

Results for the Three Months Ended June 30, 2000

Introduction

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 19 million people as of June 2000, with Web users accounting for approximately 17 million of this total. According to the white paper “Communications in Japan” released by the Ministry of Posts and Telecommunications, the Internet spread to 11% of Japanese households within four years of its commercialization in Japan in 1995, and reached 19.1% of Japanese households in 1999. According to Dentsu Inc., the Internet advertising market in Japan greatly exceeded initial expectations of ¥19.8 billion and grew 111.4% to ¥24.1 billion in calendar 1999 compared with the previous year. The market is projected to increase an additional 53.1% to ¥36.9 billion in 2000, surpass ¥100 billion in 2004 and swell to ¥200 billion in 2007, or approximately the same scale as the radio advertising market today.

In the United States, the Internet advertising market surged 140.6% to US\$4.6 billion in calendar 1999, representing more than 2% of the total advertising market compared with the same period a year earlier. The market is expected to account for 3.7%, or US\$8.5 billion, of the entire advertising market in 2000. (IAB report)

Growth in Internet advertising is projected to accelerate owing to the rising value of the Internet as an advertising medium in tandem with user growth and increasing interest by advertisers. Internet shopping also appears to be keeping step with the increase in Internet users, and we are now witnessing the full-scale establishment of electronic commerce (EC) in Japan.

Amid these conditions, Yahoo! Japan Corporation (“Yahoo! Japan” or “the Company”) achieved the following results for the three months ended June 30, 2000, which represents the first quarter of fiscal 2001 (April 1, 2000 ~ March 31, 2001).

Services

In the three months ended June 30, 2000, daily page views exceeded 95 million for the first time, and monthly page views were more than 2.6 billion during June. This represents a rise of 525 million page views, or 24.7%, compared with March, and an increase of 1,913 million page views, or 259.5%, compared with the same month a year earlier. As of July 6, 2000, the highest number of daily page views has surpassed 100 million.

By service, directory search services accounted for 28.0%, information services for 20.5%, such community services as message boards for 32.4%, and commerce services for 19.1% of monthly page views for June 2000. Information services, community services and commerce services together accounted for 72.0% of total monthly page views.

The primary services that were added or upgraded during the first quarter were as follows.

Information services were bolstered during the first quarter with the launch of domestic travel information in Yahoo! Travel. Provided through a tie-up with Tavigator, Inc., a joint venture of Japan Travel Bureau, Inc., Yahoo! Japan and Softbank E-Commerce Corporation, domestic travel information comprises information on more than 3,000 lodging facilities, lodging plans that accept on-line reservations and applications, and a network of tourist spots throughout the nation. The number of travel products sold through domestic travel information is also steadily increasing.

Opened in June, Yahoo! Computers was resumed to provide comprehensive computer information services, combining the related services of the former Yahoo! Downloads. Yahoo! Computers features such up-to-date information as news and product reviews as well as a full range of services for novices, including terminology dictionaries.

Yahoo! Finance has provided 20-minute-delayed stock quotes from Nasdaq Japan, in addition to company-specific news and message boards, since the first day of trading on the market. Yahoo! Finance content was enhanced with the addition of research information for consulting analyst ratings and earnings forecasts by company in search results. Recently established in Yahoo! Finance through a tie-up with InsWeb Japan K.K., the automobile insurance center offers such reference information as insurance estimates and terminology guides.

Yahoo! Education began to offer TOEIC daily mini tests with audio. The service enables independent study in the same question-and-answer format used in the actual TOEIC examination. The service is the first trial among established services based on the audio and video Internet transmission technology of broadcast.com japan k.k., which was acquired in the previous quarter. Yahoo! Education content was expanded with the addition of information on approximately 300 qualifications searchable by type and purpose.

In Yahoo! News, the regional category benefited from the addition of news from Asahi Broadcasting Corporation and expanded coverage of the entire Kinki region, and the company category was bolstered with new company, personnel organization and event information from *Mainichi Shimbun*. The company category was also bolstered with the addition of Technobahn Financial Inc. articles and strengthened links to Yahoo! Finance stock-search functions through security codes. The ranking category was expanded with video on-air charts from VIBE. We began to store back issues of news photographs for one week and focused efforts on improving the added value of information and page views.

In Yahoo! Sports, we began offering live professional baseball information and NBA finals news flashes. Live professional baseball information is a new service that complements professional baseball news flashes. The service has substantially contributed to increased page views by responding to professional baseball fan requests for information updated following each pitch, including line, pitch type, direction of hit and result, and runner position. NBA finals news flashes offers score updates in real time, related news and athlete scorecards.

In Yahoo! Weather, direct search functions were added to find regional weather reports by postal code or city name. In Yahoo! Employment, the addition of new information providers resulted in boosting help-wanted listings to more than 5,000 notices.

Yahoo! Gourmet was strengthened with the addition of a coupon service for receiving such benefits as restaurant discounts. The service can be used at approximately 1,000 designated restaurants mainly in Tokyo, and nationwide information on restaurant coupons is periodically updated.

In Yahoo! Fortune Telling, we aimed to increase page views by running a special titled, "A Cure for May Sluggishness! How to Improve Your Fortune."

In commerce services, the Company initiated computer shopping in Yahoo! Shopping. The service marks the first implementation of a product management system that allows users to make purchases after comparing the price and services of related products at a number of stores. In addition, we aimed to promote sales in Yahoo! Shopping by aggressively developing short specials according to season and holiday. For example, during

the Mother's Day Fair special held in April, we made available a selection of Mother's Day gifts, including flowers, accessories and health products. As a result, orders of related products exceeded 12,000 during the special.

During the first quarter, a number of leading stores joined Yahoo! Shopping, including Isetan, which handles numerous gifts. New tenants of Yahoo! Shopping include Food's Mart, which offers carefully selected foods; Rohto Pharmaceutical, which handles supplements and skin-care products; shu uemura health and beauty concept salon, which offers beauty products; Mercian, which provides basic cosmetics and health foods; CHUMS, a U.S. outdoor clothing brand; Kimonoyasan, a provider of *yukata*, *geta* and Japanese accessories; Jewelry Tsutsumi On-Line Shop; e-Shopping! Books, which offers new and best-selling books; Sohbi, a Western tableware specialist; Gulliver World, a supplier of professional confectionary materials and utensils; Beef-Net, a comprehensive shopping site for meat; World Car Shop Pentagon, a supplier of car products; eCHA.com, which sells flame-roasted tea made to order; Kyocera On-Line Shopping, which provides daily necessities; Megane Top, which centers on sunglasses; Nikka On-Line Shop, which handles wines of the world; Honma Golf, which centers on high-quality golf clubs; Heart Flower, which handles flowers, potted plants and gardening materials; JWell, which sells designer engagement and wedding rings via the Internet; Anasazi Santa Fe, which sells contemporary art jewelry; and Terukunidenki, a lighting specialist. (Please refer to pages 12-15 for a list of Yahoo! Shopping tenants.)

Yahoo! Auctions, also a part of commerce services, has opened several charity auctions through the cooperation of various companies and organizations. As a part of contributing to society, the Company donates all proceeds from charity auctions to such volunteer organizations as Make-A-Wish of Japan, which helps children with incurable diseases realize their dreams. In addition, real estate auctions, implemented in a tie-up with Sumitomo Real Estate Sales Co., Ltd., attracted widespread attention in various fields.

Yahoo! Auctions offered more than 900 thousand items open for bidding on July 8, 2000. During the first quarter, to cope with offenses committed at auctions, Yahoo! Japan formed a patrol team comprising eight members to watch for prohibited items and remove inappropriate items. The Company also examined the introduction of a system to discern free e-mail addresses to identify sellers, and the implementation of escrow services. Yahoo! Japan also cooperated in police investigations upon request by providing information related to an offense.

In community services, Yahoo! Japan released a new version of Yahoo! Messenger with substantially improved Yahoo! Pager functions. The communication capabilities of the application, formerly limited to one-on-one interaction, were expanded so more than three people can communicate simultaneously in an easy-to-use chat environment. An off-line message function was also added so messages can be sent to a user not accessing the network. Since the start of services on July 27, 1998, the number of registered user IDs for community services has grown to approximately 4 million by the end of June 2000. The number of registered user IDs increased 35%, or 1,030 thousand, compared with the end of March 2000. Of this amount, the number of active users (IDs) that used the Company's services at least once every four weeks totaled approximately 2 million. Membership in Yahoo! Geocities amounted to approximately 600 thousand users at the end of June 2000.

During the first quarter, the Company launched Yahoo! Mobile for i-mode-compatible mobile telephones, its first service that provides information tailored to devices

other than PCs. The new service is divided into nine i-mode Web site categories, and offers category and keyword search functions. In addition, the service has features that only Yahoo! Japan can offer—portfolios and bookmarks set with a PC in Yahoo! Finance—partially eliminating troublesome text entry in mobile telephones.

In a Web audience survey of Japan conducted by Nippon Research Center in June 2000, Yahoo! Japan was named most often by respondents as a site they access at least once every four weeks. Yahoo! Japan continues to hold the dominant position with 86.6% of the respondents, a wide margin over goo, which ranked second at 51.7%.

By multiplying the above percentage by the approximately 17 million Web users in Japan as of the end of June 2000, we estimate that there were 15 million unique users accessing Yahoo! Japan at least once every four weeks.

Management believes that these statistics clearly demonstrate the strong rating users have assigned to Yahoo! Japan's increasingly high-quality directory search services, diverse information and community services. With the addition of commerce services, the Company has enhanced its position among users as an Internet media company.

Financial Accounts

<Statements of Income>

Net Sales

Net sales for the first quarter rose to ¥2,385 million, an increase of ¥1,514 million, or 173.9%, compared with the same period a year earlier. This exceptional performance reflects a ¥1,503 million, or 207.4%, surge in advertising revenue to ¥2,228 million. Yahoo! Japan was able to post record sales for the eighth consecutive quarter. Compared with the previous quarter, net sales were up ¥426 million, or 21.8%.

(See Review of Operations)

Cost of Sales

Cost of sales for the first quarter fell ¥12 million, or 43.3%, to ¥16 million, compared with the same period a year earlier. The main factors behind this decrease were the absence of outsourcing fees for production of *Yahoo! Internet Guide*. Consignment charges paid to Yahoo! Inc. for advertising appearing on Web sites of Yahoo! in various countries advanced ¥10 million, or 199.4%, in line with increased global sales.

Compared with the previous quarter, cost of sales increased ¥10 million, or 185.3%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first quarter increased ¥987 million, or 191.9%, to ¥1,502 million compared with the same period of the previous fiscal year.

Compared with the previous quarter, selling, general and administrative expenses grew ¥287 million, or 23.7%. The primary factors behind this increase are as follows.

Personnel expenses in the first quarter expanded ¥215 million, or 98.5%, to ¥434 million compared with the first quarter a year earlier. This increase reflects 144 new staff, an increase of 138.5%, hired in response to our rapid business expansion, for a total of 248 employees. Compared with the previous quarter, the average number of employees for the first quarter increased by 63.6, or 38.2%, to 230.3. Personnel expenses were up ¥32 million, or 8.1%. Personnel expenses were held down owing to the absence of a cash incentive paid in the fourth quarter of fiscal 2000 (April 1, 1999 ~ March 31, 2000).

Advertising costs totaled ¥292 million in the first quarter, a substantial increase of ¥289 million, or 11,430.9%, from the first quarter a year earlier. The major factors behind this increase were expenditures related to television and radio commercials aired to raise the brand recognition of Yahoo! Japan among non-Internet users who may become Internet users in the future. Compared with the previous quarter, advertising costs grew ¥139 million, or 91.2%.

Content provider fees increased ¥48 million, or 83.5%, to ¥106 million compared with the same period a year earlier, as the Company worked to boost its information services. Compared with the previous quarter, content provider fees were up ¥21 million, or 24.8%.

First-quarter sales commissions rose ¥67 million, or 95.9%, to ¥137 million, compared with the first quarter a year earlier, in line with increases in net sales. Sales commissions decreased ¥23 million, or 14.4%, compared with the previous quarter. The reasons behind this decline were a partial review of the commissions system for advertising

agencies in the first quarter, and an increase in the percentage of sales to advertising agencies through direct marketing.

Depreciation expenses in the first quarter rose ¥79 million, or 281.4%, to ¥108 million due to the acquisition of additional servers to handle growth in page views and upgrades to services, as well as the introduction of basic office equipment in line with personnel expansion. Compared with the previous quarter, depreciation expenses increased ¥20 million, or 23.8%.

Communications charges in the first quarter rose ¥49 million, or 248.4%, to ¥69 million as the Company expanded network connection contracts to improve the user-access environment and bolster its services, and the number of data centers grew by two due to the merger with GeoCities Japan Corporation and broadcast.com japan k.k. Communications charges increased ¥11 million, or 19.7%, compared with the previous quarter.

Royalties paid to Yahoo! Inc. of the United States increased ¥43 million, or 190.0%, to ¥66 million in the first quarter in accordance with the increase in net sales. Royalties grew ¥12 million, or 23.8%, compared with the previous quarter.

Lease and utility expenses rose to ¥95 million in the first quarter, an increase of ¥85 million, or 818.9%, from the same period a year earlier, in line with the Company's relocation and expansion of the new headquarters in August 1999. Compared with the previous quarter, lease and utility expenses were up ¥33 million, or 53.3%, due to expansion of headquarters office floor space.

Operating Income

As a result of the above factors, Yahoo! Japan was able to achieve record operating income for the eighth consecutive quarter. Operating income for the three months ended June 30, 2000, climbed ¥539 million, or 164.8%, to ¥866 million. Compared with the previous quarter, operating income increased ¥127 million, or 17.3%.

Non-Operating Income (Expenses)

Net non-operating income for the first quarter of fiscal 2000 was ¥14 million.

Ordinary Income

Ordinary income amounted to ¥880 million, an increase of ¥557 million, or 172.8%, from the first quarter a year earlier. Yahoo! Japan was able to post record ordinary income for the eighth consecutive quarter. Compared with the previous quarter, ordinary income expanded ¥159 million, or 22.2%.

Net Income

After-tax income totaled ¥494 million, reflecting an effective tax rate of 43.5%, up 0.3 percentage point from the previous fiscal year. Net income per share was ¥11,711.48. (Calculated at 42,233.7 shares, the average number of shares outstanding during the first quarter.)

(Reference)

EBITDA

EBITDA for the first quarter rose ¥636 million, or 181.8%, to ¥987 million. This represents an increase of ¥181 million, or 22.5%, from the first quarter a year earlier.

<Balance Sheets>

(Notice)

Beginning in the first quarter, Yahoo! Japan introduced mark-to-market accounting for the valuation of securities in line with new accounting standards for financial assets. The effect of this accounting change was to increase both investment securities and total shareholders' equity by ¥16,400 million, reflecting the market value of Internet Research Institute, Inc.

In the first quarter, Yahoo! Japan employed the simple method for tax-effect accounting. Consequently, there were no changes in deferred tax assets and liabilities. Without considering the effect of introducing mark-to-market accounting on tax-effect accounting, ¥6,904 million incurred from revaluing shares of Internet Research Institute, which would normally be included in deferred tax liabilities, is included in other securities evaluation adjustment under shareholders' equity.

Yahoo! Japan intends to apply new accounting standards regarding retirement benefits during the fiscal year ending March 31, 2001. However, these amounts were not recorded for the first quarter, as calculation of accurate amounts has not been completed at this time. In the quarter when calculation of more accurate amounts is possible, Yahoo! Japan plans to make a one-time charge to timing differences for new accounting standards.

Between March 31, 2000 and June 30, 2000, total assets increased ¥16,558 million, or 158.1%, to ¥27,034 million; total liabilities decreased ¥326 million, or 13.8%, to ¥2,043 million; and total shareholders' equity increased ¥16,884 million, or 208.3%, to ¥24,991 million.

The primary factors behind the increase in total assets were a rise in accounts receivable—trade in line with sales growth, an increase in tangible fixed assets after a program to boost investments in servers and other equipment, and an increase in investment securities due to the introduction of mark-to-market accounting. By account, in current assets, accounts receivable—trade rose ¥183 million, or 11.9%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥309 million, or 27.7%. Investment securities rose ¥16,430 million, or 1,446.7%.

In current liabilities, accounts payable—other was up ¥164 million, or 21.9%; accrued income taxes fell ¥335 million, or 46.7%; accrued bonuses decreased ¥58 million, or 39.7%; and accrued consumption taxes declined ¥47 million, or 48.1%.

In shareholders' equity, common stock rose ¥1,345 million, or 86.4%; legal reserve decreased ¥1,338 million, or 26.1%; and other securities evaluation adjustment grew ¥16,400 million.

<Statements of Cash Flows>

Net cash used in operating activities totaled ¥19 million for the first quarter. Tax expense of ¥721 million for the previous fiscal year was recorded, partially offsetting an increase of ¥880 million in income before income taxes. Net cash used in investing activities amounted to ¥358 million, owing to the purchase of fixed assets to expand facilities and investment in e-Shopping! Liquor Corporation (changed to e-Shopping! Wine Corporation on July 7, 2000) and Tavigator, Inc. Net cash provided by financing activities totaled ¥23 million due to the sale of treasury stock. As a result of these activities, net cash used by the Company in the first quarter totaled ¥354 million.

Notice

Yahoo! Japan holds a 48% share of Tavigator, Inc. The Company did not prepare consolidated financial statements for the first quarter, as the assets and net sales of Tavigator were immaterial with regard to the Group's financial situation and sales results.

Review of Operations

Advertising Services

Sales of advertising services in the first quarter leaped ¥1,503 million, or 207.4%, to ¥2,228 million compared with the same quarter a year earlier.

Management attributes this increase to several factors. Amid an increase in Internet users, interest in Internet advertising has grown, leading to successive orders from a broad range of industries. A sharp increase in companies that recognize Internet advertising as a full-blown media generated demand for larger-scale, longer-term advertising products. Efforts to strengthen marketing capabilities by continuing to increase personnel, the implementation of timely sales campaigns and the establishment of an incentive system for advertising agencies also contributed to the increase in net sales.

As a result, the Company posted record sales performance in June 2000 and achieved historic results in the number of advertisers, advertisements and advertising agencies.

Specific results in the number of advertisers, advertisements and advertising agencies in the first quarter ended June 30, 2000, were as follows:

Major Advertisers

Yahoo! Japan set a new record in the first quarter for average number of monthly advertisers, as that figure increased by 418, or 225%, to 604 companies. The number of new advertisers averaged 124 companies per month and the total number of advertisers was approximately 2,000 companies. By industry, the Company's original advertisers in the telecommunications, financial and insurance, food services, automotive, distribution and retailing industries were met with increases from foods, precision machinery and office equipment, transportation and leisure and real estate industry, as well as from government agencies and organizations. Compared with the fourth quarter of fiscal 2000, the average number of monthly advertisers increased by 180 companies, or 42%.

Among advertisers, the SOFTBANK Group represented approximately 6% of net sales, and Yahoo! Inc. purchased no advertising. No single customer accounted for 10% or more of net sales.

(Note: The SOFTBANK Group comprises companies that have received more than 50% of their effective investment from SOFTBANK Corporation.)

Advertisements

The Company posted another record result as the average number of monthly advertisements for the first quarter increased by 1,190, or 403%, to 1,485 compared with the same quarter a year earlier; the same figure rose by 572, or 63%, compared with the previous quarter.

Advertising Agencies

For the first quarter, the Company established a new record for the monthly average of advertising agencies conducting business with it, as that total rose by 99, or 143%, to 168 companies compared with the same quarter a year earlier. This represents an increase of 42 companies, or 33%, from the fourth quarter of the previous fiscal year.

Advertisement Rates per Page View

For the first quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.7 to ¥6 per page view (excluding ¥0.33 per page view for Giga Yahoo! for limited clients), while those for “Targeting-Type Banner” ads varied from ¥4 to ¥20 per page view.

Advertising Products

First-quarter sales of core products Mega Yahoo! and Pilot Seat expanded robustly. In addition, sales were strong in trade buttons for EC and buttons for employment information, west modules that promote specific products, community-sponsored advertising in Yahoo! GeoCities and GeoCities Mail.

Participants in Yahoo! Japan’s Merchant Program, which combines its directory search services with marketing of client products, totaled 17 companies. The first quarter was characterized by a continuing trend toward large-scale products and an increase in high-paying, long-term contracts. New contracts signed during the first quarter included 2 large-scale contracts that surpass ¥100 million annually and 18 three-to six month contracts, ranging in scale from ¥30 million to ¥60 million.

Other Services

Other services generated revenues of ¥156 million in the first quarter. The principal contributors to this revenue were ¥46 million in licensing fees from Softbank Publishing, Inc., ¥84 million in tenant fees from Yahoo! Travel, Yahoo! Employment and Yahoo! Shopping, as well as ¥14 million in sales commissions from Yahoo! Shopping.

Yahoo! Shopping Tenants (82 shops)

(July 14, 2000)

Tenant Name	Summary
ASKUL	Industry's foremost office supply delivery service, handling approximately 8,700 items
Anasazi Santa Fe	Specializes in the sale of art jewelry popular in the United States
ICI Ishii Sports	Mountain climbing and ski equipment store
e-Shopping! Toys	Japan's first full-blown Internet toy store
e-Shopping! Books	Japan's first full-scale Internet book store
Ishibashi Music	Music store specializing in acoustic and digital musical instruments
Isetan	On-line storefront of the venerable Isetan department store; presently sells midyear gifts
eCHA.com	Tea specialist that flame roasts tea made to order
e-BEST	Computer and home appliance shop formed in a tie-up of Best Denki Co., Ltd. and Softbank E-Commerce Corporation
Wellness	Gift shop that specializes in flower and original potted plant gifts
KitchenPRO	Kitchenware specialist that handles highly practical, professional kitchenware
EVANCE	Rolex boutique that provides 10-year warranty services on new products
Engei.Net	Gardening tool specialist offering products ranging from seeds and bulbs to fertilizer and tools
Organic Cyber Store	Health food store providing safe products that are organic, have no additives, are easy on the environment and use carefully selected ingredients
OMRON 24	Wholly financed sales subsidiary of OMRON Corporation handling mainly OMRON health equipment
ORBIS	Major seller of cosmetics and nutritional supplements with no physical stores
Chaos Mart	Internet convenience store that offers food and beverages, daily necessities and sundries, and pet supplies
Gism Club	Handles primarily Casio products including G-SHOCK and BABY-G watches
Gulliver World	Shop specializing in sweets and ingredients for bread-making
Kanno Bee Head Store	Reputable store that sells honey, propolis and high-grade royal jelly
Netter Shopping	Camera specialist with a nationwide photo network
Kimonoyasan.com	Kimono specialist that showcases new kimono styles from Kyoto Muromachi
Kyocera On-line Shopping	Variety store operated by Kyocera Corporation that

	handles various products including fashion and hobby goods
Como	Store that bakes and sells bread that lasts for 30 to 60 days at room temperature
Golf Monster	Internet golf shop handling famous overseas and domestic brands in addition to original merchandise
THE SUPERMODEL	Fashion brand specialist that manages SUPERMODEL products based out of New York
ZAC	Interior store carrying items ranging from designer furniture to lighting and curtains
Sante Drug	On-line drugstore handles products that support a healthy lifestyle, including diet and health food products as well as blood-pressure measuring devices
Sanrio	Sanrio on-line shop features a broad selection of such characters as Hello Kitty
WWW.JWELL.COM	Internet jewelry shop that finishes products in a dedicated studio following customer orders
JB Computer	PC store with outlets mainly in the Kansai region
shu uemura health and beauty concept salon	Venerable cosmetics store that sells beauty foods and body-care products
Jewelry Tsutsumi On-Line Shop	Jewelry store that sends products made at its own facilities directly to customers
Shintomi Golf	Golf equipment store that offers custom-made golf clubs to compensate for golfers' unique lay angle
SUEHIRO	Jewelry shop that designs and processes original in-house jewelry made to order
Sumisho Otto	Major reseller of products ranging from apparel and fashion goods to home beauty products
Seiko Store, Hotel Okura Branch	Wristwatch shop that handles popular Seiko brands, including SEIKO and ALBA
Sembikiya	Venerable fruit store that provides carefully selected fruits from around the world
Sohbi	European imported tableware store offers first-rate Western tableware, including Wedgwood and <u>Richard Genari</u>
ZOCCO PLAZA	Specialty store operated by TDK Design that handles popular accessories and daily sundries
SOFMAP	Major on-line retailer in PC sales
Daiichi Engei	Flower shop that delivers flowers fresh direct from the fields
Daiichi Kaden	Home appliance store that provides such electronics as TVs, refrigerators, washing machines and audio equipment
Tie Rack	Necktie and scarf specialist with 430 stores in 32 countries

Tasaki Shinju	Jewelry store that offers pearls through an integrated system from cultivation to processing and sale
Tano Mail	Office supply store operated by Osuka Shokai that handles products ranging from stationary and office supplies to daily sundries and foods
The dancyu shop	Specialty store that handles famous foods and beverages from regions throughout Japan and kitchenware
Ticket Pia Leisure	Ticket shop that provides such leisure tickets as those for theme parks and amusement parks
CHUMS	CHUMS on-line store operated by an agency that imports CHUMS accessories
Tsuhana @ Pia	Specialty store that carries selected goods related to movies and music
Lighting Specialist Terukunidenki	Lighting specialist that sells lighting fixtures of first-rate manufacturers
Camera Doi	Camera shop that carries a wide selection of cameras and related products
Dog Watch Outdoors	Outdoor store that offers leading-brand Harry Hanson outdoor and marine wear
National Azabu	Grocer that sells foods, wine, cheese and daily sundries imported from around the world
Naturum	Large-scale shop specializing in fishing and outdoor gear
Nikka On-Line Shop	Liquor store operated by The Tokyo Nikka Service Co., Ltd. that carries wines and whiskeys of the world
Digicon!	Computer and audiovisual store located in the Kanto region
Heart Flower	Flower shop that carries flowers, arrangements, bouquets, potted plants and gardening materials
Paris Miki	Eyeglasses store operated by Miki that operates 857 stores in Japan and 61 stores overseas
Value Mart	Specialty store that carries products admired in European lifestyles, including leather goods, bags and mechanical timepieces
Hankoya.com	On-line name seal specialists that makes registered and corporate seals
PC DEPOT	PC store located in Kanagawa
Hibiya Kadan	On-line version of the venerable flower shop operated by Hibiya Kadan with 190 outlets in Japan
Beef-Net	Shopping site for all kinds of meat
FANCL	On-line reseller of easy-on-the-skin cosmetics with no additives and high-quality, inexpensive health foods
FUKUSUKE	Store operated by 118-year-old Fukusuke that carries socks, stockings and underwear
Food's Mart	Selective food shop operated by Food's-Foo, one of the largest food-related sites in Japan

Furusato Dayori	Foods store that delivers the tastes and scents of hometowns throughout Japan directly to customers
Brooks	Selective foods store that mainly handles regular coffee
Honma Golf	Golf equipment shop with 110 stores in Japan and 14 overseas
Marchef	Market that carries foods used by professionals, including Japanese, Chinese and Italian foods
Miki House	Store specializing in children's clothing and accessories
Mary's Chocolate	Chocolate specialist offering chocolate, gifts and other products
Mercian	Provides grape-based basic cosmetics and health foods based on the fine qualities of wine
Megane Top	Eyewear specialist that mainly carries premium brand-name sunglasses
Media Max Sumiya Cyber Shop	Software store that offers DVD titles and game software
Media Valley	PC store of the Daiei Group
Yamagiwa	Interior store carries popular imports, selective home appliances, lighting and interior goods
Yamagiwa Soft	Software store with a broad selection of the latest DVDs, CDs, PC software and console videogames
Le Noble	Specialty store that carries brand-name Western tableware, such as Royal Copenhagen
Rohto Pharmaceutical	Provides nutritional supplements and skin-care products
World Car Shop Pentagon	Car goods specialty shop with a wide range of car-related merchandise

Balance Sheets

(Yen in millions)

	Three months ended June 30, 2000		Three months ended March 31, 2000		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 612	2.3%	¥ 368	3.5%	66.1%
Accounts receivable— trade	1,722	6.4%	1,539	14.7%	11.9%
Marketable securities	3,580	13.2%	4,179	39.9%	(14.3)%
Prepaid expenses	88	0.3%	86	0.8%	2.6%
Deferred tax assets	62	0.2%	62	0.6%	0.0%
Other current assets	19	0.1%	70	0.7%	(73.3)%
Total current assets	6,086	22.5%	6,307	60.2%	(3.5)%
Fixed Assets					
Tangible fixed assets	1,425	5.3%	1,116	10.7%	27.7%
Intangible fixed assets	83	0.3%	88	0.8%	(5.5)%
Investments and Others					
Investment securities	17,565	65.0%	1,135	10.8%	1,446.7%
Investment to affiliated companies	48	0.1%	10	0.1%	380.0%
Bonds of affiliated companies	400	1.5%	400	3.8%	0.0%
Equity funds	1,000	3.7%	1,000	9.6%	0.0%
Long-term loans	0	0.0%	0	0.0%	488.1%
Prepaid expenses	22	0.1%	15	0.2%	42.0%
Guarantee deposits	401	1.5%	401	3.8%	0.0%
Others	0	0.0%	0	0.0%	0.0%
Total investments and others	19,439	71.9%	2,963	28.3%	555.9%
Total fixed assets	20,948	77.5%	4,168	39.8%	402.5%
Total assets	¥27,034	100.0%	¥10,475	100.0%	158.1%

Note: Investment securities includes mark-to-market evaluation amount of Internet Research Institute, Inc. due to the application of new accounting standards.

(Yen in millions)

Liabilities	Three months ended June 30, 2000		Three months ended March 31, 2000		Increase (Decrease)
Current Liabilities					
Accounts payable—trade	¥ 4	0.0%	¥ 3	0.0%	19.7%
Accounts payable—other	916	3.4%	752	7.2%	21.9%
Accrued bonuses	88	0.3%	146	1.4%	(39.7)%
Accrued income taxes	383	1.4%	718	6.9%	(46.7)%
Accrued consumption taxes	50	0.2%	98	0.9%	(48.1)%
Advance received profit	17	0.1%	67	0.6%	(74.8)%
Subscription warrants	23	0.1%	23	0.3%	0.0%
Other current liabilities	18	0.1%	18	0.2%	(0.1)%
Total current liabilities	1,502	5.6%	1,829	17.5%	(17.8)%
Long-Term Liabilities					
Long-term debt	436	1.6%	436	4.1%	0.0%
Long-term deferred taxes	104	0.4%	104	1.0%	0.0%
Total long-term liabilities	540	2.0%	540	5.1%	0.0%
Total liabilities	2,043	7.6%	2,369	22.6%	(13.8)%
Shareholders' Equity					
Common stock	2,901	10.7%	1,556	14.9%	86.4%
Additional paid-in capital	3,798	14.1%	5,137	49.0%	(26.1)%
Legal reserve	3	0.0%	2	0.0%	72.5%
Reserve for special depreciation	143	0.5%	—	—	—
Retained earnings	1,743	6.4%	1,410	13.5%	23.6%
Other securities evaluation adjustment	16,400	60.7	—	—	—
Total shareholders' equity	24,991	92.4%	8,106	77.4%	208.3%
Total liabilities and shareholders' equity	¥27,034	100.0%	¥10,475	100.0%	158.1%

Note: Other securities evaluation includes mark-to-market evaluation amount of Internet Research Institute, Inc. due to the application of new accounting standards.

Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended June 30, 2000		Three months ended June 30, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥2,385	100.0%	¥871	100.0%	¥1,514	173.9%
Cost of sales	16	0.7%	29	3.3%	(12)	(43.3)%
Gross profit	2,369	99.3%	842	96.7%	1,526	181.3%
SG&A expenses	1,502	63.0%	514	59.1%	987	191.9%
Operating income	866	36.3%	327	37.6%	539	164.8%
Net non-operating income (expenses)	14	0.6%	(4)	(0.5)%	18	437.3%
Ordinary income	¥ 880	36.9%	¥322	37.1%	¥ 557	172.8%

(Yen in millions)

	Three months ended June 30, 2000		Three months ended March 31, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥2,385	100.0%	¥1,959	100.0%	¥426	21.8%
Cost of sales	16	0.7%	5	0.3%	10	185.3%
Gross profit	2,369	99.3%	1,953	99.7%	415	21.3%
SG&A expenses	1,502	63.0%	1,214	62.0%	287	23.7%
Operating income	866	36.3%	738	37.7%	127	17.3%
Net non-operating income (expenses)	14	0.6%	(17)	(0.9)%	32	182.6%
Ordinary income	¥ 880	36.9%	¥ 720	36.8%	¥159	22.2%

Breakdown of First-Quarter Net Sales and SG&A Expenses

Three months ended June 30, 2000

(Yen in millions)

Net Sales	Total	%
Advertising services	¥2,228	93.5%
Other	156	6.5%
Total	¥2,385	100.0%

Three months ended June 30, 2000

(Yen in millions)

SG&A Expenses	Total	%
Personnel expenses	¥434	28.9%
Advertising costs	292	19.5%
Content provider fees	106	7.1%
Sales commissions	137	9.2%
Depreciation expenses	108	7.2%
Communication charges	69	4.6%
Royalties	66	4.4%
Lease and utility expenses	95	6.4%
Other	191	12.7%
Total	¥1,502	100.0%

Statements of Cash Flows

(Yen in millions)

	Three months ended June 30, 2000
Cash Flows from Operating Activities	
Income before income taxes	¥ 880
Depreciation and amortization	108
Loss on write-off of fixed assets	4
Gain on sale of treasury stock	(24)
Exchange loss	0
Interest earned	(6)
Interest expense	4
Increase in accounts receivable—trade	(232)
Increase in accounts payable—trade	0
Increase in accounts receivable—other	(7)
Increase in accounts payable—other	37
Decrease in income taxes and other taxes payable	(45)
Directors' bonuses	(16)
Subtotal	702
Tax expense	(721)
Net cash used in operating activities	(19)
Cash Flows from Investing Activities	
Expenditures on tangible fixed assets	(315)
Expenditures on intangible fixed assets	(28)
Expenditures on marketable investment securities	(68)
Expenditures on lending	0
Proceeds from recovery of lending	51
Expenditures on increases in guarantee deposit assets	0
Interest earned	2
Net cash used in investing activities	(358)
Cash Flows from Financing Activities	
Proceeds from sale of treasury stock	25
Proceeds from issuance of shares	6
Interest expenses	(8)
Net cash provided by financing activities	23
Loss on conversion to cash and cash equivalents	—
Net change in cash and cash equivalents	(354)
Cash and cash equivalents at beginning of term	4,547
Cash and cash equivalents at end of term	¥4,193

Note: Tax expense includes tax payments for fiscal 2000.

Risk Factors

The Company reported its results for the first quarter of fiscal 2001 in the document “Results for the Three Months Ended June 30, 2000.” However, a number of potential factors could substantially impact its results from future operations. Major factors contributing to the business risk of the Company are discussed below. The Company proactively discloses those items it considers necessary for investors to include in their investment decision, including external factors beyond the control of the Company and business risks with a low probability of materializing. With an awareness of the potential risks, the Company makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the following issues before assessing the position of the Company and its future performance.

1. Risks Affecting Operations

The Company provides Internet directory search services to Internet users through a licensing agreement with Yahoo! Inc. of the United States (hereafter referred to as “Yahoo! Inc.”), and information services, such as stock quotes, up-to-the-minute news, sports updates and weather information, through agreements with various content providers. Yahoo! Japan also provides Web sites for individual users and a variety of free-of-charge communication services, including pager and message board services to provide communication among fellow users, as well as electronic commerce (EC) services (electronic commerce refers to exchange over the internet of products, services, information and funds from a seller to a buyer in the commercial transfer of wealth between economic entities), which enable users to purchase a variety of products over the Internet. The principal component of Yahoo! Japan’s business involves Internet advertising services, through which the Company receives advertising revenue from companies in exchange for banner and other paid advertisements posted on the pages of the above services and targeting the users of those services. The following risks affect the business operations of the Company:

1) Dependence on Specific Operations

Advertising services comprise the Company’s principal source of revenue and accounted for 93.0% of net sales in the first quarter of fiscal 2001. As a result, operating results are highly dependent on advertising services. The following uncertainties are implicit in advertising sales:

- a. Advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses to be reduced by companies.
- b. As the Internet advertising market is still developing in Japan, an accurate forecast of market conditions is not available at this time.
- c. Although Yahoo! Japan continually works to raise the value for its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Company purchases content from third parties. Failure to consistently provide high-quality content that appeals to users could lower traffic and subsequently impact advertising revenue. In addition, the number of users accessing the Internet through

- cellular telephones and other mobile terminals has increased substantially. Although the Company has responded to this increase by adapting its services for use with mobile terminals, we can provide no guarantee that our services will achieve ratings in this medium on par with their use with personal computers. User share could fall as a result.
- d. As the entire catalogue of Yahoo! Japan services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Company's own servers and equipment as well as telecommunications equipment owned and operated by third parties. If for any reason the connecting environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue. In addition, although advertising contract periods and page views are guaranteed for the majority of products, failure to obtain the number of required page views could force the Company to extend advertising contract periods, or devise some other type of compensation that could negatively impact advertising revenues.
 - e. The contract period for Internet advertisements is relatively short. In addition, Internet usage and demand among advertisers tends to be seasonal. These factors produce underlying short-term fluctuations in advertising revenue. Furthermore, as the Company's cost structure includes a high portion of fixed costs such as personnel expenses and lease expenses, expenditures cannot easily be adjusted to changes in revenue, contributing to underlying volatility in the Company's earnings stream.
 - f. Operations are vulnerable to impact from such phenomena as fires, power outages and damages to telephone lines. Yahoo! Japan's main network infrastructure is concentrated in Tokyo, an area particularly susceptible to earthquakes, and the Company does not presently have multiple site capacity to offset any of the above occurrences. Despite the implementation of network security measures, the possibility of damage from computer viruses or hackers cannot be completely ruled out, and Yahoo! Japan does not hold sufficient insurance to compensate for losses due to these events. Any of these events could incur serious negative impact on the Company's business, operating results and financial condition.

2) Short Corporate History

Yahoo! Japan was founded in January 1996 and began its core advertising operations in April 1996. An operating loss was recorded in the fiscal year ended March 31, 1996 (see below), as a result of this lag. Although net sales increased and earnings were reported in the year ended March 31, 1997, the scale was small and large non-recurring revenues were included in other revenues. Although both net sales and earnings have increased substantially each term since the fiscal year ended March 31, 1998, quarterly trends in revenues show noticeable fluctuations. As the Company's history is extremely short, financial data is unavailable over a period long enough for meaningful comparison. As a result, past performance is inadequate for gauging the Company's ability to continue expanding revenues and sustaining profitability.

In addition, the history of Internet usage and the Internet advertising market in Japan is also limited. As a result, the Company cannot easily obtain information necessary for creating a management plan that accurately reflects future revenues, costs and required staff. Unexpected expenditures, investments or other factors could arise, as well as large disparities from the Company's expected revenues.

(Yen in thousands)

Item	1st Term	2nd Term	3rd Term	4th Term	5th Term
Closing date	March 31, 1996	March 31, 1997	March 31, 1998	March 31, 1999	March 31, 2000
Net sales	¥ 636	¥413,066	¥1,269,260	¥1,914,849	¥5,695,710
Advertising services	—	345,939	908,803	1,432,365	5,136,459
Others	636	67,126	360,457	482,484	559,251
Operating income (loss)	(3,213)	56,584	165,693	399,454	2,110,411
Ordinary Income (loss)	(5,241)	56,535	150,985	391,300	2,031,407
Net income (loss)	(5,290)	23,954	64,428	183,658	1,153,628
Shareholders' equity	194,709	218,664	1,018,055	3,263,566	8,106,758
Total assets	205,659	375,839	1,247,583	3,919,919	10,475,821
Page views (million per month)	—	71.0	188.7	561.5	2,125.0
Number of advertisers	—	37	71	111	300

Note: Operating income and income before taxes for the 3rd Term have been restated to conform to presentation standards adopted in the 4th Term and differ from figures on the Statements of Income and Retained Earnings.

1. The Company was established on January 31, 1996; the 1st term includes two months and one day of operations.
2. Consumption tax is included in net sales from the 1st term until the 3rd term. Due to changes in the accounting treatment of national and local consumption taxes, consumption tax is not included in net sales from the 4th or 5th terms.
3. "Page view" is defined as one electronic page display accessed by a user. Figures for each term are based on page views for the month of March.
4. "Number of advertisers" indicates the average number of advertisers in that fiscal year.
5. Due to changes in accounting standards for preparing financial statements, enterprise tax, which had been included in SG&A expenses, is included in income tax as of the fiscal year ended March 31, 1998. Prior-period results have been restated to facilitate comparison.

3) Licensing Agreement with Yahoo! Inc.

Yahoo! Japan's operations are based on a licensing agreement with Yahoo! Inc., a founder of the Company and owner of 34.1% of shareholders' voting rights as of June 30, 2000. The Yahoo! trademark, software and tools (hereafter referred to as "the trademark") used in the operation of the Company's Internet directory search services are the property of Yahoo! Inc., Yahoo! Japan conducts business operations through a license obtained for use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Company's core operations.

License Name: Yahoo! Japan Licensing Agreement
Date of Contract: April 1, 1996
Contract Term: From April 1, 1996 – termination date unspecified (Note) The license agreement may be terminated in the following cases: decision of the companies to terminate the agreement; cancellation of the agreement after 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 Corporation incapable of maintaining over 50% of the shareholders' voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted Party: Yahoo! Inc.
Main Conditions: 1. Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"> ● Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory search and other services customized and localized for the Japanese market (hereafter referred to as "the Japanese version of the Yahoo! directory 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! directory search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: 3% of gross profit after deducting sales commissions, paid quarterly

4) Need to Stay Ahead of Technological Innovations

The computer industry is well-known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. With cooperation from Yahoo! Inc. and other companies, Yahoo! Japan is constantly developing new technologies to improve its services. Failure of Yahoo! Inc. or Yahoo! Japan to stay ahead of new technological advances could render their services outdated and erode their competitive positions. The Company's small-scale capabilities in research and development could also lower competitiveness due to such factors as longer time required for development. Either one of these contingencies could severely impact operating results.

Yahoo! Japan is dependent on such Internet service providers as PSINet for its server connections. If access were interrupted or broken, or these providers were unable to continue handling large volumes of access, the Company's business and operating results could suffer substantial negative effects. In addition, the Company 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 Yahoo! Japan's relationship with users, hurt its brand image or impair operations.

5) The Yahoo! Brand and Cooperation Overseas

The establishment and proliferation of the Yahoo! brand are considered extremely important by the Company both for attracting users and advertisers and expanding its business. The importance of brand recognition is increasing rapidly, given 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 underway to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Company 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 Company in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. Yahoo! Japan is not able to place certain advertisements while these agreements are valid.

6) Government Regulations

Distribution of information over the Internet and EC are currently under review by the Japanese government. Although no regulations governing the advertising operations of the Company exist at present, a number of foreign countries are now considering regulating Internet use and are publicizing legal opinions on the subject. According to Japan's Ministry of Posts and Telecommunications (MPT): "The Internet enhances the cultural, economic and social aspects of our daily lives by providing individuals with opportunities for self-expression, and improving the convenience of economic transactions. However, a serious problem exists in that the Internet allows the flow of illegal or harmful content, such as obscenity or harmful slander. In order to ensure that the Internet remains a safe communication tool for the citizens of Japan, it is necessary to secure the free flow of information on the Internet, while establishing rules for the flow of information." *

The Company's operations may be restricted through new laws aimed at Internet users and Internet-related services and businesses. Operations may also be restricted by clarification of existing laws or voluntary restraints.

* See "The Rules for the Flow of Information on the Internet," MPT 1998 white paper.

7) Potential Litigation

Movements currently exist to regulate the flow of information on the Internet, both to ban distribution of illegal or harmful content and to protect the privacy of individuals.

To avoid conflict with Japanese legal restrictions, the Company established the "Banner Advertisement Presentation 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 the advertisement. The Company also maintains the right to remove Web sites listed on its Internet directory search services at any time. In addition, the Company completely discloses its legal obligations in written contracts with the creators of these Web sites with clauses indicating the full responsibility of creators for the content of their sites. For such services as auctions and bulletin boards where users can transmit information freely, the Company indicates clearly in its contracts with users that illegal and harmful content is

prohibited and that full responsibility lies with the user. Yahoo! Japan maintains the right to remove content and will do so any time it discovers content in violation of its contracts with users.

Through such internal regulations, the Company prohibits illegal and slanderous content on its site and protects the privacy of users. In addition, Yahoo! Japan publishes a disclaimer stating clearly that the user takes full responsibility for Web browsing and that the Company accepts no responsibility for damage caused to users during Web browsing. To protect minors from accessing harmful content, Yahoo! Japan is implementing such programs as Yahoo! Kids.

However, no guarantees can be provided that these measures will be sufficient to avoid litigation. The Company could be subject to claims, damage suits or reprimands from users, related parties or government agencies in regard to the content of advertisements, Web sites accessed through links on its site, content contributed to community message boards and trading on its auction service. The resulting decline in user confidence could lead to a drop in page views and a suspension in services.

8) Patents for Internet Technology and Business Plans

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. In addition, numerous patent applications have been filed at the JPO claiming rights to electronic commerce methods or processes for the exchange of goods, information and money. Some of these patents and patent applications cover not only technology but also business schemes. As such, the possibility exists that third parties in possession of these patents will make a claim or file a lawsuit against Yahoo! Japan, and that the Company will be prohibited from using such technology or will be forced to pay large royalties to acquire said patents.

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

9) Yahoo! Shopping and Yahoo! Auctions

To prepare for the coming growth in e-commerce, the Company launched Yahoo! Shopping and Yahoo! Auctions services in September 1999. Yahoo! Japan assumes no responsibility for the activities, products and services or Web site contents of the variety of retailers using these services. Nor does the Company make guarantees that users of these services will purchase goods or services listed by these retailers. In addition, Yahoo! Japan does not accept responsibility for damage, loss or difficulty in the delivery of said items. The Company delegates all responsibility to the user and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display or bidding of goods or services on exhibit, or the formation and honoring of contracts agreed to while using this service. However, a possibility exists that users of these services or other related parties may take legal action against the Company for claims or compensation related to the content of its services.

In addition, there have been recent reports of illegal or fraudulent merchandise bought and sold via Internet auction services. If this were to come under the scrutiny of regulators, operations could become difficult. Developing a system to prevent criminal activity and upgrading our capabilities to allow proper management could lead to increased costs and subsequent impact on earnings. Also, we cannot rule out the possibility of legal action being taken against the Company for claims or compensation related to these criminal activities.

Although Yahoo! Japan exercises the utmost care in protecting the privacy and individual information of each user and takes extraordinary measures to ensure the security of both services, the Company cannot completely eliminate the possibility that this information may be obtained and abused by third parties. As a result, we could be involved in legal disputes.

10) User Information

In July 1998, the Company added a service enabling users to customize Yahoo! Japan categories to match their individual tastes and personalize a variety of information sources by inputting individual information. In addition, with acquisition of GeoCities on March 1, 2000, the Company began services providing space for registered users to create their own Web sites free of charge. Yahoo! Japan uses this information internally to better match advertisements to the appropriate users. This information is not disclosed to advertisers or other outside parties. However, the Company is unable to predict possible damage arising from an unexpected leak of this information to outside parties.

11) Large-Scale Business Contracts with Certain Advertisers

The Company has entered into advertising contracts with certain advertisers, whereby the parties concerned have agreed to advertising with yearly payments in the ¥100 million range. Sales revenue from these advertisers accounts for a comparatively large portion of the Company's net sales, and the Company cannot rule out the possibility of these contracts being broken for certain reasons. Consequently, the outcome of these contracts could affect the Company's business results.

12) Dependence on Key Personnel

The Company depends on continued support from senior management and key technical personnel. These include the President, Managing Directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technological expertise concerning the Company and its business. Failure to attract adequate replacements for departing personnel could create major difficulties for the Company and seriously impact its ability to maintain and expand its operations.

2. Risks Concerning Investments and Capital Investment Programs

1) Investment in Yahoo! Korea

On October 6, 1997, the Company invested US\$50,000 for 5% ownership in Yahoo! Korea, a joint venture established by Yahoo! Inc. and other companies. Ownership was 4.1% as of March 31, 2000, due to an increase in the company's capital. Based on successes in translating Yahoo! Inc. technologies into 2-byte format to enable Japanese characters, the Company provided technological services necessary for establishing Yahoo! Korea. On

September 3, 1997, Yahoo! Korea began services and quickly grew to be Korea's number one Web site through robust growth in page views and net sales. However, as that company faces the same risks as Yahoo! Japan, no assurances can be given that invested capital will be recovered. In addition, currency fluctuations could produce fluctuations in the value of the investment.

2) Investment in CyberMap Japan

On March 31, 1998, the Company invested ¥50 million for 11.1% ownership of CyberMap Japan Corp., a joint venture with Toppan Printing Co., Ltd. and Nippon Telegraph and Telephone Corporation (NTT). Ownership was 10.2% as of June 30, 2000, due to an increase in the company's capital. This company provides the Mapion service, which is a free map search service for information on companies, retail outlets and other sites on the Internet. Although users have responded favorably to Yahoo! Maps, a service provided through CyberMap Japan, the Company can make no assurances that its investment will be recovered.

3) Investment in Internet Research Institute

On July 31, 1998, the Company invested ¥100 million for 29.4% ownership of Internet Research Institute, Inc. (IRI). Ownership was 12.49% as of June 30, 2000, after an increase in the company's capital and listing of its shares on the "Mothers" section of the Tokyo Stock Exchange on December 22, 1999. IRI's core operations are ISP* and test laboratory** businesses. Yahoo! Japan plans to utilize the technological capabilities of this company to increase the quality of Yahoo! Japan services. Although a provisional estimate conducted on June 29, 2000, placed the value of that company at ¥16.4 billion, Yahoo! Japan is concerned about a possible correction in this value.

*Consulting for Internet service providers (ISP) and related network products; general outsourcing of design, operations and maintenance

**Testing for interconnectivity between network equipment; providing open network testing environment for ISPs

4) Investment in Vector

On March 24, 1999, the Company invested ¥165 million, or 26.3% ownership, in Vector Inc. Ownership was 13.7% as of June 30, 2000, due to an increase in the company's capital. This company distributes software through downloads from the Internet and through books containing CD-ROMs. The Yahoo! Downloads service provided by this company has been well received by users. However, Yahoo! Japan is unable to make assurances that its investment in this company can be recovered.

5) Investment in Weathernews

On May 28, 1999, the Company invested ¥300 million for 5.8% ownership (following increase in that company's capital) in Weathernews Inc. This company provides a range of information over the Internet, including weather observations, data collection, weather analysis and weather reports. Although the Yahoo! Weather service provided in cooperation with Weathernews is extremely popular with users, the Company can provide no assurances as to the recovery of its investment.

6) Investment in e-Shopping! Toys

On August 30, 1999, the Company invested ¥20 million, or 10% ownership, in e-Shopping! Toys CORP. This company will operate eS-Toys, Japan's first full-scale all-toys EC site, and plans to sell a full range of toys over the Internet. Internet users will have access to a database containing the latest product information on approximately 200,000 toys, and be able to freely order products 24 hours-a-day.

Although services began on November 24, 1999, a number of uncertainties exist over the course of future business development. Yahoo! Japan can provide no assurances that its invested capital will be recovered.

7) Investment in e-Shopping! Books

On September 10, 1999, the Company invested ¥20 million, or 10% ownership, in e-Shopping! Books CORP. Established in August 1999 and with services launched in November, e-Shopping! Book is a new EC business venture involving some of Japan's most prominent corporations in publishing, retail and the Internet. Through the Internet, users will be able to order books from among more than 1.4 million Japanese language titles, then pick up their purchase and make payments at local convenience stores.

Although services began on November 24, 1999, a number of uncertainties exist over the course of future business development. The Company can provide no assurances as to the return of its investment.

8) Investment in CarPoint

On October 6, 1999, the Company invested ¥67.2 million, or 8% ownership, in CarPoint K.K. Through this company's site, prospective car buyers can obtain detailed information on automobiles and other related areas, including information on all Japanese-made automobiles and the latest details on a variety of foreign-made cars. In addition, the service provides users with a free appraisal of cars and introduces them to dealers who sell these cars. As a result, users are saved the bother of bargaining and can conduct their car search on the Internet to the point of purchase.

CarPoint increased its capital through an issue of new shares on March 28, 2000. Yahoo! Japan invested an additional ¥112.5 million and acquired 6.7% of the new issue. As a result, ownership in CarPoint was 7.65% as of June 30, 2000.

Although that company began its services on November 11, 1999, a number of uncertainties exist over the course of future business development. The Company can provide no assurances as to the return of its investment.

9) Investment in e-Shopping! Information

On November 17, 1999, the Company invested ¥60.0 million, or 10% ownership, in e-Shopping! Information CORP. This company provides e-commerce consulting, ranging from development of systems infrastructure plans to plan management.

Although the company began operations on November 1, 1999, a number of uncertainties exist over the course of future business development. The Company can provide no assurances as to the return of its investment.

10) Investment in SpeedNet

On December 10, 1999, the Company invested ¥125.0 million, or 5% ownership, in SpeedNet Inc. (SpeedNet is planning to increase its capital. Yahoo! Japan has signed an agreement to maintain 5% ownership by increasing its investment to a maximum of ¥300 million). Based on its Internet protocol (IP) network, this company combines such diverse technologies as fiber optics, metal and wireless technologies to provide low-cost, continuous high-speed Internet access.

This company ran trial services in Tokyo's Toshima, Shinjuku and Bunkyo Wards from October 1999 to January 2000, and plans to begin trial services over a wide area extending as far as Urawa, Omiya and Yono cities in Saitama Prefecture in September 2000. However, no schedule yet exists for the start of actual operations. As such, the Company can provide no assurances as to the return of its investment.

11) Investment in eS! Music

On January 12, 2000, the Company invested ¥30.0 million, or 10% ownership, in eS! Music CORP. This company is a music distributor that allows users to purchase their favorite songs any time of the day by downloading them from the Internet. The service will comply with DAWN 2001, the new copyright administration system proposed by Japanese Society for Rights of Authors, Composers and Publishers (JASRAC).

Operations are scheduled to begin in August 2000. However, there a number of uncertainties as to the course of this company's business. Yahoo! Japan can make no guarantees as to the recovery of its investment.

12) Investment in e-Shopping! CarGoods Corp.

On February 28, 2000, the Company invested ¥30.0 million, or 10% ownership, in e-Shopping! CarGoods Corp. This company operates eS-Car goods, Japan's first EC site specializing in car-related goods and parts, with plans to market a full range of these products over the Internet. Users can access an extensive database featuring the latest in product information (approximately 400,000 goods listed) and order products 24-hours-a-day.

Although the company began operations on May 29, 2000, a number of uncertainties exist over the course of future business development. The Company can provide no assurances as to the return of its investment.

13) Investment in Oricon Direct Digital Inc.

On March 28, 2000, the Company invested ¥50.0 million, or 1.65% ownership, in Oricon Direct Digital Inc. Established on October 1, 1999, this company has built a highly practical, easy-to-search database of music-related information. Its main business consists of renting this database to EC merchants.

Although the company has already begun operations, a number of uncertainties exist over the course of future business development. The Company can provide no assurances as to the return of its investment.

14) Investment in Tavigator

On March 5, 2000, Yahoo! Japan established Cybercircle Co., Ltd. as a subsidiary with ¥10.0 million in capital. On May 17, 2000, the company increased its capital through a third-party allotment of shares to Yahoo! Japan, Japan Travel Bureau, Inc. and Softbank E-Commerce Corporation. As a result of this transaction, the company's capital increased to ¥100.0 million and Yahoo! Japan's ownership totaled 48% as of June 30, 2000 (the Company plans to sell 18% of its holdings at book value to the Softbank Group in the future). On May 22, 2000, this company changed its name to Tavigator, Inc. It conducts on-line sales of top-selling travel packages in Japan and overseas, and also sells travel-related products.

Although the company began operations selling domestic accommodations on June 16, 2000, a number of uncertainties exist over the course of future business development. The Company cannot rule out the possibility that it will receive no return on its investment. In addition, because this company may be consolidated by Yahoo! Japan, Tavigator results may have impacts on the Company's financial situation and the results of its operations.

15) Investment in e-Shopping! Liquor

On May 26, 2000, the Company invested ¥30 million, or 10% ownership, in e-Shopping! Liquor. This company changed its name to e-Shopping! Wine on July 7, 2000. This company will operate the eS-Wine Web site, an e-commerce site specializing in wine and other alcoholic beverages, and will sell wine from around the world over the Internet. Users will be able to access the site's database to gain the latest wine information and order products twenty-four hours a day.

Although the company plans to begin operations in November 2000, a number of uncertainties exist over the course of future business development. The Company cannot rule out the possibility that it will receive no return on its investment.

16) Investment in SOFTBANK Internet Technology Fund No. 1

On February 21, 2000, the Company invested ¥1,000 million in SOFTBANK Internet Technology Fund No. 1, a voluntary partnership administered by executive partners Softbank Investment Company Limited. This fund will invest in unlisted start-up companies in Japan, chiefly in the Internet sector, with the view of distributing capital gains among participating investors when those companies go public. Yahoo! Japan plans to make use of synergies with those companies invested in the form of partnerships, information sharing and advertising operations. The Company also plans to pursue business returns in addition to financial returns from this investment.

Although the fund has already begun its investing services, many uncertainties still exist concerning the course of its business development. The Company can provide no guarantee as to the recovery of its investment.

17) Capital Investment Programs and Investment Plans

To support expected business expansion and continue launching new services, such as video and audio transmission, the Company is launching a capital investment program and an investment plan of comparatively large scale considering its current operations. The Internet industry is characterized by constant technological innovation and rapidly changing

customer needs. As a result, depreciation terms are expected to be shorter and depreciation costs higher compared with previous terms.

Although Yahoo! Japan believes business expansion will result in earnings growth sufficient to cover these depreciation costs, ineffective capital investments could put the Company behind its competitors and substantially impact future earnings.

In addition, unfavorable performance by companies in which Yahoo! Japan holds equity investments could impact the Company's financial structure and operating results.

3. Concerning the Internet Advertising Industry

1) Dependence on Internet Usage Rates

Internet usage in Japan has continued steady growth since first emerging as a recognizable force in 1995. As the Company is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are continued expansion in communication and commercial activity over the Internet and a stable and secure environment for Internet users. However, a number of factors contribute to uncertainty in the outlook for Internet usage, including the availability of such necessary infrastructure as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols to respond to surging Internet traffic and increasingly advanced applications; and the possibility of regulation or charges on Internet use.

2) Use of the Internet as an Advertising Medium

The Internet advertising business in Japan emerged almost simultaneously with the Company's establishment, and is therefore still in its infancy. As the future of the Internet remains uncertain, its value as an advertising medium is also unclear with respect to advertisers, consumers and advertising agencies.

The Company has continued to attract an increasing number of advertisers from a variety of sectors. However, with limited experience in Internet advertising, the majority of advertisers still consider it a trial medium. Many advertisers allocate only a small portion of their advertising budget to Internet advertising.

The Company believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness needs to be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept a role in this area, none have progressed far enough to be capable of full-scale evaluation. Despite recognition from Internet-related companies, it remains unclear whether the Internet can establish itself as an advertising medium on a par with such traditional media as newspapers, magazines, radio or television.

3) Competitive Environment

As of June 30, 2000, the major providers of Japanese-language Internet navigational services or similar services directed at Japanese Internet users were as follows (listed in alphabetical order):

Service	Provider	Description
Asahi.com	Asahi Shimbun	Provider of news on the Internet
Excite	Excite Japan	Search engine; agreement with Excite Inc. of the United States
Goo	NTT-ME Information Xing, Inc.	Search engine; agreement with INKTOMI CORPORATION of the United States
Infoseek	Infoseek Japan	Search engine; agreement with Infoseek Corporation of the United States
Isize	RECRUIT CO., LTD.	Content provider
Lycos	Lycos Japan	Agreement with Lycos, Inc. of the United States
MSN	Microsoft Corporation	Content provider
Nikkei Net	Nihon Keizai Shimbun, Inc.	Provider of news on the Internet
Rakuten	Rakuten, Inc.	On-line shopping mall
ZD Net	SOFTBANK Publishing Inc.	Content provider
@PIA	PIA CORPORATION	Content provider

Included among these companies are service providers in the highly competitive U.S. Internet industry and corporations affiliated with competitors of Yahoo! Inc. With competition from these service providers expected to increase, it remains unclear whether the Company can attain a superior position and sustain its hold in the industry. In addition to lowering advertising rates, competition could increase costs through higher content fees and commissions paid to advertising agents, which would cause substantial negative impact to the Company's operating results.

4. Increased Risks from Expansion

A number of internal administration problems and human resource issues could arise as the Company continues its transition from the start-up stage into the first stage of business development.

1) Small-Scale of Operations

As of June 30, 2000, the Company employed 248 staff, including executives. Its internal administration is designed for this small organizational scale, and may encounter problems adjusting to expansion.

2) Technological Development

The Company's directory search and advertising services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant changes in standards and customer needs, and continuous development of new technologies and services. Responding to these conditions and sustaining a strong competitive position requires not only close cooperation with Yahoo! Inc., which operates almost identical services in the United States, but also increasing internal development efforts, including a rising level of funds expended in localizing operations of these services. As of June 30, 2000, Yahoo! Japan's research and development team consisted of 81 engineers under the supervision of the Director of Development. In the future, management believes it will be necessary to increase engineering staff and strengthen administrative capabilities.

3) Sales Promotion

Although advertising services are by far the major revenue source, until March 1998, the Company depended entirely on advertising agent cyber communications inc. for marketing its services and generating advertisement revenues. In April 1998, Yahoo! Japan began direct marketing to advertising agencies and, as of June 30, 2000, had a sales force of 56 staff members assisting in these operations. In the future, the Company will need to increase its sales force and strengthen its sales management system to match the market's expansion.

However, these measures alone will be insufficient to guarantee increased advertising revenue. Consequently, cyber communications continues to be a comparatively major contributor to the Company's revenue growth. As a result, fluctuation in related revenues could substantially impact the earnings of Yahoo! Japan.

4) Increasing Fixed Costs

The Company needs to increase staff to support the large number of new Web sites created by the recent surge in Internet use, and to carry out operation and management of its community services. Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness. The Company plans substantial staff expansion and administrative reinforcement to eliminate possible trouble with Web site creators and community service users, and prevent erosion in the efficiency of operations. Although Yahoo! Japan will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.