

Main Services:

Yahoo! Auctions, Yahoo! Delivery, Yahoo! Classified

During the second quarter, we continued to implement measures aimed at expanding users. Among those measures, we changed the criteria for participating in Yahoo! Auctions to allow users to bid on items up to ¥4,999 with only a Yahoo! JAPAN ID. At the same time, we promoted a greater volume of items by running a campaign offering free system-use for the listing of up to 3 items a month. We also sought to increase transaction opportunities by implementing a program in which bidders could win Yahoo! Points. We concentrated on expanding the numbers of mobile phone users as well as personal computer users through campaigns offering such benefits as the free item listing for the mobile version of Yahoo! Auctions. As part of our efforts to increase security on Yahoo! Auctions, we commenced a “Do Now, Pay Later” service that enables winning bidders to receive the item first and pay later, sellers and buyers to make and receive anonymous deliveries, and buyers to pick up items at convenience stores. In addition, we promoted the use of the Internet auctions by public bodies, hosting Internet auctions by public entities of all prefectures in Japan.

### **(3) Member Services Business**

Main Services:

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

In the second quarter, the Member Services Business concentrated on expanding the number of members of Yahoo! Premium and other membership services of Yahoo! JAPAN, as well as boosting the degree of satisfaction of members. For Yahoo! Premium, we continued our

campaign offering free Yahoo! Premium membership for the rest of the year for users with bidding experience on Yahoo! Auctions, seeking to acquire new members. Among measures to boost customer satisfaction, we offered special invitation live shows on Yahoo! Live Talk, featuring such celebrities as Shoko Nakagawa and Angela Aki, exclusively for Yahoo! Premium members. We also offered membership discounts for Yahoo! Fortune Telling, Yahoo! Comics, and Yahoo! Games. Yahoo! Keitai Shop worked to promote sales by conducting a campaign that offered different prizes every month and by adding a word-of-mouth function that allowed users to post and read information. Pay content services Yahoo! Partner and Yahoo! Marriage endeavored to expand sales by running various special features and by offering Yahoo! Premium discounts.

#### **Number of Premium Member IDs**

September 2006	September 2007
6.43 million IDs	6.49 million IDs

#### **Total Subscriber Lines for Yahoo! BB**

End of September 2006	End of September 2007
Approximately 5,146 thousand lines (including approximately 1,157 thousand lines marketed by Yahoo! JAPAN)	Approximately 5,042 thousand lines (including approximately 1,052 thousand lines marketed by Yahoo! JAPAN)

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

#### **(4) Regional Services Business**

Main Services:

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

During the second quarter, the Regional Services Business focused on covering information related to regional activities. To offer services that can be used in all aspects of regional activities, we improved information coverage, provided enriched services based on submitted information, and expanded and improved mobile versions of services. Yahoo! Rikunabi made efforts to improve and expand employment information listings, commencing to list information from the women's career change and recruiting site TRAVAILLE. Yahoo! Gourmet sought to mutually improve the convenience of stores and customers through such measures as beginning to offer Call Payment, a service where payments for listing information of stores are collected based on the number of calls made to a telephone number dedicated to orders on the site. Yahoo! StepUp concentrated on expanding its content by adding Web Training, which with approximately 300 courses is one of the largest online educational course services in Japan. In addition, Yahoo! Internet Certification strove to expand its number of users by introducing a mobile version (beta version) of Everyone's Certification, a certification type consumer generated media (CGM) service.

#### **(5) Media Business**

Main Services:

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

During the quarter under review, the Media Business continued to emphasize planning and development of content and services that would be supported by users and advertisers. We launched Yahoo! Guess (beta version), a service that lets users enjoy predicting the outcome of sports and other events. On Yahoo! Streaming, we offered the horror movie Juon, a Junji Inagawa horror movie, and other attractions in our Horror and Urban Legends Special Feature. In addition, we introduced CM Museum, a service that distributes commercials of popular products and brands for free. On Yahoo! Politics, we aimed to make our service available everywhere through such measures as making it possible to view our special features on the upper house election that took place in the summer on mobile phones as well as personal computers.

## **(6) Shopping Business**

Main Services:

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

In our Shopping Business during the second quarter, in commemoration of the 8<sup>th</sup> anniversary of Yahoo! Shopping, we held a campaign that awarded 8 times the Yahoo! Points usually gained, in connection with number eight. We also held limited time sales. Among seasonal sales promotions, we held a variety of events, such as Chugen (Summer gift) and Senior Citizens' Day. To expand use of the site, we offered goods exclusive for Yahoo! JAPAN in conjunction with the release of popular movies. Moreover, special features done in collaboration with other Group businesses were effective, with DVDs of popular overseas TV dramas selling particularly well. We also continued our efforts to increase the number of stores. As a result of focusing on the acquisition of new stores, the total number of stores climbed to 15,718 at the end of September 2007, an increase of 3,311 stores, or 26.7% from a year earlier.

## **(7) Lifestyle Business**

Main Services:

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

In our Lifestyle Business, we continued our efforts to provide social media services in lifestyle related fields that require a high degree of expertise or interest. During the quarter, we launched Yahoo! Rental DVD, a pay content service through which users can order a DVD over the Internet. After viewing the DVD, it can be returned by postal mail. We also sought to make our services more convenient by introducing a function that enables users to add their Yahoo! Movies and My Movie selections to the Yahoo! Rental DVD order list. In other areas, we launched Yahoo! Fashion during the quarter. Created in collaboration with Fashion Walker, Inc., the site contains advanced fashion contents in response to the requests of users and the fashion world. It is a stylish site that offers slightly different services than the traditional ones.

## **(8) Social Net Business**

Main Services:

Yahoo! Days, Yahoo! Avatar, Yahoo! Blogs, Yahoo! Message Boards, Yahoo! Messenger, Yahoo! Greetings, Yahoo! Mail, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! GeoCities, Yahoo! Groups, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, Yahoo! Alert, Yahoo! Podcast, Yahoo! Member Directory, Yahoo! Videocast

Acting as the driver of the development of social media on Yahoo! JAPAN, the Social Net Business continued to work to increase the added value content of related services and to link up with various services of Yahoo! JAPAN with the goal of maximizing the networks that connect people. During the quarter, we pursued the conversion of our services to social media. We made it possible to republish news photographs on Yahoo! Blogs that have been distributed by Agence France-Presse (AFP) News and others. We also began BR+, a news release distribution service for blog site operators. Among measures to improve the degree of convenience for users, we ran a Yahoo! Mail campaign offering up to 4 months of free security services. We also made it possible for mobile phone users to use Yahoo! Mail settings to refuse email or take spam protection measures for our Yahoo! Keitai service and our i-mode and EZweb formats. For the official release of Yahoo! Videocast, a video publishing service, we worked to give users the confidence to enjoy using the service and, at the same time, to achieve proper copyright protection on content. To achieve this goal, we agreed to use the consent agreement for use of copyrighted music designed by the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC).

## **(9) Mobile Business**

Main Services:

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

During the second quarter, we continued to endeavor to increase the degree of customer satisfaction with our Yahoo! Keitai service for SOFTBANK mobile phones and our mobile version of Yahoo! JAPAN for i-mode and EZweb formats. As part of our focus on improving customer satisfaction and providing services “everywhere,” we renewed our mobile version of Yahoo! News, added pictures and video clips display function and search functions, and launched Yahoo! Posting Appli, a service that allows users to easily post photographs and video clips taken with a mobile phone to SNS, blog, video clip, and other sites. We also took steps to expand and improve content. We published the first issue of Yahoo! Keitai Magazine, a personal computer service that features information on Yahoo! Keitai, and ran a special summer feature on the new models of mobile phones.

### **Number of Page Views**

	September 2006	September 2007
Yahoo! Mobile Page Views	1,570 million page views	3,088 million page views
Daily Average Yahoo! Mobile Page Views	52 million page views	102 million page views

## **(10) New Business Office**

### Main Services:

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

### Settlement Related

We took various measures to expand and improve services and to increase their use. We began offering our online payment service Yahoo! Wallet for use on sites of non-Group companies. We eliminated transfer and account maintenance charges for Yahoo! NetBanking, making these services free. As part of our measures to strengthen the security of our service "Yahoo! Auctions, we launched a service called Do Now, Pay Later that enables anonymous transactions. To improve user convenience, we made it possible for users to utilize their Yahoo! Points for their payments for services that can use Yahoo! Wallet, such as Yahoo! Fortune Telling and Yahoo! Comics.

### Travel Related

We formed a capital and business alliance with 4travel, Inc., which operates Travel Grapevine Site 4travel, aiming at promoting social media and expanding mutual benefits by collaborating with partner sites. In addition, we worked to expand the amount and use of published information by linking Travel Memo, a social network service that lets users record their travel memoirs and share them, with Yahoo! Answers and by implementing a publishing campaign. For Yahoo! Business Travel, we targeted strengthening sales by conducting a variety of campaigns using a popular animation character (Kosaku Shima).

### Research Related

We endeavored to expand the sales of Yahoo! Research through aggressive sales promotion activities, starting to offer new products developed in collaboration with Yahoo Japan Value Insight Corporation. We continued to work on increasing the number of monitors and diversifying demographics. At the end of September 2007, the total number of registered monitors amounted to 1.57 million, the largest organization of research monitors in Japan.

### Others

Yahoo! WebHosting improved the convenience of its services by expanding the amount of storage memory for its lite course, adding email accounts, and other measures.

## **(11) Service Supervising Division**

### Main Services:

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

During the second quarter, we announced the winners of the Sports Support Project 2007, a project aimed at promoting sports culture in Japan and contributing to its development. Among the prizes, we awarded tickets to seminars by famous athletes and the equivalent of one million yen in sports goods. For Yahoo! Kids, we worked to provide services that allow children and their families to safely and enjoyably use the Internet. As a first step toward a community



service where children can be safe and play, Yahoo! Kids launched Yahoo! Kids Pokemon, a service enabling children to safely have conversations and play games together on the Internet. We also ran Summer Holidays Special Feature 2007, which introduced independent research ideas and listed popular family spots.

## [Reference]

### Yahoo! JAPAN Page Views etc.

	September 2006	September 2007
Total Monthly Page Views	33,305 million page views	41,072 million page views
Daily Average Total Monthly Page Views	1,110 million page views	1,369 million page views
Number of Yahoo! JAPAN Unique Browsers	117.24 million browsers	160.37 million browsers
Number of Active User IDs on Yahoo! JAPAN	17.05 million IDs	20.31 million IDs

#### Notes:

- Since January 2007, page views have been disclosed as the number of times they are accessed as calculated by CSC (Client Side Counting).
- Number of Yahoo! JAPAN unique browsers is the browsers which accessed Yahoo! JAPAN services each month.
- Number of active user IDs on Yahoo! JAPAN is the IDs which logged in each month.

### New Services

Date	New services and service upgrades
July 25	Officially released the video clip publishing service Yahoo! Videocast.
August 1	Launched Yahoo! Guess (beta version), a service enabling users to enjoy predicting the outcome of sports and other events.
August 8	Started Yahoo! Rental DVD, an online DVD rental service.
August 15	Launched Yahoo! Kids Pokemon, a community service for children.
August 15	Commenced offering Web Training, one of the largest e-learning services in Japan, on Yahoo! StepUp.
August 20	Began offering online payment service Yahoo! Wallet's services to companies outside the Yahoo Japan Corporation Group.
August 29	Launched Yahoo! Fashion, a fashion content service.
September 11	Introduced Yahoo! Posting Appli, a service enabling the easy publishing of photos or video clips from mobile phones.

September 19	Started BR+, a news release distribution service for blog operators.
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## Yahoo! JAPAN CSR Activities

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

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

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

### <Volunteer Activities>

- Yahoo! Volunteer collects Internet Charity Contributions through the two methods of wallpaper and Yahoo! Points.
- The following are the new solicitations for contributions on our Internet Charity Contributions site during the quarter (no particular order):
  - Donations to the Mucopolysaccharidosis (MPS) Support Network and Yo-Kun Charity Fund for the assistance and protection of children with MPS.
  - The “Greenery for Africa” movement of the Tanzania Pole Pole Club.
  - the Kamonohashi Project’s “Save Cambodian Girls Sold into Prostitution.”
  - Welfare Port Shonan’s “Spread the Use of Service and Seeing-Eye Dogs Fund.”
  - The Gytoku Wild Bird Watching Friends Club’s “Help Wounded Wild Bird be Returned to the Wild” movement.

### <Charity Activities>

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. During the second quarter, we again held many charity auctions featuring athletes and famous people. Among them, we auctioned uniforms signed by professional baseball players Yoshinobu Takahashi and Kyuji Fujikawa and professional soccer player Shunsuke Nakamura. In total, we held 605 charity auctions during the quarter, raising a total of approximately ¥37,259,214. The funds raised by such auctions are being donated to the following charities (not listed in any special order).

- The Japan Red Cross Society, a volunteer organization that carries out a variety of humanitarian activities domestically and internationally.
- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- The Environmental Relations Institute, which establishes charity funds for environmental preservation that the public can participate in.
- Full-Life-Support, an NPO that supports the independent and enriched lives of handicapped and elderly people.
- The Japan’s Committee Vaccines for the World’s Children, a certified NPO that supplies vaccines for children in developing countries.

### <Others>

- We donated ¥2 million to the Niigata Prefecture Disaster Measures Headquarters from Yahoo! Charity Contributions as relief funds for the Niigata Chuetsu offshore earthquake.
- We donated ¥1 million to the Kumamoto Prefecture Community Chest's Kumamoto Downpour Disaster Relief Fund as relief funds for the water damage in Kumamoto Prefecture caused by a downpour of rain due to the rainy season front.
- We launched "Precious Lives Can Be Saved! The Gift of Life. Organ Transplants," which considers what can be achieved by pledging your organs. (September 4, 2007 to September 30, 2007)
- We launched Security Special Feature Autumn 2007 "Do you really know about your children and the Internet Part 2", which introduces things to be careful about and keep in mind when children use the Internet. (From September 20, 2007)
- We launched the Special Olympics Special Feature 2007 Give a Cheer for the Shanghai Championships to support the holding of sports events for mentally challenged athletes. (From September 26, 2007)

## 5. Interim Non-Consolidated Financial Statements

### (1) Interim Non-Consolidated Balance Sheets

(Millions of yen)

	As of Sept. 30, 2006		As of Sept. 30, 2007		Year ended March 31, 2007	
	Amount	%share	Amount	%share	Amount	%share
<b>Assets</b>						
Current assets						
Cash and cash equivalents	44,934		73,945		67,486	
Accounts receivable-trade	25,864		26,563		28,526	
Inventories	51		88		112	
Advance charges	2,309		1,979		1,760	
Short-term loans	1,524		180		180	
Deferred tax assets	2,914		3,353		4,150	
Other current assets	2,634		5,424		4,034	
Allowance for doubtful accounts	-2,368		-2,421		-2,287	
Total current assets	77,866	27.5	109,112	33.8	103,964	33.0
Fixed assets						
Property and equipment (*1)						
Buildings and structures	1,287		2,956		3,181	
Machinery and equipment	12,074		11,882		12,212	
Construction in progress	147		0		-	
Total property and equipment	13,509	4.7	14,840	4.6	15,393	4.9
Intangible fixed assets						
Software	7,907		9,239		8,953	
Other intangible fixed assets	8		15		16	
Total intangible fixed assets	7,915	2.8	9,255	2.9	8,969	2.8
Investments and others						
Investment securities	152,639		147,700		149,349	
Investments in stocks of affiliated companies	25,401		27,675		27,403	
Other investment in affiliated companies	329		329		329	
Deposits	3,322		5,349		5,659	
Deferred tax assets	2,054		8,138		3,860	
Allowance for doubtful accounts	-1		-0		-1	
Total investments and others	184,314	65.0	189,794	58.7	187,178	59.3
Total fixed assets	205,739	72.5	213,890	66.2	211,542	67.0
<b>Total assets</b>	<b>283,606</b>	<b>100.0</b>	<b>323,002</b>	<b>100.0</b>	<b>315,506</b>	<b>100.0</b>

(Millions of yen)

	As of Sept. 30, 2006		As of Sept. 30, 2007		Year ended March 31, 2007	
	Amount	%share	Amount	%share	Amount	%share
<b>Liabilities</b>						
Current liabilities						
Accounts payable-trade	288		341		327	
Short-term borrowings	20,000		20,000		20,000	
Accounts payable-other	10,874		11,238		12,721	
Accrued amount payable	263		486		596	
Accrued bonus	829		897		966	
Income tax payable	20,574		23,898		27,599	
Consumption tax payable (*2)	1,667		1,881		2,552	
Deposits	535		545		518	
Income in advance	187		208		233	
Reserve for directors bonuses	83		101		202	
Provision for Yahoo! Points	1,536		2,148		1,919	
Other current liabilities	433		263		192	
Total current liabilities	57,273	20.2	62,011	19.2	67,829	21.5
Long-term liabilities						
Long-term debt	60,000		40,000		50,000	
Total long-term liabilities	60,000	21.2	40,000	12.4	50,000	15.8
<b>Total liabilities</b>	<b>117,273</b>	<b>41.4</b>	<b>102,011</b>	<b>31.6</b>	<b>117,829</b>	<b>37.3</b>
<b>Net assets</b>						
Shareholders' equity						
Common stock	7,100	2.5	7,227	2.2	7,187	2.3
Capital surplus						
Capital reserve	2,181		2,308		2,268	
Total capital surplus	2,181	0.8	2,308	0.7	2,268	0.7
Retained earnings						
Earned reserve	27		27		27	
Other retained earnings						
Reserve for special depreciation	20		-		-	
Earned surplus carried forward	153,744		210,867		186,825	
Total retained earnings	153,792	54.2	210,894	65.3	186,853	59.2
Treasury stock	-28	-0.0	-28	-0.0	-28	-0.0
Total shareholders' equity	163,045	57.5	220,403	68.2	196,280	62.2
Evaluation and exchange adjustments						
Unrealized gain on available-for-sale securities	3,282		522		1,366	
Total evaluation and exchange adjustments	3,282	1.1	522	0.2	1,366	0.5
Stock acquisition rights	4	0.0	65	0.0	30	0.0
<b>Total net assets</b>	<b>166,332</b>	<b>58.6</b>	<b>220,991</b>	<b>68.4</b>	<b>197,677</b>	<b>62.7</b>
<b>Total liabilities and net assets</b>	<b>283,606</b>	<b>100.0</b>	<b>323,002</b>	<b>100.0</b>	<b>315,506</b>	<b>100.0</b>

**(2) Interim Non-Consolidated Statements of Income (April 1, 2007-September 30, 2007)**

(Millions of yen)

	As of Sept. 30, 2006			As of Sept. 30, 2007			Year ended March 31, 2007		
	Amount	% share		Amount	% share		Amount	% share	
Net sales		93,208	100.0		105,829	100.0		197,230	100.0
Cost of sales		1,971	2.1		2,038	1.9		4,045	2.1
Gross profit		91,237	97.9		103,791	98.1		193,185	97.9
Selling, general and administrative expenses		42,683	45.8		44,714	42.3		88,064	44.6
Operating income		48,553	52.1		59,076	55.8		105,121	53.3
Non-operating income (*1)		1,096	1.2		270	0.3		1,215	0.6
Non-operating expenses (*2)		543	0.6		449	0.4		923	0.5
Ordinary income		49,105	52.7		58,897	55.7		105,412	53.4
Extraordinary gains		325	0.4		0	0.0		380	0.2
Extraordinary losses		1,361	1.5		8,421	8.0		2,186	1.1
Interim income before income taxes		48,069	51.6		50,476	47.7		103,606	52.5
Income taxes, inhabitants' taxes and enterprise taxes	20,061			23,531			44,264		
Adjustment to income taxes	-524	19,537	21.0	-2,902	20,629	19.5	-2,251	42,013	21.3
Interim net income		28,531	30.6		29,847	28.2		61,592	31.2

## **Risk Factors**

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

### **1. Impact of Internet Market and Competition**

#### **1) Influence of Internet Markets and Infrastructure**

##### **a. Dependence on the Growth of Internet Usage**

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

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

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

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

If for any reason the connecting infrastructure should deteriorate and prevent easy

use of the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

### **c. Dependence on Internet connection devices**

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

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

## **2) Building partnerships in the Internet market**

The Group is actively working to build partnerships with both corporate and individual Internet media to expand usage of the entire network, including partner sites. In doing so, we plan to



increase access of the Group's sites by users of other companies' sites as well as access by our users.

In the advertising business, the Group is endeavoring to expand an advertising network called "AD Network" by incorporating other sites' ad space through tie-ups with those sites. This system allows other Internet sites with limited reach to increase their media value by networking with the Company's sites, while making it possible for advertisers to achieve a wider coverage by targeting their customer base through the entire AD Network. In the search business, the Company and its partner sites have jointly provided advertisers with the paid search service offered by Overture K.K. and achieved remarkable results and a dominant market share. In addition, the Company has begun offering other services, such as its online settlement service Yahoo! Wallet, on partner sites. Through various measures, the Company also is aiming to improve the convenience and safety of its services for users and partner sites and to increase the operating efficiency of partner site services.

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

- Partnerships (business tie-ups) have been concluded in such a way as for both parties to benefit from the relationship. However, partners could fail to achieve their sales or traffic goals, or competition with other companies could result in a delay in setting up the partnership or greater expenditure to acquire a partner or the partnership agreement could be cancelled. Any of these actions could adversely affect the Group's performance.
- The Company provides its services to partners through its own systems and those of its affiliated and business tie-up companies. Should the Company's partners suffer any damages due to the disruption of these systems, it could tarnish the brand image of the Group or result in a legal suit for compensation, which might impact negatively on the Company's performance.

### **3) The social media services market**

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

In the social media sector, however, a type of virtuous circle is emerging (network

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

#### **4) Markets of individual business segments**

##### **a. Internet advertising business**

###### **i. Potential of the Internet Advertising Market**

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

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

Although the Internet advertising market is attracting increasing expenditures from companies in various industries, the Internet's value as an advertising medium has not been adequately established among advertisers, advertising agencies, and consumers. Corporate use of Internet advertising, which has a relatively short history, is often done on a test basis with limited budgets. To promote greater understanding and appreciation of Internet advertising in the advertising industry, including both advertisers and advertising agencies, the Group regularly hosts seminars and other informational events. In addition, the Group is enhancing its advertising sales system and strengthening ties with advertising agencies with the goal of expanding and stabilizing the advertiser base. It is uncertain, however, whether the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, leading companies that conduct nationwide sales campaigns on relatively large budgets, will decide to use Internet advertising on a continual, large-volume basis, similar to their use of advertising in traditional media. If they do not, the Group might have difficulties in achieving stable advertising revenue.

The Group projects that advertising through Internet-enabled mobile terminals such as mobile phones will grow at a quickening pace and is therefore working to make its services available through such terminals in addition to personal computers. If the bulk of Internet access shifts from computers to mobile phones, however, the Group may see a fall in

viewer rates and a corresponding reduction in its market share, which would slow down growth in advertising revenue and negatively impact earnings.

## **ii. Characteristics of Internet Advertising**

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

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

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

The Group develops and sells a variety of advertising products to help fulfill advertiser needs, including products that guarantee exposure periods and number of impressions. The Group also offers Sponsor Site services (paid search advertising) operated jointly with Overture K.K. and an affiliate ad program (results-based advertising) operated in cooperation with ValueCommerce Co., Ltd.

Recently, products are appearing that employ unconventional advertising methods; behavioral targeting product (see note), which can target users according to their past history of Internet usage; other targeting products that distribute advertising based on demographic information such as age and sex, and area information; "AD Network," which allows distribution by combining ad space of each medium and can reach much further than a single medium; and "Content Match Advertising," which can analyze content of the page and then distribute advertising that matches the content of the page. The Group intends to adapt to these new products in cooperation with partner companies and media, SOFTBANK CORP., and Yahoo! Inc. If the Group fails to properly handle the new approaches required by the evolution of advertising, however, it could decrease advertising revenue. In addition, costs could grow for developing new products and forming new partnerships with firms that deal with the new types of advertising. These circumstances might have a negative effect on Group performance.

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

## **b. Business Services**

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

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

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

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

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

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

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

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

achieve its sales goals. At the same time, the Group might incur heavier costs than projected. As a result, Group performance could be negatively affected.

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

### **c. Personal Services**

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

With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for personal services business is likely to continue expanding. Sooner or later, broadband proliferation in Japan will reach a saturation point and growth in the number of users will plateau. To prepare for that time, the Group is implementing various measures to boost customer satisfaction and promote greater use of the full range of its services. Growth in the numbers of Yahoo! Auctions participants, Yahoo! Premium members, and Yahoo! BB subscribers, however, might lose its early momentum, which could have a significant negative influence on Group earnings.

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

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

to break into the non-PC market, the achievement of expected earnings could be difficult.

## **5) Competitors**

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

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

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

Another possibility in the Internet market is the sudden emergence of a start-up company with an innovative service that becomes popular with users and spreads rapidly through the market. Yahoo Japan Corporation fully intends to gauge the opinions and trends of users and offer services that they will support. However, it is possible that the start-up company or its service could compete with our Group services or that the Group will have to make significant expenditures to develop new services to maintain its competitive advantage. Both these situations could have a negative impact on the Group's business performance.

## **6) Revision of Business Forecasts**

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

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

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

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

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

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

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

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

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

#### **b. Potential Legal Restrictions on Yahoo! Auctions**

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

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

On June 8, 2006, the Japanese government introduced its "Plan 2006 to Promote Intellectual Property Rights Strategy" to carry forward extensive measures to fight the infringement of intellectual property rights via the Internet. To help prevent damage to consumers and the owners of intellectual property, the plan includes such measures as compliance with the obligation to indicate the business operators subject to the Specified

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

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

#### **c. Possibility of legal restrictions on social media typed content**

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

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

#### **d. Potential Legal Restriction on Other Services**

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

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which brings it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction (IRR) Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Since the authorities have decided to make a revision to the Money-Lending Business Control and Regulation Law to reduce the interest rate ceiling on loans to the same maximum interest rate



specified in the IRR Law, it is possible for customers to claim that interest paid in excess of the amount allowed under the IRR Law represents unfair profits, and demand repayment. The Company is preparing for any future interest repayment claims by conservatively booking all the amount which has a possibility to be claimed. In addition, the Company intends to lower its interest rates before the revised law is enforced. Based on these actions, the Company believes that the impact of the revised law on its business will be minor.

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

## **2) Potential Litigation**

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

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see note1, below) for online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. To further reinforce security, the Group introduced an Internet auction fraud-detection model in November 2005. The Group began offering anonymous payment and delivery (see note 2 below) services in July 2007. In addition, the Group has set up a patrol team to eliminate illegal items from auctions in cooperation with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it is uncertain that illegal acts will not occur in the future. Therefore, the possibility of legal action being taken against the Group cannot be ruled out, whether or not the Group is responsible. In fact, groups of users have already filed a suit for damage compensation against the Company. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to ensure proper management could lead to increased costs and therefore negatively impact earnings.

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

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

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

#### **b. Solicitation of Financial Instruments Transactions**

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

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

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

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

To avoid conflict with Japanese legal restrictions, the Group established an Advertisement Review Standard that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of its advertisement. The Group also maintains the right to list Web sites and remove Web sites listed on its Internet

directory search services at any time. In addition, the Group fully discloses its legal obligations in written contracts with the creators of those Web sites with clauses indicating the full responsibility of the creators for the content of their sites. For such services as message boards, blogs and auctions, where users can exchange information freely, the Group indicates clearly in its contracts with users that illegal or harmful content is prohibited and that full responsibility lies with the users. The Group maintains the right to remove content and will do so upon discovering Web content in violation of its contracts with users.

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

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

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

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

obligations or damage to the Group's brand image. Further, it is possible that the Group will be involved in legal disputes with users of these services outside Japan because of the treaty regarding the jurisdictions of international courts.

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

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

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

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to be certain that such problems will not occur. In such cases, the Group might be sued for compensation, required to pay substantial royalty fees, or be forced to cease providing certain services.

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

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

## **3. Information Security Management**

### **1) Group Efforts to Promote Information Security**

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of Internet technology has broadened the horizons of Internet users and boosted convenience, it has also turned the

security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group is obligated to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures groupwide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1, below), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems and access to stored data is tightly restricted. In April 2002, the Company obtained the right to use the TRUSTe mark (see Note 2, below) of the nonprofit privacy protection licensing institution TRUSTe. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification, which was developed by BSI British Standards. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3, below). As of September 30, 2007, Yahoo Japan Corporation and nine of its subsidiaries had acquired the above certifications. The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

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

*Note 1: Information Security Declaration*

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

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

For that reason, we have positioned our information systems, such as the

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

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

*Note2: TRUSTe Certification Institution and the TRUSTe mark*

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

*Note3: BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0*

Taking into consideration both technical security methods and overall organization management, these certification systems focus on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle—Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management team revises, improves, and processes)—is continuously repeated with the goal of improving information security levels.

## **2) Personal Information**

### **a. Group Efforts to Protect Personal Information**

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

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. In addition, the Group has set up a Yahoo! Security Center within the Yahoo! JAPAN

site that urges users to be careful, specifically by posting information on examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. The Group also handles internal information access rights with extreme care, granting only a limited number of persons access to users' personal information.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group, either deliberately or through negligence, by persons related to the Group, by companies with which business alliances have been concluded, or by companies to which the Group outsources work. Recently, there have been multiple cases of personal information stored on personal computers being unknowingly leaked onto networks by virus-infected personal computers of users of file-sharing software called Winny. There is also a possibility that third parties will fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ other methods such as phishing (see note, 1), whereby they illicitly obtain personal user information, resulting in damage to users. As of March 2007, to prevent against phishing attacks, the Company has introduced a log-in seal system (see note 2) whereby users register a seal that appears on the log-in screen into which they input their ID and password. If some problems happen against the effort of the Group, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

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

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

*Note 1: Phishing fraud*

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

phishing fraud on its Web site.

*Note 2: Log-in seal*

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

**b. Fraudulent Use of Credit Cards**

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

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

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

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

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



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

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

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

### **3) Network Security**

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

#### **4. International Conflicts, Terrorist Attacks, and Natural Disasters**

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

Specifically, under the impact of such an event the Group's revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group's site, causing a disruption in planned advertising business. Or, for their own reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstances arise whereby users would no longer be able to use the Group's paid services. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and SOFTBANK CORP. and their related companies and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

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

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

#### **5. Business with Involved Parties**

##### **1) Relationship with the SOFTBANK Group**

###### **a. Positioning within the SOFTBANK Group**

Our parent company, SOFTBANK CORP., has a variety of companies operating under its umbrella that are active in a range of fields and areas. The SOFTBANK Group's business segments include Internet Culture, Broadband Infrastructure, e-Commerce, Mobile Communications, Fixed-line Telecommunications, and Others (Broadcasting Media, Technology Services, Media and Marketing, Overseas Funds, and Others). The Group plays a central role in the Internet Culture segment and is also involved in the Broadband

Infrastructure segment through its collaboration with SOFTBANK BB Corp. in providing the comprehensive broadband service Yahoo! BB. In the Others segment, Yahoo Japan Corporation and SOFTBANK CORP. have jointly established TV Bank Corporation, which provides the streaming content service Yahoo! Streaming.

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

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

Contract name: Business alliance contract
Contract date: March 31, 2007 (original contract signed on June 20, 2001)
Contract term: June 20, 2001 ~ (indefinite term)
Contracted party: SOFTBANK BB Corp.
<p>1) The Company and SBB will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main responsibilities</p> <ul style="list-style-type: none"> <li>* Promoting Yahoo! BB services</li> <li>* Recruiting subscribers for Yahoo! BB services</li> <li>* Operating the Yahoo! BB portal site</li> <li>* Providing mail and Web site services</li> <li>* Providing a fee-collection platform</li> </ul> <p>3) SBB's main responsibilities</p> <ul style="list-style-type: none"> <li>* Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>* Handling subscriber inquiries and providing technical support</li> <li>* From the ISP charge, the Company takes the following in exchange for services rendered: <ul style="list-style-type: none"> <li>- Subscribers acquired by March 31, 2005: ¥100 per line per month</li> <li>- Subscribers acquired during the period from April 1, 2005, until March 31, 2007: ¥200 per line per month until the 36<sup>th</sup> month from the month of application. From the 37<sup>th</sup> month, ¥100 per line per month.</li> <li>- Subscribers acquired after April 1, 2007: ¥100 per line per month</li> </ul> </li> </ul>

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

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

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

**c. Dependence on SOFTBANK BB Corp.**

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

**d. Joint Venture for Streaming Content**

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

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

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

#### **e. Investment in Mobile Phone Business**

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

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

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

#### **f. Possibility of Competition within the SOFTBANK Group**

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

#### **g. Joint Directorships**

As of September 30, 2007, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

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

director)

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

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

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

#### **h. Joint Auditors**

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

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

### **a. License Agreement with Yahoo! Inc.**

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

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

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

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

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

*Note:*

Royalty calculation method

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

## **b. The Yahoo! Brand and Cooperation Overseas**

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

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

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

### **c. Other Joint Directorships**

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

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

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

\* The election of directors and corporate auditors shall be done according to law and the Company's articles of incorporation. However, as long as SOFTBANK and Yahoo! Inc. each maintains shareholdings equaling 5% or more of the Company's stock, SOFTBANK and Yahoo! Inc. shall each nominate its own representative to be a director. In addition, the number of directors shall be five, which number cannot be changed without first obtaining the approval of both SOFTBANK and Yahoo! Inc.

\* The Company shall conduct its business according to law and its articles of incorporation. However, should the Company wish to undertake a merger that would reduce the combined shareholdings of SOFTBANK and Yahoo! Inc. to less than 50%, or to sell major assets, it must first obtain the approval of Yahoo! Inc.

\* The Company shall increase its capital, raise funds, and take other financial actions according to law and its articles of incorporation. SOFTBANK will not approve any resolution by the Company to issue new share subscription rights without Yahoo! Inc.'s consent. (except in the case of stock options for employees). Moreover, SOFTBANK and the Company will determine the range allowed for granting stock options to employees before this agreement becomes valid.

\* The right of SOFTBANK and Yahoo! Inc. as shareholders to inspect the Company's books shall be in accordance with law and the Company's articles of incorporation.

\* Other points of agreement

--Neither SOFTBANK nor Yahoo! Inc. will agree to any change to the Company's articles of incorporation that would be detrimental to the other party.

--When one party decides to sell shares of Yahoo Japan Corporation, it will inform the other party at least 20 days in advance of the intended selling date.

--When one party decides to purchase additional shares of Yahoo Japan Corporation on the market, it will first obtain the consent of the other party.

--When one party decides to sell shares of Yahoo Japan Corporation on the market, it must offer the shares to the other party first. Should the other party not wish to buy the shares, they will be sold to a third party. In that case, the other party will



also participate as a seller in the transaction with the same third party also buying its shares, and may sell shares held in Yahoo Japan Corporation to the third party as well in accordance with the proportion of shares held by SOFTBANK and Yahoo! Inc.

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

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

### **1) Dependence on Specific Customers**

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

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

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

### **2) Dependence on Third Parties**

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

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the relevant sections of the Group

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

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

### **3) Dependence on third-party plug-in software for display of advertising**

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

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

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

## **7. Technological Innovation and Research and Development**

### **1) Keeping Up with Technology**

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Group's services are based on Internet technologies produced in an industry noted for rapid technological

innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

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

## **2) Research and Development**

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

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

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

## 8. Group Business Operations

### 1) Services Provided by Overture K.K.

#### a. Service Agreement with Overture K.K.

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

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

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

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

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

**c. Partnership in paid search advertising**

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

**2) Maintenance and Control of Service Quality**

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

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

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

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

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

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

#### **c. Constant improvement of services**

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

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

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

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

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

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

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

#### **e. Diversification and New Business**

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

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

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

#### **f. The Group's intellectual property rights such as copyrights and patents**

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

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

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

### **3) Internal Control System**

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

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

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

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

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

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

#### **c. Continued Support from Senior Management**



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

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

#### **d. Doing Business with a Large Pool of Unspecified Customers**

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

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

#### **e. Collection of Sales Credit Claims**

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

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

#### **4) Consolidated Group Operations**

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

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

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

### **9. Funds Procurement and Changes in Interest Rates**

#### **1) Investment in Mobile Phone Business**

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

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

#### **2) Yahoo! ezPay Service**

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

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

### **3) Yahoo! JAPAN Card Service**

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

## **10. Loans and Investments**

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

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

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

To maximize business synergies or to expand the Group's business, the Company

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