

Results for the Fiscal Year and Three Months Ended March 31, 2000

Introduction

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan increased to 19.7 million people, with Web users accounting for approximately 18 million of this total. According to InfoCom Research, Inc., the Internet spread to 11% of Japanese households within five years of its commercialization in Japan in 1995, and is expected to reach 60.4% of Japanese households by 2004.

According to Dentsu Inc., the Internet advertising market in Japan greatly exceeded initial expectations of ¥19.8 billion and grew 111.4% to ¥24.1 billion in calendar 1999 compared with the previous year. The market is projected to increase an additional 53.1% to ¥36.9 billion in 2000, surpass ¥100 billion in 2004 and swell to ¥200 billion in 2007, or approximately the same scale as the radio advertising market today.

In the United States, the Internet advertising market surged 108.3% to approximately US\$4 billion in calendar 1999, representing 2% of the total advertising market compared with the same period a year earlier. The market is expected to account for 3.7%, or US\$8.5 billion, of the entire advertising market in 2000. (IAB report)

Growth in Internet advertising is projected to accelerate owing to the rising value of the Internet as an advertising medium in tandem with user growth and increasing interest by advertisers.

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

Amid these conditions, Yahoo Japan Corporation (“Yahoo! Japan” or “the Company”) achieved the following results for the fiscal year and three months ended March 31, 2000, which represents the fourth quarter of fiscal 2000.

Services

In the three months ended March 31, 2000, daily page views exceeded 75 million for the first time, and monthly page views were approximately 2.1 billion during March. This represents a rise of 898 million page views, or 73.2%, compared with December, and an increase of 1,564 million page views, or 278.5%, compared with the same month a year earlier. Of this total, 333 million page views were recorded due to the merger with GeoCities Japan Corporation on March 1, 2000. As of April 10, 2000, the highest number of daily page views has surpassed 78 million.

By service, directory search services accounted for 28.8%, information services for 20.2%, such community services as message boards for 32.9%, and commerce services for 18.1% of monthly page views for March 2000. Information services, community services and commerce services together accounted for 71.2% of total monthly page views.

Information services were bolstered during the fourth quarter with the launch of Yahoo! Fortune Telling and enhancements to existing services. We strengthened Yahoo! Employment with the addition of a registration entry service for new graduates to efficiently acquire information concerning recruiting events and employment opportunities. Yahoo! Real Estate benefited from the addition of new condominium information from Japan High-Rise Condominiums Association. Yahoo! Finance was reinforced with the addition of message boards and news sorted by company name, loan comparisons and searches, and

loans that accept preliminary applications online. Yahoo! Sports was bolstered with results of National Football League (NFL) games in the United States before the start of professional baseball and J-League soccer seasons in Japan, as well as expansion of Formula 1 (F1) coverage. New services launched during the fiscal year ended March 31, 2000, included Yahoo! Shopping, Yahoo! Auctions, Yahoo! Gourmet and Yahoo! Greetings. In addition, Yahoo! TV Coverage and Yahoo! Weather were completely redesigned. The Company also made concerted efforts to provide content that matched a diverse range of user needs. We expanded the number of content providers for Yahoo! Employment from one to four companies, and added used automobile catalogue information to Yahoo! Autos.

Yahoo! Japan's first information service Yahoo! News was broadened with the addition of ZDNet Japan news articles in the computer and company categories, and best-seller information for e-Shopping! Books and e-Shopping! Toys in the rankings category. The duration of archived Reuters news articles was extended to two weeks, and improvements were made to value-added news search functions. Full coverage has received high appraisal from users for organizing by subject Yahoo! News and links to Yahoo! Japan categories, Yahoo! Message Boards and highly informative Websites.

Yahoo! Japan also took steps to bolster lifestyle-related information. Yahoo! Transit was improved with the addition of commuter pass fares to search results. Yahoo! Gourmet was enhanced with keyword search functions in the question and answer section in cooking.

Since beginning on July 27, 1998, community services have grown to more than 3.0 million registered users in March 2000. This represents 1,020 thousand, or 53.0%, more registered users than in December 1999.

Membership in Yahoo! GeoCities was approximately 500 thousand as of March 31, 2000.

Launched in September 1999, commerce services recorded a remarkable increase in page views thanks to the growing popularity of Yahoo! Auctions, which had more than 550 thousand items open for bidding on April 7, 2000. Yahoo! Shopping has increased its overall brand image and expanded its product lineup with the addition of prominent shops represented by Mary's, Tie Rack London, Brooke Bond House, Paris Miki, Brook's, Suehiro, Daiichi Engei, Golf Monster, Organic Cyber Store, Wellness, Le noble, engei.net, Zocco Plaza, The Supermodel, Dog Watch Outdoors, Ticket Pia Leisure and Shintomi Golf.

On March 25, 2000, Yahoo! Japan released Spring Entertainment Special Edition featuring a demonstration video of a new videogame. The special fully integrates audio and video Internet broadcasting technology acquired from broadcast.com japan k.k., which the Company merged with on March 1, 2000. Other special edition projects include Valentine's Day Special Edition, Pollen Proliferation Special Edition and Hawaii Special Edition. In Yahoo! Education, we created a tool to assess the likelihood of a university accepting an applicant based on National Center Test scores. In Yahoo! Sports, we made news flashes available for NBA All-Star basketball games and spring high school baseball games in Japan.

Users of Yahoo! Kids, a directory site for children launched in November 1997, increased sharply to average more than 500 thousand daily page views. This remarkable growth is the result of Internet proliferation in schools and households in Japan.

In a Web audience survey of Japan conducted by Nippon Research Center in March 2000, Yahoo! Japan was named most often by respondents as a site they access at least once every four weeks. Yahoo! Japan continues to hold the dominant position with 85.9% of the respondents, a wide margin over goo, which ranked second at 53.9%.

By multiplying the above percentage by the approximately 18 million Web users in Japan as of the end of March 2000, we estimate that there were 15.5 million unique users accessing Yahoo! Japan at least once every four weeks.

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

<Financial Accounts>

Net Sales

Net sales for the fourth quarter rose to ¥1,959.2 million, an increase of ¥1,296.9 million, or 195.8%, compared with the same period a year earlier. This exceptional performance reflects a ¥1,295.9 million, or 253.1%, surge in Internet advertising revenue to ¥1,807.9 million.

Yahoo! Japan was able to post record sales for the seventh consecutive quarter. Compared with the previous quarter, net sales were up ¥344.5 million, or 21.3%.

Net sales for the fiscal year ended March 31, 2000, totaled ¥5,695.7 million, an increase of ¥3,780.9 million, or 197.4%. The primary factor behind this outstanding growth was expansion in core advertising revenue of ¥5,136.5 million, a rise of ¥3,704.1 million, or 258.6%. (See Review of Operations)

Cost of Sales

Cost of sales for the fourth quarter fell ¥28.9 million, or 83.3%, to ¥5.8 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 ¥2.7 million, or 88.3%, in line with increased global access.

Cost of sales for the fiscal year ended March 31, 2000, amounted to ¥74.2 million, a decrease of ¥32.5 million, or 30.4%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fourth quarter increased ¥786.6 million, or 183.6%, to ¥1,214.9 million compared with the same period of the previous fiscal year. Selling, general and administrative expenses for the fiscal year grew ¥2,102.4 million, or 149.2%, to ¥3,511.1 million. The primary factors behind this increase are as follows.

Personnel expenses in the fourth quarter expanded ¥209.4 million, or 108.9%, to ¥401.6 million compared with the fourth quarter a year earlier. This increase reflects 114 new staff, an increase of 139.0%, hired in response to our rapid business expansion, for a total of 196 employees as of March 31, 2000.

Compared with the previous fiscal year, the average number of employees for the fiscal year ended March 31, 2000, increased by 57, or 80.9%, to 127.5. Personnel expenses were up ¥507.9 million, or 77.4%, to ¥1,163.8 million.

Advertising costs totaled ¥152.8 million in the fourth quarter, a substantial increase of ¥146.2 million, or 2,207.8%, from the fourth quarter a year earlier. The major factors behind this increase were expenditures related to television commercials aired to raise the brand recognition of Yahoo! Japan among non-Internet users who may become Internet users in the future.

Compared with the previous fiscal year, advertising costs grew ¥356.3 million, or 567.9%, to ¥419.0 million.

Content provider fees increased ¥41.5 million, or 95.1%, to ¥85.2 million in the fourth quarter, as the Company worked to boost its information services.

Compared with the previous fiscal year, content provider fees were up ¥191.9 million, or 165.4%, to ¥307.9 million.

Fourth quarter sales commissions rose ¥117.1 million, or 267.3%, to ¥160.9 million, in line with increases in net sales.

Sales commissions expanded ¥284.3 million, or 212.2%, to ¥418.2 million compared with the previous fiscal year.

Depreciation expenses in the fourth quarter rose ¥61.4 million, or 234.6%, to ¥87.5 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 fiscal year, depreciation expenses grew ¥137.2 million, or 178.4%, to ¥214.1 million.

Communications charges in the fourth quarter rose ¥39.5 million, or 209.8%, to ¥58.3 million as the Company strengthened facilities to improve the user access environment and bolster its services, and divided the server center into three locations due to the merger with GeoCities Corporation Japan and broadcast.com japan k.k.

Communications charges increased ¥69.1 million, or 97.8%, to ¥139.8 million compared with the previous fiscal year.

Royalties paid to Yahoo! Inc. of the United States increased ¥36.4 million, or 208.3%, to ¥53.9 million in the fourth quarter in accordance with the increase in net sales.

Royalties grew ¥103.7 million, or 204.9%, to ¥154.3 million compared with the previous fiscal year.

Lease and utility expenses rose to ¥62.6 million in the fourth quarter, an increase of ¥52.6 million, or 527.8%, from the same period a year earlier, in line with the Company's relocation and expansion of the new headquarters in August 1999.

Compared with the previous fiscal year, lease and utility expenses were up ¥150.1 million, or 381.5%, to ¥189.5 million.

Operating Income

As a result of the above factors, Yahoo! Japan was able to achieve record operating income for the seventh consecutive quarter. Operating income for the three months ended March 31, 2000, climbed ¥539.2 million, or 270.4%, to ¥738.5 million.

Compared with the previous fiscal year, operating income increased ¥1,711.0 million, or 428.3%, to ¥2,110.4 million.

Non-Operating Income (Expenses)

Net non-operating expenses for the fourth quarter of fiscal 2000 were ¥17.6 million, reflecting ¥8.2 million in expenses related to the merger with GeoCities Corporation Japan and broadcast.com japan k.k., as well as ¥8.4 million in expenditures related to the issuance of shares.

Yahoo! Japan recorded non-operating expenses of ¥79.0 million during the fiscal year ended March 31, 2000. The largest expenditures were ¥44.6 million related to the relocation and expansion of the new headquarters in August 1999, ¥15.5 million for the issuance of shares, and ¥15.0 million in interest on bonds.

Ordinary Income

Ordinary income amounted to ¥720.9 million, an increase of ¥534.1 million, or 285.9%, from the fourth quarter a year earlier. Yahoo! Japan was able to post record ordinary income for the seventh consecutive quarter.

Compared with the previous fiscal year, ordinary income expanded ¥1,640.1 million,

or 419.1%, to ¥2,031.4 million.

Income Tax, Inhabitants' Tax and Enterprise Tax

Income tax, inhabitants' tax and enterprise tax increased ¥656.9 million, or 401.2%, to ¥820.7 million, compared with the previous fiscal year.

Net Income

Net income totaled ¥1,153.6 million, an increase of ¥970.0 million, or 528.1%, compared with the previous fiscal year.

Net income per share amounted to ¥63,515.30, an increase of ¥36,447.06, or 134.6%. The average number of shares outstanding during the fiscal year was 18,163 shares, an increase of 11,378 shares, or 167.7%, from 6,785 shares a year earlier. Diluted net income per share was ¥62,056.26.

(Reference)

EBITDA

EBITDA for the fourth quarter rose ¥568.8 million, or 240.0%, to ¥805.8 million. This represents an increase of ¥162.2 million, or 25.2%, from the fourth quarter a year earlier.

During the fiscal year ended March 31, 2000, EBITDA amounted to ¥2,242.2 million, an increase of ¥1,765.0 million, or 369.9%.

<Balance Sheets>

Between December 31, 1999, and March 31, 2000, total assets increased ¥4,533.7 million, or 76.3%, to ¥10,475.8 million; total liabilities advanced ¥501.3 million, or 26.8%, to ¥2,369.1 million; and total shareholders' equity increased ¥4,032.4 million, or 99.0%, to ¥8,106.8 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 ¥353.6 million, or 29.8%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥333.9 million, or 42.7%. Investment securities rose ¥332.5 million, or 41.4%. Equity funds increased ¥1,000.0 million and guarantee deposits expanded ¥186.6 million, or 86.8%.

In current liabilities, accounts payable—other was up ¥15.3 million, or 2.1%, and accrued income taxes rose ¥347.3 million, or 93.6%.

In addition, the Company's merger of GeoCities Japan Corporation and broadcast.com japan k.k. resulted in a ¥55.0 million, or 3.7%, increase in common stock, and a ¥3,570.9 million, or 228.0%, increase in additional paid-in capital recorded as a special merger-related gain.

<Statements of Cash Flows>

Net cash provided by operating activities totaled ¥742.2 million for the fourth 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 ¥1,840.6 million, owing to purchase of fixed assets, investments in SOFTBANK Internet Technology Fund No.1 and Oricon Direct Digital Co. Ltd., and an additional investment in CarPoint K.K. Net cash used in financing activities totaled ¥736 thousand.

As a result of these activities, net cash used by the Company in the fourth quarter totaled ¥1,099.1 million. However, acquisition of GeoCities and broadcast.com japan added ¥3,450.1 million in cash and cash equivalents, bringing the Company's total cash and cash equivalents at quarter end to ¥4,547.6 million.

For the fiscal year ended March 31, 2000, net cash provided by operating activities totaled ¥1,491.2 million, net cash used in investing activities totaled ¥3,413.3 million, and net cash provided by financing activities totaled ¥393.6 million. As a result, net cash used by the Company for the fiscal year totaled ¥1,528.6 million.

Review of Operations

Advertising Services

Sales of advertising services in the fourth quarter leaped ¥1,295.9 million, or 253.1%, to ¥1,807.9 million compared with the same quarter a year earlier.

Management attributes this increase to several factors. First, amid continued expansion in the market for Internet advertising, the Company worked to bolster marketing capabilities by increasing its sales and marketing team. Second, we launched a series of successful sales initiatives, including an incentive system for advertising agencies. And third, we implemented a campaign to attract companies trying to spend their advertising budgets before the close of the fiscal year. As a result, major products such as Mega Yahoo! and Pilot Seat continued to post robust sales performances.

In addition, following acquisition of GeoCities on March 1, 2000, that company's sales for March were included in fourth quarter net sales.

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

Sales of advertising services in the fiscal year surged ¥3,704.1 million, or 258.6%, to ¥5,136.5 million compared with the previous fiscal year.

Management believes this increase reflects rising interest in the Internet among advertisers and is the direct result of the following factors: 1) steady growth in new advertisers throughout the fiscal year; 2) more large-scale advertising products producing larger fees from advertisers; 3) the emergence of advertising companies specializing in the Internet; and 4) an increase in advertising contracts from clients overseas.

In addition, a number of strategic initiatives made strong contributions to increased sales. These included continuous growth in the Company's sales team to match fundamental expansion of the market for Internet advertising, aggressive efforts to cultivate new advertisers and advertising agencies, introduction of an incentive system for advertising agencies in April 1999 and successful launch of a variety of timely sales campaigns.

Specific results in the number of advertisers, advertisements and advertising agencies in the quarter and the fiscal year ended March 31, 2000, were as follows:

Major Advertisers

Yahoo! Japan set a new record in the fourth quarter for average number of monthly advertisers, as that figure increased by 293, or 223.6%, to 424 companies. The number of new advertisers averaged 82 companies per month and the total number of advertisers surpassed 1,500 companies. By industry, the Company's original advertisers in the telecommunications, financial and insurance, food services and automotive industries were met with increases from education, health care, transportation and leisure, real estate, consumer electronics and the audiovisual (AV) equipment industry. In addition, Yahoo! Japan witnessed a rapid increase in Internet companies advertising on its site. Compared with the third quarter, the average number of monthly advertisers increased by 90 companies.

Average number of monthly advertisers for the fiscal year increased by 189, or 170.3%, to 300 companies. The number of new advertisers averaged 62 per month, an increase of 31, or 100.0%.

Among advertisers, major shareholder SOFTBANK 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 fourth quarter increased by 712, or 354.2%, to 913 compared with the same quarter a year earlier; the same figure rose by 267, or 41.3%, compared with the previous quarter.

The average number of monthly advertisements for the fiscal year jumped 418, or 250.3%, to 585.

Advertising Agencies

For the fourth quarter, the Company established a new record for the monthly average of advertising agencies conducting business with it, as that total rose by 65, or 106.6%, to 126 companies compared with the same quarter a year earlier. This represents an increase of 16 companies from the third quarter.

For the fiscal year, the monthly average of advertising agencies conducting business with the Company increased by 42, or 73.7%, to 99 companies. The major reason for this increase was the emergence of advertising agencies specializing in the Internet to match the expanding market for advertising in that medium.

Advertisement Rates per Page View

For the fourth quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.33 to ¥6 per page view, while those for “Targeting-Type Banner” ads varied from ¥4 to ¥12 per page view.

Advertising Products

Fourth quarter sales of Mega Yahoo! expanded robustly, and in March 2000 the Company received its first sales orders for Giga Yahoo!, a new large-scale product that tops Mega Yahoo! with a 12-month contract and 1 billion-page-view guarantee.

Participants in Yahoo! Japan’s Merchant Program, which combines its directory search services with marketing of client products, totaled 18 companies. The fourth quarter was characterized by a continuing trend toward large-scale products and an increase in high-paying, long-term contracts. In addition, the fourth 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 fourth quarter, including trade buttons for electronic commerce (EC) and web modules, a new advertising tool for promoting specific products.

Community-sponsored advertising, GeoCities Mail and other products that were added to the Company’s results following its acquisition of GeoCities on March 1, 2000, also recorded strong sales performance.

Advisory and Editorial Services

Fourth quarter sales of advisory and editorial services decreased ¥29.3 million, or 24.6%, to ¥90.0 million compared to the same quarter a year earlier. The main factor in this decrease was a decline in revenues recognized by the Company after it transferred editing services of

Yahoo! Internet Guide to Softbank Publishing Inc., following a contract renewal with that company in October 1999. However, because the Company continues to receive licensing fees from Softbank Publishing for use of the Yahoo! Japan brand, there has been no change in the way revenue from projects is divided. Income is therefore unaffected by the drop in sales of advisory and editorial services.

Sales in this category increased ¥40.0 million, or 80.0%, from the previous quarter. The main factor in this rise was an increase in revenue from projects, as the Company's joint project with Softbank Publishing, *Yahoo! Internet Guide*, surpassed 230,000 in paid circulation. In addition, that publication boasted the number one position among Internet magazines for three consecutive months, starting with the January 2000 edition (released late November 1999). The Company also launched *Yahoo! PRESS* in November 1999, a new magazine that targets the rapidly increasing population of new Internet users.

For the fiscal year, sales in this category rose ¥29.9 million, or 8.3%, to ¥388.0 million.

Web Space Rental Services

Revenues from Web space rental services increased ¥10.8 million, or 41.3%, to ¥37.0 million. The main factors behind this growth were increased revenues from Yahoo! Travel, Yahoo! Employment and Yahoo! Real Estate. Revenues from the latter two features have been included in Web space rental services sales since September 1999.

For the fiscal year, revenues in this category climbed ¥25.6 million, or 24.7%, to ¥129.3 million.

Technical Support Services

Fourth quarter sales in this segment totaled ¥3.6 million.

Sales for the fiscal year declined ¥3.0 million, or 18.6%, to ¥13.2 million. This decrease was caused by completion in November 1999 of a consignment contract to maintain operation of servers for the comprehensive map service, Yahoo! Maps. Revenues from this contract were previously included as sales in Technical Support Services.

Other Services

Other services generated revenues of ¥20.8 million in the fourth quarter. The principal contributors to this revenue were ¥4.1 million in tenant fees and ¥4.1 million in sales commissions from Yahoo! Shopping, and ¥12.1 million in sales from Yahoo! Broadcast.

Sales in other services for the fiscal year rose ¥24.3 million, or 532.7%, to ¥28.8 million. Principal contributors to this revenue were ¥6.3 million in tenant fees and ¥5.0 million in sales commissions from Yahoo! Shopping, and ¥12.1 million in sales from Yahoo! Broadcast.

Balance Sheets

(Yen in thousands)

	Fiscal year ended March 31, 2000		Three months ended December 31, 1999		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 368,515	3.5%	¥ 239,792	4.0%	53.7%
Accounts receivable—trade	1,539,497	14.7%	1,185,905	20.0%	29.8%
Marketable securities	4,179,472	39.9%	1,956,806	32.9%	113.6%
Prepaid expenses	86,658	0.8%	59,730	1.0%	45.1%
Deferred tax	62,345	0.6%	34,635	0.6%	80.0%
Other current assets	70,904	0.7%	60,448	1.0%	17.3%
Total current assets	6,307,393	60.2%	3,537,318	59.5%	78.3%
Fixed Assets					
Tangible fixed assets	1,116,147	10.7%	782,263	13.2%	42.7%
Intangible fixed assets	88,323	0.8%	38,318	0.6%	130.5%
Investments and Others					
Investment securities	1,135,704	10.8%	803,204	13.5%	41.4%
Equity funds	1,000,000	9.6%	—	—	—
Investment to affiliated companies	10,000	0.1%	165,000	2.8%	(93.9)%
Bonds of affiliated companies	400,000	3.8%	400,000	6.8%	0.0%
Long-term loans	118	0.0%	209	0.0%	(43.5)%
Prepaid expenses	15,750	0.2%	—	—	—
Guarantee deposits	401,543	3.8%	214,942	3.6%	86.8%
Others	840	0.0%	840	0.0%	0.0%
Total investments and others	2,963,956	28.3%	1,584,196	26.7%	87.1%
Total fixed assets	4,168,427	39.8%	2,404,778	40.5%	73.3%
Total assets	¥10,475,821	100.0%	¥5,942,096	100.0%	76.3%

(Yen in thousands)

	Fiscal year ended March 31, 2000		Three months ended December 31, 1999		Increase (Decrease)
Liabilities					
Current Liabilities					
Accounts payable—trade	¥ 3,843	0.0%	¥ 3,642	0.1%	5.5%
Accounts payable—other	752,270	7.2%	737,002	12.4%	2.1%
Accrued bonuses	146,572	1.4%	55,226	0.9%	165.4%
Accrued income taxes	718,383	6.9%	371,063	6.2%	93.6%
Accrued consumption taxes	98,219	0.9%	22,457	0.4%	337.4%
Advance received profit	67,571	0.6%	24,772	0.4%	172.8%
Subscription warrants	23,849	0.3%	23,849	0.4%	0.0%
Other current liabilities	18,313	0.2%	82,761	1.4%	(77.9)%
Total current liabilities	1,829,024	17.5%	1,320,775	22.2%	38.5%
Long-Term Liabilities					
Long-term debt	436,017	4.1%	436,017	7.3%	0.0%
Long-term deferred taxes	104,020	1.0%	110,961	1.9%	(6.3)%
Total long-term liabilities	540,038	5.1%	546,979	9.2%	(1.3)%
Total liabilities	2,369,062	22.6%	1,867,754	31.4%	26.8%
Shareholders' Equity					
Common stock	1,556,749	14.9%	1,501,742	25.3%	3.7%
Additional paid-in capital	5,137,100	49.0%	1,566,192	26.4%	228.0%
Legal reserve	2,290	0.0%	2,290	0.0%	0.0%
Retained earnings	1,410,618	13.5%	1,004,117	16.9%	40.5%
Total shareholders' equity	8,106,758	77.4%	4,074,341	68.6%	99.0%
Total liabilities and shareholders' equity	¥10,475,821	100.0%	¥5,942,096	100.0%	76.3%

Balance Sheets

(Yen in thousands)

	Fiscal year ended March 31, 2000		Fiscal year ended March 31, 1999		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 368,515	3.5%	¥ 222,780	5.7%	65.4%
Accounts receivable—trade	1,539,497	14.7%	551,341	14.1%	179.2%
Marketable securities	4,179,472	39.9%	2,403,279	61.3%	73.9%
Prepaid expenses	86,658	0.8%	4,735	0.1%	1,730.2%
Deferred tax	62,345	0.6%	—	—	—
Other current assets	70,904	0.7%	1,515	0.0%	4,580.1%
Total current assets	6,307,393	60.2%	3,183,652	81.2%	98.1%
Fixed Assets					
Tangible fixed assets	1,116,147	10.7%	274,712	7.0%	306.3%
Intangible fixed assets	88,323	0.8%	1,470	0.0%	5,908.4%
Investments and Others					
Investment securities	1,135,704	10.8%	211,004	5.4%	438.2%
Equity funds	1,000,000	9.6%	—	—	—
Investment to affiliated companies	10,000	0.1%	165,000	4.2%	(93.9)%
Bonds of affiliated companies	400,000	3.8%	—	—	—
Long-term loans	118	0.0%	652	0.0%	(81.9)%
Prepaid expenses	15,750	0.2%	23,934	0.6%	(34.2)%
Guarantee deposits	401,543	3.8%	59,492	1.5%	575.0%
Others	840	0.0%	—	—	—
Total investments and others	2,963,956	28.3%	460,083	11.7%	544.2%
Total fixed assets	4,168,427	39.8%	736,266	18.8%	466.2%
Total assets	¥10,475,821	100.0%	¥3,919,919	100.0%	167.2%

(Yen in thousands)

	Fiscal year ended March 31, 2000		Fiscal year ended March 31, 1999		Increase (Decrease)
Liabilities					
Current Liabilities					
Accounts payable—trade	¥ 3,843	0.0%	¥ 27,704	0.7%	(86.1)%
Accounts payable—other	752,270	7.2%	216,200	5.5%	248.0%
Accrued bonuses	146,572	1.4%	46,618	1.2%	214.4%
Accrued income taxes	718,383	6.9%	165,000	4.2%	335.4%
Accrued consumption taxes	98,219	0.9%	43,812	1.1%	124.2%
Advance received profit	67,571	0.6%	24,869	0.6%	171.7%
Subscription warrants	23,849	0.3%	1,892	0.0%	1,160.5%
Other current liabilities	18,313	0.2%	14,587	0.4%	25.5%
Total current liabilities	1,829,024	17.5%	540,685	13.8%	238.3%
Long-Term Liabilities					
Long-term debt	436,017	4.1%	115,667	3.0%	277.0%
Long-term deferred taxes	104,020	1.0%	—	—	—
Total long-term liabilities	540,038	5.1%	115,667	3.0%	366.9%
Total liabilities	2,369,062	22.6%	656,352	16.7%	260.9%
Shareholders' Equity					
Common stock	1,556,749	14.9%	1,468,575	37.5%	6.0%
Additional paid-in capital	5,137,100	49.0%	1,535,540	39.2%	234.5%
Legal reserve	2,290	0.0%	730	0.0%	213.7%
Retained earnings	1,410,618	13.5%	258,720	6.6%	445.2%
Total shareholders' equity	8,106,758	77.4%	3,263,566	83.3%	148.4%
Total liabilities and shareholders' equity	¥10,475,821	100.0%	¥3,919,919	100.0%	167.2%

Statements of Income (Three-Month Periods)

(Yen in thousands)

	Three months ended March 31, 2000		Three months ended March 31, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥1,959,181	100.0%	¥662,320	100.0%	¥1,296,860	195.8%
Cost of sales	5,767	0.3%	34,621	5.2%	(28,854)	(83.3)%
Gross profit	1,953,413	99.7%	627,698	94.8%	1,325,715	211.2%
SG&A expenses	1,214,871	62.0%	428,312	64.7%	786,559	183.6%
Operating income	738,542	37.7%	199,386	30.1%	539,155	270.4%
Net non-operating expenses	(17,630)	0.9%	(12,554)	1.9%	(5,076)	(40.4)%
Ordinary income	¥ 720,911	36.8%	¥186,832	28.2%	¥ 534,079	285.9%

(Yen in thousands)

	Three months ended March 31, 2000		Three months ended December 31, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥1,959,181	100.0%	¥1,614,645	100.0%	¥344,535	21.3%
Cost of sales	5,767	0.3%	8,111	0.5%	(2,344)	(28.9)%
Gross profit	1,953,413	99.7%	1,606,534	99.5%	346,879	21.6%
SG&A expenses	1,214,871	62.0%	1,010,852	62.6%	204,019	20.2%
Operating income	738,542	37.7%	595,681	36.9%	142,860	24.0%
Net non-operating expenses	(17,630)	(0.9)%	(11,304)	(0.7)%	(6,325)	56.0%
Ordinary income	¥ 720,911	36.8%	¥ 584,376	36.2%	¥136,535	23.4%

Breakdown of Fourth Quarter Net Sales and SG&A Expenses

Three months ended March 31, 2000 (Yen in thousands)

Net Sales	Total	%
Advertising services	¥1,807,930	92.2%
Advisory and editorial services	90,000	4.6%
Web space rental services	36,950	1.9%
Technical support services	3,550	0.2%
Other	20,750	1.1%
Total	¥1,959,181	100.0%

Three months ended March 31, 2000 (Yen in thousands)

SG&A Expenses	Total	%
Personnel expenses	¥401,590	33.1%
Advertising costs	152,793	12.6%
Content provider fees	85,190	7.0%
Sales commissions	160,856	13.2%
Depreciation expenses	87,538	7.2%
Communication charges	58,274	4.8%
Royalties	53,902	4.4%
Lease and utility expenses	62,605	5.2%
Other	152,120	12.5%
Total	¥1,214,871	100.0%

Statements of Income

(Yen in thousands)

	Fiscal year ended March 31, 2000		Fiscal year ended March 31, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥5,695,710	100.0%	¥1,914,850	100.0%	¥3,780,860	197.4%
Cost of sales	74,242	1.3%	106,715	5.6%	(32,473)	(30.4)%
Gross profit	5,621,467	98.7%	1,808,134	94.4%	3,813,333	210.9%
SG&A expenses	3,511,056	61.6%	1,408,678	73.6%	2,102,377	149.2%
Operating income	2,110,411	37.1%	399,455	20.9%	1,710,956	428.3%
Net non-operating expenses	(79,003)	1.4%	(8,154)	0.4%	(70,849)	(868.9)%
Ordinary income	¥2,031,407	35.7%	¥ 391,300	20.4%	¥1,640,106	419.1%

Breakdown of Net Sales and SG&A Expenses

Fiscal year ended March 31, 2000 (Yen in thousands)

Net Sales	Total	%
Advertising services	¥5,136,459	90.2%
Advisory and editorial services	388,000	6.8%
Web space rental services	129,269	2.3%
Technical support services	13,150	0.2%
Other	28,831	0.5%
Total	¥5,695,710	100.0%

Fiscal year ended March 31, 2000 (Yen in thousands)

SG&A Expenses	Total	%
Personnel expenses	¥1,163,821	33.1%
Advertising costs	419,028	11.9%
Content provider fees	307,866	8.8%
Sales commissions	418,236	11.9%
Depreciation expenses	214,131	6.1%
Communication charges	139,813	4.0%
Royalties	154,320	4.4%
Lease and utility expenses	189,452	5.4%
Other	504,385	14.4%
Total	¥3,511,056	100.0%

Statements of Cash Flows

(Yen in thousands)

	Three months ended March 31, 2000	Fiscal year ended March 31, 2000
Cash Flows from Operating Activities		
Income before income taxes	¥720,911	¥2,031,407
Depreciation and amortization	87,538	214,131
Increase in reserve for non-performing loans	2,199	2,908
Exchange loss	3,209	6,290
Interest earned	(6,639)	(18,333)
Interest expense	4,239	14,955
Other adjustments to earnings	571	804
Increase in accounts receivable—trade	(240,052)	(878,791)
Net change in accounts payable	200	(23,860)
Net change in accounts receivable—other	18,650	(88,778)
Increase in accounts payable—other	82,218	463,800
Increase in income taxes and other taxes payable	71,295	49,940
Directors' bonuses	—	(15,600)
Subtotal	744,343	1,758,874
Tax expense	(2,142)	(267,691)
Net cash provided by operating activities	742,200	1,491,182
Cash Flows from Investing Activities		
Expenditures on tangible fixed assets	(368,198)	(750,453)
Expenditures on intangible fixed assets	(102)	(44,083)
Expenditures on marketable investment securities	(232,500)	(1,224,700)
Increases in equity fund investments	(1,000,000)	(1,000,000)
Expenditures on lending	(48,387)	(63,791)
Proceeds from recovery of lending	1,203	16,951
Expenditures on increases in guarantee deposit assets	(186,001)	(404,207)
Proceeds from decreases in guarantee deposit assets	—	58,292
Interest earned	9,179	14,473
Other cash flow from investing activities	(15,750)	(15,750)
Net cash used in investing activities	(1,840,557)	(3,413,269)

Cash Flows from Financing Activities		
Proceeds from issuance of bonds	—	454,451
Expenditures on repayment of bonds	—	(110,641)
Proceeds from issuance of common stock	—	62,083
Expenditures on share repurchases	(400)	(400)
Interest expenses	(336)	(11,928)
Net cash provided by (used in) financing activities	(736)	393,564
Loss on conversion to cash and cash equivalents	—	(32)
Net change in cash and cash equivalents	(1,099,093)	(1,528,555)
Cash and cash equivalents at beginning of term	2,196,598	2,626,060
Increase in cash and cash equivalents due to acquisitions	3,450,082	3,450,082
Cash and cash equivalents at end of term	4,547,587	4,547,587

Risk Factors

The Company reported its fiscal year and fourth quarter results in the document “Results for the Fiscal Year and Three Months Ended March 31, 2000.” However, a number of potential factors could substantially impact its results from future operations. Major factors contributing to the business risk of the Company are discussed below. The Company proactively discloses those items it considers necessary for investors to include in their investment decision, including external factors beyond the control of the Company and business risks with a low probability of materializing. With an awareness of the potential risks, the Company makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the following issues before assessing the position of the Company and its future performance.

1. Risks Affecting Operations

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

1) Dependence on Specific Operations

Advertising services comprise the Company’s principal source of revenue and accounted for 92.0% of net sales in the fourth 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. In addition, the number of users accessing the Internet through cellular telephones and other mobile terminals has increased substantially. Although the

Company is planning to respond to this increase by adapting its services for use with mobile terminals, we can provide no guarantee that our services will achieve ratings in this medium on par with their use with personal computers. User share could fall as a result.

- d. As the entire catalogue of Yahoo! Japan services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Company's own servers and equipment as well as telecommunications equipment owned and operated by third parties. If for any reason the connecting environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue.
- e. The contract period for Internet advertisements is relatively short. In addition, Internet usage and demand among advertisers tends to be seasonal. These factors produce underlying short-term fluctuations in advertising revenue. Furthermore, as the Company's cost structure includes a high portion of fixed costs such as personnel expenses and lease expenses, expenditures cannot easily be adjusted to changes in revenue, contributing to underlying volatility in the Company's earnings stream.
- f. Operations are vulnerable to impact from such phenomena as fires, power outages and damages to telephone lines. Yahoo! Japan's main network infrastructure is concentrated in Tokyo, an area particularly susceptible to earthquakes, and the Company does not presently have multiple site capacity to offset any of the above occurrences. Despite the implementation of network security measures, the possibility of damage from computer viruses or hackers cannot be completely ruled out, and Yahoo! Japan does not hold sufficient insurance to compensate for losses due to these events. Any of these events could incur serious negative impact on the Company's business, operating results and financial condition.

2) Short Corporate History

Yahoo! Japan was founded in January 1996 and began its core advertising operations in April 1996. An operating loss was recorded in the fiscal year ended March 31, 1996 (see below), as a result of this lag. Although net sales increased and earnings were reported in the year ended March 31, 1997, the scale was small and large non-recurring revenues were included in other revenues. Although both net sales and earnings have increased substantially in subsequent fiscal years, 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	5th Term
Closing date	March 31, 1996	March 31, 1997	March 31, 1998	March 31, 1999	March 31, 2000
Net sales	¥ 636	¥413,066	¥1,269,260	¥1,914,849	¥5,695,710
Advertising services	—	345,939	908,803	1,432,365	5,136,459
Others	636	67,126	360,457	482,484	559,251
Operating income (loss)	(3,213)	56,584	165,693	399,454	2,110,411
Income before taxes	(5,241)	56,535	150,985	391,300	2,031,407
Net income	(5,290)	23,954	64,428	183,658	1,153,628
Shareholders' equity	194,709	218,664	1,018,055	3,263,566	8,106,758
Total assets	205,659	375,839	1,247,583	3,919,919	10,475,821
Page views (million per month)	—	71.0	188.7	561.5	2,125.0
Number of advertisers	—	37	71	111	300

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

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

3) Licensing Agreement with Yahoo! Inc.

Yahoo! Japan's operations are based on a licensing agreement with Yahoo! Inc., a founder of the Company and owner of 34.1% of shareholders' voting rights as of March 31, 2000. The Yahoo! trademark, software and tools (hereafter referred to as "the trademark") used in the operation of the Company's Internet directory search services are the property of Yahoo! Inc.; Yahoo! Japan conducts business operations through a license obtained for use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Company's core operations.

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

4) Need to Stay Ahead of Technological Innovations

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

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

5) The Yahoo! Brand and Cooperation Overseas

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

Although efforts are underway to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Company is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Company in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. Yahoo! Japan is not able to place certain advertisements while these agreements are valid.

6) Government Regulations

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

The Company's operations may be restricted through new laws aimed at Internet

users and Internet-related services and businesses. Operations may also be restricted by clarification of existing laws or voluntary restraints.

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

7) Potential Litigation

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

To avoid conflict with Japanese legal restrictions, the Company established the “Banner Advertisement Presentation Standard” that internally regulates advertising content and the content of Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Company also maintains the right to remove Web sites listed on its Internet directory search services at any time. In addition, the Company completely discloses its legal obligations in written contracts with the creators of these Web sites with clauses indicating the full responsibility of creators for the content of their sites. For such services as auctions and bulletin boards where users can transmit information freely, the Company indicates clearly in its contracts with users that illegal and harmful content is prohibited and that full responsibility lies with the user. Yahoo! Japan maintains the right to remove content and will do so any time it discovers content in violation of its contracts with users.

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

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

8) Patents for Internet Technology and Business Plans

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

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

Japan.

9) Yahoo! Shopping and Yahoo! Auctions

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

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

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

10) User Information

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

11) 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. Ownership was 4.1% as of March 31, 2000, due to an increase in the company's capital. Based on successes in translating Yahoo! Inc. technologies into 2-byte format to enable Japanese characters, the Company provided technological services necessary for establishing Yahoo! Korea. On September 3, 1997, Yahoo! Korea began services and quickly grew to be Korea's number one Web site through robust growth in page views and net sales. However, as that company faces the same risks as Yahoo! Japan, no assurances can be given that invested capital will be recovered. In addition, currency fluctuations could produce fluctuations in the value of the investment.

2) Investment in CyberMap Japan

On March 31, 1998, the Company invested ¥50 million for 11.1% ownership of CyberMap Japan Corp., a joint venture with Toppan Printing Co., Ltd. and Nippon Telegraph and Telephone Corporation (NTT). Ownership was 10.2% as of March 31, 2000, due to an increase in the company's capital. This company provides the Mapion service, which is a free map search service for information on companies, retail outlets and other sites on the Internet. 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 March 31, 2000, after an increase in the company's capital and listing of its shares on the "Mothers" section of the Tokyo Stock Exchange on December 22, 1999. Although a provisional estimate conducted on March 31, 2000, placed the value of that company at ¥43.6 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, or that it will be able to obtain a return on its investment.

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

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

4) Investment in Vector

On March 24, 1999, the Company invested ¥165 million, or 26.3% ownership, in Vector Inc. Ownership was 13.7% as of March 31, 2000, due to an increase in the company's capital. This company distributes software through downloads from the Internet and through books containing CD-ROMs. The Yahoo! Downloads service provided by this company has been well received by users. However, Yahoo! Japan is unable to make assurances that its investment in this company can be recovered.

5) Investment in Weathernews

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

6) Investment in e-Shopping! Toys

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

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

7) Investment in e-Shopping! Books

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

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

8) Investment in CarPoint

On October 6, 1999, the Company invested ¥67.2 million, or 8% ownership, in CarPoint K.K. Through this company's site, prospective car buyers can obtain detailed information on

automobiles and other related areas, including information on all Japanese-made automobiles and the latest details on a variety of foreign-made cars. In addition, the service provides users with a free appraisal of cars and introduces them to dealers who sell these cars. As a result, users are saved the bother of bargaining and can conduct their car search on the Internet to the point of purchase.

CarPoint increased its capital through an issue of new shares on March 28, 2000. Yahoo! Japan invested an additional ¥112.5 million and acquired 6.7% of the new issue. As a result, ownership in CarPoint was 7.65% as of March 31, 2000.

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

9) Investment in e-Shopping! Information

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

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

10) Investment in SpeedNet

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

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.

11) Investment in eS! Music

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

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

12) Investment in e-Shopping! CarGoods Corporation

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

24-hours-a-day.

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

13) Investment in Oricon Direct Digital Inc.

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

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

14) Establishment of Cybercircle

On March 5, 2000, Yahoo! Japan established Cybercircle Co., Ltd. as a subsidiary with ¥10.0 million in capital. The company plans to increase its capital through a third-party allotment of shares to Japan Travel Bureau, Inc. and SOFTBANK E-COMMERCE CORP., and change its name to Tabigator. It will conduct on-line sales of top-selling travel packages in Japan and overseas, and will also sell travel-related products.

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

15) Investment in SOFTBANK Internet Technology Fund No.1

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

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

16) Capital Investment Programs and Investment Plans

To support expected business expansion and continue launching new services, such as video and audio transmission, the Company is launching a capital investment program and an investment plan of comparatively large scale considering its current operations. The Internet industry is characterized by constant technological innovation and rapidly changing customer needs (see below). As a result, depreciation terms are expected to be shorter and depreciation costs higher than usual.

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 March 31, 2000, the major providers of Japanese-language Internet navigational services or similar services directed at Japanese Internet users were as follows (listed in alphabetical order):

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

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

4. Increased Risks from Expansion

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

1) Small-Scale of Operations

As of March 31, 2000, the Company employed 205 staff, including executives. Its internal administration is designed for this small organizational scale, and may encounter problems adjusting to expansion.

2) Technological Development

The Company's directory search and advertising services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant changes in standards and customer needs, and continuous development of new technologies and services. Responding to these conditions and sustaining a strong competitive position requires not only close cooperation with Yahoo! Inc., which operates almost identical services in the United States, but also increasing internal development efforts, including a rising level of funds expended in localizing operations of these services. As of March 31, 2000, Yahoo! Japan's research and development team consisted of 65 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 March 31, 2000, had a sales force of 45 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.