

Results for the Three Months Ended December 31, 1999

Introduction

In a Web audience survey conducted by Nippon Research Center Ltd. in November 1999, the number of Internet users in Japan rose sharply to a total of 14.3 million people compared with the same period of the previous fiscal year. Of this total, Web users increased to 13 million. A white paper released by the Ministry of Posts and Telecommunications (MPT) revealed that the Internet has proliferated more rapidly than any other media, surpassing the 10% household penetration mark and now reaching 11% of Japanese households only five years since its commercialization in Japan in 1995.

According to a report by a major advertising agency, the Internet advertising market in Japan exceeded initial expectations of ¥19.8 billion and surpassed ¥20 billion in calendar 1999.

In the United States, the Internet advertising market surged to US\$2.0 billion in calendar 1998, up from US\$906 million. The market expanded 110.2% to US\$1,627.2 million in the first half of 1999, accounting for 2% of the total advertising market, compared with the same period a year earlier.

Internet shopping also appears to be keeping step with the rapid increase in Internet users, and we are now witnessing the full-scale establishment of electronic commerce (EC) in Japan.

Internet advertising seems to have entered a period of full-fledged growth, drawing interest as a new advertising medium with the sharp increase in the number of Internet users.

Amid these conditions, Yahoo! Japan Corporation (“Yahoo! Japan” or “the Company”) achieved the following results for the three months ended December 31, 1999, which represent the third quarter of fiscal 2000.

Services

In the three months ended December 31, 1999, daily page views exceeded 47 million for the first time on December 6, 1999, and achieved approximately 1.2 billion monthly page views during December. This represents a rise of 164 million page views, or 15.4%, compared with September, and an increase of 803 million page views, or 189.6%, compared with the same month a year earlier. As of January 12, 2000, the highest number of daily page views has surpassed 57 million.

By service, directory search services accounted for 38.2%, information services for 24.7%, such community services as message boards for 25.9%, and commerce services for 11.2% of monthly page views for December 1999. Non-directory search services, which include information services, community services and commerce services, together accounted for 61.8% of total monthly page views.

Page views for information services grew on account of expanded services, including a complete daily TV program listing in Yahoo! TV Coverage, used automobile catalog information in Yahoo! Autos, recruiting information for new graduates in Yahoo! Employment, more word-of-mouth reviews in Yahoo! Travel, as well as a complete makeover of Yahoo! Weather. Total page views for information services declined, however, due to fewer page views during the baseball off-season.

Since beginning on July 27, 1998, community services have grown to more than 1.9 million registered users in December 1999. This represents 529 thousand, or 37.7%, more

registered users than in September. Membership exceeded 2 million people on January 11, 2000, and the number of page views has increased accordingly.

Launched in the previous term, commerce services recorded a remarkable increase in page views thanks to the growing popularity of Yahoo! Auction, which had more than 180 thousand items open for bidding on January 12, 2000.

According to a Web audience survey conducted by Nippon Research Center Ltd. in November 1999, 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 75.7% of the respondents, a wide margin over Goo, which ranked second at 52.7%.

By multiplying the above percentage by the approximately 13 million Web users in Japan in November 1999, we estimate that 9.8 million unique users were accessing Yahoo! Japan at least once every four weeks.

Management believes that these statistics clearly demonstrate both Yahoo! Japan's growing position as an Internet media company and the strong rating users have assigned to its increasingly high-quality directory search services, diverse information and community services as well as its on-line shopping services.

Financial Accounts

<Statements of Income>

Note

Due to revisions to accounting standards for the preparation of financial statements in the fiscal year ended March 31, 1999, enterprise taxes are included in income tax, inhabitants' tax and enterprise tax. Year-on-year changes in the following discussion are based on the previous term's results restated to conform to the new basis of presentation.

Net Sales

Net sales for the third quarter rose to ¥1,614.6 million, an increase of ¥1,097.5 million, or 212.2%, compared with the same period a year earlier. This exceptional performance reflects a ¥1,127.6 million, or 283.8%, surge in Internet advertising revenue to ¥1,524.8 million. The market for Internet advertising has continued to expand rapidly, as our original advertisers in the automotive, financial, insurance and telecommunications industries are joined by newcomers in the food service, home electronics, audiovisual, transportation and leisure industries. Strong gains in large-scale contracts also contributed to the increase in revenue.

Sales in advisory and editorial services declined ¥39.0 million, or 43.8%, to ¥50.0 million. This is the result of launching *Yahoo! PRESS*, a magazine that targets the rapidly increasing number of Internet novices, and transferring editorial services for *Yahoo! Internet Guide* to Softbank Publishing Inc., which underwent reorganization.

Yahoo! Japan was able to post record sales for the sixth consecutive quarter, however, due to the rise in core advertising revenue. Compared with the previous quarter, net sales were up ¥363.9 million, or 29.1%.

Cost of Sales

Cost of sales for the third quarter fell ¥16.0 million, or 66.3%, to ¥8.1 million. 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 links appearing on its Web site advanced ¥5.5 million, or 216.8%, in line with increased global access.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter increased ¥625.3 million, or 162.2%, to ¥1,010.9 million. This is a rise of ¥240.4 million, or 31.2%, compared with the previous quarter. The primary factors behind this increase are as follows.

Personnel expenses in the third quarter expanded ¥118.7 million, or 65.8%, to ¥299.1 million compared with the third quarter a year earlier. This increase reflects 62 new staff hired in response to our rapid business expansion, for a total of 141 employees as of December 31, 1999. Another factor in the increase from the third quarter a year earlier was the introduction of a new system tying compensation to quarterly results in the third quarter of fiscal 1999. Compared with the previous quarter, the average number of employees for the third quarter increased by 16 to 130, driving personnel expenses up ¥54.8 million, or 22.4%.

Advertising costs totaled ¥178.8 million in the third quarter, an increase of ¥157.7 million, or 749.8%, from the third quarter a year earlier. The major factors behind this increase were expenditures related to the production of a television commercial to raise the brand recognition of Yahoo! Japan. Compared with the previous quarter, advertising costs grew ¥93.9 million, or 110.5%.

Content provider fees increased ¥63.3 million, or 209.8%, to ¥93.5 million in the third quarter, as the Company worked to boost its information services. Compared with the previous quarter, content provider fees were up ¥22.2 million, or 31.1%.

Third quarter sales commissions rose ¥76.4 million, or 230.0%, to ¥109.6 million, in line with increases in net sales. This represents an increase of ¥32.1 million, or 41.4%, compared with the previous quarter.

Depreciation expenses rose ¥37.8 million, or 183.4%, to ¥58.4 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 grew ¥18.6 million, or 46.7%.

Communications charges in the third quarter rose ¥15.6 million, or 88.7%, to ¥33.2 million as the Company strengthened facilities to improve the user access environment and bolster its services. Communications charges rose ¥4.9 million, or 17.5%, compared with the previous quarter.

Royalties increased ¥29.2 million, or 206.3%, to ¥43.4 million in the third quarter, in accordance with the increase in net sales. Royalties grew ¥9.3 million, or 27.4%, compared with the previous quarter.

Lease and utility expenses rose to ¥60.0 million in the third quarter, an increase of ¥50.1 million, or 504.5%, from the third quarter a year earlier. This increase was due mainly to the Company's move to a new headquarters in August 1999. Compared with the previous quarter, lease and utility expenses were up ¥3.7 million, or 6.5%.

Operating Income

As a result of the above factors, operating income for the three months ended December 31, 1999, climbed ¥488.1 million, or 453.9%, to ¥595.7 million. This represents a record performance for quarterly operating income. Operating income increased ¥146.7 million, or 32.7%, compared with the previous quarter.

Non-Operating Income (Expenses)

Net non-operating expenses for the third quarter of fiscal 2000 were ¥11.3 million, reflecting ¥10.1 million in consulting fees related to the introduction of basic office equipment in line with personnel expansion.

Ordinary Income

Ordinary income amounted to ¥584.4 million, an increase of ¥473.5 million, or 427.0%, from the third quarter a year earlier, and the Company's highest ever quarterly ordinary income. Ordinary income expanded ¥181.1 million, or 44.9%, compared with the previous quarter.

Net Income

Reflecting an effective income tax rate of 42%, net income for the three months ended December 31, 1999, totaled ¥334.0 million. Net income per share amounted to ¥16,347.46, based on the average number of shares outstanding during the third quarter of 20,434 shares.

(Reference)
EBITDA

EBITDA for the third quarter rose ¥524.7 million, or 441.1%, to ¥643.7 million. This represents an increase of ¥201.3 million, or 45.5%, from the second quarter.

<Balance Sheets>

Between September 30, 1999, and December 31, 1999, total assets increased ¥702.6 million, or 13.4%, to ¥5,942.1 million, total liabilities advanced ¥330.7 million, or 21.5%, to ¥1,867.8 million and total shareholders' equity increased ¥372.0 million, or 10.0%, to ¥4,074.3 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 investments. By account, in current assets, accounts receivable—trade rose ¥250.1 million, or 26.7%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥228.6 million, or 41.3%. Investment securities rose ¥252.2 million, or 45.8%.

In current liabilities, accounts payable—other was up ¥225.3 million, or 44.0%, and accrued income taxes rose ¥87.1 million, or 30.7%, and advance received profit declined ¥51.4 million, or 67.5%. In long-term liabilities, bonds with subscription warrants decreased ¥52.6 million, or 10.8%.

In addition, exercise of subscription warrants resulted in an ¥18.4 million, or 1.2%, increase in common stock, and a ¥19.5 million, or 1.3%, increase in additional paid in capital.

<Statements of Cash Flows>

Net cash provided by operating activities totaled ¥384.8 million for the third quarter, as increases in net income offset a substantial rise in accounts receivable—trade following growth in sales. Net cash used in investing activities amounted to ¥485.7 million, owing to purchase of fixed assets and investments in such companies as SpeedNet Inc. Net cash used in financing activities totaled ¥15.8 million. The main uses of this cash was the purchase and retirement of a ¥52.6 million portion of bonds with subscription warrants. As a result, cash and cash equivalents decreased ¥116.7 million in the third quarter.

Review of Operations

Advertising Services

Sales of advertising services in the third quarter leaped ¥1,127.6 million, or 283.8%, to ¥1,524.8 million compared with the same quarter a year earlier.

This increase reflects stronger public recognition of Internet advertising and a rapidly expanding market, which have led to an increase in the value of Yahoo! Japan's services as advertising media. As a result, the Company has won advertisement contracts of longer duration, for larger product and with a greater global impact. Management attributes a substantial portion of the third quarter sales increase to introduction of such new advertising products as Mega 3, a three-month version of Mega Yahoo! released in September 1999.

As a result, the Company posted record sales performance in December 1999, and achieved historic results in the number of advertisers, advertisements and advertising agencies. Specific results 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 199 companies, or 147.4%, to 334 companies. The number of new advertisers averaged 67 companies per month—another record performance. For the first time in Company history, Yahoo! Japan crossed the 2,000 company mark in total number of advertisers. By industry, the Company's original advertisers in the automotive, financial, insurance and telecommunications industries, as well as recent customers in the toy industry, were joined by newcomers in the food and cosmetics industries and by new Internet

companies. Compared with the second quarter, average number of monthly advertisers increased by 77 companies.

With an increase in large-scale advertising contracts, advertisement sales per company in December 1999 rose ¥447 thousand, or 38.4%, to ¥1,610 thousand. Among advertisers, major shareholder SOFTBANK Corporation represented less than 1% of net sales, and Yahoo! Inc. purchased no advertising. No single customer accounted for 10% or more of net sales.

Advertisements

The Company posted another record result as the average number of monthly advertisements for the third quarter rose to 646, an increase of 448, or 226.3%, compared with the same quarter a year earlier, and a rise of 162, or 33.5%, compared with the previous quarter.

Advertising Agencies

For the third quarter, the monthly average of advertising agencies conducting business with the Company increased by 43, or 64.2%, to 110 companies. This represents a new record for the Company and an increase of 21 companies from the second quarter.

Advertisement Rates per Page View

Rates for “Targeting-Type Banner” ads varied from ¥4 to ¥12 per page view, while high-volume “Branding-Type Banner” ads range from ¥0.33 to ¥6 per page view.

Advertising Products

With third quarter sales of Mega Yahoo! expanding robustly, long-term advertising products of three months or more, such as Mega 3 released in September 1999, surpassed Home Page Promotion to become the Company's mainstay product. Participants in Yahoo! Japan's Merchant Program, which combines its directory search services with marketing of client products, totaled 13 companies. The third quarter was characterized by a continuing trend toward large-scale products and an increase in high-paying, long-term contracts. In addition, the third quarter saw especially strong growth in global sales, both from overseas advertisers targeting Japan and Japanese advertisers targeting markets overseas. New products also continued their strong performance into the third quarter, including trade buttons for e-commerce and web modules for advertising specific products.

In addition, sales growth at the Osaka Office exceeded 100% compared with the previous quarter, as the Company began to make progress expanding its market beyond Tokyo. Orders from new types of advertisers also increased at a fair pace in the third quarter, in such entertainment areas as movies, games and theme parks.

Advisory and Editorial Services

Sales of advisory and editorial services decreased ¥39.0 million, or 43.8%, to ¥50.0 million. The main factors in this decrease were a tighter focus on launch of *Yahoo! PRESS*, a new magazine targeting the rapidly increasing population of new Internet users, and a shift in editing services for *Yahoo! Internet Guide* back to Softbank Publishing Inc. following organizational restructuring in that company. Although sales in this category declined ¥81.0 million, or 61.8%, from the previous quarter, the Company continues to receive licensing fees

from Softbank Publishing for use of the Yahoo! Japan brand and fees for handling e-mail transmission services for *Yahoo! Internet Guide*. As a result, there has been no change in the way revenue from projects is divided. Consequently, income is unaffected by the drop in sales of advisory and editorial services.

Web Space Rental Services

Revenues from Web space rental services increased ¥6.9 million, or 26.8%, to ¥32.6 million. The main factors behind this increase were ¥14.3 million in revenue from Yahoo! Travel, Yahoo! Real Estate and Yahoo! Employment. Although Yahoo! Travel benefited from its Winter Holidays Special Feature and Graduation Travel Special Feature, sales from this service edged down due to lackluster conditions in the travel industry.

Technical Support Services

Sales in this segment totaled ¥2.4 million, generated from a consignment contract to maintain operation of servers for Yahoo! Maps, the comprehensive map service launched in April 1998. This contract reached completion in November 1999. In March 1998, the Company invested in CyberMap Japan Corp., which manages the Mapion service.

Other Services

Other services generated revenues of ¥4.8 million. The principal contributors to this revenue were ¥2.2 million in tenant fees and ¥1.5 million in sales commissions from Yahoo! Shopping.

Balance Sheets

(Yen in thousands)

	Three months ended December 31, 1999		Three months ended September 30, 1999		Increase (Decrease)
Assets					
Current Assets					
Cash	¥239,792	4.0%	¥217,151	4.1%	10.4%
Accounts receivable—trade	1,185,905	20.0%	935,768	17.9%	26.7%
Marketable securities	1,956,806	32.9%	2,096,158	40.0%	(6.6)%
Prepaid expenses	59,730	1.0%	29,990	0.6%	99.2%
Other current assets	95,083	1.6%	36,141	0.7%	(163.1)%
Total current assets	3,537,318	59.5%	3,315,210	63.3%	6.7%
Fixed Assets					
Tangible fixed assets	782,263	13.2%	553,691	10.6%	41.3%
Intangible fixed assets	38,318	0.6%	40,204	0.8%	(4.7)%
Investments and Others					
Investment securities	803,204	13.5%	551,004	10.5%	45.8%
Investment to affiliated companies	165,000	2.8%	165,000	3.1%	0.0%
Bonds of affiliated companies	400,000	6.7%	400,000	7.6%	0.0%
Long-term loans	209	0.0%	—	—	—
Guarantee deposits	214,942	3.6%	214,342	4.1%	0.3%
Others	840	0.0%	—	—	—
Total investments and others	1,584,196	26.7%	1,330,347	25.3%	19.1%
Total fixed assets	2,404,778	40.5%	1,924,242	36.7%	25.0%
Total assets	¥5,942,096	100.0%	¥5,239,452	100.0%	13.4%

(Yen in thousands)

Liabilities	Three months ended December 31, 1999		Three months ended September 30, 1999		Increase (Decrease)
Current Liabilities					
Accounts payable—trade	¥3,642	0.1%	¥20,162	0.4%	(81.9)%
Accounts payable—other	737,002	12.4%	511,663	9.8%	44.0%
Advance received profit	24,772	0.4%	76,211	1.5%	(67.5)%
Accrued bonuses	55,226	0.9%	43,192	0.8%	27.9%
Accrued income taxes	371,063	6.2%	284,000	5.4%	30.7%
Accrued consumption taxes	22,457	0.4%	33,396	0.6%	(32.8)%
Subscription warrants	23,849	0.4%	24,953	0.5%	(4.4)%
Other current liabilities	82,761	1.4%	12,599	0.2%	556.9%
Total current liabilities	1,320,775	22.2%	1,006,179	19.2%	31.3%
Long-Term Liabilities					
Long-term debt	436,017	7.3%	488,593	9.3%	(10.8)%
Long-term deferred taxes	110,961	1.9%	42,289	0.8%	162.4%
Total long-term liabilities	546,979	8.0%	530,883	10.1%	3.0%
Total liabilities	1,867,754	31.4%	1,537,062	29.3%	21.5%
Shareholders' Equity					
Common stock	1,501,742	25.3%	1,483,340	28.3%	1.2%
Additional paid-in capital	1,566,192	26.4%	1,546,686	29.5%	1.3%
Legal reserve	2,290	0.1%	2,290	0.1%	0.0%
Retained earnings	1,004,117	16.9%	670,073	12.8%	49.9%
Total shareholders' equity	4,074,341	68.6%	3,702,390	70.7%	10.0%
Total liabilities and shareholders' equity	¥5,942,096	100.0%	¥5,239,452	100.0%	13.4%

Statements of Income (Three-Month Periods)

(Yen in thousands)

	Three months ended December 31, 1999		Three months ended December 31, 1998		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥1,614,645	100.0%	¥517,144	100.0%	¥1,097,501	212.2%
Cost of sales	8,111	0.5%	24,085	4.7%	(15,974)	(66.3%)
Gross profit	1,606,534	99.5%	493,058	95.3%	1,113,476	225.8%
SG&A expenses	1,010,852	62.6%	385,508	74.5%	625,344	162.2%
Operating income	595,681	36.9%	107,549	20.8%	488,132	453.9%
Net non-operating expenses	(11,304)	(0.7)%	3,331	0.6%	14,635	(439.4)%
Ordinary income	¥584,376	36.2%	¥110,880	21.4%	¥473,496	427.0%

(Yen in thousands)

	Three months ended December 31, 1999		Three months ended September 30, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥1,614,645	100.0%	¥1,250,795	100.0%	¥363,850	29.1%
Cost of sales	8,111	0.5%	31,315	2.5%	(23,204)	(74.1)%
Gross profit	1,606,534	99.5%	1,219,480	97.5%	387,054	31.7%
SG&A expenses	1,010,852	62.6%	770,468	61.6%	240,384	31.2%
Operating income	595,681	36.9%	449,011	35.9%	146,670	32.7%
Net non-operating expenses	(11,304)	(0.7)%	(45,753)	(3.7)%	34,449	(75.3)%
Ordinary income	¥584,376	36.2%	¥403,258	32.2%	¥181,118	44.9%

Breakdown of Quarterly Sales and SG&A Expenses

(Yen in thousands)

Net Sales	Total	%
Advertising services	¥1,524,846	94.5%
Advisory and editorial services	50,000	3.1%
Web space rental services	32,606	2.0%
Technical support services	2,400	0.1%
Other	4,793	0.3%
Total	¥1,614,645	100.0%

(Yen in thousands)

SG&A Expenses	Total	%
Personnel expenses	¥299,112	29.6%
Advertising costs	178,785	17.7%
Content provider fees	93,480	9.2%
Sales commissions	109,610	10.8%
Depreciation expenses	58,379	5.8%
Communication charges	33,231	3.3%
Royalties	43,358	4.3%
Lease and utility expenses	60,045	5.9%
Other	134,846	13.4%
Total	¥1,010,852	100.0%

Statements of Cash Flows

(Yen in thousands)

	Three months ended December 31, 1999	Nine months ended December 31, 1999
Cash Flows from Operating Activities		
Net income	¥334,043	¥747,127
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	58,379	126,593
Directors' bonuses	—	-15,600
Changes in assets and liabilities:		
Increase in accounts receivable	-250,136	-634,564
Increase in prepaid expenses	-29,740	-54,993
Increase in other current assets	-51,307	-59,532
Decrease in accounts payable	-16,519	-24,059
Increase in income taxes and other taxes payable	147,795	297,817
Increase in accrued expenses	184,502	299,487
Increase in other current liabilities	7,783	89,914
Net cash provided by operating activities	384,802	772,190
Cash Flows from Investing Activities		
Capital expenditure	-233,035	-461,167
Investment and lending	-252,450	-992,754
Recovery of lending	345	1,595
Recovery of guarantee deposits	—	58,292
Payment of guarantee deposits	(600)	-231,742
Net cash used in investing activities	-485,740	-1,607,776
Cash Flows from Financing Activities		
Proceeds from issuance of bonds with subscription warrants	—	454,451
Proceeds from issuance of common stock due to exercise of subscription warrants	36,803	57,832
Proceeds from exercise of stock options according to new business method	—	4,250
Repayment of bonds	-52,576	-110,409
Net cash provided by (used in) financing activities	(15,772)	406,124
Decrease in cash and cash equivalents	(¥116,710)	(¥426,462)

Risk Factors

The Company reported its third quarter results in the document “Results for the Three Months Ended December 31, 1999.” 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 enabling 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 94.5% of net sales in the third quarter of fiscal 2000. 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.
- 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. Deterioration in the connecting environment preventing users from easily using the Internet could lower usage, reduce site traffic and negatively impact advertising revenue.
- 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 a virus infecting the system 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 increased substantially in the fiscal years ended March 31, 1998, and March 31, 1999, quarterly trends in revenues reveal significant 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
Closing date	March 31, 1996	March 31, 1997	March 31, 1998	March 31, 1999
Net sales	¥ 636	¥413,066	¥1,269,260	¥1,914,849
Advertising services	—	345,939	908,803	1,432,365
Others	636	67,126	360,457	482,484
Operating income (loss)	(3,213)	56,584	165,693	399,454
Income before taxes	(5,241)	56,535	150,985	391,300
Net income	(5,290)	23,954	64,428	183,658
Shareholders' equity	194,709	218,664	1,018,055	3,263,566
Total assets	205,659	375,839	1,247,583	3,919,919
Page views (million per month)	—	71.0	188.7	561.5
Number of advertisers	—	37	71	111

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 term.
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, 1999. 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 33.9% of shareholders' voting rights as of December 31, 1999. 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: <ol style="list-style-type: none"> 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) <p>Note: 3% of gross profit after deducting sales commissions, paid quarterly</p>

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 Internet service provider PSINet for its server connections. If access were interrupted or broken, or if PSINet 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 is 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 businesses, 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 advertisement links, or Web sites listed on its services. 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.

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 contacts 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.

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 rule out the possibility that this information may be obtained and abused by third parties.

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. 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) Comprehensive Alliance with Amazon.com of the United States

On August 20, 1998, the Company signed an agreement with Yahoo! Inc. joining a comprehensive alliance with Amazon.com whereby that company's online bookstore is advertised on Yahoo! properties worldwide. Yahoo! Japan agreed to begin the same service in Japan and accept full legal obligations for the contract on behalf of Yahoo! Inc.

Under the terms of this agreement, the Company will receive US\$3.85 million from Yahoo! Inc. paid in annual installments (in the fiscal year ended March 31, 1999: US\$250,000; in the fiscal year ending March 31, 2000: US\$1.32 million; in the fiscal year ending March 31, 2001: US\$2.28 million). Termination of this agreement could have a serious negative impact on the Company's operating 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. 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). 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 December 31, 1999, after the company listed its shares on the "Mothers" section of the Tokyo Stock Exchange on December 22, 1999. Although a provisional estimate conducted on December 30, 1999, placed the value of that company at ¥91 billion, Yahoo! Japan cannot rule out the possibility of a correction in this value.

IRI's core operations are ISP* and test laboratory** businesses. Yahoo! Japan plans to utilize the technological capabilities of this company to construct and operate network facilities necessary to provide access to the dramatically increasing number of Internet users. However, no guarantees can be provided that the Company will be able to effectively utilize these technological capabilities in this capacity.

*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 broadcast.com japan

On February 12, 1999, the Company invested ¥55 million for 10% ownership of broadcast.com japan k.k. Established on January 28, 1999, this company is a joint venture between SOFTBANK and broadcast.com. (currently a wholly owned subsidiary of Yahoo! Inc.) and provides on-demand service for video and audio transmissions using streaming technology. Yahoo! Japan plans to use this company's technology and services to bolster its own lineup of services. However, the Company can provide no guarantee as to the future effectiveness of this plan.

Broadcast.com of the United States was purchased by Yahoo! Inc.

5) Investment in Vector

On March 24, 1999, the Company invested ¥165 million, or 26.3% ownership, in Vector Inc. 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.

6) Investment in Weathernews

On May 28, 1999, the Company invested ¥300 million for 5.7% ownership 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.

7) 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.

8) 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! Books 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.

9) 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.

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.

10) 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.

11) 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.

Although this company began trial services in October 1999, actual operations have not begun yet. The Company can provide no assurances as to the return of its investment.

12) Capital Investment Programs and Investment Plans

To support expected business expansion and continue launching new services, during the March 2000 fiscal year the Company will begin a capital investment program* totaling ¥1 billion, and an investment plan* totaling ¥1.5 billion. These programs are comparatively large considering the Company's scale of operations, and depreciation will be accelerated due to constant technological innovation and rapidly changing customer needs in the Internet industry. The Company expects depreciation costs to remain high.

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.

* The total amount and time period of the Company's capital investment program and investment plans are flexible to adapt to future conditions.

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 December 31, 1999, 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
GeoCities	GeoCities Japan Corporation	Community service
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 December 31, 1999, the Company employed 150 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. As of December 31, 1999, Yahoo! Japan's research and development team consisted of 42 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 December 31, 1999, had a sales force of 26 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, leading to a higher breakeven point.