

## Results for the Three Months Ended December 31, 2000

### Introduction

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 23 million people as of December 2000, with Web users accounting for approximately 20 million of this total. Also according to a survey by Video Research Netcom Ltd., the number of households using the Internet had risen to 30.5% of Japanese households as of September 2000.

Based on this growth in Internet users, the Internet advertising market in Japan grew 111.4% to ¥24.1 billion in calendar 1999 according to a survey by DENTSU INC. and is estimated to hit ¥50 billion in calendar 2000.

According to IAB report, the Internet advertising market in the United States declined against the previous quarter for the first time in the third quarter of calendar 2000, falling 6.5%, to US\$1.98 billion. The decline was attributed to the slow down in the economy, the bankruptcy of some dot com companies, and advertising restraint. Market growth is forecast to decline compared with other years, with the figure for the first three quarters of calendar 2000 rising only 113.2% compared to the previous year.

Under the impact of advertising restraint due to poor conditions in economies, the rate of growth in U.S. and Japanese Internet advertising may slow temporarily but the fundamentals have not changed significantly. In the medium to long term, as a new advertising medium, Internet advertising is expected to continue to grow as its value increases in tandem with the number of Internet users.

Amid these conditions, Yahoo Japan Corporation (“Yahoo! Japan” or “the Company”) achieved the following results for the third (September to December) quarter of fiscal 2001 (April 1, 2000 ~ March 31, 2001).

### Page Views

In the three months ended December 31, 2000, maximum daily page views exceeded 138 million for the first time, and monthly page views were more than 3.6 billion during December. This represents a rise of 244 million page views, or 7.3%, compared with September, and an increase of 2,385 million page views, or 194.4%, compared with the same month a year earlier. As of January 11, 2001, daily page views exceed 142 million.

By service, directory search services accounted for 24.6%, information services for 16.2%, community services such as message boards for 29.9%, commerce services for 28.8%, and mobile services for 0.5% of monthly page views for December 2000. Services other than directory search services accounted for 75.4% of total monthly page views.

### Services

The primary services that were added or upgraded during the third quarter were as follows:

Information services were bolstered during the third quarter with the addition of domestic travel tour information to the domestic travel information offered by Yahoo! Travel. Contents have been upgraded to target domestic business travel as well as leisure travel. Furthermore, Yahoo! Travel kicked off a domestic year-end travel accommodations thank-you campaign, aiming to promote its reservation service.

Yahoo! Finance expanded its chronological database of price quotes for stocks and investment trusts for individual investors to allow them to search for prices since 1983 and added day, two-year, five-year, and 10-year charts for these securities. Because these functions

allow users to analyze fundamental information from multiple angles, they have been highly evaluated by users as an essential upgrade.

Yahoo! Employment began offering corporate recruiting information for students graduating in March 2002. In cooperation with Yahoo! Message Boards, the service also added an Employment Search Message Boards where students can share information. Moreover, the Yahoo! Employment's service was made more convenient for users by linking up Yahoo! Finance's corporation information and allowing students to search for the location and route to the nearest public transport station of the company they are visiting using Yahoo! Maps and Yahoo! Transit. In addition, through tie-ups with e-Career CORP., and BRAIN.COM, INC., Yahoo! Employment began presenting information meetings for new graduates. In addition to using Yahoo! Transit, these information meetings are being managed through the daily event information service of Yahoo! Calendar. Yahoo! Employment has also appropriately upgraded its menu to allow students to check their knowledge of business manners using a quiz format.

Yahoo! Sports launched NBA 2000-2001 Season Information, providing game schedules and results for American professional basketball, and added J2 league information to its Soccer Information service. Yahoo! Sports also revised its Ski and Snow service, the season for which is now getting under way. Users can check ski conditions, snow accumulation, and whether snowboards are permitted at 230 ski slopes throughout Japan.

In tandem with the previously mentioned Ski and Snow service, Yahoo! Weather began offering Ski Slope Weather Information, which gives forecasts for the weather, air temperature, and snowfall for the current day, the next day, and the following day at 3,368 cities, towns, and villages in Japan. In addition, Yahoo! Weather unveiled a Pinpoint Weather Information service whereby users can search for weather information for regions throughout Japan by postal code. This information can also be accessed using the regional categories under Yahoo! Japan's Regional Information menu.

Through a business tie-up with Diamond Inc., IQ3 K.K., and PA Co., Ltd., Yahoo! Education launched a School Information service during the quarter. With this service, users can search approximately 400 private schools that offer special qualification certificates and a total of about 20 thousand correspondence schools and courses by objective, type, nearest station, and Japanese alphabetical order. Yahoo! Education also unveiled a Private University Entrance Examination Calendar. Linked with Yahoo! Calendar, this service allows users to manage their examination schedule on-line.

Among other information services, Yahoo! Computer launched a Digital Contents Collection, which was used by many users as a resource for making their New Year cards at year end. Yahoo! Gourmet forged a business tie-up with usen Corp. to offer Restaurant and Bar Information covering all Japan. Yahoo! Fortune Telling presented special features on Autumn Crafts and the Christmas Season that were very well received.

Among the many special features presented during the third quarter, the Fall School Festivals special feature, which pursued a theme of environmentally friendly school festivals, attracted much attention. As part of its on-line and off-line programs, ecological paper plates were distributed free to 18 school festivals in the Kansai area. The Christmas Special Feature provided information on the location of various Christmas illumination spots around Japan and worked closely with Yahoo! Shopping, contributing to sales growth. Part of the Christmas Special Feature was presented over Yahoo! Mobile.

On December 5, Yahoo! Broadcast presented L'Arc~en~Ciel TOUR 2000 Real, an Internet live broadcast that was accessed by 22,000 users simultaneously.

In commerce services, Yahoo! Book Shopping was launched through a tie-up with e-Shopping! Books CORP. Users can search for information on and purchase about 1.5 million titles by title, author, and other items.

Yahoo! Music Shopping was launched during the third quarter. This service allows users to search for and purchase CDs by artist, CD title or song name after comparing the prices and information offered by several on-line stores.

During the third quarter, major companies to add new shops to Yahoo! Shopping included TOWER RECORDS INC., Fashion Jewelry specialist STAR JEWELRY BOUTIQUES, INC., TOKYU DEPARTMENT STORE CO., LTD., Internet gift certificate sales specialist Giftken.com Co., Ltd., and Japan's largest Internet toy store, Toysrus.com (Japan) Ltd. As of the end of the quarter, there were a total of 123 shops on Yahoo! Shopping.

In Yahoo! Auctions, which is another pillar of our commerce service, we worked to improve our escrow service, which allow users to make auction transactions in confidence. During the quarter, we added The Sanwa Bank. Limited.'s Net Escrow, Netrust. Ltd.'s Net Daibiki, and Aeon Regi Auction (Aeon Credit Service Co. Ltd.)'s Orange Auction services. Moreover, to promote the removal of illegal or inappropriate items, we separated "adult" items into their own category.

Yahoo! Auctions recently hosted another Yahoo! Japan Jeans Charity Auction. This auction was a follow up to the successful first auction hosted jointly with Yahoo! Inc in August. Through an auction of jeans donated by well-known public figures and celebrities, the charity event seeks to raise public awareness of the disease multiple sclerosis and funds raised are used to promote research on treatment for this disease. The event raised ¥1,139,100 in charity funds.

In community services, Yahoo! Notepad, which allows users to make memos on-line, and Yahoo! Polls, which offers a basic survey function in cooperation with Yahoo! Shopping for its major categories, made their first appearances. Yahoo! Greeting upgraded its service to allow users to send greetings to 100 addresses at once and also greatly strengthened the system to provide reliable service during the peak times of Christmas and New Year. Yahoo! Message Boards expanded its search function to permit the huge volume of messages to be searched by key word . Yahoo! Calendar was upgraded with a function that allows users to send a reminder to Yahoo! Messenger.

During the third quarter, the number of users registered on Yahoo! Japan ID (an ID is necessary for use of the Company's community and commerce services) exceeded 6 million, expanding by 1.37 million, or 27.0%, compared with the previous quarter.

Yahoo! Mobile, which provides i-mode compatible services, offered the previously mentioned Christmas Special Feature and added some of the services of Yahoo! Education.

### **User Access**

In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in December 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 86.7% of the respondents, a wide margin over goo, which ranked second at 45.9%.

By multiplying the above percentage by the approximately 20 million Web users in Japan as of the end of December 2000, we estimate that there were 17.5 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, and commerce services. These services have enhanced the Company's position among users as an Internet media company.

## **Financial Accounts**

### **<Statements of Income>**

#### **Net Sales**

Net sales for the third quarter increased to ¥3,706 million, a gain of ¥2,092 million, or 129.6%, compared with the same period a year earlier. This exceptional performance reflects a ¥1,983 million, or 130.1%, surge in advertising revenue to ¥3,508 million. Yahoo! Japan was able to post record sales for the tenth consecutive quarter. Compared with the previous quarter, net sales rose ¥692 million, or 23.0%.

(See Review of Operations)

#### **Cost of Sales**

Cost of sales for the third quarter rose ¥9 million, or 111.6%, to ¥17 million, compared with the same period a year earlier. The main factor behind this growth was the consignment charges paid to Yahoo! Inc. for advertising appearing on Web sites of Yahoo! in various countries in line with increased global sales. Cost of sales advanced ¥5 million, or 46.6% from the second quarter.

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

Selling, general and administrative expenses for the third quarter expanded ¥1,162 million, or 115.0%, to ¥2,173 million compared with the same period of the previous fiscal year. Compared with the previous quarter, selling, general and administrative expenses grew ¥397 million, or 22.3%. The primary factors behind this increase are as follows.

Personnel expenses in the third quarter increased ¥338 million, or 113.2%, to ¥637 million compared with the same period a year earlier. This growth reflects 183 new staff, an increase of 129.8%, hired in response to our rapid business expansion, for a total of 324 employees. The introduction of a performance based reward system for employees was reflected in better company performance during the quarter. The rate of growth in personnel expenses was lower than the rate of growth in personnel because of an extraordinary bonus paid during the same period in fiscal 2000. Personnel expenses rose ¥97 million, or 18.0% from the previous quarter.

Advertising costs totaled ¥277 million in the third quarter, an increase of ¥99 million, or 55.4%, from the same period in the previous year. The major factors behind this increase were e-mail advertising carried out to raise the brand recognition of Yahoo! Japan among e-mail users and acting as top sponsor for a tour by L'Arc~en~Ciel of the four major event venues (domes) in Japan in order to gain advertising and attract new users. Advertising costs grew ¥34 million, or 14.1% from the second quarter.

Content provider fees in the third quarter increased ¥72 million, or 77.8%, to ¥166 million compared with the same period a year earlier, as the Company worked to boost its information services. Content provider fees were up ¥16 million, or 10.9% from the previous quarter.

Third-quarter sales commissions rose ¥27 million, or 25.3%, to ¥137 million, compared with the same period a year earlier, in line with increases in net sales. The rate of growth in

sales commissions was less than the rate of growth in advertising revenues because of changes in the proportion of sales contributed by each sales channel and because of a partial review of the commissions system for advertising agencies in the first quarter of fiscal 2001. Compared with the previous quarter, sales commissions increased ¥6 million, or 5.0%.

Depreciation expenses in the third quarter rose ¥124 million, or 213.3%, to ¥182 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. Depreciation expenses expanded ¥20 million, or 12.4% from the second quarter.

Communications charges in the third quarter rose ¥108 million, or 326.5%, to ¥141 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 to five due to the mergers with GeoCities Japan Corporation, broadcast.com Japan K.K., and P.I.M., Inc. Compared with the second quarter, communications charges increased ¥8 million, or 6.4%.

Royalties paid to Yahoo! Inc., of the United States, increased ¥62 million, or 145.3%, to ¥106 million in the third quarter in accordance with the increase in net sales. Royalties increased ¥20 million, or 23.8% from the second quarter.

Lease and utility expenses rose to ¥120 million in the third quarter, an increase of ¥60 million, or 100.7%, from the same period a year earlier, in line with the Company's expansion of its headquarters. Compared with the previous quarter, lease and utility expenses were up ¥3 million, or 3.0%.

### **Operating Income**

As a result of the above factors, Yahoo! Japan was able to achieve record operating income for the tenth consecutive quarter. Operating income for the three months ended December 31, 2000, climbed ¥920 million, or 154.5%, to ¥1,516 million. Operating income rose ¥289 million, or 23.6% from the second quarter.

### **Non-Operating Income (Expenses)**

Net non-operating loss for the third quarter of fiscal 2001 was ¥22 million. The major item was a ¥22 million expense for the issue of new shares taken as a result of a stock split.

### **Ordinary Income**

Ordinary income amounted to ¥1,493 million, an increase of ¥908 million, or 155.5%, from the third quarter a year earlier. Yahoo! Japan was able to post record ordinary income for the tenth consecutive quarter. Compared with the second quarter, ordinary income expanded ¥322 million, or 27.5%.

### **Net Income**

Based on the assumption of an effective corporate tax rate of 43.5%, compared with 43.2% in the previous year, net income for the quarter was ¥843 million and net income per share was ¥9,907.07. (calculated with the average number of shares outstanding for the quarter as 85,148.59 shares)

(Reference)

**EBITDA**

EBITDA for the third quarter rose ¥1,027 million, or 159.6%, to ¥1,671 million compared with the same period last year. This represents an increase of ¥339 million, or 25.5%, from the previous quarter.

### <Balance Sheets>

Between September 30, 2000 and December 31, 2000, total assets decreased ¥8,346 million, or 24.8%, to ¥25,250 million; total liabilities contracted ¥3,685 million, or 31.7%, to ¥7,937 million; and total shareholders' equity decreased ¥4,660 million, or 21.2%, to ¥17,312 million.

The primary factor behind the decrease in total assets was a ¥9,649 million decline in investment securities due to a mark-to-market adjustment. By account, in current assets, accounts receivable—trade rose ¥210 million, or 9.8%, and marketable securities increased ¥502 million, or 12.5%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥100 million, or 5.2%. Investment securities dropped ¥9,283 million, or 41.0%.

In current liabilities, accounts payable-other rose ¥213 million, or 22.9%; accrued bonuses expanded ¥65 million, or 60.6%; accrued income taxes increased ¥253 million, or 28.4%; and accrued consumption taxes advanced ¥79 million, or 93.0%. Among long-term liabilities, long-term deferred taxes declined ¥4,062 million, or 44.5%.

In shareholders' equity, common stock rose ¥2,961 million, or 98.3%; additional paid-in capital increased ¥2,879 million, or 72.8%; and other securities evaluation adjustment declined ¥5,586 million, or 44.9%.

### <Statements of Cash Flows>

Net cash provided by operating activities increased ¥1,314 million in the third quarter. Although accounts receivable—trade expanded along with the growth in net sales, this was offset by an increase in net income.

Net cash used in investing activities increased ¥608 million because of an increase in tangible fixed assets to expand and upgrade servers related to service expansion and because of investments in Computer Channel Corporation, and five other companies.

Net cash used in financing activities increased ¥75 million due to the repayment of bonds. As a result of these activities, cash and cash equivalents in the third quarter increased ¥629 million.



## **Review of Operations**

### **Advertising Services**

Sales of advertising services in the third quarter rose ¥1,983 million, or 130.1%, to ¥3,508 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 national clients and a broad range of industries. An 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 increasing staff, the establishment of a project team to pursue major advertising contracts, and a variety of sales campaigns to develop major new customers and attract portions of clients' year-end advertising budgets contributed to net sales growth.

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

Specific results in the number of advertisers, advertisements, advertising agencies, and an outline of advertising products in the third quarter ended December 31, 2000, were as follows:

#### *Major Advertisers*

Yahoo! Japan set a new record in the third quarter for average number of monthly advertisers, as that figure increased by 572, or 171%, to 906 companies from the same period in the previous fiscal year. The number of new advertisers averaged 125 companies per month, a record high, and the cumulative total number of advertisers was approximately 2,600 companies. By industry, in addition to the Company's previous advertisers in the information and telecommunications, financial and insurance, restaurant and various other services, the retail, transportation and leisure, real estate and housing fixtures,

cosmetics and toiletries, drugs and healthcare goods also came on board. Compared with the previous quarter, the number advertising companies increased by 127, or 16%.

Among advertisers, the SOFTBANK Group represented approximately 5% 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 CORP.)

#### *Advertisements*

The Company posted another record result as the average number of monthly advertisements for the third quarter increased by 1,777, or 275%, to 2,423, compared with the same quarter a year earlier. Monthly advertisements grew by 391, or 19% compared with the previous quarter.

#### *Advertising Agencies*

For the third quarter, the Company established a new record for the monthly average of advertising agencies conducting business with it, as that total rose by 115, or 105%, to 225 companies compared with the same quarter a year earlier. Compared with the second quarter, this figure increased by 22 companies, or 11%.

#### *Advertisement Rates per Page View*

For the third quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.7 to ¥4 per page view, while those for “Targeting-Type Banner” ads varied from ¥2.62 to ¥20 per page view.

#### *Advertising Products*

Third-quarter sales of core products Mega Yahoo!, Pilot Seat, and Run of Property expanded robustly. Sales also were strong in Buttons for stock information, employment information, auctions, and automobiles. In addition, West Modules that promote specific products and the electronic mail advertising of GeoCities Mail were popular.

Demographic Targeting, an advertising service started last quarter that can target people by gender and age groups, was also popular, recording 95 contracts.

#### **Other Services**

Other services generated revenues of ¥198 million in the third quarter. The principal contributors to this revenue were ¥22 million in licensing fees from SOFTBANK Publishing Inc., ¥96 million in information publishing commissions and other fees from Yahoo! Broadcast, Yahoo! Employment, Yahoo! Real Estate, and Yahoo! Shopping (tenant fee), as well as ¥39 million in sales commissions from Yahoo! Shopping etc.

During the Christmas and year-end period (December 1 to December 20), Yahoo! Shopping’s turnover increased 13 times over the same period in the previous fiscal year.

## Yahoo! Shopping Tenants (124 shops)

(January 12, 2000)

Tenant Name	Summary
IRISPLAZA <span style="float: right;"><b>NEW!</b></span>	Pet store that sells foods and other related products for dogs, cats, rabbits, etc.
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
e-Japan <span style="float: right;"><b>NEW!</b></span>	On-line supermarket offering daily necessities, food products, and drinks
e-Shopping! Cargoods	Car part and accessory store that also caters to the manias of car hobbyists
e-Shopping! Toys	Japan's first full-blown Internet toy store
e-Shopping! Books	Japan's first full-scale Internet book store
e-Shopping! Wine <span style="float: right;"><b>NEW!</b></span>	A specialty wine store with a wide selection of wines
eSPORTS	Sports good store carrying outdoor, tennis, and marine sports goods
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
ICI Ishii Sports	Mountain climbing and ski equipment store
Ishibashi Music	Music store specializing in acoustic and digital musical instruments
Isetan	On-line storefront of the venerable Isetan department store
Isetan Gift <span style="float: right;"><b>NEW!</b></span>	Isetan's specialty gift shop.
Inuneko.com	Pet shop that provides a comprehensive line of goods and services
Wellness	Gift shop that specializes in flower and original potted plant gifts
X-SELL <span style="float: right;"><b>NEW!</b></span>	Shop specializing in world famous brands of bags, watches and accessories
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
King's Idea Online shop	Variety gift store
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
Okamura <span style="float: right;"><b>NEW!</b></span>	Specialty shop for office furniture and PC-related items
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
Kataoka Bussan Select Food Mart	Specialty shop for top quality coffee, tea, pasta and other food stuffs
Camera Doi <span style="float: right;"><b>NEW!</b></span>	Camera shop that carries a wide selection of cameras and related products
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
key@musicland	Online shop of the nationwide chain MUSIC LAND KEY which sells popular music instruments, from guitars to basses and drums at special low prices.
KitchenPRO	Kitchenware specialist that handles highly practical, professional kitchenware

Giftken.com	<b>NEW!</b>	Gift certificate specialist
Kimonoyasan.com		Kimono specialist that showcases new kimono styles from Kyoto Muromachi
Cat Works		Personal computer store carrying SOTEC, SGI and other brands
Canon Trading	<b>NEW!</b>	Shop that carries Canon products and a wide selection of health-related and outdoor items
Kyocera On-line Shopping		Variety store operated by Kyocera Corporation that handles various products including fashion and hobby goods
QUOVADIS	<b>NEW!</b>	Specialty shop for diaries and system schedulers
Kusuri Nihondo		Health food store specializing in herbal teas and medicines
Gateway PC Shop		B.T.O personal computer maker that has been chosen No. 1 for customer support in Nikkei Personal Computer Magazine's annual survey for two years running
CosmeValley.com	<b>NEW!</b>	Shop that specializes in famous domestic and foreign brands of cosmetics and perfumes
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
Comp Kazumi		Personal computer store supplying computers, peripherals, and software
ZAC		Interior store carrying items ranging from designer furniture to lighting and curtains
SUN's COURT	<b>NEW!</b>	Shop that carries gardening items, herbal food products and aromatic therapy goods
SANTEC DO	<b>NEW!</b>	PC specialty store located in Okayama that sells computers and peripheral products.
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
CDNow Japan	<b>NEW!</b>	CD specialist shop for music lovers
WWW.JWELL.COM		Internet jewelry shop that finishes products in a dedicated studio following customer orders
Gism Club		Handles primarily Casio products including G-SHOCK and BABY-G watches
Shizenha Club		Carefully selecting only truly delicious foods, the Club collects superb quality items from around the nation and sells them through catalogs or the Internet.
Jewelry Tsutsumi On-Line Shop		Jewelry store that sends products made at its own facilities directly to customers
Lighting Specialist Terukunidenki		Lighting specialist that sells lighting fixtures of first-rate manufacturers
Shintomi Golf		Golf equipment store that offers custom-made golf clubs to compensate for golfers' unique lay angle
THE SUPERMODEL		Fashion brand specialist that manages SUPERMODEL products based out of New York
SUEHIRO		Jewelry shop that designs and processes original in-house jewelry made to order
STAR JEWELRY CO.		Major Japanese jewelry brand, which originated in Yokohama's famous Motomachi, offers a wide range of traditional jewelry known for unique designs and commitment to quality.

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 Wedgewood and Richard Genari
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
Tavigator	<b>NEW!</b>	Travel specialist that offers useful items for trips and gifts from around the world
@TOWER.JP	<b>NEW!</b>	CD specialist shop
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
Digicon!		Computer and audiovisual store located in the Kanto region
ToysRUs.com	<b>NEW!</b>	Specialty store for toys, video games and baby items
Tokyu Department Store e109 Shop	<b>NEW!</b>	Gift shop that offers the traditional sense of the venerable Toyoko Brickroad in Shibuya
Toshiba EMI Family Club		Store that features hard-to-find music and video software
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
Nissen Virtual Brand Mall		Store specializing in brand items, such as bags and accessories
Netter Shopping		Camera specialist with a nationwide photo network
Heart Flower		Flower shop that carries flowers, arrangements, bouquets, potted plants and gardening materials
Paso Q		Personal computer and peripherals store
HARIO Glass	<b>NEW!</b>	Glass specialist shop that carries heat-resistant glass tableware
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
PANDA HOUSE		Tennis specialty store featuring original sportswear and a full-range of professional equipment
handspring Shop		Store specializing in the Palm OS "Visor" PDA and related items
PC Akindo		A computer and peripherals store located in Tokyo's famous

		electronics district Akihabara.
PC DEPOT		PC store located in Kanagawa
Beef-Net		Shopping site for all kinds of meat
Hibiya Kadan		On-line version of the venerable flower shop operated by Hibiya Kadan with 190 outlets in Japan
Beautynet	<b>NEW!</b>	Cosmetic specialist shop that carries items related to beauty and health
FANCL		On-line reseller of easy-on-the-skin cosmetics with no additives and high-quality, inexpensive health foods
Food's Mart		Selective food shop operated by Food's-Foo, one of the largest food-related sites in Japan
FUKUSUKE		Store operated by 118-year-old Fukusuke that carries socks, stockings and underwear
Print Goko	<b>NEW!</b>	Store specializing in Print Goko goods
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
Bunmeido	<b>NEW!</b>	Japanese and Western condiments prepared by artisans
Hotel Okura Gourmet Shop	<b>NEW!</b>	Gift shop that carries gourmet items prepared by the chef of Hotel Okura
Honma Golf		Golf equipment shop with 110 stores in Japan and 14 overseas
Marie Ange	<b>NEW!</b>	Store specializing in maternity clothing and babywear
Marchef		Market that carries foods used by professionals, including Japanese, Chinese and Italian foods
Maruhaya	<b>NEW!</b>	Specialty gift shop with a wide selection of items suitable for gifts for all seasons
Miki House		Store specializing in children's clothing and accessories
Murauchi.co.jp	<b>NEW!</b>	Store that carries a wide selection of AV equipment, DVDs/CDs, electronic appliances, PCs, watches and cameras
Meijiya		Giftfood store offering everything from seasonal to anniversary gifts
Megane Top		Eyewear specialist that mainly carries premium brand-name sunglasses
Media Valley		PC store of the Daiei Group
Media Max Sumiya Cyber Shop		Software store that offers DVD titles and game software
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
Mondiale Ginza		Ginza 1-chome Rolex watch specialty store that usually has more than 500 new Rolexes in stock
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
WAKABA	<b>NEW!</b>	Perfume specialist shop operated by the fragrance specialist trading company Wakaba

## Balance Sheets

(Yen in millions)

	Three months ended December 31, 2000		Three months ended September 30, 2000		Increase (Decrease)
<b>Assets</b>					
<b>Current Assets</b>					
Cash	¥ 822	3.3%	¥ 695	2.1%	18.3%
Accounts receivable— trade	2,351	9.3%	2,140	6.4%	9.8%
Marketable securities	4,535	18.0%	4,032	12.0%	12.5%
Treasury stock	7	0.0%	3	0.0%	144.3%
Prepaid expenses	84	0.3%	77	0.2%	9.6%
Deferred tax assets	88	0.3%	88	0.2%	0.0%
Other current assets	19	0.1%	25	0.1%	(25.2)%
<b>Total current assets</b>	<b>7,910</b>	<b>31.3%</b>	<b>7,064</b>	<b>21.0%</b>	<b>12.0%</b>
<b>Fixed Assets</b>					
Tangible fixed assets	2,029	8.1%	1,929	5.7%	5.2%
Intangible fixed assets	86	0.3%	92	0.3%	(5.8)%
<b>Investments and Others</b>					
Investment securities	13,386	53.0%	22,670	67.5%	(41.0)%
Investment to affiliated companies	60	0.2%	60	0.2%	0.0%
Bonds of affiliated companies	400	1.6%	400	1.2%	0.0%
Equity funds	960	3.8%	960	2.8%	0.0%
Long-term loans	2	0.0%	0	0.0%	496.1%
Prepaid expenses	0	0.0%	18	0.1%	(100.0)%
Guarantee deposits	413	1.7%	401	1.2%	3.0%
Others	0	0.0%	0	0.0%	0.0%
<b>Total investments and others</b>	<b>15,223</b>	<b>60.3%</b>	<b>24,511</b>	<b>73.0%</b>	<b>(37.9)%</b>
<b>Total fixed assets</b>	<b>17,340</b>	<b>68.7%</b>	<b>26,533</b>	<b>79.0%</b>	<b>(34.6)%</b>
<b>Total assets</b>	<b>¥25,250</b>	<b>100.0%</b>	<b>¥33,597</b>	<b>100.0%</b>	<b>(24.8)%</b>

(Yen in millions)

<b>Liabilities</b>	<b>Three months ended December 31, 2000</b>		<b>Three months ended September 30, 2000</b>		<b>Increase (Decrease)</b>
<b>Current Liabilities</b>					
Accounts payable—trade	¥ 5	0.0%	¥ 3	0.0%	52.7%
Accounts payable—other	1,146	4.5%	932	2.8%	22.9%
Accrued bonuses	172	0.7%	107	0.3%	60.6%
Accrued income taxes	1,146	4.6%	893	2.7%	28.4%
Accrued consumption taxes	164	0.7%	85	0.3%	93.0%
Advance received profit	0	0.0%	81	0.2%	(100.0)%
Subscription warrants	9	0.0%	13	0.0%	(30.8)%
Other current liabilities	8	0.0%	24	0.1%	(67.5)%
<b>Total current liabilities</b>	<b>2,651</b>	<b>10.5%</b>	<b>2,141</b>	<b>6.4%</b>	<b>23.8%</b>
<b>Long-Term Liabilities</b>					
Retirement allowances	15	0.0%	11	0.0%	29.8%
Long-term debt	195	0.8%	332	1.0%	(41.2)%
Long-term deferred taxes	5,074	20.1%	9,137	27.2%	(44.5)%
<b>Total long-term liabilities</b>	<b>5,285</b>	<b>20.9%</b>	<b>9,481</b>	<b>28.2%</b>	<b>(44.3)%</b>
<b>Total liabilities</b>	<b>7,937</b>	<b>31.4%</b>	<b>11,623</b>	<b>34.6%</b>	<b>(31.7)%</b>
<b>Shareholders' Equity</b>					
Common stock	5,973	23.7%	3,012	9.0%	98.3%
Additional paid-in capital	1,078	4.3%	3,957	11.8%	(72.8)%
Legal reserve	3	0.0%	3	0.0%	0.0%
Reserve for special depreciation	143	0.6%	143	0.4%	0.0%
Retained earnings	3,266	12.9%	2,423	7.2%	34.8%
Other securities evaluation adjustment	6,846	27.1%	12,433	37.0%	(44.9)%
<b>Total shareholders' equity</b>	<b>17,312</b>	<b>68.6%</b>	<b>21,973</b>	<b>65.4%</b>	<b>(21.2)%</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥25,250</b>	<b>100.0%</b>	<b>¥33,597</b>	<b>100.0%</b>	<b>(24.8)%</b>



## Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended December 31, 2000		Three months ended December 31, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥3,706	100.0%	¥1,614	100.0%	¥2,092	129.6%
Cost of sales	17	0.5%	8	0.5%	9	111.6%
Gross profit	3,689	99.5%	1,606	99.5%	2,083	129.7%
SG&A expenses	2,173	58.6%	1,010	62.6%	1,162	115.0%
Operating income	1,516	40.9%	595	36.9%	920	154.5%
Net non-operating income (expenses)	(22)	(0.6)%	(11)	(0.7)%	(11)	101.7%
Ordinary income	¥ 1,493	40.3%	¥584	36.2%	¥ 908	155.5%

(Yen in millions)

	Three months ended December 31, 2000		Three months ended September 30, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥3,706	100.0%	¥3,014	100.0%	¥692	23.0%
Cost of sales	17	0.5%	11	0.4%	5	46.6%
Gross profit	3,689	99.5%	3,002	99.6%	687	22.9%
SG&A expenses	2,173	58.6%	1,776	58.9%	397	22.3%
Operating income	1,516	40.9%	1,226	40.7%	289	23.6%
Net non-operating income (expenses)	(22)	(0.6)%	(55)	(1.8)%	32	(58.7)%
Ordinary income	¥ 1,493	40.3%	¥ 1,170	38.9%	¥322	27.5%

### Breakdown of Third-Quarter Net Sales and SG&A Expenses

Three months ended December 31, 2000 (Yen in millions)

Net Sales	Total	%
	Advertising services	¥3,508
Other	198	5.4%
<b>Total</b>	<b>¥3,706</b>	<b>100.0%</b>

Three months ended December 31, 2000 (Yen in millions)

SG&A Expenses	Total	%
	Personnel expenses	¥637
Advertising costs	277	12.8%
Content provider fees	166	7.7%
Sales commissions	137	6.3%
Depreciation expenses	182	8.4%
Communication charges	141	6.5%
Royalties	106	4.9%
Lease and utility expenses	120	5.6%
Other	403	18.5%
<b>Total</b>	<b>¥2,173</b>	<b>100.0%</b>

## Statements of Cash Flows

(Yen in millions)

	Three months ended December 31, 2000
<b>Cash Flows from Operating Activities</b>	
Income before income taxes	1,493
Depreciation and amortization	182
Increase in reserve for retirement allowances	3
Gain/loss on sale of treasury stock	4
Exchange loss	0
Interest earned	(7)
Interest expense	2
Other profit and loss adjustments	2
Increase/decrease in accounts receivable trade	(292)
Increase/decrease in accounts payable trade	1
Increase/decrease in accounts receivable other	14
Increase/decrease in accounts payable other	226
Increase/decrease in consumption taxes payable	79
Subtotal	1,710
Payment of income taxes and other taxes	(396)
Net cash provided by operating activities	1,314
<b>Cash Flows from Investing Activities</b>	
Expenditures on tangible fixed assets	(233)
Expenditures on intangible fixed assets	(4)
Purchases of investment securities	(365)
Expenditures on loans	(1)
Proceeds from recovery of lending	3
Expenditures on increases in guarantee deposit assets	(12)
Interest earned	3
Net cash used in investing activities	(608)
<b>Cash Flows from Financing Activities</b>	
Proceeds from sale of treasury stock	26
Expenditures for repayment of bonds	(139)
Proceeds from issuance of shares	78
Expenditures for acquisition of treasury stock	(35)
Interest expenses	(5)
Net cash used in financing activities	(75)
<b>Net Change in cash and cash equivalents</b>	<b>629</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>4,727</b>
<b>Cash and cash equivalents at end of term</b>	<b>5,357</b>

## **Risk Factors**

The Company has reported its results for the third quarter of fiscal 2001 in the document "Results for the Three Months Ended December 31, 2000." However, a number of potential factors could substantially impact its future performance. 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.

Cognizant 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 94.6% of net sales in the third 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. Moreover, Internet advertising has a short history and overseas markets in more developed market, such as the United States, could affect the Japanese market.
- 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 increase the value it supplies 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 compared with other media companies, such as television, radio, and newspaper companies, 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	559,250
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 33.8% of shareholders' voting rights as of December 31, 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"> <li>● 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")</li> <li>● Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark</li> <li>● Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li> <li>● Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services</li> </ul>

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. 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! Japan has not registered trademarks necessary to its business in Japan.

It is also possible that third parties may have acquired domain names that Yahoo! Japan finds necessary to its business or may use domain names that resemble Yahoo! or the services offered by the Company to carry out unfair competition with or harass Yahoo! Japan. These actions could affect the Company's brand strategy and damage its brand image.

## 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.

The Public Management, Home Affairs, Post and Telecommunications; Economy, Trade and Industry; and Education, Culture, Sports, Science and Technology ministries are considering “Regulations Concerning the Responsibility of Intermediates” for those businesses that act as intermediates in distributing information over the Internet, and aim to submit a proposal during the regular session of the Diet in 2001. The actual details of this proposal are not yet clear but there is a possibility that the Company’s business may be restricted through the introduction of new laws or the implementation of rules for self-regulation.

## 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. Currently, the Company has received a warning letter from a U.S. computer manufacturer concerning a patent registered in Japan and discussions are ongoing. It is possible that based on these discussions the Company could be restrained from offering some services or would have to pay royalties.

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. Effective September 26, 2000, the Company began an escrow service for its online auctions for the purpose of avoiding fraud and other illegal activities, however not all users take advantage of this service. Therefore, the Company cannot say for certain that illegal actions will not occur in future.

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. If the proposed treaty concerning the jurisdiction of international courts

presently under consideration is approved in its current form, it is possible that the Company could become involved in legal disputes overseas with users outside of Japan.

In its Internet auction business, the Company may be forced to introduce an authentication system for participants and begin charging fees in the future. This could result in a decline in the number of users and page views.

#### 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, etc.

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. Consequently, if key personnel were to leave, the Company would face a difficult task in replacing them.

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

## **2. Risks Concerning Investments and Capital Investment Programs**

The Company has invested in the following companies or entities. These investments have been made to form ties with the companies invested in and their businesses or with the view to forming business ties in the future. The Company cannot guarantee that these investments will be recovered. Although as of December 31, 2000, four of these companies had been publicly listed and the value of the Company's investment has increased, this value could decline in future. Moreover, depending on the direction of the performance of the companies it has invested in, Yahoo! Japan might have to write down the value of its marketable securities based on the application of compulsory evaluation accounting, and this could influence the Company's fiscal profit or loss.

### **1) 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 December 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 one of Korea's leading Web site through robust growth in page views and net sales. However, currency fluctuations could produce fluctuations in the value of the Company's investment.

### **2) CyberMap Japan Corp.**

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 December 31, 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.

Yahoo! Maps is provided through a tie-up with CyberMap Japan Corp.

### **3) Internet Research Institute, Inc.**

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.

A provisional estimate conducted on December 31, 2000, placed the unrealized gain in its investment at ¥4.4 billion (after tax).

\*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) Vector Inc.

On March 24, 1999, the Company invested ¥165 million, or 26.3% ownership, in Vector Inc. Ownership is currently 13.7%, due to an increase in the company's capital and its listing on Nasdaq Japan on August 11, 2000. This company's main business is providing an Internet download service. Yahoo! Downloads service is provided in cooperation with this company.

A provisional estimate conducted on December 31, 2000, placed the unrealized gain in its investment at 1.9 billion after tax.

5) Weathernews Inc.

On May 28, 1999, the Company invested ¥300 million for 5.8% ownership (following increase in that company's capital) in Weathernews Inc. Following a capital increase and the listing of the stock on Nasdaq Japan on December 25, 2000, the Company's ownership is now 5.24%. Weathernews Inc. provides a range of information over the Internet, including weather observations, data collection, weather analysis and weather reports.

Yahoo! Weather service is provided in cooperation with Weathernews Inc. As of December 31, 2000, the unrealized gain of the Company's investment is approximately ¥400 million after tax.

6) e-Shopping! Toys CORP.

On August 30, 1999, the Company invested ¥20 million, or 10% ownership, in e-Shopping! Toys CORP. This company operates eS-Toys, Japan's first full-scale all-toys EC site, and sells 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. Services began on November 24, 1999, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

7) e-Shopping! Books CORP.

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! Books CORP. 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. Services began on November 24, 1999, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

8) CarPoint K.K.

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 K.K. 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 K.K. was 7.65% as of June 30, 2000.

9) e-Shopping! Information CORP.

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.

10) SpeedNet. Inc.

On December 10, 1999, the Company invested ¥125.0 million, or 5% ownership, in SpeedNet. Inc. (SpeedNet. Inc. 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.

11) eS! Music Corp.

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). However, no schedule yet exists for the start of actual operations.

12) 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. Operations began on May 29, 2000, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

13) Oricon Direct Digital Inc.

On March 28, 2000, the Company invested ¥50.0 million, or 1.65% ownership, in Oricon Direct Digital Inc. Following a capital increase and the listing of the stock on

Nasdaq Japan on November 6, 2000, the Company's ownership is now 1.53%. Established on October 1, 1999, Oricon Direct Digital Inc. has built a highly practical, easy-to-search database of music-related information. Its main business consists of renting this database to EC merchants. The company has already begun operations, with services being provided through our Yahoo! Music and Yahoo! Music Shopping sites based on a tie-up. The estimated unrealized gain of the Company's investment at December 31, 2000 was ¥55 million after tax.

14) Tavigator, Inc.

On March 5, 2000, Yahoo! Japan established Cybercircle 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, JTB Corp., and SOFTBANK E-COMMERCE CORP. As a result of this transaction, the company's capital increased to ¥100.0 million. 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. The Company planned to sell 18% of its holdings to the SOFTBANK Group, and sold this portion at book value to SOFTBANK E-COMMERCE CORP. on September 29, 2000. Based on this transaction, Yahoo! Japan's ownership totaled 30% as of December 31, 2000.

The company began operations selling domestic accommodations on June 16, 2000, providing services through our Yahoo! Travel site by agreement with Yahoo! Japan. The company also has an on-line store on Yahoo! Shopping. Because this company may be consolidated by Yahoo! Japan, Tavigator, Inc. results may have impacts on the Company's financial situation and the results of its operations.

15) e-Shopping! Wine CORP.

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 CORP. 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.

The company began operations on November 6, 2000, and has an on-line store on Yahoo! Shopping.

16) SOFTBANK ZDNet Inc.

On August 28, 2000, the Company invested ¥30 million for 10% ownership in SOFTBANK ZDNet Inc. This company provides Japanese users with the translated contents of ZDNet in the United States as well as offering online computer, Internet, and video game related magazine content from SOFTBANK Publishing Inc. In addition, the company has begun Inter@ctive Investor (ZDII), a investment information service specializing in the Internet and IT fields. ZDII covers stock movements in the global Internet and IT markets with special emphasis on the markets in the United States and Japan. It also provides market information, including the views of analysts. Through its tie-up with Yahoo! Japan, the company is providing computer-related services on Yahoo! News.

17) Computer Channel Corporation

On November 13, 2000, the Company invested ¥31.25 million for 10% ownership in Computer Channel Corporation, which does commissioned broadcasts, produces and markets TV programming, and makes commercials. This company currently does broadcasting for Sky PerfecTV. The Company intends to form a tie-up with the company to provide related services in future.

18) e-Net Japan Co., Ltd.

On December 14, 2000, the Company invested ¥75 million for 6% ownership in e-Net Japan Co., Ltd., which sells personal computers, audiovideo digital equipment and other consumer electronics as well as computer, game and DVD software over the Internet. The company has a shop on Yahoo! Shopping.

19) Digibike.com Co., Ltd.

On December 26, 2000, the Company invested ¥60 million for 2.34% ownership in Digibike.com Co., Ltd., which specializes in electronic commerce and contents for motorbikes. The company has business tie-ups with approximately 550 associated stores throughout Japan. The Company intends to form a tie-up with the company to provide related services in future.

20) Power Print Inc.

On December 27, 2000, the Company invested ¥60 million for 15% ownership in Power Print Inc. This company provides a stock base of digital pictures and images over the Internet and takes on-line orders for printing and delivery of New Year Cards, direct mail, and other print items. The Company intends to form a tie-up with the company to provide related services in future.

21) Naturum Corp.

On December 29, 2000, the Company invested ¥79.20 million for 10.01% ownership in Naturum Corp. This company offers outdoor sports related contents over the Internet as well as selling outdoor leisure goods, fishing tackle, and sports goods. And it has a shop on Yahoo! Shopping. The company also operates a store in Osaka for fishing and sports gear.

22) J-Yado.com

On December 22, 2000, the Company invested ¥60 million for warrants for 200 shares of J-Yado.com, which operates J-Yado.com, an on-line reservation service for accommodations at hotel and Japanese inns. The Company intends to form a tie-up with the company to provide related services in future.

23) 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 partner SOFTBANK Investment Corporation. This fund invests in unlisted start-up companies in Japan, chiefly in the Internet sector, with the view of distributing capital gains among partners when those companies go public. Yahoo! Japan plans to make use of synergies

with those companies invested in the form of partnerships, access to information and advertising operations.

#### 24) 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. Since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful period of the planned facilities may be relatively short. As a result, depreciation terms are expected to 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 extraordinary losses on disposal of current facilities.

Although Yahoo! Japan believes business expansion will result in earnings growth sufficient to cover these increased 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 has invested 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. Considering major advertisers on Yahoo! Japan by industry, national brand clients in industries that usually advertise more than other industries in other media, such as food products, cosmetics and toiletries, drinks and



popular items, drugs and healthcare goods, do not spend as much on Internet advertising as they do on other media. If this condition continues, it may be difficult for the Company to achieve stable advertising revenues.

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 December 31, 2000, the major providers of Japanese-language Internet navigational services or similar services directed at Japanese Internet users were as follows (not listed in any particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
goo	NTT-ME Information Xing, Inc.	Information site
Lycos	Lycos Japan	Information site
MSN	Microsoft Corporation	Information site
Infoseek	Infoseek Japan	Information site
excite	Excite Japan	Information site
ISIZE	RECRUIT CO., LTD.	Information site
@nifty	NIFTY Corporation	ISP and information site
So-net	Sony Communication Network Corporation	ISP and information site
BIGLOBE	NEC Corporation	ISP and information site
Rakuten	Rakuten, Inc.	On-line shopping mall and auctions site
bidder	DeNA Co., Ltd.	Online auctions site

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.

### **3. 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) 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 December 31, 2000, Yahoo! Japan's research and development team consisted of 85 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.

#### **2) 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 December 31, 2000, had a sales force of 63 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.

#### **3) 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.

#### 4) Investment in New Businesses

To achieve long-term growth, the Company plans to enter new businesses that will provide new sources of revenues in addition to the advertising revenues that generate the major portion of its current sales. For that purpose, the Company expects to incur additional expenses to employ new staff, expand and upgrade its facilities, and to carry out research and development. Furthermore, it is anticipated that further time will be required for new businesses to begin contributing stable revenues. Consequently, the Company's profitability may decline temporarily.