

## Results for the Three Months Ended December 31, 2001

### Non-consolidated Information

#### <Introduction>

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 30 million as of December 2001, with Web users accounting for approximately 26 million of this total. In a survey done by the Ministry of Public Management, Home Affairs, Posts and Telecommunications to estimate the spread of the use of the Internet that was made public in October 2001, the ministry forecasts that the number of households in Japan using the Internet would grow to 40.0% by the end of March 2002, and rise to 69.0% by the end of March 2006. The same survey also showed that NTT East and West's DSL subscribers rose from approximately 70 thousand at the end of March 2001 to about 1.5 million at the end of December, and the number of users of high-speed Internet (broadband) service is rising sharply.

Based on this growth in Internet users, the Internet advertising market in Japan grew 33.9%, to ¥79.0 billion in calendar 2001 according to a survey taken in November 2001 by Jupiter Research. The Internet advertising market is slowing substantially as overall advertising fees fall in reaction to the steep decline in the economy.

According to reports by the IAB, the advertising market in the US declined as advertising fees fell due to the slow down in the economy and the bankruptcy of some dot com companies. The market contracted 8.4%, to \$5.55 billion during the first nine months of 2001, and slid further in the next quarter in the wake of the terrorist attacks.

Along with the deterioration in the economy and the general decline in advertising expenditures, advertisers in Japan have become cautious about Internet advertising. Consequently, the previously maintained high growth rate of the Internet advertising market has declined. 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 and the spread of broadband services.

Amid these conditions, Yahoo Japan Corporation ("Yahoo! Japan" or "the Company") aggressively promoted diversification of its business as follows for the third (September to December, 2001) quarter of the fiscal year ending March 31, 2002, further strengthening its business structure.

#### <Review of Operations>

Using its overwhelming superiority in page views and unique users in the market as a business resource, Yahoo! Japan is aggressively adding businesses, such as Yahoo! BB, that provide new sources of earnings in addition to its advertising business. To further build on this business resource, the following services were added or upgraded during the third quarter:

In information providing services, in November 2001, in cooperation with Yahoo! Inc., we opened the official 2002 FIFA World Cup™ site. FIFA and Yahoo! Inc. are handling site creation and operation as well as marketing. The site offers content—the tournament, entertainment, the history of soccer, information on the two sponsoring countries of Japan and the Republic of Korea, news flashes, quick game results, photo libraries, and others—in six

languages, including English, Japanese, Korean, Spanish, French, and German. Moreover, in 2002, official FIFA Internet shopping services will get underway using the Yahoo! Shopping platform. Plans also call for adding Yahoo! Auctions, Yahoo! Mobile, Yahoo! Messenger, and others. Among other new information providing services, in December 2001, we began offering Yahoo! Wedding and Yahoo! Healthcare services. As a wedding information service, Yahoo! Wedding comprises a Wedding Venue Information category that provides information on hotels, wedding venues, and restaurants nationwide that is searchable by various criteria and a Wedding Preparation Manual category that introduces the basic preparations, social courtesies, and other points that engaged couples need to be aware of in chronological order right up to the wedding. Yahoo! Healthcare is a health and medical care information service built around Medicine Search, a keyword-based search function for over-the-counter and prescription drugs, and Hospital and Clinic Search, a database of approximately 130 thousand medical institutions that can be searched by city, ward, town, and village, and medical department.

We substantially upgraded the functions of Yahoo! Maps by expanding the scale reduction to a maximum of 8 levels, allowing 884 principal cities of Japan to be viewed in detail at a scale of 6,500:1. We also improved the keyword, postal code, and address search functions.

In our Yahoo! Sports service, we carried full live coverage of the games of the Japan Series in professional baseball. In other sports, we provided information related to the start of the new season of NBA professional basketball.

As part of our Yahoo! Education services, we quickly posted answer sheets for data processing specialist examination, real estate transaction manager examination, and English Language Proficiency Test after they had ended.

We strengthened Yahoo! Finance's services by adding Stock Price Alert, a mobile phone service that allows users to view the scheduled dates of fiscal performance announcements by major companies listed on the Tokyo Stock Exchange as well as check stock price movement of preset companies.

In our Yahoo! Employment services, we listed corporate information on approximately 1,000 companies for students graduating in 2003.

We included recipes for Kyoto cuisine to Yahoo! Gourmet as well as a special feature on *Bonen Kai*, a Japanese custom of holding parties to celebrate the end of the year.

In Yahoo! Present, we added information on prizes for which you must purchase a certain amount of a product to be eligible.

Yahoo! Music offered live performances by Sting, one of the U.K.'s top artists, and other famous artists as well as on-demand video and sound bites. Yahoo! Movie increased the quality and content of its services by introducing a user rating system for movies and by carrying a special feature on Harry Potter.

In addition to launching pay content for Yahoo! BB on October 1, our information providing services also commenced new services in the entertainment field. We formed business tie-ups with Enix Corp., and Electronic Arts Corp., for network games, a field considered promising for both broadband and continuous connection ISP services. We now offer an environment where users of the leading software titles of both these companies can link up over the Internet and enjoying playing network games.

Furthermore, our information providing services carried special features on the 35<sup>th</sup> Tokyo Motor Show, a regular Christmas, and other seasonal topics.

In our directory search services, we reorganized our homepage search categories. Previously, sites had been categorized mainly from the point of view of individual users. Taking advantage of this reorganization, however, we also took the point of view of enterprises into consideration, implementing a structure that facilitates use by businesses. Now, it is possible for both types of users to quickly find sites according to their purposes. It has also helped our advertising business by allowing more accurate targeting of advertising.

In commerce services, we took measures to promote sales to users through Yahoo! Shopping. We launched a sales campaign during the year-end shopping season and introduced various special features on timely and leading merchandise. Furthermore, Yahoo! Shopping introduced its Television Shop special feature, which uses moving pictures for the first time to introduce merchandise. As a result of these marketing efforts, sales volume for commerce services during Christmas and the year-end sales campaign increased 2.24 times compared with the last year.

In December, to strengthen our commerce services, we made e-Shopping! Books Corp., which sells books on-line, a subsidiary.

In community services, we added voice receiving and sending function on a real time basis to Yahoo! Chat and Yahoo! Messenger.

We also strengthened the functions of Yahoo! Calendar, creating tabs in the upper portion of the page that allow users to switch back and forth from displays of days, weeks, months, and years. Moreover, we added a Tasks tab, to allow users to easily manage fixed tasks that they do during scheduled periods or days.

In Yahoo! Photos, through a tie-up with Fuji Color Service Co., Ltd., we offered an on-line New Year's Card printing service. We also included Kodak DIAMIC Co., Ltd., in the group of companies for which we have alliances for on-line print services.

Yahoo! Greetings added various types of greeting cards that can be sent from personal computers to mobile phones

Yahoo! Mobile entered an official menu for the EZweb service operated by the KDDI Group, greatly expanding page views. We also added functions of our Yahoo! Transit, Yahoo! Photos, iAppli download, and other services for Yahoo! Mobile. Through a business tie-up with Cybird Co., Ltd., we launched a service that allows users to download a photograph stored on Yahoo! Photos and convert it into their display screens of mobile phones. We also included a new function in the EZweb version of Yahoo! Auction that makes it possible for users to search for items they want by category or keyword and directly make bids or place the item on a watch list.

As a result of these efforts, during the third quarter, monthly page views for December reached 6,066 million. This represents an increase of 158 million page views, or 2.7%, compared with September 2001, the last month of the previous quarter, and an increase of 2,453 million page views, or 67.9%, compared with the same month a year earlier. Looking at page views for the month of December 2001 by service, directory search services accounted for 25.0%, information providing services for 17.2%, community services such as message boards for 27.6%, commerce services for 29.3%, and mobile services for 0.9% of monthly page views. Services other than directory search services accounted for 75.0% of total monthly page views.

In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in December 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 48.5%.

By multiplying the above percentage by the approximately 26 million Web users in Japan as of the end of December 2001, we estimate that there were 23 million unique users accessing Yahoo! Japan at least once every four weeks. This represented an increase of 1.5 million users, or 7.5%, over September 2001, and an increase of 5.0 million users, or 29.1%, over the same month in the previous year.

### **Advertising Business**

Sales of advertising business in the third quarter of the fiscal year ending March 31, 2002 dropped ¥1,125 million, or 29.2%, to ¥2,735 million compared with the same quarter a year earlier. Advertising business sales accounted for 31.1% of total revenues.

During the third quarter, the economy deteriorated further under the impact of successive bankruptcies of major corporations, concern about the troubled financial system, the terrorist attacks on the United States, and other factors. The general advertising market faced business conditions of a severity never encountered before. With advertising expenditures falling overall, advertisers become more cautious about Internet advertising and reduced the amount spent per company and large-scale advertisement, making advertising sales much more difficult.

In response to these conditions, the Company strengthened its cooperative sales organization with advertising agencies, working to acquire stable advertising sales from National Clients. At the same time, we focused on acquiring clients, such as recruiting site companies, that have been achieving good results using Internet advertising. For future growth, we also expanded our practical testing of Yahoo! Full Service, which includes a program that measures advertising effectiveness. In addition, to increase the visual impact of our banner advertising, we actively introduced so-called rich media banners, such as flash advertising.

Despite these marketing efforts, sales of advertising business for the third quarter substantially declined from the year earlier. Sales were also down compared with the previous quarter, falling ¥284 million, or 9.4%.

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

#### *Major Advertisers*

Compared with the same period in the previous year, the average number of monthly advertisers for the third quarter was 843 companies, a decrease of 63 companies, or 7%. The number of new advertisers averaged 65 companies per month and repeater companies averaged 778 companies per month. The cumulative total number of advertisers was approximately 3,500 companies. By industry, in addition to the Company's traditional advertisers of restaurants and other services, financial and insurance, and information and telecommunications, advertisements by chemical and medical goods, precision instruments and office supplies, real estate and housing fixtures, and distribution and retail industries also increased. The average number of repeater companies per month increased to 24 companies, or 3%, and the average number of new companies per month rose to 18 companies, or 38%, resulting in the average number of monthly advertisers advancing to 42 companies, or 5%. Thanks to the Company's shift to a sales structure that focuses basically on contracting with advertisers through advertising agencies in order to target National Clients, the number of

advertisers contracted with through advertising agencies accounted for about 91% of the total advertiser client base in the third quarter.

Among advertisers, the SOFTBANK Group represented approximately 2% of net sales, and Yahoo! Inc. purchased no advertising. No individual client accounted for 10% or more of advertising 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 third quarter increased by 387, or 16%, to 2,810, compared with the same quarter a year earlier. Monthly advertisements grew by 336, or 14%, compared with the previous quarter.

#### *Advertising Agencies*

For the third quarter, the monthly average of advertising agencies conducting business with the Company rose by 14, or 6%, to 239 companies compared with the same quarter a year earlier. Compared with the second quarter, the figure increased by 5 companies, or 2%.

#### *Advertisement Rates per Page View*

For the third quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.25 to ¥6 per page view, rates for “Targeting-Type Banner” ads varied from ¥1.25 to ¥20 per page view, and rates for Skyscraper banners varied from ¥2.2 to ¥12 per page view. Rates for the group-specific e-mail advertising Yahoo! Deliver were ¥8 to ¥18 per mailing.

#### *Advertising Products*

Although Pilot Seat sales rebounded somewhat in the third quarter, our other core products, Mega Yahoo! and Run of Property continued to experience sales difficulties. Sales of the previously relatively popular Buttons for auctions, real estate, and other services and the West Modules that promote specific products also suffered. In contrast, the vertical banner advertising Skyscraper and the group-specific e-mail advertising product Yahoo! Deliver were popular.

One of the special features of the third quarter was our increase in the use of flash advertising and other rich media advertising. In particular, the one-week exclusive top page flash banner for Matsushita Electric Industrial Co., Ltd., featuring Ayumi Hamasaki drew a great deal of attention from Internet users and the advertising industry. In addition, our experimental tie-ups with Japan Airlines Co. Ltd., and Kitajima Music Office in our Yahoo! Full Service proved that banner advertising can achieve an increase in name brand recognition and stimulate demand for products. These results will have a positive effect on our future advertising sales activities.

There continued to be an increase in orders for packaging the various services Yahoo! Japan offers, such as Yahoo! Broadcast, Yahoo! Shopping, Yahoo! Auctions, and others, into a product that meets the needs of the advertiser and achieves synergies with other advertising media— in other words, fusion marketing. Specific examples included promotion campaigns for Harupaku, an Internet exhibition of celebrity Haruka Igawa, the International Intelligent Transport System (ITS) Show 2001 and Kodak DIAMIC’s New Year Card advertising campaign.

## **Yahoo! BB Business**

In December, Yahoo! BB, our comprehensive broadband service, announced an outline and the start of test services of BB Phone, a broadband telephone service. The new service uses Yahoo! BB's network to offer an Internet protocol-based telephone system and provides a low-cost telephone service that was previously not possible including international calls and regular phone calls. The start of commercial services is planned for spring 2002. In cooperation with the town of Oguchicho in Aichi Prefecture, we are also working on a plan to introduce this service to all local autonomous bodies of Oguchicho.

In December, we announced a business alliance with Sony Computer Entertainment, Inc., in which Yahoo! BB will offer a broadband network service for Sony's home video game console, PlayStation 2. Using this service, users of these consoles connected to Yahoo! BB will be able to use Yahoo! Japan and Yahoo! BB services.

As of January 11, 2002, Yahoo! BB had approximately 500 thousand formal applicants and had finished approximately 1.4 million line installations. A total of 1,155 NTT central offices have been constructed and approximately 360 thousand lines have been connected.

Sales of Yahoo! BB business in the third quarter totaled ¥4,608 million, generating 52.5% of overall net sales. This performance represented an increase of ¥1,580 million, or 52.2%, from the previous quarter.

The surge in sales of this business during the quarter can be attributed to an increase in the sales of the Yahoo! BB Starter Kit and of our ISP service due to the growth in the number of connected users. The sales from our pay content service is included in Yahoo! BB business sales beginning with this quarter.

## **Auction Business**

Revenues from our auction business during the third quarter totaled ¥811 million, generating 9.2% of net sales. Auction business revenues were up ¥321 million, or 65.6%, from the previous quarter.

Revenues increased substantially from the second quarter because of the rise in user participation revenues along with Yahoo! Auctions' personal identification. At the end of December, the number of items open for bidding increased approximately 500 thousand, or 15.8%, compared with the previous quarter to approximately 3.3 million. In addition, the monthly cumulative total (December 1 to December 31) of new items put up for auction increased approximately 2.5 million, or 24.3%, compared with the previous quarter to approximately 13 million. The number of users registered using our personal identification system increased 400 thousand, or 35.6%, compared to the previous quarter to 1.4 million at the end of December. At the end of the third quarter, there were 86 auction merchant shops on Yahoo! Auctions, up 33 shops from the previous quarter.

## **Other Businesses**

In the third quarter, other businesses generated revenues of ¥633 million, contributing 7.2% of net sales. Compared with the previous quarter, other businesses revenues were up ¥171 million, or 37.2%.

The principal contributors to this revenue were ¥183 million from the information publishing services of Yahoo! Autos, Yahoo! Employment, Yahoo! Real Estate, and others; ¥154 million from business services including the pay site-registration review service Business Express; ¥117 million from commerce services, including shopping tenant fees and

sales commissions by Yahoo! Shopping; and ¥50 million in licensing fees. At the end of December, the number of shops on Yahoo! Shopping reached 176, an increase of 53 stores, or 43.1% compared with the same period in the previous year. Tenant fees and sales commissions were ¥96 million, up ¥57 million, or 144.8%, average total turnover was ¥3,782 million in this quarter, up ¥2,314 million, or 157.7%, and turnover per store was ¥21 million, up ¥9 million, or 80.1% compared with the same quarter a year earlier. The number of purchase orders on Yahoo! Shopping during the Christmas and year-end sales campaigns grew three times compared with the same period in the previous year, and the average sales of Yahoo! Shopping stores during the period were ¥8 million, making Yahoo! Shopping the overwhelming leader among on-line shopping malls in Japan.

## Financial Accounts

### <Statements of Income>

**Caution: Beginning with the first quarter of the fiscal year ending March 31, 2002, agency commissions have been 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 third quarter rose to ¥8,788 million, a gain of ¥4,727 million, or 116.4%, compared with the same period a year earlier. Compared with the second quarter, net sales increased ¥1,788 million, or 25.6%.

This substantial growth can be mainly attributed to the increase in sales by Yahoo! BB, which began selling its Yahoo! BB Starter Kits during the first quarter and the contribution to sales by its ISP service. Yahoo! BB sales for the quarter under review amounted to ¥4,608 million, an increase of ¥1,580 million, or 52.2%, compared with the previous quarter. Advertising revenues totaled ¥2,735 million, down ¥1,125 million, or 29.2%, compared with the same period in the previous year, and down ¥284 million, or 9.4%, compared with the second quarter. The proportion of advertising revenues in net sales fell from 43.2% in the previous quarter to 31.1%. Yahoo! BB's contribution to net sales rose to 52.5%, compared with 43.2% in the second quarter.

#### Cost of Sales

Cost of sales for the third quarter advanced ¥2,807 million, or 164.5 times, to ¥2,824 million, compared with the same period a year earlier. The main factor behind this jump was an increase in the cost of sales of our Yahoo! BB operations to ¥2,807 million. Cost of sales increased ¥1,087 million, or 62.6% compared with the previous quarter.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter rose ¥361 million, or 14.3%, to ¥2,889 million compared with the same period in the previous fiscal year. Compared with the second quarter, SG&A expenses declined ¥133 million, or 4.4%. The primary factors behind these changes are as follows.

Personnel expenses in the third quarter expanded ¥190 million, or 29.9%, to ¥828 million compared with the same period a year earlier. This growth reflects 83 new staff, an increase of 25.6%, hired in response to our rapid business expansion, for a total of 407 employees. Compared with the second quarter, personnel expenses rose ¥71 million, or 9.5%.

Advertising costs totaled ¥83 million in the third quarter, a decrease of ¥194 million, or 69.9%, from the same period in the previous year. This decline resulted from our emphasis on less



costly marketing methods in response to the deterioration in business conditions. Compared with the second quarter, advertising costs fell ¥260 million, or 75.7%.

Content provider fees in the third quarter grew ¥105 million, or 63.3%, to ¥271 million compared with the same period a year earlier, as the Company worked to boost its information services. Compared with the second quarter, content provider fees rose ¥13 million, or 5.4%.

Third-quarter sales commissions declined ¥117 million, or 23.9%, to ¥374 million, compared with the same period a year earlier. A decrease in sales commissions paid to Yahoo! Inc. because of the end of an advertising contract between it and a major client was responsible for this decline. Compared with the second quarter, sales commissions increased ¥2 million, or 0.8%.

Depreciation expenses in the third quarter rose ¥165 million, or 90.6%, to ¥348 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 second quarter, depreciation expenses increased ¥71 million, or 25.9%.

Communications charges in the third quarter advanced ¥156 million, or 110.4%, to ¥298 million as the Company expanded network connection contracts to improve the user-access environment and bolster its services. Compared with the second quarter, communications charges were up ¥9 million, or 3.2%.

Royalties paid to Yahoo! Inc. of the United States, increased ¥61 million, or 57.7%, to ¥167 million in the third quarter compared with the same quarter in the previous fiscal year in accordance with the increase in net sales. Compared with the second quarter, royalties increased ¥20 million, or 14.3%.

Lease and utility expenses rose to ¥155 million in the third quarter, an increase of ¥34 million, or 28.6%, from the same period a year earlier, in line with the Company's expansion of its offices and lease fees related to Yahoo! Cafe. Compared with the second quarter, lease and utility expenses rose ¥16 million, or 12.3%.

### **Operating Income**

As a result of the above factors, operating income for the third quarter expanded ¥1,558 million, or 102.8%, to ¥3,074 million. Compared with the previous quarter, operating income advanced ¥834 million, or 37.3%.

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

Net non-operating expenses for the third quarter of the fiscal year ending March 31, 2002 were ¥25 million. Loss on disposal of fixed assets, such as personal computers and servers, and loss on cashing of managed money funds (MMFs) were mainly responsible for the net expense.

## **Ordinary Income**

Ordinary income for the third quarter amounted to ¥3,048 million, an increase of ¥1,555 million, or 104.2%, from a year earlier. Compared with the second quarter, ordinary income increased ¥846 million, or 38.4%.

## **Extraordinary Loss**

During the quarter under review, the Company recorded an extraordinary loss of ¥222 million due to an evaluation loss taken as the result of the introduction of market value accounting for some investment securities.

## **(Reference)**

## **Net Income**

Based on an assumed effective corporate tax rate of 43.0% (the previous fiscal year rate was 42.8%), net income for the third quarter amounted to ¥1,611 million, and net income per share was ¥13,708.83. The average number of shares outstanding during the third quarter was 117,527.8 shares.

## **EBITDA**

EBITDA for the third quarter rose ¥1,523 million, or 91.2%, to ¥3,194 million compared with the same period last year. Compared with the second quarter, EBITDA increased ¥689 million, or 27.5%.

## **<Balance Sheets>**

Between September 30, 2001 and December 31, 2001, total assets expanded ¥2,386 million, or 9.6%, to ¥27,140 million and total shareholders' equity increased ¥2,691 million, or 16.1%, to ¥19,459 million. Total liabilities contracted ¥305 million, or 3.8%, to ¥7,680 million.

The primary factor behind the growth in total assets was a jump in cash as well as an increase in investment securities due to marking to market. By account, in current assets, cash rose ¥5,545 million, or 826.6%, and products increased ¥157 million, or 18.9%. Marketable securities, however, fell ¥4,593 million, or 97.9%, and accounts receivable—trade declined ¥790 million, or 23.0%. The decline in marketable securities and the increase in cash resulted from the cashing of MMFs and *Chuki Kokusai* (medium-term domestic notes) funds. In fixed assets, investment securities rose ¥1,501 million, or 17.6%; investment in affiliated companies increased ¥300 million, or 30.9%; and tangible fixed assets expanded ¥163 million, or 5.1%. In current liabilities, accrued consumption taxes increased ¥100 million, or 81.1% while accounts payable—other contracted ¥777 million, or 42.7%; and accounts payable—trade decreased ¥509 million, or 29.5%. Among long-term liabilities, long-term deferred taxes increased ¥792 million, or 36.9% compared with the previous quarter.

In shareholders' equity, the other securities evaluation adjustment expanded ¥1,091 million, or 37.6% compared with the previous quarter.

## <Statements of Cash Flows>

Thanks to an expansion in net income, net cash provided by operating activities totaled ¥2,210 million in the third quarter despite an increase in expenses due to the payment of income taxes and other taxes. Net cash used in investing activities totaled ¥1,344 million because of an increase in tangible fixed assets to expand and upgrade servers related to service expansion and because of an investment in e-Shopping! Books CORP. to raise Yahoo! Japan's stake to 51.3% and make the company a subsidiary.

Net cash used in financing activities totaled ¥13 million due to the purchase of treasury shares to satisfy requests to purchase odd lot shares. As a result, cash and cash equivalents in the third quarter increased ¥852 million.

## 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! Auctions and donate the fund raised. During the third quarter, we held 327 charity auctions, raising a total of approximately ¥47 million. All of the funds raised for such charities are being donated to such funds as the American Red Cross relief fund for victims of the terrorist attacks on the United States and the Wonder Talk Foundation to send illustrated books to children in Tibetan refugee camps.

## Non-consolidated Balance Sheets (Three-Month Periods)

(Yen in millions)

	As of December 31, 2001		As of September 30, 2001		Increase (Decrease)
<b>Assets</b>					
<b>Current assets</b>					
Cash	¥ 6,216	22.9%	¥ 670	2.7%	826.6%
Accounts receivable— trade	2,638	9.7%	3,428	13.9%	-23.0%
Allowance for doubtful debt	-38	-0.1%	-38	-0.2%	0.0%
Marketable securities	99	0.4%	4,692	18.9%	-97.9%
Products	991	3.6%	833	3.4%	18.9%
Prepaid expenses	173	0.6%	139	0.6%	25.1%
Deferred tax assets	184	0.7%	184	0.7%	0.0%
Other current assets	134	0.5%	111	0.5%	20.4%
<b>Total current assets</b>	<b>10,400</b>	<b>38.3%</b>	<b>10,023</b>	<b>40.5%</b>	<b>3.8%</b>
<b>Fixed assets</b>					
Tangible fixed assets	3,391	12.5%	3,227	13.0%	5.1%
Intangible fixed assets	182	0.7%	158	0.7%	14.8%
Investments and others					
Investment securities	10,042	37.0%	8,541	34.5%	17.6%
Investment in affiliated companies	1,270	4.7%	970	3.9%	30.9%
Bonds of affiliated companies	400	1.5%	400	1.6%	0.0%
Equity funds	898	3.3%	898	3.6%	0.0%
Prepaid expenses	67	0.2%	48	0.2%	39.6%
Guarantee deposits	485	1.8%	484	2.0%	0.1 %
Others	1	0.0%	0	0.0%	98.6%
<b>Total investments and others</b>	<b>13,166</b>	<b>48.5%</b>	<b>11,344</b>	<b>45.8%</b>	<b>16.1%</b>
<b>Total fixed assets</b>	<b>16,739</b>	<b>61.7%</b>	<b>14,730</b>	<b>59.5%</b>	<b>13.6%</b>
<b>Total assets</b>	<b>¥27,140</b>	<b>100.0%</b>	<b>¥24,753</b>	<b>100.0%</b>	<b>9.6%</b>

(Yen in millions)

<b>Liabilities</b>	<b>As of December 31, 2001</b>		<b>As of September 30, 2001</b>		<b>Increase (Decrease)</b>
<b>Current liabilities</b>					
Accounts payable—trade	¥ 1,218	4.5%	¥ 1,728	7.0%	-29.5%
Accounts payable—other	1,044	3.8%	1,822	7.4%	-42.7%
Current portion of long-term debt	137	0.5%	137	0.6%	0.0%
Accrued income taxes	1,807	6.7%	1,780	7.2%	1.6%
Accrued consumption taxes	224	0.8%	123	0.5%	81.1%
Advance received profit	34	0.1%	34	0.1%	0.8%
Subscription warrants	7	0.0%	7	0.0%	0.0%
Other current liabilities	232	0.9%	183	0.7%	27.0%
<b>Total current liabilities</b>	<b>4,707</b>	<b>17.3%</b>	<b>5,816</b>	<b>23.5%</b>	<b>-19.1%</b>
<b>Long-term liabilities</b>					
Retirement allowances	31	0.1%	19	0.1%	61.2%
Long-term deferred taxes	2,941	10.9%	2,149	8.7%	36.9%
<b>Total long-term liabilities</b>	<b>2,973</b>	<b>11.0%</b>	<b>2,169</b>	<b>8.8%</b>	<b>37.1%</b>
<b>Total liabilities</b>	<b>7,680</b>	<b>28.3%</b>	<b>7,985</b>	<b>32.3%</b>	<b>-3.8%</b>
<b>Shareholders' Equity</b>					
Common stock	6,023	22.2%	6,023	24.3%	0.0%
Additional paid-in capital	1,099	4.1%	1,099	4.5%	0.0%
Legal reserve	5	0.0%	5	0.0%	0.0%
Other retained earnings					
Reserve for special depreciation	122	0.5%	122	0.5%	0.0%
Current retained earnings	8,226	30.3%	6,615	26.7%	24.4%
Other securities evaluation adjustment	3,996	14.7%	2,905	11.7%	37.6%
Treasury stock	-15	-0.1%	-4	0.0%	266.2%
<b>Total shareholders' equity</b>	<b>19,459</b>	<b>71.7%</b>	<b>16,768</b>	<b>67.7%</b>	<b>16.1%</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥27,140</b>	<b>100.0%</b>	<b>¥24,753</b>	<b>100.0%</b>	<b>9.6%</b>

## Non-consolidated Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended December 31, 2001		Three months ended December 31, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥8,788	100.0%	¥4,061	100.0%	¥4,727	116.4%
Cost of goods sold	2,824	32.1%	17	0.4%	2,807	16354.0%
Gross profit	5,964	67.9%	4,044	99.6%	1,920	47.5%
SG&A expenses	2,889	32.9%	2,527	62.2%	361	14.3%
Operating income	3,074	35.0%	1,516	37.4%	1,558	102.8%
Net non-operating income (expenses)	-25	-0.3%	-22	-0.6%	-3	13.2%
Ordinary income	¥3,048	34.7%	¥1,493	36.8%	¥1,555	104.2%

(Yen in millions)

	Three months ended December 31, 2001		Three months ended September 30, 2001		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥8,788	100.0%	¥6,999	100.0%	¥1,788	25.6%
Cost of goods sold	2,824	32.1%	1,736	24.8%	1,087	62.6%
Gross profit	5,964	67.9%	5,263	75.2%	701	13.3%
SG&A expenses	2,889	32.9%	3,022	43.2%	-133	-4.4%
Operating income	3,074	35.0%	2,240	32.0%	834	37.3%
Net non-operating income (expenses)	-25	-0.3%	-37	-0.5%	11	-31.4%
Ordinary income	¥3,048	34.7%	¥2,202	31.5%	¥846	38.4%

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

Three months ended December 31, 2001 (Yen in millions)

<b>Net Sales</b>	Total	%
Advertising Business	<b>¥2,735</b>	<b>31.1%</b>
Yahoo! BB Business	<b>4,608</b>	<b>52.5%</b>
Auction Business	<b>811</b>	<b>9.2%</b>
Other Businesses	<b>633</b>	<b>7.2%</b>
<b>Total</b>	<b>¥8,788</b>	<b>100.0%</b>

Three months ended December 31, 2001 (Yen in millions)

<b>SG&amp;A Expenses</b>	Total	%
Personnel expenses	<b>¥ 828</b>	<b>28.7%</b>
Advertising costs	<b>83</b>	<b>2.9%</b>
Content provider fees	<b>271</b>	<b>9.4%</b>
Sales commissions	<b>374</b>	<b>12.9%</b>
Depreciation expenses	<b>348</b>	<b>12.1%</b>
Communication charges	<b>298</b>	<b>10.3%</b>
Royalties	<b>167</b>	<b>5.8%</b>
Lease and utility expenses	<b>155</b>	<b>5.4%</b>
Other	<b>362</b>	<b>12.5%</b>
<b>Total</b>	<b>¥2,889</b>	<b>100.0%</b>

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

(Yen in millions)

	Three months ended December 31, 2001		Three months ended December 31, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	<b>¥8,509</b>	<b>100.0%</b>	¥3,706	100.0%	¥4,802	129.5%
Cost of goods sold	<b>2,824</b>	<b>33.2%</b>	17	0.5%	2,807	16354.0%
Gross profit	<b>5,684</b>	<b>66.8%</b>	3,689	99.5%	1,994	54.1%
SG&A expenses	<b>2,609</b>	<b>30.7%</b>	2,173	58.6%	436	20.1%
Operating income	<b>3,074</b>	<b>36.1%</b>	1,516	40.9%	1,558	102.8%
Net non-operating income (expenses)	<b>-25</b>	<b>-0.3%</b>	-22	-0.6%	-3	13.2%
Ordinary income	<b>¥3,048</b>	<b>35.8%</b>	¥1,493	40.3%	¥1,555	104.2%

(Yen in millions)

	Three months ended December 31, 2001		Three months ended September 30, 2001		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	<b>¥8,509</b>	<b>100.0%</b>	¥6,722	100.0%	¥1,786	26.6%
Cost of goods sold	<b>2,824</b>	<b>33.2%</b>	1,736	25.8%	1,087	62.6%
Gross profit	<b>5,684</b>	<b>66.8%</b>	4,985	74.2%	698	14.0%
SG&A expenses	<b>2,609</b>	<b>30.7%</b>	2,745	40.8%	-135	-4.9%
Operating income	<b>3,074</b>	<b>36.1%</b>	2,240	33.4%	834	37.3%
Net non-operating income (expenses)	<b>-25</b>	<b>-0.3%</b>	-37	-0.6%	11	-31.4%
Ordinary income	<b>¥3,048</b>	<b>35.8%</b>	¥2,202	32.8%	¥846	38.4%



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

Three months ended December 31, 2001 (Yen in millions)

<b>Net Sales</b>	Total	%
Advertising Business	¥2,456	28.9%
Yahoo! BB Business	4,608	54.2%
Auction Business	811	9.5%
Other Businesses	633	7.4%
<b>Total</b>	<b>¥8,509</b>	<b>100.0%</b>

Three months ended December 31, 2001 (Yen in millions)

<b>SG&amp;A Expenses</b>	Total	%
Personnel expenses	¥ 828	31.7%
Advertising costs	83	3.2%
Content provider fees	271	10.4%
Sales commissions	94	3.6%
Depreciation expenses	348	13.4%
Communication charges	298	11.4%
Royalties	167	6.4%
Lease and utility expenses	155	6.0%
Other	362	13.9%
<b>Total</b>	<b>¥2,609</b>	<b>100.0%</b>

## Non-consolidated Statements of Cash Flows

(Yen in millions)

	Three months ended December 31, 2001
<b>Cash Flows from Operating Activities</b>	
Income before income taxes	¥2,826
Depreciation and amortization	348
Increase/decrease in reserve for retirement allowances	12
Loss on disposal of fixed assets	23
Loss on evaluation of investment securities	222
Exchange gain/loss	0
Proceeds from interest and dividends	-5
Interest expense	1
Increase/decrease in inventory	-157
Increase/decrease in accounts receivable—trade	790
Increase/decrease in accounts payable	-509
Increase/decrease in accounts receivable—other	-73
Increase/decrease in accounts payable—other	-180
Increase/decrease in consumption taxes payable	100
Subtotal	3,398
Payment of income taxes and other taxes	-1,187
Net cash provided by operating activities	2,210
<b>Cash Flows from Investing Activities</b>	
Purchases on marketable securities	-99
Expenditures on tangible fixed assets	-1,080
Expenditures on intangible fixed assets	-24
Proceeds from sale of investment securities	100
Purchases of investment securities	-240
Expenditures on loans	0
Proceeds from recovery of lending	0
Expenditures on increases in guarantee deposit assets	0
Proceeds from interest and dividends	1
Other cash used in investing activities	-1
Net cash used in investing activities	-1,344
<b>Cash Flows from Financing Activities</b>	
Expenditures for acquisition of treasury stock	-11
Interest expenses	-2
Net cash provided by financing activities	-13
<b>Net Change in cash and cash equivalents</b>	852
<b>Cash and cash equivalents at beginning of term</b>	5,363
<b>Cash and cash equivalents at end of term</b>	¥6,216

## Consolidated Information

Having made eGroups KK into a subsidiary effective September 28, 2001, and e-Shopping! Books CORP., into a subsidiary effective December 26, 2001, Yahoo! Japan has been also reporting on a consolidated basis since the previous quarter. Because the date of transfer for e-Shopping! Books was December 31, 2001, the consolidated income statement was not affected for the quarter under review. The Company plans to amortize the consolidation account of ¥199 million related to e-Shopping! Books over three years on a simple basis. Consolidated statements of income, consolidated balance sheets and statements of cash flows are as follows.

### Consolidated Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended December 31, 2001		Three months ended September 30, 2001		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	<b>¥8,794</b>	<b>100.0%</b>	¥6,999	100.0%	¥1,794	25.6%
Cost of goods sold	<b>2,819</b>	<b>32.1%</b>	1,736	24.8%	1,082	62.4%
Gross profit	<b>5,975</b>	<b>67.9%</b>	5,263	75.2%	712	13.5%
SG&A expenses	<b>2,991</b>	<b>34.0%</b>	3,022	43.2%	-31	-1.0%
Operating income	<b>2,983</b>	<b>33.9%</b>	2,240	32.0%	743	33.2%
Net non-operating income (expenses)	<b>-27</b>	<b>-0.3%</b>	-37	-0.5%	10	-27.6%
Ordinary income	<b>¥2,956</b>	<b>33.6%</b>	¥ 2,202	31.5%	¥754	34.2%

## Segment Information

(Yen in millions)

	Advertising Business	Yahoo! BB Business	Auction Business	Other Businesses	Total	Eliminations or shared amounts	Consolidated
Sales							
(1) Outside sales	¥2,741	¥4,608	¥811	¥633	¥8,794	¥ –	¥8,794
(2) Intersegment sales or transfers	8	–	–	–	8	-8	–
Total	2,750	4,608	811	633	8,803	-8	8,794
Operating expenses	724	2,861	24	70	3,681	2,129	5,810
Operating income	¥2,025	¥1,747	¥786	¥562	¥5,122	¥-2,138	¥2,983

Notes:

1. Method of categorizing business segments: segments are categorized by considering the content and special characteristics of services.

2. Segment content

Segment	Main Services
Advertising Business	• Internet advertising
Yahoo! BB Business	• Yahoo! BB Starter Kit (modem, etc.) sales • ISP service
Auction Business	• Fees for personal identification of auction participants • Auction commissions, tenant fees, etc.
Other Businesses	• Information publishing services • Licensing, site registration • Shopping sales commissions, tenant fees, etc.

3. Under operating expenses, the amounts that cannot be allocated, including eliminations and shared amounts, are head office personnel and business expenses and expenses common to all segments for which the individual degree of benefit cannot be determined.

## Consolidated Balance Sheets

(Yen in millions)

	As of December 31, 2001		As of September 30, 2001		Increase (Decrease)
<b>Assets</b>					
<b>Current assets</b>					
Cash	¥ 6,450	23.3%	¥ 709	2.9%	809.5%
Accounts receivable— trade	2,654	9.6%	3,435	13.9%	-22.7%
Marketable securities	99	0.4%	4,692	18.9%	-97.9%
Inventory	998	3.6%	833	3.4%	19.7%
Deferred tax assets	184	0.7%	184	0.7%	0.0%
Others	467	1.6%	283	1.2%	64.5%
Allowance for doubtful debts	-38	-0.1%	-38	-0.2%	0.0%
<b>Total current assets</b>	<b>10,816</b>	<b>39.1%</b>	10,102	40.8%	7.1%
<b>Fixed assets</b>					
Tangible fixed assets	3,448	12.5%	3,228	13.0%	6.8%
Intangible fixed assets					
Consolidation account	903	3.3%	768	3.1%	17.7%
Others	447	1.6%	158	0.6%	181.8%
Total intangible fixed assets	1,351	4.9%	927	3.7%	45.8%
Investments and others					
Investment securities	10,512	38.0%	9,011	36.4%	16.7%
Others	1,501	5.5%	1,499	6.1%	0.2%
<b>Total investments and others</b>	<b>12,014</b>	<b>43.5%</b>	10,510	42.5%	14.3%
<b>Total fixed assets</b>	<b>16,814</b>	<b>60.9%</b>	14,666	59.2%	14.6%
<b>Total assets</b>	<b>¥27,631</b>	<b>100.0%</b>	¥24,769	100.0%	11.6%

(Yen in millions)

<b>Liabilities</b>	<b>As of December 31, 2001</b>		<b>As of September 30, 2001</b>		<b>Increase (Decrease)</b>
<b>Current liabilities</b>					
Accounts payable—trade	¥ 1,347	4.9%	¥ 1,728	7.0%	-22.0%
Accounts payable—other	1,209	4.4%	1,822	7.4%	-33.6%
Current portion of long-term debt	137	0.5%	137	0.6%	0.0%
Accrued income taxes	1,808	6.5%	1,780	7.2%	1.6%
Other current liabilities	512	1.8%	350	1.3%	46.3%
<b>Total current liabilities</b>	<b>5,014</b>	<b>18.1%</b>	<b>5,817</b>	<b>23.5%</b>	<b>-13.8%</b>
<b>Long-Term liabilities</b>					
Retirement allowances	32	0.1%	19	0.1%	67.8%
Long-term deferred taxes	2,941	10.6%	2,149	8.6%	36.9%
Others	165	0.7%	-	-	-
<b>Total long-term liabilities</b>	<b>3,139</b>	<b>11.4%</b>	<b>2,169</b>	<b>8.7%</b>	<b>44.8%</b>
<b>Total liabilities</b>	<b>8,154</b>	<b>29.5%</b>	<b>7,987</b>	<b>32.2%</b>	<b>2.1%</b>
<b>Minority Interests in Consolidated Subsidiary</b>					
Minority interests in consolidated subsidiary	106	0.4%	13	0.1%	670.5%
<b>Shareholders' Equity</b>					
Common stock	6,023	21.8%	6,023	24.3%	0.0%
Additional paid-in capital	1,099	4.0%	1,099	4.5%	0.0%
Legal reserve	8,265	29.9%	6,744	27.2%	22.6%
Other retained earnings	3,996	14.5%	2,905	11.7%	37.6%
Treasury stock	-15	-0.1%	-4	-0.0%	266.2%
<b>Total shareholders' equity</b>	<b>19,369</b>	<b>70.1%</b>	<b>16,768</b>	<b>67.7%</b>	<b>15.5%</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥27,631</b>	<b>100.0%</b>	<b>¥24,769</b>	<b>100.0%</b>	<b>11.6%</b>

## Consolidated Statements of Cash Flows

(Yen in millions)

	Three months ended December 31, 2001
<b>Cash Flows from Operating Activities</b>	
Income before income taxes	¥2,734
Depreciation and amortization	348
Amortization of consolidated accounts	64
Increase/decrease in reserve for retirement allowances	12
Loss on disposal of fixed assets	23
Loss on evaluation of investment securities	222
Exchange gain/loss	0
Proceeds from interest and dividends	-5
Interest expense	1
Increase/decrease in inventory	-157
Increase/decrease in accounts receivable—trade	799
Increase/decrease in accounts payable	-514
Increase/decrease in accounts receivable—other	-39
Increase/decrease in accounts payable—other	-184
Increase/decrease in consumption taxes payable	100
Subtotal	3,404
Payment of income taxes and other taxes	-1,187
Net cash provided by operating activities	2,216
<b>Cash Flows from Investing Activities</b>	
Purchases of marketable securities	-99
Expenditures on tangible fixed assets	-1,080
Expenditures on intangible fixed assets	-24
Proceeds from sale of investment securities	100
Investments in newly consolidated entity	-49
Expenditures on loans	0
Proceeds from recovery of lending	0
Expenditures on increases in guarantee deposit assets	0
Proceeds from interest and dividends	1
Other cash used in investing activities	-1
Net cash used in investing activities	-1,154
<b>Cash Flows from Financing Activities</b>	
Expenditures for acquisition of treasury stock	-11
Interest expenses	-2
Net cash provided by financing activities	-13
<b>Net Change in cash and cash equivalents</b>	1,048
<b>Cash and cash equivalents at beginning of term</b>	5,402
<b>Cash and cash equivalents at end of term</b>	¥6,450

## **Risk Factors**

The Company has reported its results for the third quarter of fiscal year ending March 31, 2002 in the document "Results for the Three Months Ended December 31, 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 components of Yahoo! Japan's business involve its Internet advertising business, 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, Yahoo! BB business, a comprehensive broadband service, and an auction business. 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 33.7% of voting shares as of December 31, 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
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.
Main Conditions: 1. Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory-search and other services customized and localized for the Japanese market (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) Note: 3% of gross profit after deducting sales commissions, paid quarterly

## 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 Business

Advertising business comprise one of the Company's principal sources of revenue and accounted for 31.1% of net sales in the third quarter of the fiscal year ending March 31, 2002. Although the contribution of advertising business to net sales is now less than it was up to the last quarter, the Company's operating results are still highly dependent on advertising business. 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 December 31, 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 Business

In August 2001, Yahoo! Japan began operations of 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. The service was fully commercialized in September and began distributing pay content in October 2001.

The service is provided jointly by BB Technologies 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 is taking 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. Moreover, the Company has begun offering versions of some of its regular services, such as e-mail and homepage creation services,

as special services for Yahoo! BB service subscribers, and it is possible that the development costs for these services could exceed original estimates.

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 resulting in delayed accounting for the sales as well as lost sales opportunities due to cancellations. 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. In addition, service delays and technical upgrade problems could result in demands for compensation from subscribers.

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. Focusing investments on the development of these services may negatively affect the development and operations of other services of the Company. In addition, technical and operating problems related to these consigned billing and settlements could result in demands for compensation from subscribers.

## *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.

Yahoo! BB Starter Kit sales may vary significantly depending on the growth or decline in the number of Yahoo! BB services subscribers. Depending on market

conditions, there is the possibility that the Company will cease sales of the starter kit.

#### *4) The Competitive Environment*

As of December 31, 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
iTSCOM	its Communications 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] Auction Business

##### *1) Damage Compensation*

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*

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 now exceed the levels 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 December 31, 2001, the major providers of Japanese-language online mall and auction business 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 auction site, competition could decrease commission income by cutting participation and increase advertising costs, which would cause negatively 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 increase delays in collections and the occurrence of 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) International Conflicts, Terrorist Attacks, and Large-Scale Natural Disasters*

As illustrated by the multiple terrorist attacks on the United States in September 2001 and the resultant military retaliation, the Company expects that in the event of international conflicts, terrorist attacks, and large-scale natural disasters causing substantial changes in international political conditions or in the economic framework, the Company's business will also be substantially affected.

Specifically, under the impact of such an event, the Company's advertising revenues could decline or the Company could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Company's site causing a disruption in planned advertising business. Or, for its own reasons, the advertising company might stop, reduce, or postpone advertising. Also, the access infrastructure for Yahoo! BB might be interrupted. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that impeded the support structure that Yahoo! Inc. provides for the Company or delay supplies of the Yahoo! BB Starter Kit. In the worst-case scenario, the Company's offices could be physically disabled. If other companies closely related to the Company's business, such as Yahoo! Inc. and related companies and BBT and other access service providers, were hit by the same conditions, it is possible that the Company could become unable to continue operations.

## [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 Law Regarding Limitations on the Liability of Providers of Specified Electronics Communications Services and Regarding Privacy of User Information”, was passed during the 153<sup>rd</sup> Session of the Diet. However, this law only clarifies the scope of liability for illegal behavior previously provided by civil law, and does not increase the liability of businesses that act as intermediaries in distributing information over the Internet. Nevertheless, the passing of the new law may start a social movement toward requiring greater responsibility of information distribution intermediates. 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 business. The resulting decline in user confidence could lead to a drop in hits or suspension of services.

Similar to the case of the previously mentioned Yahoo! Auction, the Company publishes a disclaimer on its site stating that 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 purchase goods or services listed by these retailers. In addition, Yahoo! Japan does not accept responsibility for damage, loss or difficulty in the delivery of said items. However, 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. Furthermore, if the current proposed treaty regarding the jurisdiction of international courts is approved as is, it is possible that the Company may become embroiled in legal disputes with users of these services outside Japan.

### *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 40 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 December 31, 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, as occurred in the third quarter of the fiscal year ending March 31, 2002, with some of the companies that the Company has invested in, 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 (%)	BS accounting amount (Yen)	Line of business	Relationship with the Company	directors on loan
1	Yahoo Korea	-	97/10/06	4.12	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	Internet-based map information service ("Mapion")	Alliance for Yahoo! Map	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	12.49	2,093,850,000	Internet technical-support service		Yes
4	Vector Inc.	NASDAQ Japan	99/03/25	13.10	4,320,000,000	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	NASDAQ Japan	99/05/28	5.07	930,000,000	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	20,000,000	eS! retail-toy Website	Yahoo Shopping tenant	Yes
7	CarPoint K.K.	-	99/10/06	6.54	89,850,000	Offering car-related information, quotes and dealer introductions		
8	SpeedNet. Inc.	-	99/12/10	1.67	125,000,000	Fiber-optic and high-speed wireless Internet service		
9	e-Shopping! CarGoods CORP.	-	00/02/28	10.00	7,500,000	eS! CarGoods Website	Yahoo Shopping tenant	Yes
10	Oricon Global Entertainment Inc.	NASDAQ Japan	00/03/28	1.53	168,000,000	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
11	e-Shopping! Wine CORP.	-	00/05/26	10.00	15,000,000	eS! Retail-wine Website	Yahoo Shopping tenant	Yes
12	SOFTBANK ZDNet Inc.	-	00/08/28	8.33	30,000,000	Comprehensive site for IT-related information	Alliance for Yahoo! News	Yes
13	BB Factory Corp.	-	00/11/13	10.00	31,250,000	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
14	e-Net Japan Co., Ltd.	-	00/12/14	6.00	75,000,000	Sales of personal commuturs, audio/visual and home equipment via the Internet	Yahoo! Shopping/Auctions tenant	
15	J-Yado Co., Ltd.	-	00/12/22	7.98	120,000,000	J-Yado.com hotel reservation Website		
16	DBJ Co., Ltd.	-	00/12/26	2.27	60,000,000	E-commerce and supply of contents related to motorcycles	Yahoo! Auctions tenant	
17	Power Print Inc.	-	00/12/27	15.00	60,000,000	Online order-taking, printing and delivery of various printed materials		
18	Naturum Corp.	-	00/12/29	10.01	79,200,000	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
19	Archinet, Inc.	-	01/01/19	14.25	50,000,000	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
20	Golf Do Co., Ltd.	-	01/01/24	4.90	199,989,000	An online shop for used golf equipment		
21	Axiv.com, Inc.	-	01/01/30	5.44	50,000,000	MyID promotion/gift campaign Website		
22	CafeGlobe.com	-	01/01/30	11.44	100,000,000	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet	
23	eBANK Corporation	-	01/03/12	2.07	299,000,000	eBank scheduled to open for service late in July	Alliance for Yahoo! Auction/Research	
24	GameBox, Inc.	-	01/03/16	9.38	99,750,000	GAMEBOX game-related Website		
25	Digipri Corporation	-	01/03/27	0.82	100,000,000	Internet storage and output services for digital imaging		
26	Bitwave Corporation	-	01/03/29	3.59	25,000,000	Indies music business and sales of concert/sporting egent tickets		
27	Net Protections, Inc.	-	01/04/10	16.47	100,000,000	Online commercial settlement service	Alliance for Yahoo! Auction	
28	istyle Inc.	-	01/04/20	8.87	50,000,000	@cosme information site on cosmetics and beauty care		
29	Digital Check Co. Ltd.	-	01/04/24	2.61	99,447,620	EC settlements, content supply and networking business	Alliance for Yahoo! Auction	
30	CarHoo Inc.	-	01/04/26	13.02	50,000,000	Car Hoo driver-support site	Yahoo! Auctions tenant	
31	E-NEWS Inc.	-	01/06/26	13.33	50,000,000	Internet-based broadcasting and video production		
32	Hurricane Inc.	-	01/07/23	13.28	189,000,000	Planning, producing, referral and agency services for concerts and other events		
33	BB Technologies Corporation	-	01/08/24	10.00	300,000,000	Installing, supplying and managing ASDL infrastructure	Installing and operating Yahoo! BB infrastructure	Yes
<b>Total amount of invested securities</b>					<b>10,042,841,340</b>			
1	GeoCities	-	00/08/03	100.00	10,000,000	Maintaining corporate service	Maintaining www.geocities.co.jp domain	Yes
2	Broadcast.com	-	00/08/03	100.00	10,000,000	Maintaining corporate service	Maintaining www.bcast.co.jp domain	Yes
3	Dennotai Co., Ltd.	-	00/09/01	100.00	10,000,000	Maintaining corporate service		Yes
4	Y's Agencies Inc.	-	01/08/07	100.00	10,000,000	Planning and sales of advertising		Yes
5	eGroups KK	-	01/09/28	90.50	900,000,000	eGroup groupware service, mainly e-mail	Alliance for Yahoo! eGroups	Yes
6	e-Shopping! Books CORP.	-	99/09/10	51.28	300,000,000	eS! retail-book Website	Yahoo Shopping tenant	Yes
<b>Total shares in subsidiaries</b>					<b>1,240,000,000</b>			
1	Tavigator, Inc.	-	00/03/03	30.00	30,000,000	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and tnannt for Yahoo! Shopping	Yes
<b>Total shares in affiliated companies</b>					<b>30,000,000</b>			
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		898,232,660			
<b>Total investment</b>					<b>898,232,660</b>			
<b>Grand total</b>					<b>12,211,074,000</b>			