

Results for the Three Months Ended June 30, 2001

Introduction

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 27 million people as of June 2001, with Web users accounting for approximately 23 million of this total. Also, according to InfoCom Research, Inc.'s April 2001 survey of the Internet in Japan, 35.3% of Japanese households were Internet users as of the end of March 2001, and this number should rise to 79.5% by the end of March 2004. The same survey also predicted that the number of households using broadband services will rise to 53.6% by the end of March 2004.

Based on this growth in Internet users, the Internet advertising market in Japan grew 144.8% to ¥59 billion in calendar 2000 according to a survey by DENTSU INC. and is estimated to expand 65.8%, to ¥97.8 billion in calendar 2001.

According to reports by the IAB and Merrill Lynch, the growth of the Internet advertising market in the United States slowed in comparison to previous years, expanding 78.8%, to \$8.2 billion in calendar 2000. The decline in the pace of growth was attributed to advertising restraint related to the slow down in the economy and the bankruptcy of some dot com companies. The market declined in the first quarter of calendar 2001 compared with the same period of previous year, shrinking 19.2%, to ¥1.5 billion. This was the first time the Internet advertising market has declined year-on-year.

Under the impact of the slowdown in Internet advertising in the United States indicated above, advertisers in Japan have become cautious about Internet advertising. It is believed that the previously maintained high growth rate of the Internet market will temporarily. But in the medium to long term, as a new advertising medium, Internet advertising is expected to continue to grow as its value increases in tandem with the number of Internet users.

Amid these conditions, Yahoo Japan Corporation ("Yahoo! Japan" or "the Company") achieved the following results for the first (April to June) quarter of the fiscal year ending March 31, 2002, ended June 30, 2001.

Page Views

In the three months ended June 30, 2001, maximum daily page views exceeded 190 million for the first time, and monthly page views were more than 4.9 billion during June. This represents an increase of 493 million page views, or 11.0%, compared with March, 2001, the last month of the previous quarter, and an increase of 2,312 million page views, or 87.2%, compared with the same month a year earlier.

By service, directory search services accounted for 27.0%, information services for 19.4%, community services such as message boards for 27.6%, commerce services for 25.3%, and mobile services for 0.7% of monthly page views for June 2001. Services other than directory search services accounted for 73.0% of total monthly page views.

Services

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

Directory search services underwent major changes during the period. In April, we brought Google on board as our automatic link for key word search services. Because Yahoo! Japan's registered site database is limited due to careful selection, customers that want

broader coverage generally also use a robot search engine. This function allows users can choose between the special features of the two databases without going through complicated procedures. In May, we introduced Business Express, a service that charges partial fees for the registration of sales-oriented sites. In addition, in June, we commercialized the key word ranking data for searches on Yahoo! Japan, beginning to sell our Search Word Ranking Data Service, which has attracted wide interest.

In information services, we unveiled a new service called Yahoo! Movie in June that is popular with moviegoers. The service provides information on where new movies are showing, the special features of the movie theaters, and access routes. On top of that, users can view previews of movies using video streaming. This is Yahoo! Japan's first service to use broadband to deliver moving pictures to a wide range of users.

We also added a variety of new services to Yahoo! Finance. We made it possible for users to simultaneously view on one chart the movement of major price indexes and a maximum of 5 issues of stocks and investment trusts for up to 10 years. Moreover, we launched an Investment Trust Product Bulletin Board that is linked to investment trust information. For the limited period from May 16 to June 20, we set up a Scheduled Announcements of Business Results for Major Tokyo Stock Exchange Companies corner where users could check the scheduled dates of company announcements of fiscal results for the previous year. Furthermore, under the Corporate Information section of Yahoo! Finance, we began offering new information on trends in consolidated performance, and special information on individual companies. We also set up an Company Information corner that provides timely IR and PR information from companies using video clips, etc.

Continuing the previous quarter's efforts to bolster streaming relay services on Yahoo! Sports, we started radio coverage of the Daiei Hawks baseball games this season. Also, we added an electronic bulletin board function of golf course user review to our Golf Course Guide. In June, the Company formed a cooperative tie-up with Konami Co., Ltd. to offer their officially approved baseball and J league soccer online games on Yahoo! Japan free of charge.

In response to the recent interest in politics, we added a political news service provided by Jiji Press Ltd. in Yahoo! News and also took up related themes, such as the Prime Minister's activities, under Topics.

We revised Yahoo! Education's Specialist School Information Station, making it possible for users to search for specialist schools using multiple parameters, such as occupation, certification, and region. We also added an online service for information materials and application request for some of the schools. Another new service introduced during the quarter was the quick posting of answers to certification examination after they have been held. We disclosed the answers to the national Spring 2001 Japan Information-Technology Engineers Examination in April and the 98th Nisho Bookkeeping Examination in June.

Yahoo! Travel expanded their services by increasing the number of countries covered by their Country Information from 28 to 112. Country Information provides basic information on countries as well as helpful local information on planning and preparing for trips and eating and tipping.

Yahoo! Real Estate reinforced their property listings and added a keyword search function and a multiple condition search function for the second-hand market to enable a wide-range of property searches.

Yahoo! Map substantially improved its search function during the quarter. Searches can now be conducted by postal code to rapid focus in on the general area of a location and the address- and road map-based search functions have also been significantly upgraded.

Yahoo! TV began offering a program schedule for BS digital broadcasts.

Yahoo! Gourmet started to provide information on popular restaurants listed on Walkerplus.com, the official site of the Walker series of magazines, which publish Tokyo Walker and 7 other regional magazines. The service includes the Walkerplus Original Coupon service whereby users can take advantage of special offers for some of the listed restaurants. Yahoo! Gourmet also added a popular recipe-ranking list based on user access.

Yahoo! Music boosted its services during the quarter by expanding its coverage of musical genre and increasing reviews of jazz and classical CDs and other news.

We added Autos News to our Yahoo! Autos service. The new section covers general auto news, car multimedia, and motor sports.

In commerce services, on May 28, Yahoo! Auctions moved to further strengthen its consumer protection measures by introducing a fee-based personal identification system and an insurance system for fraud-related damages occurring after the start of the personal identification system. Although the implementation of these measures resulted in a slight decline in the number of users, auction items, completed transactions, and page views, as of the end of June, the number of subscribers are growing steadily and have almost returned to the pre-introduction level. In April, we started Premium Auction, where only companies that meet strict product quality standards can list their goods.

Among our Yahoo! Shopping categories, we began offering a book ordering service on Yahoo! Books Shopping. This service has increased the potential number of books that can be purchased because users can now order a book if it is not in inventory. We also introduced a book reservation service for certain popular books. Yahoo! Shopping also carried out a variety of special sales promotions, such as Mother's Day and Father's Day campaigns and special features targeting the salary bonus and summer gift seasons. Moreover, it also promoted sales by holding time limited bargain sales on weekends.

In community services, Yahoo! Chat featured several Chat Events during the first quarter in which a special guest was invited to be on Yahoo! Chat and answer users' questions. Famous guests included Masakiyo Maezono of the Tokyo Verdy professional soccer team, popular celebrity Hiroko Anzai, and Yukio Hatoyama, leader of the Democratic Party of Japan. The Chat Events were covered extensively in other media.

Yahoo! Greeting expanded its collection of card in time for Mother's Day and Father's Day. In addition to promoting the use of greeting cards, a corner was set up where users can view cards by sponsors, making searching easier.

Yahoo! Geocities integrated its guest book and easy vote functions and unveiled eTools that make it simpler for users to make guest book settings and use the vote function.

During the first quarter, the ID number of registered users (an ID is necessary for use of some of the Company's community and commerce services) exceeded 9.0 million, expanding by 1.36 million, or 17.5%, compared with the previous quarter.

Yahoo! Mobile also expanded its services during the quarter. Yahoo! Professional Baseball began providing detailed information on games starting with a list of all games scheduled for the day and including innings by innings data on runs scored, walks, and dead balls. There is also information on the pitchers and catchers used in the games, home runs, and the length of the games. Yahoo! Fortune Telling added five fortune-telling categories to its

mobile services, including 12 Stars of the Zodiac Fortune Telling and Zero Star Fortune Telling. Yahoo! Geocities introduced a function that allows i-mode formatted mobile home pages to be easily built using a mobile phone. Yahoo! Mobile also implemented a range of timely special features to provide information on seasonal topics, such as My Line, Golden Week, and the rainy season.

User Access

In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in June 2001, 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 87.4% of the respondents, a wide margin over goo, which ranked second at 50.8%.

By multiplying the above percentage by the approximately 23 million Web users in Japan as of the end of June 2001, we estimate that there were 20 million unique users accessing Yahoo! Japan at least once every four weeks.

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

Financial Accounts

<Statements of Income>

Caution: Beginning with the first quarter under review, agency commissions are being included in net sales, which were previously disclosed net of these agency commissions. Consequently, Sales commissions included under SG&A expenses also contain agency commissions. To allow comparison with results in previous years, prior year advertising revenues have been recalculated to include agency commissions.

Net Sales

Net sales for the first quarter rose to ¥4,868 million, a gain of ¥2,217 million, or 83.7%, compared with the same period a year earlier. This exceptional performance can be attributed to a ¥1,204 million, or 48.3%, increase in advertising revenue to ¥3,696 million and to the ¥748 million contribution to net sales by Yahoo! BB, which began selling its Yahoo! BB Starter Kits during the quarter. Compared with the previous quarter, net sales rose ¥645 million, or 15.3%. Because of the inclusion of Yahoo! BB sales in this quarter, the proportion of advertising revenues in net sales fell from 91.8% in the previous quarter to 75.9%.

(See Review of Operations)

Cost of Sales

Cost of sales for the first quarter advanced ¥436 million, or 2,651.7%, to ¥452 million, compared with the same period a year earlier. The main factor behind this jump was ¥438 million purchasing expense for items included in Yahoo! BB Starter Kits, sales of which got under way during the quarter. Compared with the fourth quarter of the previous fiscal year, cost of sales increased ¥435 million, or 2,461.6%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first quarter rose ¥726 million, or 41.1%, to ¥2,494 million compared with the same period of the previous fiscal year. The primary factors behind this increase are as follows.

Personnel expenses in the first quarter expanded ¥270 million, or 62.2%, to ¥704 million compared with the same period a year earlier. This growth reflects 120 new staff, an increase of 48.4%, hired in response to our rapid business expansion, for a total of 368 employees. Compared with the previous quarter, personnel expenses were up ¥84 million, or 13.6%.

Advertising costs totaled ¥277 million in the first quarter, a decrease of ¥14 million, or 4.9%, from the same period in the previous year. The decline was in response to an extraordinary event expense recorded in the first quarter last year. The main market activities carried out in the quarter under review were newspaper advertising for Yahoo! Shopping targeting the summer gift season and radio advertising aimed at increasing brand name awareness of Yahoo! Japan among non-Internet users with an eye to expanding users. Compared with the previous quarter, advertising costs declined ¥52 million, or 15.8%.

Content provider fees in the first quarter grew ¥124 million, or 117.5%, to ¥231 million compared with the same period a year earlier, as the Company worked to boost its information services. Compared with the previous quarter, content provider fees were up ¥65 million, or 39.5%.

First-quarter sales commissions declined ¥82 million, or 20.5%, to ¥320 million, compared with the same period a year earlier. A major advertising contract signed directly with the client was responsible for this decline. Compared with the previous quarter, sales commissions decreased ¥89 million, or 21.9%.

Sales promotion expenses in the first quarter climbed ¥11 million, or 34.5%, to ¥43 million compared with the same period a year earlier. Compared with the previous quarter, sales promotion expenses decreased ¥83 million, or 65.7%. This decrease could be attributed to a sales incentive system implemented during the previous quarter to encourage sales of stores on Yahoo! Shopping.

Depreciation expenses in the first quarter rose ¥112 million, or 103.7%, to ¥220 million due to the acquisition of additional servers to handle growth in page views and upgrades to services, as well as the introduction of basic office equipment in line with personnel expansion. Compared with the previous quarter, depreciation expenses increased ¥2 million, or 1.3%.

Communications charges in the first quarter advanced ¥160 million, or 230.3%, to ¥230 million as the Company expanded network connection contracts to improve the user-access environment and bolster its services and the number of data centers grew to four due to the mergers with P.I.M., Inc., etc. Compared with the previous quarter, communications charges were up ¥55 million, or 31.4%.

Royalties paid to Yahoo! Inc., of the United States, increased ¥56 million, or 84.0%, to ¥122 million in the first quarter compared with the same quarter in the previous fiscal year in accordance with the increase in net sales. Compared with the previous quarter, royalties rose ¥8 million, or 7.7%.

Lease and utility expenses rose to ¥128 million in the first quarter, an increase of ¥32 million, or 34.2%, from the same period a year earlier, in line with the Company's expansion of its headquarters and lease fees related to the newly opened Yahoo! Cafe. Compared with the previous quarter, lease and utility expenses rose ¥9 million, or 7.9%.

Operating Income

As a result of the above factors, operating income for the first quarter rose ¥1,054 million, or 121.8%, to ¥1,921 million. Compared with the previous quarter, operating income climbed ¥220 million, or 13.0%.

Non-Operating Income (Expenses)

Net non-operating income for the first quarter of the fiscal year ending March 31, 2002 was ¥25 million.

Ordinary Income

Ordinary income amounted to ¥1,946 million, an increase of ¥1,065 million, or 121.0%, from the first quarter a year earlier. Compared with the previous quarter, ordinary income advanced ¥282 million, or 17.0%.

Net Income

After-tax income totaled ¥1,109 million, assuming an effective tax rate of 43.0% (actual tax rate in fiscal year ended March 31, 2001 was 42.8%). Net income per share was ¥9,489.29. (Calculated at 116,929 shares, the average number of shares outstanding during the first quarter.)

(Reference)

EBITDA

EBITDA for the first quarter rose ¥1,174 million, or 119.0%, to ¥2,161 million compared with the same period last year. Compared with the previous quarter, EBITDA increased ¥286 million, or 15.3%.

<Balance Sheets>

Between March 31, 2001 and June 30, 2001, total assets contracted ¥1,767 million, or 6.3%, to ¥26,205 million; total liabilities decreased ¥1,815 million, or 19.5%, to ¥7,483 million; and total shareholders' equity declined ¥48 million, or 0.3%, to ¥18,722 million.

The primary factor behind the contraction in total assets was a decrease in marketable securities and investment securities. By account, in current assets, accounts receivable—trade increased ¥706 million, or 28.5% and marketable securities decreased ¥1,347 million, or 28.7%. In fixed assets, tangible fixed assets expanded ¥298 million, or 12.7% while investment securities dropped ¥1,323 million, or 8.8% compared with the previous quarter.

In current liabilities, accounts payable—trade jumped ¥460 million, or 5,176.5%, accounts payable—other declined ¥258 million, or 18.8% and accrued income taxes sunk ¥1,120 million, or 56.0% compared with the previous quarter. Among long-term liabilities, long-term deferred taxes decreased ¥780 million, or 14.7% compared with the previous quarter.

In shareholders' equity, the other securities evaluation adjustment decreased ¥1,061 million, or 14.7% compared with the previous quarter.

<Statements of Cash Flows>

Net cash used by operating activities totaled ¥318 million in the first quarter despite an increase in net income because of increases in payment of income taxes and other taxes and expanded accounts receivable—trade due to growth in net sales. Net cash used in investing activities totaled ¥1,186 million because of an increase in tangible fixed assets to expand and upgrade servers related to service expansion and because of investments in Net Protections, Inc., Digital Check, Inc., Azami Life Insurance Co., Ltd., and 6 other companies. There were no cash flows from financing activities. As a result, cash and cash equivalents in the first quarter decreased ¥1,504 million.

Review of Operations

Advertising Services

Sales of advertising services in the first quarter of the fiscal year ending March 31, 2002 rose ¥1,204 million, or 48.3%, to ¥3,696 million compared with the same quarter a year earlier. Compared with the previous quarter, sales of advertising services fell ¥181 million, or 4.7%.

Sales of advertising services experienced difficulties during the first quarter. There was a decline in orders for new advertising because of the news of the slow down of the Internet advertising market in the United States and uncertainty about the direction of the Japanese economy. In addition, some advertisers have shifted their focus to television and other traditional advertising media. In response to these conditions, the Company revised its sales organization, changing its sales structure to working through sales agencies and developing National Clients. In addition, we successively introduced such new advertising products as Skyscraper, a vertical banner ad, and text ads to meet advertisers' needs. Furthermore, we promoted the use of a variety of our services in a packaged product, in other words, fusion marketing. We also held a variety of campaigns to attract portions of clients' budgets. As a result, while other companies in the industry could not avoid substantial drops in sales of advertising services, Yahoo! Japan managed to hold the decline in the first quarter to a small one.

Specific results in the number of advertisers, advertisements, advertising agencies, and an outline of advertising products in the first quarter were as follows:

Major Advertisers

Compared with the same period in the previous year, the average number of monthly advertisers was 842 companies, an increase of 238 companies, or 39%. The number of new advertisers averaged 66 companies per month and repeater companies averaged 776 companies per month. The cumulative total number of advertisers was approximately 3,200 companies. By industry, in addition to the Company's previous advertisers of financial and insurance, information and telecommunications, restaurants and other services, and publishing, advertisements of hobby, sports goods, travel and leisure, real estate and housing fixtures, pharmaceuticals and medical goods, cosmetics and toiletries services also increased. Compared with the previous quarter, the average number of monthly advertisers dropped by 37 companies, or 4.0%. The average number of monthly repeater and new monthly advertisers decreased by six companies or 0.8% and by 31 companies, or 32%, respectively to produce this decline. Beginning with the quarter under review, the Company revised its sales structure to focus on working with advertising agencies basically having all the contracts made through ad agencies in order to obtain National Clients. Consequently, the rate of the number of clients advertising on Yahoo! Japan through advertising agencies totaled 73% in the first quarter.

Among advertisers, the SOFTBANK Group represented less than 3% of net sales, and Yahoo! Inc. purchased no advertising. Only one client accounted for 10% or more of net sales. (Note: The SOFTBANK Group comprises companies that have received more than 50% of their effective investment from SOFTBANK CORP.)

Advertisements

The average number of monthly advertisements for the first quarter increased by 950, or 64%, to 2,435, compared with the same quarter a year earlier. Monthly advertisements declined by 54, or 2% compared with the previous quarter.

Advertising Agencies

For the first quarter, the monthly average of advertising agencies conducting business with the Company rose by 54, or 32%, to 222 companies compared with the same quarter a year earlier. Compared with the fourth quarter in the previous fiscal year, this figure increased by 5 companies, or 2%.

Advertisement Rates per Page View

For the first quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.7 to ¥4 per page view, rates for “Targeting-Type Banner” ads varied from ¥2.62 to ¥20 per page view, and rates for the newly introduced Skyscraper banner varied from ¥3 to ¥12 per page view.

Advertising Products

Despite the difficulties experienced in first-quarter sales of core products Mega Yahoo!, Pilot Seat, and Run of Property, sales of Buttons for stock information, employment information, auctions and autos were strong. In addition, East Modules and West Modules that promote specific products were popular. Moreover, the new advertising product, text advertising, which consists of text only advertising on specific pages, and the vertical banner advertising Skyscraper were also popular.

One of the special features of the first quarter was the increase in orders for packaging the various services Yahoo! Japan offers, such as Yahoo! Broadcast, Yahoo! Shopping, Yahoo! Auction, and others, into a product that meets the needs of the advertiser and achieves synergies with other advertising media—in other words, fusion marketing. Good examples are the promotion campaigns for the movie Planet of the Apes and the musical artists Thee Michelle Gun Elephant. For the movie Planet of the Apes, in the lead up to its opening we offered invitations to the movie preview, a video clip ad, and information about which movie theaters the Planet of the Apes would be playing at on Yahoo! Japan site. Among other advertising services, our Demographic Targeting service that uses Internet interactivity to target people by gender and age groups increased by 9 contracts from the previous quarter, to 35 contracts.

Yahoo! BB Services

In June, we began offering a test broadband service Yahoo! BB, a high-speed connection service with ADSL and a broadband contents providing service for individuals. The new broadband service was established based on a tie-up with BB Technology Corporation, a company jointly owned by the Company and the SOFTBANK Group. The Company sells a Yahoo! BB Starter Kit, accepts service applications, provides customer service, runs the broadband portal site, and supplies the charging platform. BB Technology develops, provides and manages the ADSL infrastructure as well as supplying technology development and support. Total revenues of Yahoo! BB for the first quarter amounted to ¥748 million, generating 15.4% of net sales. These revenues constitute sales of the Yahoo! BB Starter Kit.

The Company purchased the modems and others from SOFTBANK CORP. and packaged them into the starter kits along with a CD-ROM and an instruction manual. The Yahoo! BB Starter Kits were then sold to BB Technology. Together with selling these kits, the Company introduces BB Technology to applicants for its Yahoo! BB service.

Information Publishing Services

Information publishing service revenues amounted to ¥159 million, accounting for 3.3% of net sales. The major contributors to revenues were Yahoo! Employment, Yahoo! Gourmet, Yahoo! Real Estate, and Yahoo! Autos.

Commerce Services

Revenues from our commerce services during the first quarter totaled ¥94 million, generating 1.9% of net sales. The major contributors to revenues were ¥76 million in shopping tenant fees and sales commissions, ¥11 million in travel sales, and ¥6 million in auction sales. At the end of the first quarter under review, the number of shops on Yahoo! Shopping reached 144, an increase of 63 stores, or 77.8% compared with the same period in the previous year. Tenant fees and sales commissions were ¥76 million, up ¥57 million, or 317.2% and turnover per store was ¥18 million, up ¥11 million, or 175.1% compared with the same quarter a year earlier.

At the end of the first quarter, Yahoo! Auction offered approximately 2.4 million items open for bidding. The monthly cumulative total (June 1 to June 30) of new items put up for auction was approximately 7.4 million, and the number of users registered using our personal identification system was about 570 thousand. At the end of the first quarter, there were 29 auction merchant shops on Yahoo! Auction.

Licensing Services

In the first quarter, revenues from our licensing service amounted to ¥87 million, accounting for 1.8% of net sales. The principal contributor to this revenue was ¥26 million in licensing fees from SOFTBANK Publishing Inc.

Business Services

First-quarter business services revenues totaled ¥25 million, generating 0.5% of net sales. The main contributors to revenues were ¥14 million from the pay site-registration service Business Express and ¥4 million in technology-related revenues from Yahoo! Broadcast.

Personal Services

Revenues from personal services in the first quarter amounted to ¥24 million, accounting for 0.5% of net sales. These revenues come from Yahoo! Auction's personal identification fees.

Other Services

During the first quarter of the fiscal year ending March 31, 2002, other services generated revenues of ¥33 million, accounting for 0.7% of net sales. The principal contributors to revenues are Yahoo! Cafe's sponsor and display fees.

Reference

1. Environmental Protection Activities

As a company in the service industry, we do have any operations that produce industrial waste. However, we take environmental protection very seriously, and are contributing in terms of conserving natural resources. To reduce the burden on the environment, we are undertaking the following recycling activities for natural resources. We intend to remain actively involved in tackling the issue of environmental protection.

- Eco Mark (business cards, envelopes, paper shopping bags, notices to shareholders, etc.)
- Recycling resources (use of Mamoru-kun, distribution of eco paper plates to Eco League participating universities)

2. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auction and donate the fund raised. During the first quarter, we held 61 charity auctions, raising a total of ¥17,998,001.

Balance Sheets

(Yen in millions)

	Three months ended June 30, 2001		Three months ended March 31, 2001		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 1,020	3.9%	¥ 1,177	4.2%	(13.4)%
Accounts receivable— trade	3,186	12.2%	2,479	8.9%	28.5%
Marketable securities	3,341	12.8%	4,688	16.8%	(28.7)%
Treasury stock	4	0.0%	4	0.0%	0.0%
Prepaid expenses	152	0.6%	112	0.4%	35.0%
Deferred tax assets	195	0.7%	195	0.7%	0.0%
Other current assets	18	0.1%	11	0.0%	67.8%
Total current assets	7,918	30.3%	8,669	31.0%	(8.7)%
Fixed Assets					
Tangible fixed assets	2,653	10.1%	2,354	8.4%	12.7%
Intangible fixed assets	110	0.4%	104	0.4%	5.7%
Investments and others					
Investment securities	13,652	52.1%	14,975	53.5%	(8.8)%
Investment in affiliated companies	60	0.2%	60	0.2%	0.0%
Bonds of affiliated companies	400	1.5%	400	1.4%	0.0%
Equity funds	919	3.5%	919	3.3%	0.0%
Long-term loans	1	0.0%	0	0.0%	261.6%
Prepaid expenses	57	0.2%	51	0.2%	10.9%
Prepaid pension expenses	-	-	4	0.0%	0
Guarantee deposits	431	1.7%	431	1.6%	0.0%
Others	0	0.0%	0	0.0%	0.0%
Total investments and others	15,522	59.2%	16,843	60.2%	(7.8)%
Total fixed assets	18,286	69.7%	19,303	69.0%	(5.3)%
Total assets	¥26,205	100.0%	¥27,972	100.0%	(6.3)%

(Yen in millions)

	Three months ended June 30, 2001		Three months ended March 31, 2001		Increase (Decrease)
Liabilities					
Current Liabilities					
Accounts payable—trade	¥ 469	1.8%	¥ 8	0.0%	5176.5%
Accounts payable—other	1,117	4.3%	1,376	4.9%	(18.8)%
Accrued income taxes	879	3.3%	2,000	7.1%	(56.0)%
Accrued consumption taxes	122	0.5%	240	0.9%	(49.4)%
Advance received profit	43	0.2%	70	0.3%	(37.3)%
Subscription warrants	7	0.0%	7	0.0%	0.0%
Other current liabilities	181	0.7%	159	0.1%	13.6%
Total current liabilities	2,820	10.8%	3,863	13.8%	(27.0)%
Long-Term Liabilities					
Retirement allowances	7	0.0%	-	-%	-
Long-term debt	137	0.5%	137	0.5%	0.0%
Long-term deferred taxes	4,517	17.2%	5,298	18.9%	(14.7)%
Total long-term liabilities	4,662	17.7%	5,435	19.4%	(14.2)%
Total liabilities	7,483	28.5%	9,299	33.2%	(19.5)%
Shareholders' Equity					
Common stock	5,993	22.9%	5,993	21.5%	0.0%
Additional paid-in capital	1,099	4.2%	1,099	3.9%	0.0%
Legal reserve	5	0.0%	3	0.0%	42.0%
Other retained earnings					
Reserve for special depreciation	122	0.5%	143	0.5%	(14.3)%
Current retained earnings	5,350	20.4%	4,221	15.1%	26.7%
Other securities evaluation adjustment	6,150	23.5%	7,211	25.8%	(14.7)%
Total shareholders' equity	18,722	71.5%	18,673	66.8%	0.3%
Total liabilities and shareholders' equity	¥26,205	100.0%	¥27,972	100.0%	(6.3)%

Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended June 30, 2001		Three months ended June 30, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥4,868	100.0%	¥2,650	100.0%	¥2,217	83.7%
Cost of sales	452	9.3%	16	0.6%	436	2651.7%
Gross profit	4,415	90.7%	2,634	99.4%	1,781	67.6%
SG&A expenses	2,494	51.2%	1,768	66.7%	726	41.1%
Operating income	1,921	39.5%	866	32.7%	1,054	121.8%
Net non- operating income (expenses)	25	0.5%	14	0.5%	11	75.7%
Ordinary income	¥1,946	40.0%	¥ 880	33.2%	¥1,065	121.0%

(Yen in millions)

	Three months ended June 30, 2001		Three months ended March 31, 2001		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥4,868	100.0%	¥4,223	100.0%	¥645	15.3%
Cost of sales	452	9.3%	17	0.4%	435	2461.6%
Gross profit	4,415	90.7%	4,205	99.6%	210	5.0%
SG&A expenses	2,494	51.2%	2,504	59.3%	(10)	(0.4)%
Operating income	1,921	39.5%	1,700	40.3%	220	13.0%
Net non- operating income (expenses)	25	0.5%	(36)	(0.9)%	62	(169.8)%
Ordinary income	¥1,946	40.0%	¥1,663	39.4%	¥282	17.0%

Note: Beginning with the first quarter under review, agency commissions are being included in net sales, which were previously disclosed net of agency commissions. Consequently, sales commissions included under SG&A expenses also contain agency commissions. To allow comparison with the previous quarter, prior year advertising revenues have been recalculated to include agency commissions.

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

Three months ended June 30, 2001 (Yen in millions)

Net Sales	Total	%
Advertising services	¥3,696	75.9%
Yahoo! BB	748	15.4%
Other	424	8.7%
Total	¥4,868	100.0%

Three months ended June 30, 2001 (Yen in millions)

SG&A Expenses	Total	%
Personnel expenses	¥ 704	28.2%
Advertising costs	277	11.1%
Content provider fees	231	9.3%
Sales commissions	320	12.9%
Sales promotion expenses	43	1.7%
Depreciation expenses	220	8.9%
Communication charges	230	9.2%
Royalties	122	4.9%
Lease and utility expenses	128	5.2%
Other	214	8.6%
Total	¥2,494	100.0%

Note: Beginning with the first quarter under review, agency commissions are being included in net sales, which were previously disclosed net of agency commissions. Consequently, sales commissions included under SG&A expenses also contain agency commissions.

Reference:
Statements of Income (Three-Month Periods)
—Net of Agency Commissions

(Yen in millions)

	Three months ended June 30, 2001		Three months ended June 30, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥4,629	100.0%	¥2,385	100.0%	¥2,244	94.1%
Cost of sales	452	9.8%	16	0.7%	436	2651.7%
Gross profit	4,176	90.2%	2,369	99.3%	1,807	76.3%
SG&A expenses	2,255	48.7%	1,502	63.0%	752	50.1%
Operating income	1,921	41.5%	866	36.3%	1,054	121.8%
Net non- operating income (expenses)	25	0.5%	14	0.6%	11	75.7%
Ordinary income	¥1,946	42.0%	¥ 880	36.9%	¥1,065	121.0%

(Yen in millions)

	Three months ended June 30, 2001		Three months ended March 31, 2001		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥4,629	100.0%	¥3,932	100.0%	¥697	17.7%
Cost of sales	452	9.8%	17	0.5%	435	2461.6%
Gross profit	4,176	90.2%	3,914	99.5%	262	6.7%
SG&A expenses	2,255	48.7%	2,214	56.3%	41	1.9%
Operating income	1,921	41.5%	1,700	43.2%	220	13.0%
Net non- operating income (expenses)	25	0.5%	(36)	(0.9)%	62	(169.8)%
Ordinary income	¥1,946	42.0%	¥1,663	42.3%	¥282	17.0%

Note: Beginning with the first quarter under review, agency commissions are being included in net sales, which were previously disclosed net of agency commissions. For reference, figures are shown here net of agency commissions.

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

Three months ended June 30, 2001 (Yen in millions)

Net Sales	Total	%
Advertising services	¥3,457	74.7%
Yahoo! BB	748	16.2%
Other	423	9.1%
Total	¥4,629	100.0%

Three months ended June 30, 2001 (Yen in millions)

SG&A Expenses	Total	%
Personnel expenses	¥ 704	31.2%
Advertising costs	277	12.3%
Content provider fees	231	10.3%
Sales commissions	81	3.6%
Sales promotion expenses	43	1.9%
Depreciation expenses	220	9.8%
Communication charges	230	10.2%
Royalties	122	5.5%
Lease and utility expenses	128	5.7%
Other	214	9.5%
Total	¥2,255	100.0%

Note: Beginning with the first quarter under review, agency commissions are being included in net sales, which were previously disclosed net of agency commissions. For reference, figures are shown here net of agency commissions.

Statements of Cash Flows

(Yen in millions)

	Three months ended June 30, 2001
Cash Flows from Operating Activities	
Income before income taxes	¥1,946
Depreciation and amortization	220
Increase/decrease in retirement allowance	12
Exchange loss	(1)
Interest earned	(7)
Interest expense	1
Increase/decrease in accounts receivable—trade	(731)
Increase/decrease in accounts payable—trade	460
Increase/decrease in accounts receivable—other	(49)
Increase/decrease in accounts payable—other	(93)
Increase/decrease in consumption taxes payable	(118)
Subtotal	1,639
Payment of income taxes and other taxes*	(1,958)
Net cash provided by operating activities	(318)
Cash Flows from Investing Activities	
Expenditures on tangible fixed assets	(651)
Expenditures on intangible fixed assets	(32)
Proceeds from sale of tangible fixed assets	13
Purchases of investment securities	(608)
Proceeds from sale of investment securities	90
Expenditures on loans	0
Proceeds from recovery of lending	0
Expenditures on increases in guarantee deposit assets	0
Interest earned	3
Net cash used in investing activities	(1,186)
Cash Flows from Financing Activities	
Net cash used in financing activities	-
Net Change in cash and cash equivalents	(1,504)
Cash and cash equivalents at beginning of term	5,866
Cash and cash equivalents at end of term	¥4,361

*The amount is as of fiscal year ended March 31, 2001.

Risk Factors

The Company has reported its results for the first quarter of fiscal 2002 in the document "Results for the Three Months Ended June 30, 2001." However, a number of potential factors could substantially impact future performance. Major factors contributing to business risk for the Company are discussed below. The Company proactively discloses those items it deems necessary for investors to consider in their investment decisions, including external factors beyond the control of the Company and business risks with a low probability of materializing. Cognizant of the potential risks, the Company makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the issues below 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 licensing agreements with Yahoo! Inc. of the United States (hereinafter 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 Websites for individual users and a variety of free-of-charge communications services, including paging and message-board services for communication among fellow users, as well as electronic commerce (EC) services (electronic commerce refers to exchange via the Internet of products, services, information and funds from seller to buyer and in the commercial transfer of wealth between economic entities), which allow users to purchase a variety of products via 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 banners and other paid advertising posted on the pages of these services and targeting the users of these services. The following risks and environmental factors can affect the operations of the Company:

[1] Influence of the Internet markets and environment

1) Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since its emergence 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 the continued expansion of communication and commercial activity via the Internet and a stable and secure environment for Internet users.

However, a number of factors can contribute to uncertainty in the outlook for

Internet usage, including the availability of necessary infrastructure, such as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols to respond to growing Internet traffic and increasingly advanced applications; and the possibility of new regulation or charges related to Internet use.

2) Dependence on the environment for Internet connection

As the entire catalog 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.

Operations are vulnerable to impact from such phenomena as fires, power outages and damage 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 these events.

Despite the implementation of network security measures, the possibility of damage by 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] The Yahoo! Brand

1) Licensing Agreements with Yahoo! Inc.

Yahoo! Japan's operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.8% of voting shares as of June 30, 2001. The Yahoo! trademark, software and tools (hereinafter 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 the 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
<p>Contract Term: From April 1, 1996, termination date unspecified (Note) The license agreement may be terminated in the following cases: mutual decision by 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 shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.). Contracted Party: Yahoo! Inc.</p>
<p>Main Conditions:</p> <ol style="list-style-type: none"> 1. Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"> * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory-search and other services customized and localized for the Japanese market (hereinafter 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 Yahoo! directory-search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) <p>Note: 3% of gross profit after deducting sales commissions, paid quarterly</p>

2) 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 under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Company is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Company in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. Yahoo! Japan is not able to place certain advertisements while these agreements are valid. Although, Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations and presence, there is the possibility that Yahoo! Japan has not registered trademarks necessary to its business in Japan.

It is also possible that third parties may have acquired domain names that Yahoo!

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

[3] Advertising services

Advertising services comprise the Company's principal source of revenue and accounted for 75.9% of net sales in the first quarter of fiscal 2002. Although the contribution of advertising services to net sales is now less than it was up to last year, the Company's operating results are still highly dependent on advertising services. The following uncertainties are implicit in advertising sales:

1) 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 has not been established with advertisers, consumers and advertising agencies.

The Company has continued to attract increasing numbers of advertisers from many business sectors. However, with limited experience in Internet advertising, most advertisers still consider it a trial medium. Many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering major advertisers on Yahoo! Japan by industry, national-brand clients in industries that usually advertise more than other industries in other media, such as food products, cosmetics, toiletries, beverages, drugs and health-care goods, do not spend as much on Internet advertising as they do on other media. If this condition continues, it may be difficult for the Company to achieve a stable flow of advertising revenue.

The Company believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness must be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept roles in this area, none has 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.

2) Characteristics of Internet advertising

Advertising business is highly susceptible to trends in the overall economy. During downward cycles advertising expenditures are among the first expenses to be reduced by companies. Moreover, Internet advertising has a short history, and changes in more developed markets, such as the United States, could affect the Japanese market.

Contract periods for Internet advertising are relatively short. In addition,

Internet usage and demand among advertisers tend to be seasonal. These factors produce underlying short-term fluctuations in advertising revenue. Further, as the Company's cost structure includes a high proportion of fixed costs, such as personnel and leasing expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Company's earnings stream.

In addition, although advertising contract periods and page views ('hits') are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and the like could force the Company to extend advertising contract periods or devise some other type of compensation that could negatively impact advertising revenues.

3) Large-Scale Business Contracts with Certain Advertisers

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

4) Advertising Sales Promotion

In the future the Company will need to increase its sales force and strengthen its sales-management system to suit market expansion. However, these measures alone will not be sufficient to guarantee increased advertising revenues.

Moreover, a substantial portion of advertising revenues come from advertising agent Cyber Communications Inc. Fluctuations in the volume of sales by this company it could have substantial impact on performance.

Based on changes made to the advertising sales structure to strengthen its capability to attract major advertising clients, the Company expects that sales by advertising agencies and the proportion of these sales within overall sales will rise. However, it is possible that in the short term commissions to these advertising agencies will rise significantly, resulting in a decline in overall sales.

5) The Competitive Environment

As of June 30, 2001, the major providers of Japanese-language Internet navigational services, or similar services directed to Japanese Internet users, earning advertising income through comprehensive information sites for those services, were as follows (in no particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
goo	NTT X	Comprehensive information site
Lycos	Lycos Japan Inc.	Comprehensive information site
MSN	Microsoft Corp.	Comprehensive information site
Infoseek	Infoseek Japan K.K.	Comprehensive information site
excite	Excite Japan Co., Ltd.	Comprehensive information site
ISIZE	Recruit Co.,Ltd.	Comprehensive information site

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

[4] Yahoo! BB

In June, Yahoo! Japan started testing the Yahoo! BB service, a comprehensive subscriber service offering fast Internet-access service for individuals using Asymmetric Digital Subscriber Lines (ADSL) and a portal for broadband content. Preparation is underway to open regular operations in August.

The service is provided jointly by BB Technology Corporation (BBT), a joint venture founded by Softbank Corp., other group companies and Yahoo! Japan. Yahoo! Japan will take charge of subscriber signup, customer service, broadband portal management, provision of the payment platform, and sales of the Yahoo! BB Starter Kit, while BBT will offer and manage the ADSL infrastructure and Internet access service, develop new technology and provide technology support. Each will take its share of responsibilities for operating the service.

1) ADSL Infrastructure and Internet access service

One of the risks the Company may face will be failure to gather the anticipated number of subscribers despite promotion effort offering price-competitiveness backed by overwhelming brand strength. This may prevent the Company from making anticipated sales or demand that it bear much higher costs than expected, with subsequent significant impact on earnings.

It is possible that the work contributed by BBT could indirectly but significantly influence the Company's performance. Specifically, there is risk of extended construction periods and related delays in offering services to users who signed up for them as well as accounting for the sales. Another risk is failure to build

infrastructure and problems with service quality, leading to subscriber service cancellations and damage to the Yahoo! Japan brand image and subsequent negative effect on its business.

It is BBT's responsibility to build infrastructure for the services. Yahoo! Japan therefore does not bear the risk of equipment investment, construction and obsolescence of facilities due to technological progress. The Company's share of investment is influenced by the initial investment by BBT. If BBT has cash-flow difficulty due to substantial expansion of investment beyond projections or the number of subscribers not growing as planned, Yahoo! Japan may have to make additional investment.

2) Broadband portal service

Yahoo! Japan plans to offer subscribers broadband content, such as films and music, in cooperation with companies offering various high-quality content. It is possible, however, that expected sales will not be made due to insufficient assemblage of content or content costing far more than expected. This may impact sales and profit.

The Company plans to act as the platform for consigned billing and settlements for said pay contents providing and access services to effect collections. There is the possibility of failure in making the intended sales and profit for reasons such as system taking much longer to build or development costs rising much higher than intended.

3) Sales of the Yahoo! BB Starter Kit

Yahoo! Japan sells the Yahoo! BB Starter Kit, the device subscribers use to access the service. This involves risks such as failure of the products to be delivered on time in the right specification, and thus negatively influencing Company services, the Company having excess inventory and damage, loss during transportation or storage, and obsolescence of the product due to technological change and innovation. Product purchases can be significantly influenced by Company cash-flow and fluctuation of exchange rates as well. In addition, the Company could be asked for compensation if defects in the product cause damage to people who use them.

4) The Competitive Environment

As of June 30, 2001 the major providers in Japan of services similar to those the Company plans to offer were as follows (in no particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
@nifty	Nifty Corp.	ISP business and comprehensive information site
So-net	Sony Communication Network Corp.	ISP business and comprehensive information site
BIGLOBE	NEC Corp.	ISP business and comprehensive information site
AOL	DoCoMo AOL, Inc.	ISP business and comprehensive information site
NTT	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
Usen	Usen Corp.	Broadcasting and optical IP communications business
@catv	Tokyu Cable Television Inc.	Cable television and Internet business
J-com	Jupiter Telecommunications Co., Ltd.	Cable television and Internet business

With competition from these service providers expected to grow, it remains unclear whether the Company can attain a superior position and sustain its hold in the industry. In addition to cutting access revenues, competition could increase advertising costs, which would have negative impact on the Company's operating results. As a result, in the worst case, the Company and BBT could no longer afford to continue providing services and would be forced to withdraw from the business. In this way competition could have significant impact on the Company's business.

[5] Commerce Services

To prepare for the coming growth in e-commerce, the Company launched Yahoo! Shopping and Yahoo! Auctions services in September 1999.

1) Damage compensation

Yahoo! Japan assumes no responsibility for the activities, products services or Website content of the many retailers using these services. Nor does the Company guarantee that users of these services will the 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 or honoring of contracts agreed to while using this service.

However, the 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.

2) Illegal acts on auction

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

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

In its Internet auction business, the Company began charging fees on May 28, 2001, mainly for personal identification and damage compensation. This resulted in a decline in the numbers of users, items auctioned and bid, and page views in the beginning, but they have returned to nearly the same levels as before the personal-identification system began operating. Mainly due to competition with free auction sites, the business will likely continue to require close attention.

The damage-compensation system has the Company pay compensation up to a certain amount to users who fall victim to illegal activities. This could increase expenses by the Company.

3) The Competitive Environment

As of June 30, 2001, the major providers of Japanese-language online mall and auction services directed to Japanese Internet users were as follows (in no particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
Rakuten Ichiba	Rakuten Inc.	Online mall and auction site
Bidders	DeNA Co.	Online auction site
Ebay	eBay Japan Inc.	Online auction site

Included among these companies are service providers in the highly competitive U.S. Internet industry and corporations affiliated with competitors of Yahoo! Inc., the company's major shareholder. 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 impacting sales via the Company's shopping site, competition could decrease tenant fees and commission income by cutting participation in the auction site and increase advertising costs, which would cause negative impact to the Company's operating results.

[6] Other overall business risks

1) Keeping Up with Technology

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Company's services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States. With this, Yahoo! Japan is constantly developing new technology to improve its services. Failure of Yahoo! Inc. or Yahoo! Japan to keep up with technological advances could render their services outdated and erode their competitive positions. The Company will also bear an increasing load from original development, including a rising level of expenditures for localizing operation of the services.

The Company's small-scale capabilities in research and development could also impede competitiveness due to such factors as more time needed for development. Either of these contingencies could severely impact operating results.

Although the Company has responded to this increase by adapting its services for use with mobile terminals, we can provide no guarantee that our services will achieve ratings in this medium on a par with their use with personal computers. User share could fall as a result, and that could compress the Company's sales and profit in favor of larger expenditures for development and other uses.

2) Dependence on third parties

Although Yahoo! Japan works continuously to build the value it supplies its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Company purchases content from third parties on contract. Failure to consistently provide high-quality content that appeals to users could lower traffic and subsequently impact advertising revenue.

Yahoo! Japan is dependent on several Internet service providers 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.

Yahoo! Japan does not only rely on the previously mentioned Internet providers, but many of its services rely on outside third parties that the Company has commissioned operations to or receives information or support from. It is possible that the operations of the Company could be hindered because of worsening of the business

conditions of these third parties, resulting in negative impact on performance.

3) 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 Websites 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.

As a result of personal identification for Yahoo! Auctions, the start of the Yahoo! BB service and recruiting of Yahoo! Research collaborators, the Company now owns much more detailed personal information than ever to help identify individual users.

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 each service, it also deals with information access rights within the company with extreme care by assigning specific persons to control it.

Nevertheless, the Company cannot completely eliminate the possibility that this information will be obtained and abused by third parties. As a result, we could be involved in legal disputes. If the proposed treaty concerning the jurisdiction of international courts presently under consideration is approved in its current form, it is possible that the Company could become involved in legal disputes overseas with users outside Japan.

4) Collection of sales credit claims

In sales of advertising products and others, the Company carefully examines the credit standing of the sellers, following a set of internal rules. It also undertakes sufficient precautions so the collection of sales credit claims will not be delayed in cases of credit-card settlements via sales agents. Nevertheless, economic fluctuation and deterioration of customer business could delay collections and result in defaults. With the expansion of business, the Company expects a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Company and increasing personnel to respond to the situation could increase costs and negatively influence the Company's sales and profit.

5) Dependence on key personnel, etc.

The Company depends on continued support from senior management and key technical personnel. These include the President, Directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technological expertise concerning the Company and its business.

Consequently, if key personnel were to leave and the Company fails to replace them, that would negatively influence the continuation and development of the business.

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

6) Internal Control System and Human Resources

In addition to the enhancement of personnel and organization for greater advertising sales and technology development, the Company must increase staff to support the large number of new Websites created by the recent surge in Internet use, to carry out operation and management of its community services and shopping services, and to control billing and offer user support concerning paid services related to Yahoo! BB.

Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness, create possible trouble with users and tenants, and affect the efficiency of operations.

To respond to personnel increases and business diversification, the Company must further improve its administrative control systems. Although Yahoo! Japan will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.

[7] Increased Risk from Diversification and New Business

To achieve long-term growth, the Company plans to diversify into businesses that will expand the revenues of existing businesses and start new businesses that will provide new sources of revenue in addition to the advertising revenues that generate the major portion of its current sales. For example, the expansion and diversification of electronic commerce transactions through Yahoo! Shopping and Yahoo! Auctions and supplying paid services to support the various types of information-transmission needs of corporations. For these purposes, the Company expects to incur additional expenses to employ new staff, expand and upgrade its facilities, and to carry out research and development.

The Company believes that these types of diversification and new business will strengthen its operating base. However, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Company's profitability may decline temporarily. In addition, there is no guarantee that these businesses will develop exactly as the Company has planned. It is possible that the Company will not recover its investment expenses, and that this will impact significantly on performance.

[8] Legal restrictions, lawsuits and intellectual property rights

1) Government Regulations

Distribution of information over the Internet and electronic commerce are currently under review by the Japanese government. Although no regulations governing the advertising operations of the Company exist at present, a number of other countries are now considering regulating Internet use and publicizing legal opinions on the subject.

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

Yahoo! BB, as a Class 2 Telecommunications Operator, is required to follow Telecommunication Business Law and related ordinances issued by related government divisions. Changes in the law or ordinances could influence the Company's business.

2) Potential Litigation

Moves are being made to regulate the flow of information via the Internet, both to ban the distribution of illegal or harmful content and to protect the privacy of individuals.

To avoid conflict with Japanese legal restrictions, the Company established a "Banner Advertisement Presentation Standard" that internally regulates advertising content and the content of Websites 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 list Websites and remove Websites 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 Websites 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 or 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, Websites 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 hits or suspension of services.

3) Patents for Internet Technology and Business Plans

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Numerous patent applications have been filed at the JPO claiming rights particularly to Internet technologies based on computer and telecommunication technologies that facilitate electronic commerce. Some recent patents and patent applications cover not only technology but also business models. As such, the possibility exists that third parties in possession of these patents will make claims or file suit against Yahoo! Japan, and that the Company will be prohibited from using such technology or forced to pay large royalties to acquire said patents. Currently, the Company has received a warning letter from a U.S. computer manufacturer concerning a patent registered in Japan and discussions are ongoing. It is possible that based on these discussions the Company could be restrained from offering some services or would have to pay royalties.

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

2. Risks Concerning Investment and Capital Investment Programs

[1]Investment

The Company has invested in 37 companies and 1 co-op as stated in the attached sheet. These investments have been made to form ties with the companies invested in and their businesses, or to form business ties in the future. The Company cannot guarantee that these investments will be recovered.

Although as of June 30, 2001 four of these companies had been publicly listed and the value of the Company's investment has increased, this value could decline in the future.

Moreover, depending on the direction of the performance of the companies it has invested in, Yahoo! Japan may have to write down the value of its marketable securities based on the application of compulsory evaluation accounting, and this could influence the Company's fiscal profit or loss.

[2]Capital Investment Programs and Investment Plans

To support expected business expansion and continue launching new services, such as video and audio transmission, the Company is launching a capital investment program and an investment plan of comparatively large scale considering its current operations. Since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be relatively short. As a result, depreciation terms are expected to be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of extraordinary losses on disposal of current facilities.

Although Yahoo! Japan believes business expansion will result in earnings growth sufficient to cover these increased costs, ineffective capital investments and delayed effect could substantially impact future earnings. In addition, unfavorable performance by companies in which Yahoo! Japan has invested could impact the Company's financial structure and operating results.

List of Companies Invested by Yahoo Japan Corporation

	Investment targets	Listing	Date listed	Stake (%)	Amount (Yen)	BS accounting amount	Line of business	Relationship with the Company	director s on loan
1	Yahoo Korea	-	97/10/06	4.12	6,004,720	6,004,720	Comprehensive Internet information-portal business in Korea	Yahoo! Japan offered technical service at startup	Yes
2	CyberMap Japan Corp.	-	98/04/01	8.33	50,000,000	50,000,000	Internet-based map information service ("Mapion")	Alliance for Yahoo! Map	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	12.49	100,000,000	6,336,000,000	Internet technical-support service		Yes
4	Vector Inc.	NASDAQ Japan	99/03/25	13.10	165,000,000	3,240,000,000	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	NASDAQ Japan	99/05/28	5.24	300,000,000	1,452,000,000	Weather observation, data collectin/analysis, weather forecast and related information services	Alliance for Yahoo! Weather	
6	e-Shopping! Toys CORP.	-	99/08/31	10.00	40,000,000	40,000,000	eS! retail-toy Website	Yahoo Shopping tenant	Yes
7	e-Shopping! Books CORP.	-	99/09/10	10.26	60,000,000	60,000,000	eS! retail-book Website	Yahoo Shopping tenant	Yes
8	CarPoint K.K.	-	99/10/06	6.54	179,700,000	179,700,000	Offering car-related information, quotes and dealer introductions		
9	SpeedNet. Inc.	-	99/12/10	1.67	125,000,000	125,000,000	Fiber-optic and high-speed wireless Internet service		
10	e-Shopping! CarGoods CORP.	-	00/02/28	10.00	30,000,000	30,000,000	eS! CarGoods Website	Yahoo Shopping tenant	Yes
11	Oricon Global Entertainment Inc.	NASDAQ Japan	00/03/28	1.53	50,000,000	200,000,000	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
12	e-shopping! Wine CORP.	-	00/05/26	10.00	30,000,000	30,000,000	eS! Retail-wine Website	Yahoo Shopping tenant	Yes
13	SOFTBANK ZENet Inc.	-	00/08/28	8.33	30,000,000	30,000,000	Comprehensive site for IT-related information	Alliance for Yahoo! News	Yes
14	Computer Channel Corporation	-	00/11/13	10.00	31,250,000	31,250,000	Consigned satellite broadcasting and production		Yes
15	e-Net Japan Co., Ltd.	-	00/12/14	6.00	75,000,000	75,000,000	Sales of personal commuturs, audio/visual and home equipment via the Internet	Yahoo! Shopping/Auctions tenant	
16	J-Yado Co., Ltd.	-	00/12/22	7.14	120,000,000	120,000,000	J-Yado.com hotel reservation Website		
17	Digibike Co., Ltd.	-	00/12/26	2.27	60,000,000	60,000,000	E-commerce and supply of contents related to motorcycles	Yahoo! Auctions tenant	
18	Power Print Inc.	-	00/12/27	15.00	60,000,000	60,000,000	Online order-taking, printing and delivery of various printed materials		
19	Naturum Corp.	-	00/12/29	10.01	79,200,000	79,200,000	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
20	Archinet, Inc.	-	01/01/19	19.84	50,000,000	50,000,000	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
21	Golf Do Co., Ltd.	-	01/01/24	4.90	199,989,000	199,989,000	An online shop for used golf equipment		
22	Axiv.com, Inc.	-	01/01/30	5.44	50,000,000	50,000,000	MyID promotion/gift campaign Website		
23	CafeGlobe.com	-	01/01/30	11.44	100,000,000	100,000,000	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet	
24	eBANK Corporation	-	01/03/12	2.07	299,000,000	299,000,000	eBank scheduled to open for service late in July		
25	GameBox, Inc.	-	01/03/16	9.38	99,750,000	99,750,000	GAMEBOX game-related Website		
26	Digipri Corporation	-	01/03/27	0.82	100,000,000	100,000,000	Internet storage and output services for digital imaging		
27	Bitwave Corporation	-	01/03/29	4.67	100,000,000	100,000,000	Indies music business and sales of concert/sporting egent tickets		
28	Net Protections, Inc.	-	01/04/10	16.47	100,000,000	100,000,000	Online commercial settlement service		
29	istyle Inc.	-	01/04/20	8.87	50,000,000	50,000,000	@cosme information site on cosmetics and beauty care		
30	Digital Check Co. Ltd.	-	01/04/24	2.61	99,447,620	99,447,620	EC settlements, content supply and networking business	Alliance for Yahoo! Auction	
31	Azami Life Insurance Co.	-	01/04/25	0.90	100,000,000	100,000,000	Life Insurance business		
32	CarHoo Inc.	-	01/04/26	13.02	50,000,000	50,000,000	Car Hoo driver-support site	Yahoo! Auctions tenant	
33	E-NEWS Inc.	-	01/06/26	13.33	50,000,000	50,000,000	Internet-based broadcasting and video production		
Total amount of invested securities					3,039,341,340	13,652,341,340			
1	GeoCities	-	00/08/03	100.00	10,000,000	10,000,000	Maintaining corporate service		Yes
2	Broadcast.com	-	00/08/03	100.00	10,000,000	10,000,000	Maintaining corporate service		Yes
3	Dennotai Co., Ltd.	-	00/09/01	100.00	10,000,000	10,000,000	Maintaining corporate service		Yes
Total shares in subsidiaries					30,000,000	30,000,000			
1	Tavigator, Inc.	-	00/03/03	30.00	30,000,000	30,000,000	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and tnan for Yahoo! Shopping	Yes
Total shares in affiliated companies					30,000,000	30,000,000			
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		1,000,000,000	919,075,140			
Total investment					1,000,000,000	919,075,140			
Gland total					4,099,341,340	14,631,416,480			