Results for the Three and Six Months Ended September 30, 1999

Introduction

According to a white paper released by the Ministry of Posts and Telecommunications (MPT), the number of Internet users in Japan totaled 17 million as of March 31, 1999, a substantial increase from the previous year. Of this total, Web users increased to 12 million. The paper also revealed that only five years since its commercialization in Japan in 1993, the Internet has surpassed the 10% household penetration mark and now reaches 11% of Japanese households. By 2010, the number of people using the Internet is expected to swell to 44.6 million, approximately the same number of people using cellular phones today.

In August 1999, SOFTBANK Corp. ("SOFTBANK"), Tokyo Electric Power Company (TEPCO) and Microsoft Corporation announced the establishment of a new high-speed Internet service provider to supply Internet connection for a set low price. With Nippon Telegraph and Telephone Corporation (NTT) and a variety of cable television operators also planning to introduce Internet connection services for a set monthly price, the environment for Internet access in Japan is steadily improving.

According to a report by a major advertising agency, the Internet advertising market in Japan soared to approximately ¥11.4 billion in calendar 1998, an increase of 88.6% and the first time that market surpassed ¥10 billion since the agency survey began in 1996. The market is expected to increase an additional 73.8% to ¥19.8 billion in 1999 and swell to ¥100 billion by 2005.

In the United States, the Internet advertising market surged 120.8% to US$2 billion in calendar 1998, up from US$906 million. The market expanded to US$693 million in the first quarter of 1999, twice the pace of growth in the same period a year earlier. (IAB report)

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).

Although the Japanese economy is showing signs of recovery, a full-scale and sustainable expansion is not yet in place. However, Internet advertising has rapidly emerged as a new advertising medium, in line with the rapid rise in the number of Internet users. We believe this business area has entered a phase of real growth.

Amid these conditions, Yahoo! Japan Corporation ("Yahoo! Japan" or "the Company") achieved the following results for the three and six months ended September 30, 1999, which represent the second quarter and first half of fiscal 2000.

Services

In the three months ended September 30, 1999, the Company introduced Yahoo! Shopping and Yahoo! Auction on-line shopping services, ahead of an expected boom in EC. Adding to existing services, Yahoo! Japan launched a series of services, including Yahoo! Gourmet and Yahoo! Greetings. In the six months ended September 30, 1999, we worked to improve our services through a number of activities, including upgrading the Yahoo! TV television listing service, adding stock quote capabilities to Yahoo! Pager and bolstering the hotel information available through Yahoo! Travel.

As a result, daily page views exceeded 43 million for the first time on September 21, 1999, and achieved approximately 1,063 million monthly page views during September. This represents a rise of 326 million page views, or 44.2%, compared with June, and an increase of 714 million page views, or 204.0%, compared with the same month a year earlier.

With the development of a new log system, the Company decided to exclude search robot access from its page view count beginning in March 1999. Consequently, monthly page views for September exclude cases of search robot access.

By service, directory search services accounted for 41.3%, information services for 30.1% and community services for 28.6% of monthly page views for September.

With strong growth in the percentage of community service page views, information services and community services together accounted for 58.7% of total monthly page views.

In September, registered users of community services increased by 400,000 users, or 40%, compared with June 1999. Membership has now grown to more than 1.4 million registered users since the service began on July 27, 1998.

In a Web audience survey conducted by Nippon Research Center Ltd. in September 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 75.1% of the respondents, a wide margin over GeoCities Japan Corporation, which ranked second at 50.8%.

By multiplying the above percentage by the 12 million Web users in Japan in September 1999, we estimate that 9 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.

Financial Accounts

Notice

According to the notes to results for the first quarter, information technology equipment acquired in the first quarter was fully depreciated and recorded as an expense in accordance with the "PC taxation," which allows outright deductions of expenditures for such information technology equipment as personal computers. However, management has reverted to the previous method of accounting and is recording these acquisitions as fixed assets for the current fiscal year. Consequently, SG&A expenses, depreciation and amortization and fixed assets for the previous quarter have been restated on statements of income, balance sheets and statements of cash flows. Since these adjustments represent changes to accounting methods, there is no impact on income tax statements.

(Yen in thousands)

	Revised First Quarter Results	Unrevised First Quarter Results
Statements of income		
SG&A expenses	¥514,863	¥582,028
Depreciation expenses	28,421	24,216
Other	90,714	162,085
Operating income	327,176	260,010
Ordinary income	322,860	255,694
(Reference)		
EBITDA	350,271	278,913

Balance Sheets	Revised First Quarter Results	Unrevised First Quarter Results
Tangible fixed assets	332,259	265,092
Total assets	4,168,277	4,080,672
Accrued income taxes	126,894	116,563
Total liabilities	724,314	686,658
Retained earnings	432,142	382,192
Total shareholders' equity	3,443,963	3,394,013

Statements of Cash Flows

(For the quarter ended June 30, 1999)

(Yen in thousands)

	Revised	Unrevised
Cash flows from operating activities		
Net income	¥175,152	¥140,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,421	24,215
Changes in assets and liabilities:		
Increase in accounts receivable	(100,654)	(100,654)
Increase in prepaid expenses	(3,636)	(3,636)
Increase in other current assets	(18,069)	(18,069)
Decrease in accounts payable	(6,966)	(6,966)
Decrease in income taxes and other taxes payable	(15,791)	(48,437)
Increase in accrued expenses	43,922	86,886
Directors' bonuses	(15,600)	(15,600)
Increase in other current liabilities	63,265	63,265
Net cash provided by operating activities	150,044	121,635
Cash flows from investing activities		
Capital expenditure	(106,641)	(78,232)
Investment and lending	(300,000)	(300,000)
Recovery of lending	1,159	1,159
Net cash used in investing activities	(405,482)	(377,073)
Cash flows from financing activities		
Proceeds from issuance of common stock due to exercise of stock options	5,257	5,257
Net cash provided by financing activities	5,257	5,257
Decrease in cash and cash equivalents	(250,181)	(250,181)

<Statements of Income>

Changes in Accounting

(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. In addition, due to revisions in the method for compiling financial statements, the statements for the six months ended September 30, 1999, reflect tax effect accounting. Year-on-year comparisons in the following discussion are based on the previous quarter's results restated to conform to this change.)

Net sales

Net sales for the second quarter jumped to ¥1,250.8 million, an increase of ¥860.0 million, or 220.1%, compared with the same period a year earlier. This exceptional performance reflects a ¥793.6 million, or 278.4%, surge in Internet advertising revenue to ¥1,078.7 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, cosmetics and toy industries. Due especially to strong gains in large-scale contracts, second quarter sales exceeded the ¥1 billion mark for the first time in Company history.

Sales in advisory and editorial services rose ¥56.1 million, or 74.9%, to ¥131.0 million as *Yahoo! Internet Guide*, a magazine compiled by Yahoo! Japan and published by Softbank Publishing Inc., continued to vie for the number one position among Internet magazines with more than 190,000 copies sold.

As a result, Yahoo! Japan was able to post record sales for the fifth consecutive quarter. Net sales for the first half of fiscal 2000 also expanded dramatically, growing to ¥2,121.9 million. This represents an increase of ¥1,386.5 million, or 188.5%, compared with the six months ended September 30, 1998, and beats the net sales we posted for the entire fiscal year ended March 31, 1999.

Cost of Sales

Cost of sales for the second quarter rose ¥7.9 million, or 33.8%, to ¥31.3 million. The main factors behind this increase were outsourcing fees for production of *Yahoo! Internet Guide* and consignment charges paid to Yahoo! Inc. for links appearing on its web site in line with global access. Cost of sales for the first half of fiscal 2000 rose ¥12.4 million, or 25.7%, to ¥60.4 million compared with the first half of fiscal 1999.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter increased ¥461.9 million, or 149.7%, to ¥770.5 million. For the first half of fiscal 2000, selling, general and administrative expenses rose ¥690.5 million, or 116.1%, to ¥1,285.3 million. The primary factors behind this increase are as follows.

Personnel expenses in the second quarter expanded ¥98.7 million, or 67.8%, to ¥244.3 million compared with the second quarter a year earlier. This increase reflects 53 new staff hired in response to our rapid business expansion, for a total of 120 employees as of September 30, 1999. Another factor in the increase from the second 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 first half of the previous fiscal year, average number of employees for the first half of fiscal 2000 increased by 39 to 106.5, driving personnel expenses up ¥179.8 million, or 63.5%, to ¥463.1 million.

Advertising costs totaled ¥84.9 million in the second quarter, a substantial increase from the second quarter a year earlier. The major factors behind this increase were expenditures related to the production of a television commercial and a joint promotional effort with NBA Japan, Inc. to raise the brand recognition of Yahoo! Japan. For the first half of fiscal 2000, advertising costs rose ¥52.4 million, or 149.3%, to ¥87.4 million.

Content provider fees increased ¥50.1 million, or 235.7%, to ¥71.3 million in the second quarter, as the Company worked to boost its information services. Content provider fees in the first half of fiscal 2000 were up ¥87.0 million, or 206.4%, to ¥129.2 million, for similar reasons.

Second quarter sales commissions rose ¥47.9 million, or 161.9%, to ¥77.5 million, in line with increases in net sales. Sales commissions for the first half of fiscal 2000 climbed ¥90.8 million, or 159.5%, to ¥147.8 million.

Depreciation expenses rose ¥22.4 million, or 128.6%, to ¥39.8 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 in the first half of fiscal 2000, led by similar factors, increased ¥38.1 million, or 126.2%, to ¥68.2 million.

Communication charges in the second quarter rose ¥11.1 million, or 64.1%, to ¥28.3 million as the Company strengthened facilities to improve the user access environment and bolster its services. Communications charges grew ¥14.1 million, or 41.0%, to ¥48.3 million in the first half of fiscal 2000.

Royalties increased ¥25.0 million, or 275.4%, to ¥34.0 million in the second quarter, in accordance with the increase in net sales. Royalties in the first half jumped ¥38.1 million, or 200.6%, to ¥57.1 million from the first half of fiscal 1999.

Lease and utility expenses rose to ¥56.4 million in the second quarter, an increase of ¥46.5 million, or 468.9%, from the second quarter a year earlier. This increase was due mainly to the Company's move to a new headquarters in August. For the first half of fiscal 2000, lease and utility expenses were up ¥47.4 million, or 243.6%, to ¥66.8 million.

Purchase of new office furniture after the move to new headquarters led to a ¥38.9 million, or 2,132.0%, rise in expenses for furnishings and fixtures to ¥40.7 million. Moving-related expenses were ¥28.5 million of this total. Expenses for furnishings and fixtures for the first half of fiscal 2000 increased ¥45.3 million, or 1,579.4%, to ¥48.2 million.

Operating Income

As a result of the above factors, operating income for the three months ended September 30, 1999, climbed ¥390.2 million, or 663.5%, to ¥449.0 million. This represents a record performance for quarterly operating income. Operating income for the six months ended September 30, 1999, increased ¥683.7 million, or 739.0%, to ¥776.2 million.

Non-Operating Income (Expenses)

Net non-operating expenses for the second quarter of fiscal 2000 were ¥45.8 million, reflecting ¥34.5 million in consulting fees related to the move and ¥9.7 million in expenses incurred by issuance of incentive warrants and issuance of common stock on the exercise of stock options. Net non-operating expenses for the first half of fiscal 2000 were ¥50.1 million.

Ordinary Income

Ordinary income amounted to ¥403.3 million, an increase of ¥346.9 million, or 616.1%, from the second quarter a year earlier, and the Company's highest ever quarterly ordinary income. First half ordinary income was up ¥632.5 million, or 675.9%, to ¥726.1 million.

Income Tax, Inhabitants' Tax and Enterprise Tax

Income tax, inhabitants' tax and enterprise tax for the first half of fiscal 2000 totaled ¥282.0 million, an increase of ¥242.5 million, or 614.0%, from the same period a year earlier.

Net Income

Net income for the six months ended September 30, 1999, totaled ¥413.1 million, a surge of ¥370.1 million, or 861.0%, from the same period a year earlier.

(Reference)

EBITDA

EBITDA for the second quarter rose ¥366.2 million, or 480.4%, to ¥442.4 million. This represents an increase of ¥92.1 million, or 26.3%, from the first quarter.

<Balance Sheets>

Between June 30, 1999 and September 30, 1999, total assets increased ¥1,071.2 million, or 25.7%, to ¥5,239.5 million, total liabilities advanced Y812.7 million, or 112.2%, to ¥1,537.1 million and total shareholders' equity increased ¥258.4 million, or 7.5%, to ¥3,702.4 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 due to the move to new headquarters and an expansion of investments. In current assets, accounts receivable—trade rose ¥283.8 million, or 43.5%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥258.6 million, or 131.6%. Investment securities rose 7.8%, or ¥40.0 million.

In current liabilities, accounts payable—other were up ¥226.2 million, or 79.3%, and accrued income taxes rose ¥157.1 million, or 123.8%. In long-term liabilities, bonds with subscription warrants increased ¥372.9 million, or 322.4%.

For the six months ended September 30, 1999, total assets rose ¥3,782.7 million, or 259.7%; total liabilities increased ¥1,134.0 million, or 281.4%; and total shareholders' equity increased ¥2,648.6 million, or 251.4%.

<Statements of Cash Flows>

Net cash provided by operating activities totaled ¥237.3 million for the second quarter, as increases in net income offset a substantial rise in accounts receivable in line with growth in sales. Net cash used in investing activities amounted to ¥716.6 million owing to purchase of corporate bonds of an affiliated company, investments in e-Shopping! Books CORP. and e-Shopping! Toys CORP., payment of guarantee deposits for the new headquarters, and purchase of fixed assets. Net cash provided by financing activities totaled ¥416.6 million. The main source of this cash was an issuance of bonds with subscription warrants. As a result, cash and cash equivalents decreased ¥62.6 million in the second quarter.

For the first half of fiscal 2000, despite ¥387.4 million in cash provided by operating activities, cash and cash equivalents fell ¥312.8 million due to cash used in investing activities.

Review of Operations

Advertising Services

Sales of advertising services in the second quarter surged ¥793.6 million, or 278.4%, to ¥1,078.7 million, surpassing ¥1.0 billion for the first time in Company history.

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 larger, longer-term and more globalized advertisement contracts. Introduction in April 1999 of an incentive system for advertising agencies gave sales a further boost. In addition, the Company launched a series of successful campaigns to prevent advertising sales from sagging in the traditionally slow summer season.

Performance was especially strong in September, during which Yahoo! Japan achieved historic results in advertising sales, and the number of advertisers, advertisements and advertising agencies.

Sales from advertising services for the first half of fiscal 2000 jumped ¥1,280.9 million, or 245.0%, to ¥1,803.7 million compared with the same period a year earlier. Management believes that, with the rapid emergence of the Internet as a new advertising medium and the explosive increase in the number of Internet users, Internet advertising has now entered a phase of real growth. In response to this expanding advertising market, the Company is revising its organization of its marketing force to include a broader array of marketing channels, including direct marketing to advertising agencies and clients, and cooperative efforts with media representatives.

For the three and six months ended September 30, 1999, the number of major advertisers, advertisements and advertising agencies, as well as an overview of advertising rates and products are as follows:

Major Advertisers

The average number of monthly advertisers set a new record for the second quarter, rising by 155 companies, or 152%, to 257 companies. The number of new advertisers averaged 58 companies per month, another record performance. And the total number of major advertisers crossed the 1,000 company mark for the first time in Company history. By industry, newcomers in the food, cosmetics and toy industries joined the Company's original advertisers in the automotive, financial, insurance and telecommunications industries. Compared with the first quarter, average number of monthly advertisers increased by 71 companies.

With an increase in large-scale advertising contracts, advertisement sales per company in September rose ¥611 thousand, or 60.2%, to ¥1.6 million. Among advertisers, major shareholder SOFTBANK made up less than 1% of net sales, and Yahoo! Inc. purchased no advertising. No single customer accounted for 10% or more of net sales.

Average number of monthly advertisers during the first half of fiscal 2000 increased by 132 companies, or 146.7%, to 222 companies.

Advertisements

The average number of monthly advertisements for the second quarter increased by 325, or 204.4%, to 484—another record result. For the first half of fiscal 2000, the average number of monthly advertisements rose by 255, or 188.9%, to 390.

Advertising Agencies

For the second quarter, the monthly average of advertising agencies conducting business with the Company increased by 33, or 58.9%, to 89 companies. This represents a new record for the Company and an increase of 20 companies from the first quarter.

Advertisement Rates per Page View

Rates for "Targeting-Type Banner" ads vary from ¥4 to ¥12 per page view, while high-volume "Branding-Type Banner" ads range from ¥0.3 to ¥6 per page view.

Advertising Products

Robust second quarter sales of Mega Yahoo!, a large-scale advertisement costing ¥6 million per month, vaulted this product past Home Page Promotion as the Company's mainstay product. Participants in Yahoo! Japan's Merchant Program, which combines its directory search services with marketing of client products, totaled eight companies. Together with Mega Yahoo! and pilot sheets, the Merchant Program is one of the Company's three main products. The second quarter was characterized by a continuing trend toward large-scale products, an increase in high-paying long-term contracts, and growth in global sales, both from overseas advertisers targeting Japan and Japanese advertisers targeting markets overseas. A number of new products also performed well in the second quarter, including trade buttons for e-commerce and west modules, which advertise specific products.

In addition, the second quarter saw an increase in the number of advertisers using advertisements for purposes other than branding, with an increasing number of promotions on specific items in such areas as e-mail accounts, data requests and ticket reservations.

Advisory and Editorial Services

Sales of advisory and editorial services reached ¥131.0 million, an increase of ¥56.1 million, or 74.9%. The dominant factor in this increase was editing services for *Yahoo! Internet Guide*, a magazine compiled by Yahoo! Japan and published by Softbank Publishing. Backed by the release of a newly designed front cover and revamped content in May 1999, circulation jumped 50,000 copies and the Company made aggressive efforts to promote the magazine with advertisements in nationwide newspapers. Special pull-out supplements in three consecutive issues resulted in a new record for average sales with 190,000 copies sold between the release of the August issue on June 29 and release of the October issue on August 29, as *Yahoo! Internet Guide* cemented its position as Japan's number one Internet magazine.

Sales in the advisory and editorial services for the first half of fiscal 2000 totaled ¥248.0 million, an increase of ¥98.2 million, or 65.6%, from the first half a year earlier.

Web Space Rental Services

Revenues from Web space rental services increased ¥9.3 million, or 35.1%, to ¥35.7 million. Driving this increase was the addition of ¥16.0 million in revenues from an upgraded Yahoo! Employment and the newly developed Rent Information service for Yahoo! Real Estate. Yahoo! Travel contributed ¥14.6 million in revenues. However, this represents a slight decrease from the same period a year earlier, as efforts to enhance content with a Hawaiian

Special Feature and increased information on package tours and air tickets were undercut by lackluster conditions in the travel industry.

Sales for the first half of fiscal 2000 rose ¥8.0 million, or 15.4%, to ¥59.7 million.

Technical Support Services

Sales in this segment totaled ¥3.6 million and ¥7.2 million for the three and six months ended September 30, 1999, respectively. This was generated from a consignment contract to maintain operation of servers for Yahoo! Maps, the comprehensive map service launched in April 1998, following the Company's March 1998 investment in CyberMap Japan Corp.

Balance Sheets

(Yen in thousands)

	Three months ended September 30, 1999		Three months ended June 30, 1999		Increase (Decrease)
Assets					
Current Assets					
Cash	¥217,151	4.1%	¥170,901	4.1%	27.1%
Accounts receivable—trade	935,768	17.9%	651,995	15.6%	43.5%
Marketable securities	2,096,158	40.0%	2,204,977	52.9%	(4.9)%
Prepaid expenses	29,990	0.6%	8,372	0.2%	258.2%
Other current assets	36,141	0.7%	39,423	1.0%	8.3%
Total current assets	3,315,210	63.3%	3,075,670	73.8%	7.8%
Fixed Assets					
Tangible fixed assets	553,691	10.6%	332,259	8.0%	66.6%
Intangible fixed assets	40,204	0.8%	2,034	0.0%	1,876.6%
Investments and Others					
Investment securities	551,004	10.5%	511,004	12.3%	7.8%
Investment to affiliated companies	165,000	3.1%	165,000	4.0%	0.0%
Bonds of affiliated companies	400,000	7.6%	—	—	—
Long-term loans	—	—	92	—	—
Long-term prepaid expenses	—	—	22,724	0.5%	—
Guarantee deposits	214,342	4.1%	59,492	1.4%	260.3%
Total investments and others	1,330,347	25.3%	758,313	18.2%	75.4%
Total fixed assets	1,924,242	36.7%	1,092,607	26.2%	76.1%
Total assets	¥5,239,452	100.0%	¥4,168,277	100.0%	25.7%

(Yen in thousands)

	Three months ended September 30, 1999		Three months ended June 30, 1999		Increase (Decrease)
Liabilities					
Current Liabilities					
Accounts payable—trade	**¥20,162**	**0.4%**	¥20,736	0.5%	(2.8)%
Accounts payable—other	**511,663**	**9.8%**	285,421	6.8%	79.3%
Advance received profit	**76,211**	**1.5%**	92,996	2.2%	(18.0)%
Accrued bonuses	**43,192**	**0.8%**	—	—	—
Accrued income taxes	**284,000**	**5.4%**	126,894	3.0%	123.8%
Accrued consumption taxes	**33,396**	**0.6%**	55	0.0%	60,620.0%
Subscription warrants	**24,953**	**0.5%**	1,735	0.1%	1,338.2%
Other current liabilities	**12,599**	**0.2%**	53,483	1.3%	(76.4)%
Total current liabilities	**1,006,179**	**19.2%**	581,322	13.9%	73.1%
Long-Term Liabilities					
Long-term debt	**488,593**	**9.3%**	115,667	2.8%	322.4%
Long-term deferred taxes	**42,289**	**0.8%**	27,324	0.7%	54.8%
Total long-term liabilities	**530,883**	**10.1%**	142,991	3.5%	271.3%
Total liabilities	**1,537,062**	**29.3%**	724,314	17.4%	112.2%
Shareholders' Equity					
Common stock	**1,483,340**	**28.3%**	1,471,204	35.3%	0.8%
Additional paid-in capital	**1,546,686**	**29.5%**	1,538,326	36.9%	0.5%
Legal reserve	**2,290**	**0.1%**	2,290	0.1%	0.0%
Retained earnings	**670,073**	**12.8%**	432,142	10.3%	55.1%
Total shareholders' equity	**3,702,390**	**70.7%**	3,443,963	82.6%	7.5%
Total liabilities and shareholders' equity	**¥5,239,452**	**100.0%**	¥4,168,277	100.0%	25.7%

Balance Sheets

(Yen in thousands)

	Six months ended September 30, 1999		Six months ended September 30, 1998		Increase (Decrease)
Assets					
Current Assets					
Cash	¥217,151	4.1%	¥217,912	15.0%	(0.3)%
Accounts receivable—trade	935,768	17.9%	321,694	22.1%	190.9%
Marketable securities	2,096,158	40.0%	451,807	31.0%	363.9%
Prepaid expenses	29,990	0.6%	37,923	2.6%	(20.9)%
Other current assets	36,141	0.7%	8,910	0.6%	(305.6)%
Total current assets	3,315,210	63.3%	1,038,247	71.3%	219.3%
Fixed Assets					
Tangible fixed assets	553,691	10.6%	176,795	12.1%	213.2%
Intangible fixed assets	40,204	0.8%	1,294	0.1%	3,007.0%
Investments and Others					
Investment securities	551,004	10.5%	56,004	3.8%	883.9%
Investment to affiliated companies	165,000	3.1%	100,000	6.9%	65.0%
Bonds of affiliated companies	400,000	7.6%	—	—	—
Long-term loans	—	—	894	0.1%	—
Long-term prepaid expenses	—	—	27,688	1.9%	—
Guarantee deposits	214,342	4.1%	55,867	3.8%	283.7%
Total investments and others	1,330,347	25.3%	240,455	16.5%	453.3%
Total fixed assets	1,924,242	36.7%	418,545	28.7%	359.7%
Total assets	¥5,239,452	100.0%	¥1,456,793	100.0%	259.7%

(Yen in thousands)

	Six months ended September 30, 1999		Six months ended September 30, 1998		Increase (Decrease)
Liabilities					
Current Liabilities					
Accounts payable—trade	**¥20,162**	0.4%	¥17,875	1.2%	12.8%
Accounts payable—other	**511,663**	**9.8%**	127,067	8.7%	302.7%
Advance received profit	**76,211**	**1.5%**	14,978	1.0%	408.8%
Accrued bonuses	**43,192**	**0.8%**	50,239	3.4%	—
Accrued income taxes	**284,000**	**5.4%**	39,852	2.7%	612.6%
Accrued enterprise taxes	—	—	12,231	0.8%	—
Accrued consumption taxes	**33,396**	**0.6%**	14,936	1.0%	123.6%
Subscription warrants	**24,953**	**0.5%**	3,470	0.2%	619.1%
Other current liabilities	**12,599**	**0.2%**	6,733	0.5%	87.1%
Total current liabilities	**1,066,179**	**19.2%**	287,384	19.8%	250.1%
Long-Term Liabilities					
Long-term debt	**488,593**	**9.3%**	115,667	7.9%	322.4%
Long-term deferred taxes	**42,289**	**0.8%**	—	—	—
Total long-term liabilities	**530,883**	**10.1%**	115,667	7.9%	359.0%
Total liabilities	**1,537,062**	**29.3%**	403,051	27.7%	281.4%
Shareholders' Equity					
Common stock	**1,483,340**	**28.3%**	434,787	29.8%	241.2%
Additional paid-in capital	**1,546,686**	**29.5%**	500,175	34.3%	209.2%
Legal reserve	**2,290**	**0.1%**	730	0.1%	213.7%
Retained earnings	**670,073**	**12.8%**	118,049	8.1%	467.6%
Total shareholders' equity	**3,702,390**	**70.7%**	1,053,741	72.3%	251.4%
Total liabilities and shareholders' equity	**¥5,239,452**	**100.0%**	¥1,456,793	100.0%	259.7%

Statements of Income (Three-Month Periods)

(Yen in thousands)

	Three months ended September 30, 1999		Three months ended September 30, 1998		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		%
Net sales	¥1,250,795	100.0%	¥390,810	100.0%	¥859,985	220.1%
Cost of sales	31,315	2.5%	23,403	6.0%	7,912	33.8%
Gross profit	1,219,480	97.5%	367,406	94.0%	852,074	231.9%
SG&A expenses	770,468	61.6%	308,593	79.0%	461,875	149.7%
Operating income	449,011	35.9%	58,813	15.0%	390,198	663.5%
Net non-operating expenses	(45,753)	(3.7)%	(2,503)	(0.6)%	43,250	1,727.9%
Ordinary income	¥403,258	32.2%	¥56,310	14.4%	¥346,948	616.1%

(Yen in thousands)

	Three months ended September 30, 1999		Three months ended June 30, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		%
Net sales	¥1,250,795	100.0%	¥871,087	100.0%	¥379,708	43.6%
Cost of sales	31,315	2.5%	29,047	3.3%	2,268	7.8%
Gross profit	1,219,480	97.5%	842,039	96.7%	377,441	44.8%
SG&A expenses	770,468	61.6%	514,863	59.1%	255,605	49.6%
Operating income	449,011	35.9%	327,176	37.6%	121,835	37.2%
Net non-operating expenses	(45,753)	(3.7)%	(4,315)	(0.5)%	(41,438)	960.3%
Ordinary income	¥403,258	32.2%	¥322,860	37.1%	¥80,398	24.9%

Breakdown of Quarterly Sales and SG&A Expenses

(Yen in thousands)

Net Sales	Total	%
Advertising services	¥1,078,686	86.2%
Advisory and editorial services	131,000	10.5%
Web space rental services	35,682	2.9%
Technical support services	3,600	0.3%
Other	1,827	0.1%
Total	¥1,250,795	100.0%

(Yen in thousands)

SG&A Expenses	Total	%
Personnel expenses	¥244,323	31.7%
Advertising costs	84,915	11.0%
Content provider fees	71,289	9.2%
Sales commissions	77,512	10.1%
Depreciation expenses	39,792	5.2%
Communication charges	28,289	3.7%
Royalties	34,044	4.4%
Lease and utility expenses	56,359	7.3%
Furnishings and fixtures expenses	40,711	5.3%
Other	93,230	12.1%
Total	¥770,468	100.0%

Statements of Income (Six-Month Periods)

(Yen in thousands)

	Six months ended September 30, 1999		Six months ended September 30, 1998		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		%
Net sales	¥2,121,883	100.0%	¥735,385	100.0%	¥1,386,498	188.5%
Cost of sales	60,363	2.8%	48,008	6.5%	12,355	25.7%
Gross profit	2,061,519	97.2%	687,377	93.5%	1,374,142	199.9%
SG&A expenses	1,285,332	60.6%	594,858	80.9%	690,474	116.1%
Operating income	776,187	36.6%	92,518	12.6%	683,669	739.0%
Non-operating expenses	(50,068)	(2.3) %	1,068	0.1%	51,136	(4,788.0)%
Ordinary income	¥726,118	34.3%	¥93,587	12.7%	¥632,531	675.9%

Breakdown of Semiannual Sales and SG&A Expenses

(Yen in thousands)

Net Sales	Total	%
Advertising services	¥1,803,683	85.0%
Advisory and editorial services	248,000	11.7%
Web space rental services	59,712	2.8%
Technical support services	7,200	0.3%
Other	3,287	0.2%
Total	¥2,121,883	100.0%

(Yen in thousands)

SG&A Expenses	Total	%
Personnel expenses	¥463,118	36.0%
Advertising costs	87,449	6.8%
Content provider fees	129,195	10.1%
Sales commissions	147,769	11.5%
Depreciation expenses	68,213	5.3%
Communication charges	48,308	3.8%
Royalties	57,059	4.4%
Lease and utility expenses	66,801	5.2%
Furnishings and fixtures expenses	48,216	3.8%
Other	169,200	13.2%
Total	¥1,285,332	100.0%

Statements of Cash Flows

(Yen in thousands)

	Three months ended September 30, 1999	Six months ended September 30, 1999
Cash Flows from Operating Activities		
Net income	¥237,931	¥413,083
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	39,792	68,213
Directors' bonuses	—	(15,600)
Changes in assets and liabilities:		
Increase in accounts receivable	(283,773)	(384,427)
Increase in prepaid expenses	(21,617)	(25,253)
Decrease in other current assets	9,844	(8,225)
Decrease in accounts payable	(574)	(7,540)
Increase in income taxes and other taxes payable	165,813	150,022
Increase in accrued expenses	71,063	114,985
Increase in other current liabilities	18,866	82,131
Net cash provided by operating activities	237,345	387,389
Cash Flows from Investing Activities		
Capital expenditure	(121,491)	(228,132)
Investment and lending	(440,304)	(740,304)
Recovery of lending	91	1,250
Recovery of guarantee deposits	58,292	58,292
Payment of guarantee deposits	(213,142)	(213,142)
Net cash used in investing activities	(716,554)	(1,122,036)
Cash Flows from Financing Activities		
Proceeds from issuance of bonds with subscription warrants	454,451	454,451
Proceeds from issuance of common stock due to exercise of stock options	15,772	21,029
Proceeds from exercise of stock options according to new business method	4,250	4,250
Repayment of bonds	(57,833)	(57,833)
Net cash provided by financing activities	416,640	421,897
Decrease in cash and cash equivalents	¥(62,569)	¥(312,750)

Risk Factors

The Company can make no assurances that future performance will match the results reported in its "Results for the Three and Six Months Ended September 30, 1999," as a number of potential factors could have a substantial negative impact on its 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. 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 86.2% of net sales in the second 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 September 30, 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: 1. Licensing rights granted by Yahoo! Inc. to the Company: • Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory search and other services customized and localized for the Japanese market (hereafter referred to as "the Japanese version of the Yahoo! directory search services") • Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark • Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan • Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: 3% of gross profit after deducting sales commissions, paid quarterly

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

Yahoo! Japan is dependent on 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.

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) Yahoo! Shopping and Yahoo! Auctions

To prepare for the coming growth in electronic commerce (EC), 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. 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.

9) 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.

10) 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.

11) Y2K Problem

The Company uses internally developed software to manage its core Internet Web site directory service and its advertising services. For services provided by third parties under contract with the Company, the providers develop the initial software themselves, and the Company develops software necessary to operate the services after they are listed on its site.

Although a portion of software was originally coded to accept only two-digit entries, the Company has completed upgrading and testing to provide more than 90% of its software and services with four-digit or multiple-digit entry capabilities. The Company completed its inquiries into upgrades for the majority of systems obtained through third parties. Yahoo! Japan expects to complete compliance by the end of November for upcoming services that use internally developed software and for the remaining noncompliant portion of systems obtained through third parties. Failure to ensure compliance by the scheduled deadline, however, is not expected to have a material effect on operations, as the Company will remain capable of smoothly providing its core Internet directory search services and information services from content providers, and negative effects will be limited to slower response times for its services.

However, failure on the part of third parties to make their computer systems Y2K compliant in time could lead to the occurrence of various unforeseeable conditions. The Company plans to continue examining these contingencies.

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 declined to 13.5% as of June 30, 1999, after a capital increase. 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 this investment will be recovered.
* 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. This company was established on January 28, 1999, and is a joint venture between SOFTBANK and broadcast.com. (currently a wholly owned subsidiary of Yahoo! Inc.) of the United States. On-demand service for video and audio transmissions using streaming technology will be provided by broadcast.com japan. Although Yahoo! Inc. completed its purchase of broadcast.com in the United States, the effect of this acquisition on corporate relationships in Japan is not clear. The Company cannot guarantee a return on its investment.

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.

As services have not begun, 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 beginning 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 pay for it at local convenience stores.

As the service will not begin until November, the Company can provide no assurances as to the return of its investment.

9) 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 September 30, 1999, the major providers of Japanese-language Internet navigational services or similar services directed at Japanese Internet users were as follows:

Service	Provider	Description
Excite	Excite Japan	Agreement with Excite Inc. of the United States
Goo	NTT-ME Information Xing, Inc.	Agreement with INKTOMI CORPORATION of the United States
Infoseek	Infoseek Japan	Agreement with Infoseek Corporation of the United States
Lycos	Lycos Japan	Agreement with Lycos, Inc. of the United States
Other major companies involved in Internet advertising are as follows:		
Service	Provider	Description
Asahi.com	Asahi Shimbun	Provider of news on the Internet
GeoCities	GeoCities Japan Corporation	Community service
Mainichi Interactive	Mainichi Newspapers Co.	Provider of news on the Internet
Isize	RECRUIT CO., LTD.	Content provider
MSN	Microsoft Corporation	Content provider
Nikkei Net	Nihon Keizai Shimbun, Inc.	Provider of news on the Internet
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 September 30, 1999, the Company employed 129 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 September 30, 1999, Yahoo! Japan's research and development team consisted of 40 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 September 30, 1999, had a sales force of 22 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.