

# YAHOO! JAPAN®

Yahoo Japan Corporation  
Annual Review  
Year ended March 31, 2002

## Profile

Yahoo Japan Corporation and its consolidated subsidiaries ("Yahoo! Japan Group" or "the Group") provides Internet users with a wide range of services, including directory search, information, community, commerce, and mobile services. Our Web site is the overwhelming leader in Japan in number of users and page views.

Utilizing its overwhelming dominance in its industry as a business resource, the Yahoo! Japan Group is aggressively developing businesses, such as the comprehensive broadband service Yahoo! BB and auction business, that provide new sources of earnings in addition to its advertising business. The Group intends to continue to pursue diversification of its earnings, aiming to further strengthen its business base.

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### Forward-Looking Statements

Statements included in this Annual Review that are not historical facts are forward-looking statements about the future performance of Yahoo Japan Corporation.

The Company cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to, the items mentioned in the "Risk Factors."

Following the conversion of eGroups KK and e-Shopping! Books Corp. into subsidiaries during the fiscal year ended March 2002, Yahoo! Japan began reporting on a consolidated basis, effective the fiscal year under review. Readers are cautioned, however, to be aware that while figures for the fiscal year ended March 31, 2002, are reported on a consolidated basis, the figures for previous fiscal years are reported on a non-consolidated basis. For this reason, no comparative figures are given.

As of the fiscal year ended March 31, 2002, the Yahoo! Japan Group is disclosing net sales and selling, general and administrative figures on a gross basis, including agency commissions. Figures for previous fiscal years have been adjusted accordingly to permit comparison.

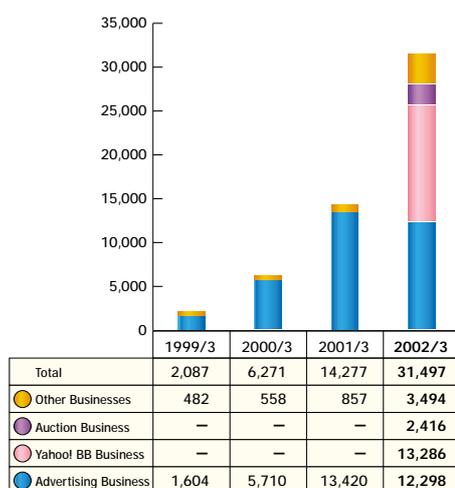
## Financial Highlights

(Millions of Yen)

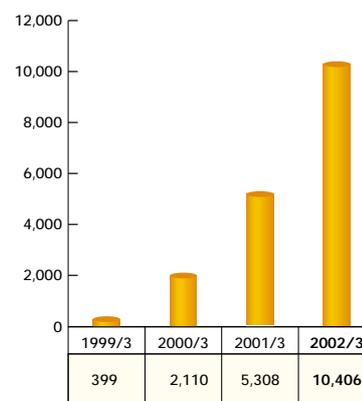
	1999/3	2000/3	2001/3	2002/3
<b>FOR THE YEAR</b>				
Net Sales:				
Advertising Business	¥ 1,604	¥ 5,710	¥ 13,420	¥ 12,298
Yahoo! BB Business	—	—	—	13,286
Auction Business	—	—	—	2,416
Other Businesses	482	558	857	3,494
Total Net Sales	2,087	6,271	14,277	31,497
Operating Income	399	2,110	5,308	10,406
Ordinary Income	391	2,031	5,208	10,318
Net Income	183	1,153	2,972	5,868
Net Income per Share (Yen)	27,068	63,515	39,328	50,048
Number of Shares Outstanding (Number of Shares)	6,785	18,163	75,586	117,249
<b>AT YEAR-END</b>				
Shareholders' Equity	¥ 3,263	¥ 8,106	¥ 18,673	¥ 20,227
Total Assets	3,919	10,475	27,972	29,218

Note: Net income per share for the fiscal year ended March 31, 2002, deducts treasury stock.

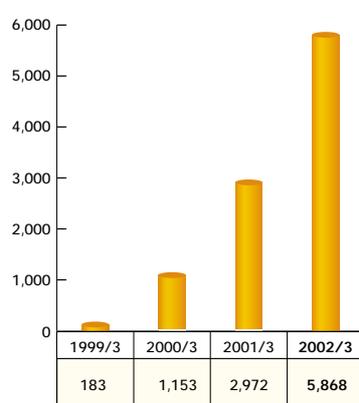
### Net Sales (Millions of Yen)



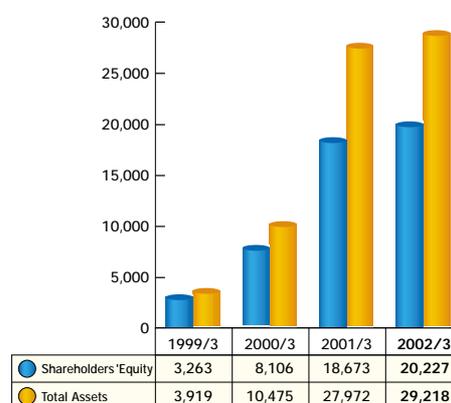
### Operating Income (Millions of Yen)



### Net Income (Millions of Yen)



### Shareholders' Equity/Total Assets (Millions of Yen)



## To Our Shareholders

It gives me great pleasure to report on Yahoo! Japan Group's results for the fiscal year ended March 31, 2002.

During the fiscal year under review, we took steps to further strengthen our business base, aggressively pursuing diversification of our earnings. Thanks to these efforts, we posted record consolidated net sales and net income despite the extremely difficult business climate. It was the sixth consecutive fiscal year in which we have registered growth in sales and profits. We plan to continue to pursue a strategy of developing bases for other new businesses in a similar fashion to Yahoo! BB business and Auction business to further diversify our income sources.

### Performance

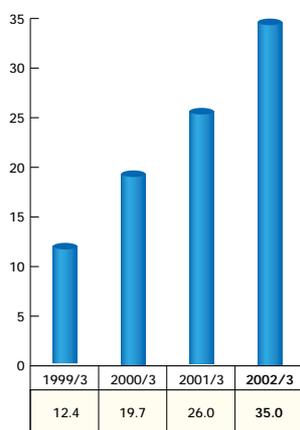
In the fiscal year ended March 31, 2002, net sales jumped 120.6%, to ¥31,497 million. Advertising business sales felt the brunt of the deterioration in the Japanese economy, declining 8.4%, to ¥12,298 million. However, this drop in sales was more than compensated for by ¥13,286 million in Yahoo! BB business sales and ¥2,416 million in auction business sales. Moreover, other businesses sales, including Yahoo! Shopping and other services, rose substantially, to ¥3,494 million, resulting in an overall surge in net sales.

Consequently, operating income increased 96.0%, to ¥10,406 million; ordinary income grew 98.1%, to ¥10,318 million; and net income advanced 97.4%, to ¥5,868 million. Net income per share amounted to ¥50,048.26, rising 27.3%. Fully diluted net income per share was ¥49,955.90.

### Operating Environment

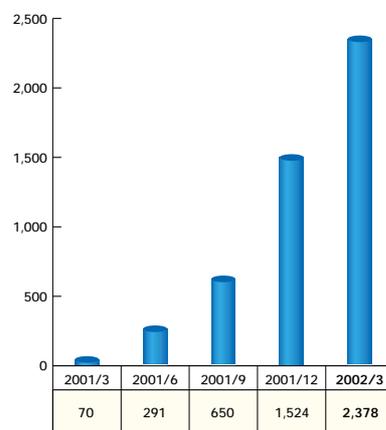
In a Web audience survey conducted by Nippon Research Center, Ltd., the number of Internet users in Japan was approximately 35 million as of March 2002, with Web users accounting for approximately 29 million of this total. According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of users of digital subscriber lines (DSL) services is rising sharply—there were approximately 2.4 million DSL subscribers at the end of March 2002, up about 33 times from a year ago.

**Internet Users in Japan** (Millions of People)



Source: Nippon Research Center, Ltd.

**DSL Subscribers in Japan** (Thousands of People)



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications

In addition to making it possible to smoothly deliver audio and moving picture content, the spread of broadband service also substantially boosts the value of the Internet as a media. Able to access the Internet continuously at low, fixed rates, Internet users have increased their frequency of access and the amount of time spent surfing the Internet. Moreover, Internet users who used to take advantage of late-night discount rates now can afford to use the Internet during the so-called golden hours in the evening, making the Internet more of an indispensable lifestyle service and giving it an influence that ranks alongside the four major mass media formats. In the current calendar year, the number of DSL subscriber households is estimated to reach 6.5 million. As broadband services continue to spread rapidly, the value of the Internet as a media format should grow in leaps and bounds.

## Operational Review

During the fiscal year under review, we responded to the needs of our users by adding a variety of new services and expanding the content of the services offered by the Yahoo! Japan Group.

Reflecting these efforts, on March 11, 2002, maximum daily page views broke through the 270 million mark, and monthly page views exceeded 7.6 billion during March 2002. As of May 14, 2002, daily page views topped 300 million.

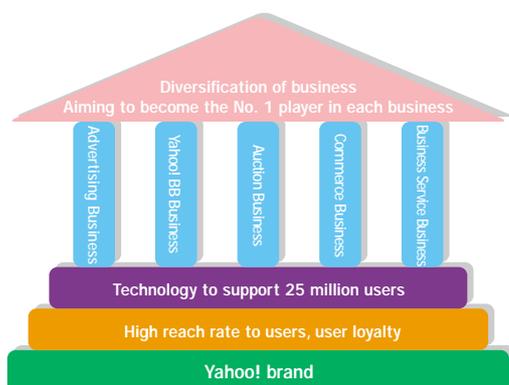
In a Web audience survey of Japan conducted by Nippon Research Center, Ltd. in March 2002, Yahoo! Japan was named most often by respondents as a site they access at least once every four weeks. (unique user) Yahoo! Japan continues to hold the dominant position with 86.9% of the respondents, a wide margin over goo, which ranked second at 54.4%.

By multiplying the above percentage by the approximately 29 million Web users in Japan as of the end of March 2002, we estimate that there were about 25 million unique users accessing the services of the Yahoo! Japan Group.

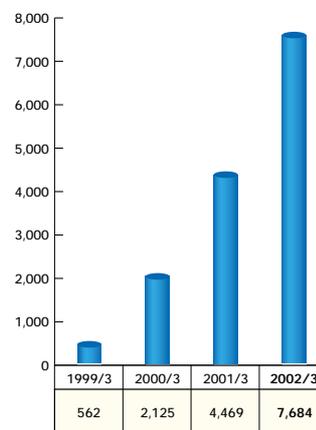
We are proud of the high rating our services have received from our users, and we are committed to providing services that will maintain their patronage in future.

As indicated by these outstanding figures, as one of the major Internet services companies in Japan, we have worked steadily to build assets, in terms of "yahoo! brand," "high reach rate to users," and "technology," since our founding. Our sales formerly depended strongly on advertising business sales, but we are now actively taking steps to firm up our business base by diversifying our earnings. In doing so, we are leveraging our assets to the maximum.

### Yahoo! Japan's Business Pillars



### Monthly Page Views (Millions of Page Views)



As part of this strategy, the Group launched a Yahoo! BB business in June 2001. Yahoo! BB is a comprehensive broadband service, offering a high-speed Internet connection service using ordinary telephone lines as well as a portal site for broadband content for Yahoo! BB members. The service represents a pioneering effort to offer Japanese Internet users a continuous connection, high-speed (8 megabits) Internet broadband service at a low, fixed rate. As of the end of March 2002, Yahoo! BB had connected approximately 490 thousand lines to its service, on a number of jumper installations completed basis.

In May 2001, we introduced a fee-based personal identification system to Yahoo! Auctions to help us provide a more reliable and safer service. At the end of March 2002, the number of users registered using our personal identification system totaled approximately 1.65 million, contributing significantly to the revenues of our auction business.

## Business Strategies

We believe that, along with the increase in the number of Internet users, Internet advertising will eventually be on an equal footing with the present four major media. However, Internet advertising is still a young business, and many advertisers still do not understand its effectiveness. To rectify this problem, we are planning to further introduce methods of measuring advertising effectiveness and verifying banner creativeness to provide proof of the effectiveness of this form of advertising. At the same time, we will be working to win more National Clients, which are a source of stable revenues, and to increase the value of Internet advertising and its use in the advertising industry by launching products that serve the needs of advertisers.

As of April 2002, we implemented some changes in our revenue model for Yahoo! BB business. Instead of Yahoo! Japan selling Starter Kits to BB Technologies, Corp. (BTT), the Yahoo! Japan Group now receives a commission for subscriber signups and a monthly subscriber continuing fee from BBT as one of the marketing partners. This step has been taken because the subscription route has been expanded to signups through consumer electronics outlets and other store routes in addition to the Internet route. Furthermore, it has become necessary to actively expand subscriptions from corporations as a result of the start-up of BB Phone, a broadband telephone service offered by Yahoo! Japan and BBT and other companies in the Softbank Group that was announced in December 2001. We will continue our efforts to expand the subscriber base, aiming to expand sales of this segment by providing a high-quality ISP service.

In our auction business, we began charging fees for listing and selling items during the current fiscal year. Although it is possible that these system-use fees will result in lower volume in terms of number of items listed, number of items contracted, and transaction volume, the income will allow us to provide better-quality systems and services. Our strategy will be to pursue solid expansion of revenues based on such quality service.

Among our other businesses, we intend to continue expanding our shopping business and other services. In our shopping business, we are considering entering the retail business as a Group in a field that is highly profitable and requires no inventories. Consequently, as a first step in this process, we converted e-Shopping! Books Corp. into a subsidiary in December 2001. We will expand this business based on careful planning of strategies for category of goods. In our business services, we are improving our services for corporations, such as Yahoo! Portal Solutions (Corporate Yahoo!), and ramping up our sales activities.

Based on these various measures, we are committed to maintaining our position as the No. 1 Internet services brand in Japan and to continuing to expand earnings.

## Dividends

Since its foundation, the Yahoo! Japan Group has recognized maximizing shareholder return as a crucial management issue. Our decision of whether or not to pay dividends is taken after considering business results and appropriating adequate retained earnings for future business development. To date, no dividends have been paid under this policy. On the other hand, we have instituted two-for-one stock splits five times since our initial public stock offering.

We are fully committed to meeting the expectations of our shareholders by targeting further growth and diversification of earnings. In pursuing these goals, we look forward to the continued support of our shareholders.



Masahiro Inoue  
President & CEO  
June 20, 2002

## Review of Operations

### Advertising Business

Commencing with the fiscal year ended March 2002, the Group has changed its method of accounting for advertising agency commissions. Advertising sales are now recorded on a gross basis, and advertising agency commissions are included in selling, general and administrative expenses under sales commissions. In the past, advertising sales were recorded on a net basis after deducting advertising agency commissions. The Group implemented this change in accounting methods because of a revision of its sales structure arising from a shift, in principle, to selling advertising through advertising agencies. The new accounting method facilitates management of sales commissions, and the change also brings the Group in line with the conventional accounting system used by TV, newspaper, and other media that sell advertising. Figures for previous fiscal years have been adjusted accordingly to permit comparison.

Sales by our advertising business for the fiscal year declined 8.4%, to ¥12,298 million, and generated 39.0% of consolidated net sales. The advertising sales of our consolidated subsidiary eGroups KK are included in these net sales.

### Operating Environment

Japan's economy headed deeper into decline under the impact of bankruptcies of major companies, instability in the financial system, and the terrorist attacks on the United States. According to a survey by Dentsu Inc., the Internet advertising market in Japan during calendar year 2001 increased 24.6%, to ¥73.5 billion, exhibiting a slower growth rate than in the past. These factors were reflected in difficult business conditions for the Yahoo! Japan Group. Amid falling advertising and promotional expenditures by corporations, advertisers became extremely cautious with Internet advertising, and the number of new advertisers and major advertising campaigns fell.

In response to these trends, we revised our sales structure, changing our focus, in principle, to selling advertising through advertising agencies to target National Clients. Moreover, in February 2002 we introduced Yahoo! Billboard, the first reach index type of product to be based on the number of unique browsers that the advertisement is viewed on. Besides being highly effective in raising consumer awareness of a company's new product or service, Yahoo! Billboard is more easily understood by advertisers because it uses the same evaluation standards as other media, such as TV, newspapers, magazines, and radio. Consequently, we have high expectations that Yahoo! Billboard will contribute significantly to advertising sales in the future. Among the other new products launched during the fiscal year under review were the horizontal banner Skyscraper and the group-specific e-mail advertising Yahoo! Deliver. To increase the visual impact of our banner advertising, we also actively introduced rich-media banners, such as flash banners.

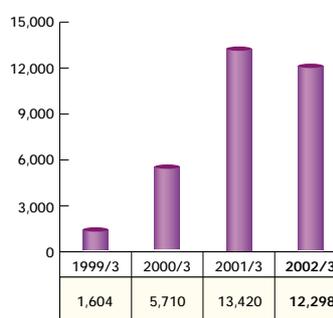
Despite these measures, advertising business sales contracted ¥1,121 million year on year because of the harsh business conditions.

### Business Strategies

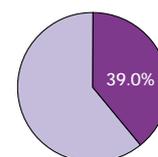
Although we saw signs of a slight recovery in advertising business sales during the fourth quarter of the fiscal year under review, Japan's economy remains in the doldrums, with no clear indication of future direction. While we are confident of growth in the Internet advertising market in the medium to long term, it still is a small market with a short history and is easily influenced by the trends in the Internet advertising market in the United States.

Strategically, to establish a solid base of revenues from our advertising business, we will continue to concentrate on winning more National Clients and on developing new products. Through the use of methods that verify the effectiveness of our ads, we will seek to increase the value of Internet advertising and to achieve higher market penetration rates.

Advertising Business Sales (Millions of Yen)



Share of Net Sales



## Yahoo! BB Business

Revenues from Yahoo! BB, operations of which began in June 2001, amounted to ¥13,286 million, accounting for 42.2% of consolidated net sales. The main sources of income for the business were sales of the Yahoo! BB Starter Kit and ISP service fees.

### Operating Environment

In June 2001, in partnership with BB Technologies, Corp. (BBT), a joint venture with the Softbank Group, we began a comprehensive broadband service, Yahoo! BB. Yahoo! BB provides a high-speed Internet connection service using ordinary telephone lines and a portal site for broadband content for Yahoo! BB members. The service offers a continuous connection, high-speed (8 megabits) Internet broadband service at a low, fixed rate of ¥2,280 per month. During the fiscal year under review, Yahoo! Japan assembled the Yahoo! BB Starter Kit, received service subscriptions, operated the broadband portal site, and provided the payment platform. BBT built, supplied, and maintained an asymmetric digital subscriber lines (ADSL) infrastructure and provided technological development and support.

We took steps to reduce the installation time required from subscriber application to completion of the jumper installation inside the NTT central office. We requested that BBT review and reform its business processes to shorten the number of days required. At the same time, we also conducted a variety of promotional campaigns to attract new subscribers. At the end of March 2002, BBT had connected approximately 490 thousand lines to the service, on a number of jumper installations completed basis.

### Business Strategies

In April 2002, Yahoo! Japan Group and BBT and other members of the Softbank Group commenced BB Phone, a broadband telephone service that takes advantage of Yahoo! BB's network. An Internet protocol telephone service that utilizes our own network, BB Phone can offer lower-than-ever-before rates for calls between Yahoo! BB members as well as for regular domestic and international calls.

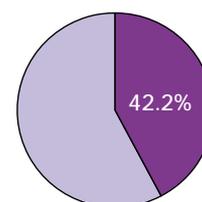
Until March 2002, we sourced ASDL modems through Softbank Corp. and the modem manufacturer, packaged them into the Yahoo! BB Starter Kit, and sold them to BBT. Beginning in April of this year, however, we are no longer procuring modems or selling the Starter Kit. Instead, we are receiving incentive commissions based on the number of new subscribers signed up and subscriber continuing fees from BBT. This change was made because our subscription route has been expanded to signups through consumer electronics outlets and other stores as well as the Internet route. In addition, it has become necessary to actively expand subscriptions from corporations as a result of the start-up of the BB Phone service.

The Group's goal in this business is to aggressively build its subscriber base through promotional campaigns and other advertising to expand earnings.

Yahoo! BB Portal Site



Share of Net Sales



## Auction Business

Revenues from our auction business totaled ¥2,416 million, accounting for 7.7% of consolidated net sales. The primary contributor to revenues was the monthly personal identification fee charged for participation in auctions.

### Operating Environment

In May 2001, we introduced a personal identification system charging an auction participation fee of ¥280 per month for the purpose of providing a more reliable and safer service. Although the initiation of this personal identification system resulted in a temporary decline in the number of items listed for auction, recovery was immediate. At the end of March 2002, there were approximately 4.2 million items listed for auction, the cumulative monthly total of new items put up for auction rose to about 18 million, and 1.65 million users were registered under the personal identification system.

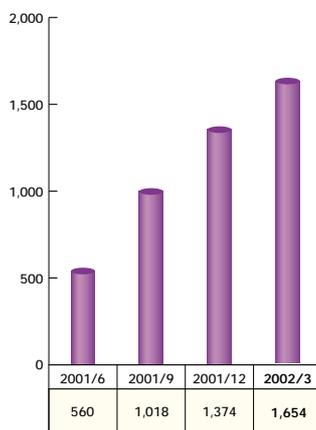
In January 2002, we began offering Yahoo! Yu-Pack, a parcel delivery service using the post office's Yu-Pack parcel delivery service. Our delivery service is a low-cost, highly convenient service available around the clock at any of the outlets of one of Japan's convenience store chains. It works in conjunction with Yahoo! Auctions to simplify delivery for users, allowing them to arrange for the delivery of items auctioned over the Web. To increase safety for some large-ticket items, we also introduced REGILA, an escrow service for automobiles auctioned on our system.

### Business Strategies

In April 2002, we introduced system-use fees for listing and selling items on Yahoo! Auctions. Because of the large volume of items posted on the system, we had incurred substantial costs to add new servers, expand the number of communication lines and network devices, and increase staff. Moreover, the large number of items with multiple listings that interfered with item searches and the many items that were really only advertisements had produced some discontentment with our service among auction participants. This situation was creating a problem by undercutting the appeal of Yahoo! Auctions' services. We considered this problem from the viewpoint of benefit assessment, deciding to impose a Listing Fee of ¥10 per item on items put up for auction as of April 15, 2002, and a Cancellation Fee of ¥500 per item canceled after it has been bid on. As of May 15, 2002, persons selling items are being charged 3% of the auction proceeds as a Transaction Fee. For items in special categories, such as automobiles, motorcycles, real estate, and others, the Listing Fee is ¥500 per item, and the Transaction Fee is ¥3,000 regardless of the final auction price.

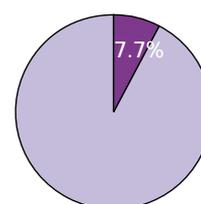
Through these measures, we are aiming to significantly upgrade the convenience of our Yahoo! Auctions services, thereby expanding revenues as a result of greater participation in auctions.

Number of Paying Users (Thousands of IDs)



Note: Total number of paying users at the end of each month.

Share of Net Sales



## Other Businesses

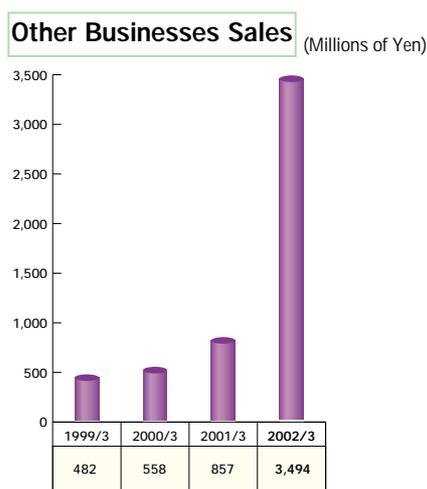
Fiscal revenues from other businesses totaled ¥3,494 million, generating 11.1% of consolidated net sales. The principal contributors to this revenue were the information publishing services of Yahoo! Employment, Yahoo! Autos, Yahoo! Real Estate, and others; commerce services, including shopping tenant fees and sales commissions by Yahoo! Shopping; business services, including the pay site registration review service Business Express; and licensing fees. The sales of our consolidated subsidiary e-Shopping! Books are included in these net sales.

### Operating Environment

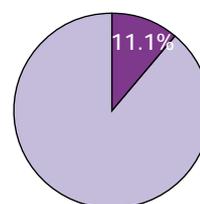
At the end of March 2002, there were 182 shops on Yahoo! Shopping, an increase of 48 stores, or 35.8% year on year. Tenant fees and sales commissions rose ¥271 million, or 184.9%, to ¥418 million. Among the highlights of the fiscal year, we raised our stake in e-Shopping! Books on December 26, 2001, converting it into a consolidated subsidiary. We took this step to seamlessly combine the operations of Yahoo! Japan and this subsidiary, targeting further synergies in our operations. We expect this measure to contribute to growth in Group sales and to improvement in our shopping business and its competitiveness.

### Business Strategies

In our business services operations, in October 2001 we launched our Yahoo! Portal Solutions (Corporate Yahoo!). This service utilizes the operating know-how developed by the Yahoo! Japan Group to provide support services for corporate portal sites. It is being sold in cooperation with our marketing partners. Moreover, we have agreed to work with Softbank Commerce Corp. and IBM Japan, Ltd., in providing this service. Corporate information portal construction has been attracting a great deal of attention from companies. Their interest arises from the realization that optimizing the allocation of resources within their organizations not only speeds up and improves the efficiency of decision making and operations, it also helps them take advantage of business opportunities and contributes to improved customer satisfaction.



**Share of Net Sales**



### Contributing to Environmental Protection

As a Group in the service industry, we do not have any operations that produce industrial waste. However, we take environmental protection extremely seriously, and are contributing by conserving natural resources. To reduce our impact on the environment, we undertake 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, and others).
- Recycling resources (use of Mamoru-kun, distribution of eco paper plates to Eco League participating universities).

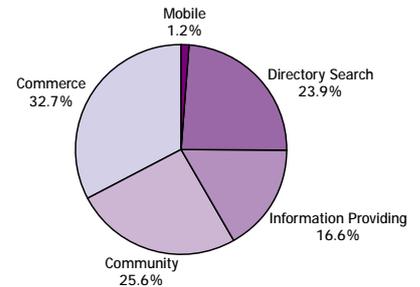
## Services

The Yahoo! Japan Group continues to improve and expand its services, and this has led to steady growth in page views. During March 2002, monthly page views exceeded 7.6 billion, and on March 11, 2002, maximum daily page views broke through the 270 million mark.

Looking at a breakdown of page views by services, directory search services (including Yahoo! BB) accounted for 23.9%; information providing services for 16.6%, community services, such as message boards for 25.6%; commerce services for 32.7%; and mobile services for 1.2% of monthly page views.

During the fiscal year under review, we made the following additions and improvements to our services.

Page Views by Services



### Information Providing Services

Yahoo! News	<ul style="list-style-type: none"> <li>Carried out a large-scale renewal of the service, expanding regional news and linking the service with Yahoo! Mail (Aug. 21, 2001).</li> </ul>
Yahoo! Sports	<ul style="list-style-type: none"> <li>Hosted a promotional event in cooperation with Tokyo Verdy (Apr. 24, 2001).</li> </ul>
Yahoo! Education	<ul style="list-style-type: none"> <li>Started providing rapid post-exam answer bulletins for certification exams (Apr. 15, 2001).</li> <li>Began supplying on-line request services for data materials and application forms (May 24, 2001).</li> </ul>
Yahoo! Finance	<ul style="list-style-type: none"> <li>Started providing information on financial announcement dates for companies listed on Tokyo Stock Exchange (May 17, 2001).</li> <li>Commenced an Information from the Company service on Corporate Data. (June 18, 2001).</li> </ul>
Yahoo! TV Coverage	<ul style="list-style-type: none"> <li>Started providing program schedules for BS digital broadcasts (May 2, 2001).</li> </ul>
Yahoo! Maps	<ul style="list-style-type: none"> <li>Renewed Yahoo! Maps service, upgrading map scaling (Oct. 15, 2001).</li> </ul>
Yahoo! Travel	<ul style="list-style-type: none"> <li>Commenced Overseas Sightseeing News (May 23, 2001).</li> <li>Began Yadomakase service, an on-line reservation service at domestic hotels (Aug. 23, 2001).</li> </ul>
Yahoo! Autos	<ul style="list-style-type: none"> <li>Started providing used car information in exclusive cooperation with Proto Corporation (June 14, 2001).</li> </ul>
Yahoo! Employment	<ul style="list-style-type: none"> <li>Began supplying part-time employment information (Aug. 10, 2001).</li> <li>Commenced Yahoo! Temporary Work Information service (Jan. 15, 2002).</li> </ul>
Yahoo! Real Estate	<ul style="list-style-type: none"> <li>Started Housing Exhibit Information service (July 31, 2001).</li> </ul>
Yahoo! Gourmet	<ul style="list-style-type: none"> <li>Began providing information on popular restaurants on Walkersplus.com (June 20, 2001).</li> </ul>
Yahoo! Greetings	<ul style="list-style-type: none"> <li>Hosted a promotional event for Christmas in cooperation with The Seiyu, Ltd. (Nov. 10, 2001).</li> </ul>
Yahoo! Briefcase	<ul style="list-style-type: none"> <li>Commenced the Yahoo! Briefcase service (Sept. 6, 2001).</li> </ul>
Yahoo! Movies	<ul style="list-style-type: none"> <li>Started the Yahoo! Movies service (June 15, 2001).</li> <li>Began a video streaming service for short films (Feb. 22, 2002).</li> </ul>
Yahoo! Kids	<ul style="list-style-type: none"> <li>Started Yahoo! Kids Ranking and Yahoo! Kids Polls services (June 25, 2001).</li> <li>Held Yahoo! Kids Summer Holiday Special 2001 (Aug. 14, 2001).</li> </ul>
Yahoo! Present	<ul style="list-style-type: none"> <li>Commenced the Yahoo! Present service (July 12, 2001).</li> </ul>
Yahoo! Photos	<ul style="list-style-type: none"> <li>Started the Yahoo! Photos service (Sept. 6, 2001).</li> <li>Began offering an on-line New Year's card printing service provided by Fujicolor Service Co., Ltd. (Nov. 15, 2001).</li> <li>Started an on-line postcard service offered by Eastman Kodak Company (Nov. 27, 2001).</li> </ul>
Yahoo! Music	<ul style="list-style-type: none"> <li>Made exclusive live broadcast of Sting's special live show (Oct. 25, 2001).</li> <li>Started providing ticket information of concerts and live shows (Feb. 1, 2002).</li> </ul>
Yahoo! Wedding	<ul style="list-style-type: none"> <li>Began the Yahoo! Wedding service (Dec. 13, 2001).</li> </ul>
Yahoo! Healthcare	<ul style="list-style-type: none"> <li>Commenced the Yahoo! Healthcare service (Dec. 17, 2001).</li> </ul>
Yahoo! Companion	<ul style="list-style-type: none"> <li>Started the Yahoo! Companion service (Mar. 4, 2002).</li> </ul>
Yahoo! BB	<ul style="list-style-type: none"> <li>Opened broadband content portal site for Yahoo! BB users (Aug. 1, 2001).</li> <li>Started providing free download service of the Ultima Online game for Yahoo! BB users (Dec. 13, 2001).</li> <li>Held an on-line preview of the movie "Mulholland Drive", directed by David Lynch (Feb. 9 &amp; 10, 2002).</li> <li>Launched the promotional site for "Yahoo! BB for PlayStation 2" (Mar. 19, 2002).</li> </ul>

## Community Services

- Yahoo! Messenger**
- Started providing Yahoo! Messenger service for Macintosh users (July 19, 2001).
  - Added real-time voice function to messages (Nov. 20, 2001).
  - Began offering a messenger service that can be accessed using the Yahoo-ez search function on EZweb's official site (Feb. 7, 2002).
- Yahoo! Game**
- Added Maker Games and Game Information services (Aug. 9, 2001).
  - Began supplying on-line shogi game (Sept. 13, 2001).
- Yahoo! Chat**
- Hosted a chat event with Masakiyo Maezono as a guest (Apr. 25, 2001).
  - Hosted a chat event with Hiroko Anzai as a guest (May 7, 2001).
  - Hosted a chat event with Yukio Hatayama, head of the Democratic Party, as a guest (June 13, 2001).
  - Hosted a chat event with director Syunji Iwai as a guest (Sept. 27, 2001).
  - Added real-time voice function to chat service (Nov. 20, 2001).

## Commerce Services

- Yahoo! Shopping**
- Started a book order service on Yahoo! Books Shopping (Apr. 26, 2001).
  - Began Sofmap My Yahoo! (Sept. 27, 2001).
  - Launched TV Shopping Special (Dec. 10, 2001).
  - Opened eJUSCO.Com Yahoo! Shopping Store (Mar. 14, 2002).
- Yahoo! Auctions**
- Commenced Yahoo! Premium Auctions (B2C auction) service (Apr. 17, 2001).
  - Added Mizuho Bank (former Fuji Bank) Em-town Branch as an official bank (May 14, 2002).
  - Introduced fee-based personal identification system (May 28, 2001).
  - Added Suruga Bank Softbank Branch as an official bank (July 25, 2001).
  - Added eBANK as an official bank (Aug. 31, 2001).
  - Began Yahoo! Alert service (Sept. 19, 2001).
  - Launched the Yahoo! Yu-pack service (Jan. 21, 2001).
  - Started "REGILA" escrow service for autos (Feb. 19, 2002).
  - Added Tokyo-Mitsubishi Direct as an official bank (Mar. 18, 2002).
- Yahoo! Wallet**
- Commenced Yahoo! Wallet service (Mar. 8, 2002).

## Mobile Services

- Yahoo! Mobile**
- Launched a home page service for i-mode (May 2, 2001).
  - Began offering the Yahoo! Mobile service for EZweb (July 31, 2001).
  - Commenced the Yahoo! ez Search service as an EZweb official service (Sept. 6, 2001).
  - Added the Yahoo! Movies service (Sept. 20, 2001).
  - Started the Yahoo! Polls service (Sept. 20, 2001).
  - Introduced the Yahoo! Transit service (Oct. 24, 2001).
  - Began a Yahoo! Mobile service for EZweb Open Site (Oct. 31, 2001).
  - Initiated search service and download service for i appli (Dec. 20, 2001).
  - Launched "FIFA World Cup™" on the i-mode official menu (Mar. 18, 2002).

## Other Services

- Started seeking application for Yahoo! Research Monitor (June 15, 2001).
- Started Yahoo! Domain service (Aug. 8, 2001).
- Started distributing Yahoo! Deliver (Sept. 3, 2001).
- Launched the FIFA World Cup™ official Web site "FIFAworldcup.com" (Dec. 1, 2001).
- Began a sliding-scale chance campaign in which users could win tickets to the Japanese team's games in the FIFA World Cup™ (Mar. 13, 2002).

## Financial Review

### Key Financial Data

(Millions of Yen)

	1999/3	2000/3	2001/3	2002/3	
FOR THE YEAR	Net Sales:				
	Advertising Business	¥ 1,604	¥ 5,710	¥ 13,420	¥ 12,298
	Yahoo! BB Business	—	—	—	13,286
	Auction Business	—	—	—	2,416
	Other Businesses	482	558	857	3,494
	Total Net Sales	2,087	6,271	14,277	31,497
	Operating Income	399	2,110	5,308	10,406
	Ordinary Income	391	2,031	5,208	10,318
	Net Income	183	1,153	2,972	5,868
	Operating Income Ratio to Net Sales (%)	19.1	33.7	37.2	33.0
	Net Income Ratio to Net Sales (%)	8.8	18.4	20.8	18.6
	Net Income per Share (Yen)	27,068	63,515	39,328	50,048
	Number of Shares Outstanding (Number of Shares)	6,785	18,163	75,586	117,249
	Return on Equity (ROE) (%)	8.6	20.3	22.2	30.2
	AT YEAR-END	Shareholders' Equity	¥ 3,263	¥ 8,106	¥ 18,673
Total Assets		3,919	10,475	27,972	29,218
Shareholders' Equity Ratio (%)		83.3	77.4	66.8	69.2
Number of Employees (Number of Persons)		82	196	339	414

Note: Net Income per share for the fiscal year ended March 31, 2002, deducts treasury stock.

### Results of Operations

#### Net Sales

Net sales for the fiscal year ended March 31, 2002, soared ¥17,219 million, or 120.6%, reaching a record high of ¥31,497 million. This substantial jump in sales despite the decline in sales of advertising business can mainly be attributed to new revenues from Yahoo! BB and auction, businesses started in the first quarter as part of our diversification strategy. Segment sales for the fiscal year were ¥13,286 million for Yahoo! BB business, ¥12,298 million for advertising business, ¥2,416 million for auction business, and ¥3,494 million for other businesses. The contribution of advertising business to consolidated net sales fell to 39.0% from 94.0% a year earlier, while Yahoo! BB business generated 42.2% and auction business accounted for 7.7%. Other businesses contributed 11.1%.

#### Cost of Sales

Cost of sales amounted to ¥8,963 million, an increase of ¥8,900 million, or 142.3 times, over a year before. The main factor behind this jump was the inclusion of Yahoo! BB business' cost of sales in the overall figures.

#### Selling, General and Administrative Expenses

Personnel Expenses rose ¥1,013 million, or 45.4%, to ¥3,246 million. Compared with the previous fiscal year, the average number of employees increased 108.3 persons, or 37.2%, to 399.5 persons.

Advertising Costs decreased ¥351 million, or 30.8%, to ¥791 million. The decline results from our emphasis on less-costly marketing methods in response to the deterioration in business conditions.

Content Provider Fees increased ¥466 million, or 79.3%, to ¥1,054 million, year on year as we worked to boost our information services.

Sales Commissions shrank ¥260 million, or 14.8%, to ¥1,503 million. This decline can be attributed to a decrease in sales commissions paid to Yahoo! Inc., of the United States, because of the end of an advertising contract between it and a major client.

Depreciation Expenses expanded ¥584 million, or 86.9%, to ¥1,256 million, due to the acquisition of additional servers to handle growth in page views and upgrades to services, as well as to the introduction of basic office equipment in line with personnel expansion.

Communications Charges rose ¥594 million, or 114.4%, to ¥1,114 million. These charges increased because of additional connection contracts made with network providers in line with our expanded services and to improve the access environment for users.

Royalties paid to Yahoo! Inc. increased ¥248 million, or 66.7%, to ¥621 million, in accordance with the increase in net sales.

Lease and Utility Expenses for the fiscal year were up ¥160 million, or 35.5%, to ¥613 million in line with the expansion of Yahoo! Japan's headquarters.

During the fiscal year under review, we recorded ¥161 million in amortization of consolidated accounts.

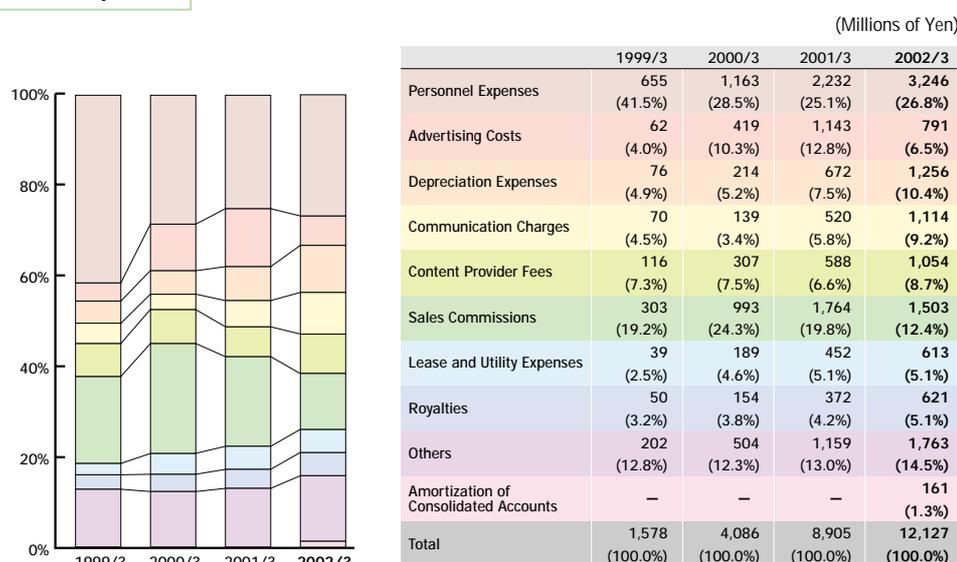
## Operating Income

As a result of the above factors, operating income expanded ¥5,097 million, or 96.0%, to ¥10,406 million, compared with the previous fiscal year.

## Non-operating Income (Expenses)

Net non-operating loss was ¥88 million. Loss on evaluation of equity investments was principally responsible for the loss.

## SG&A Expenses



## Ordinary Income

Ordinary income increased ¥5,109 million, or 98.1% year on year, to ¥10,318 million.

## Income Tax, Inhabitants' Tax and Enterprise Tax

Compared with the previous fiscal year, income tax, inhabitants' tax and enterprise tax rose ¥2,202 million, or 99.1%, to ¥4,425 million.

## Net Income

Net income advanced ¥2,895 million, or 97.4%, to ¥5,868 million. Net income per share amounted to ¥50,048.26, up 27.3%, or ¥10,719.44, from the previous fiscal year. The average number of shares outstanding increased 41,663 shares, or 55.1%, to 117,249 shares, compared with 75,586 shares in the previous fiscal year. Fully diluted net income per share was ¥49,955.90.

## (Reference)

### Earnings before Income Taxes, Depreciation and Amortization (EBITDA)

EBITDA increased ¥5,723 million, or 97.6%, to ¥11,588 million.

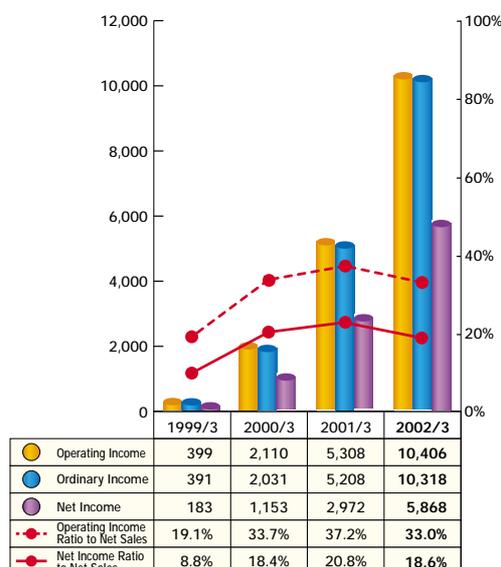
## Financial Position

At March 31, 2002, total assets amounted to ¥29,218 million, up ¥1,249 million or 4.5% from the previous fiscal year. Total liabilities were ¥8,935 million, decreasing ¥363 million or 3.9%. Total shareholders' equity advanced ¥1,557 million or 8.3%, to ¥20,227 million.

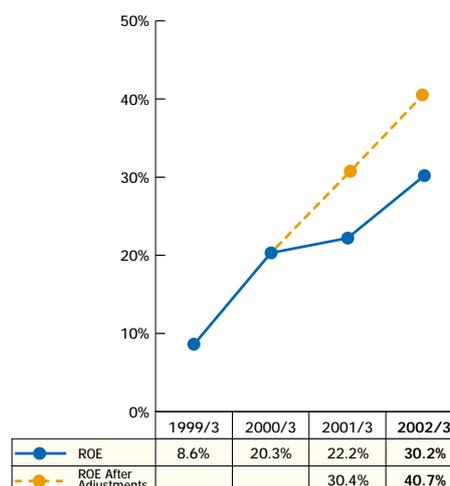
The primary causes behind the growth in total assets were increases in cash, accounts receivable—trade, and accounts receivable—other. Comparing major items year on year, among current assets, cash grew ¥6,163 million or 523.4%; accounts receivable—trade rose ¥2,456 million or 98.8%; and accounts receivable—other increased ¥1,982 million. Marketable securities decreased ¥4,589 million or 97.9%. The increase in cash and the decrease in marketable securities were primarily due to the redemption of a money management fund (MMF) and Chuki Kokusai (medium-term domestic notes)

### Profits/Net Sales Ratios

(Millions of Yen)



### Return on Equity (ROE)



Note: Yahoo! Japan introduced mark-to-market accounting for the valuation of other securities from the fiscal year ended March 31, 2001. As a result, shareholders' equity (average of beginning and ending balance for the year) after the fiscal year ended March 31, 2001 contains other securities evaluation adjustment in its ending balance.

For comparison with past trends, ROE calculated without taking such evaluation adjustment into account is also displayed as ROE after adjustment.

funds. Accounts receivable—other rose due to inventories, imports and sales of modems that are transferred to BBT under a wholesale agreement (¥1,231 million) and to the sale of a portion of investment securities (¥615 million). Among fixed assets, tangible fixed assets rose ¥904 million or 38.4% and intangible fixed assets increased ¥1,180 million or 12.2 times. Investment securities fell ¥7,226 million or 46.8%.

Among current liabilities, accounts payable—trade jumped ¥1,102 million or 124.9 times while accrued income taxes increased ¥1,760 million or 88.0%. Among long-term liabilities, long-term deferred taxes decreased ¥3,427 million or 64.7%.

Minority interests in consolidated subsidiaries amounted to ¥56 million.

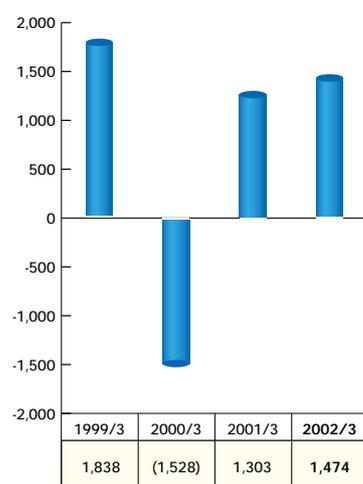
In shareholders' equity, common stock advanced ¥39 million or 0.7% while additional paid-in capital increased ¥10 million or 1.0%. Retained earnings expanded ¥5,851 million or 133.9% while other securities evaluation adjustment decreased ¥4,333 million or 60.1%.

Note: Treasury stock has been eliminated from the figures used to compare items in shareholders' equity for the fiscal year under review and the previous fiscal year.

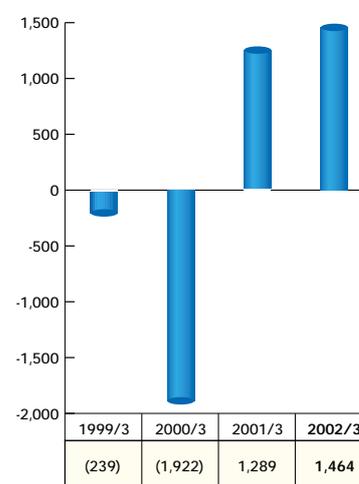
## Cash Flows

Net cash provided by operating activities totaled ¥6,139 million for the fiscal year. Although accounts receivable—trade expanded along with the growth in income taxes paid and net sales, this was offset by an increase in income before income taxes. Net cash used in investing activities totaled ¥4,675 million because of an increase in fixed assets to expand and upgrade servers related to service expansion and because of investments in eGroups KK and e-Shopping! Books Corp. Net cash provided by financing activities amounted to ¥10 million despite a bond redemption because of the issue of new shares. As a result, the net change in cash and cash equivalents for the fiscal year totaled ¥1,474 million.

**Cash Flows** (Millions of Yen)



**Free Cash Flows** (Millions of Yen)



Note: Free cash flows = Cash flows from operating activities + Cash flows from investing activities

## Consolidated Balance Sheets

(Millions of Yen)

March 31, 2002 and 2001	2002/3	2001/3	Increase (Decrease)
<b>Assets</b>			
Current assets			
Cash	¥ 7,341	¥ 1,177	¥ 6,163
Accounts receivable—trade	4,942	2,486	2,456
Marketable securities	99	4,688	(4,589)
Treasury stock	—	4	(4)
Accounts receivable—other	1,982	—	1,982
Inventory	6	—	6
Deferred tax assets	373	195	178
Other current assets	353	123	230
Allowance for doubtful debt	(46)	(6)	(40)
Total current assets	15,053	8,669	6,383
Fixed assets			
Tangible fixed assets			
Buildings and fixtures	326	284	41
Equipment and furniture	2,933	2,070	862
Total tangible fixed assets	3,259	2,354	904
Intangible fixed assets			
Consolidation accounts	806	—	806
Software	474	102	372
Telephone subscription rights	4	2	1
Total intangible fixed assets	1,285	104	1,180
Investments and others			
Investment securities	8,209	15,435	(7,226)
Others	1,410	1,407	2
Total investments and others	9,619	16,843	(7,223)
Total fixed assets	14,165	19,303	(5,138)
<b>Total assets</b>	<b>¥ 29,218</b>	<b>¥ 27,972</b>	<b>¥ 1,245</b>

Notes: 1. Figures as of March 31, 2001 are non-consolidated basis.

2. Yen amounts are rounded down to the nearest million yen.

(Millions of Yen)

March 31, 2002 and 2001	2002/3	2001/3	Increase (Decrease)
<b>Liabilities</b>			
Current liabilities			
Accounts payable—trade	¥ 1,111	¥ 8	¥ 1,102
Accounts payable—other	1,164	1,376	(211)
Current portion of long-term debt	117	—	117
Accrued income taxes	3,760	2,000	1,760
Other current liabilities	757	478	279
Total current liabilities	6,911	3,863	3,047
Long-term liabilities			
Long-term debt	—	137	(137)
Long-term deferred taxes	1,870	5,298	(3,427)
Retirement allowances	14	—	14
Other long-term liabilities	139	—	139
Total long-term liabilities	2,023	5,435	(3,411)
Total liabilities	8,935	9,299	(363)
<b>Minority Interests in Consolidated Subsidiaries</b>			
Minority interests in consolidated subsidiaries	56	—	56
<b>Shareholders' Equity</b>			
Common stock	6,033	5,993	39
Additional paid-in capital	1,110	1,099	10
Consolidated accounts	10,220	4,369	5,851
Other securities evaluation adjustment	2,878	7,211	(4,333)
Treasury stock	(15)	—	(15)
Total shareholders' equity	20,227	18,673	1,553
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	¥ 29,218	¥ 27,972	¥ 1,245

## Consolidated Statements of Income

Years ended March 31, 2002 and 2001	2002/3		2001/3		Increase (Decrease)	
	Millions of Yen	% share	Millions of Yen	% share	Millions of Yen	%
Net sales	¥ 31,497	100.0	¥ 14,277	100.0	¥ 17,219	120.6
Cost of sales	8,963	28.5	63	0.4	8,900	14,125.2
Gross profit	22,534	71.5	14,214	99.6	8,319	58.5
SG&A expenses	12,127	38.5	8,905	62.4	3,221	36.2
Operating income	10,406	33.0	5,308	37.2	5,097	96.0
Non-operating income	58	0.2	58	0.4	0	(0.1)
Interest and dividend income	27		28		(1)	
Other non-operating income	30		29		1	
Non-operating expenses	146	0.4	158	1.1	(11)	(7.2)
Debt interest	7		12		(5)	
Loss on disposal of fixed assets	54		14		40	
Loss on revaluation of equity investment	71		80		(9)	
Other non-operating expenses	13		50		(37)	
Ordinary income	10,318	32.8	5,208	36.5	5,109	98.1
Extraordinary income	586	1.9	—	—	586	—
Sale of investment securities	586		—		—	
Extraordinary loss	611	2.0	13	0.1	597	4,437.1
Evaluation of investment securities	611		—		—	
Amortization of difference on conversion to new retirement benefit accounting method	—		13		—	
Income before income taxes	10,293	32.7	5,195	36.4	5,098	98.1
Income tax, inhabitants' tax and enterprise tax	4,929	15.6	2,404	16.8	2,524	
Adjustment to enterprise tax	(451)	(1.4)	(182)	(1.3)	(268)	
Minority interest in loss of consolidated subsidiaries	(53)	(0.2)	—	—	(53)	
Net income	¥ 5,868		¥ 2,972	22.8		

Notes: 1. Figures as of March 31, 2001 are non-consolidated basis.

2. Yen amounts are rounded down to the nearest million yen.

## Consolidated Statements of Cash Flows

(Millions of Yen)

	2002/3	2001/3
Years ended March 31, 2002 and 2001		
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 10,293	¥ 5,195
Depreciation and amortization	1,257	672
Amortization of consolidated accounts	161	—
Increase in allowance for doubtful debts	40	1
Increase in reserve for retirement allowances	17	—
Increase in prepaid pension expenses	—	(4)
Loss on disposal of tangible fixed assets	54	14
Gain on sale of treasury stock	—	(19)
Loss on evaluation of investment securities	611	—
Gain/loss on sale of investment securities	(586)	—
Loss on evaluation of equity funds	71	80
Exchange gain/loss	(2)	2
Proceeds from interest and dividends	(27)	(28)
Interest expense	7	12
Other profit and loss adjustments	0	5
Increase in inventory	(0)	—
Increase in accounts receivable—trade	(2,434)	(941)
Increase in accounts payable—trade	967	5
Increase/decrease in accounts receivable—other	(1,236)	9
Increase/decrease in accounts payable—other	(53)	356
Increase/decrease in consumption taxes payable	185	144
Payment of bonuses to directors	(16)	(16)
Subtotal	9,308	5,489
Payment of income taxes and other taxes	(3,169)	(1,123)
Net cash provided by operating activities	6,139	4,366
<b>Cash Flows from Investing Activities:</b>		
Purchases of marketable securities	(99)	—
Expenditures on tangible fixed assets	(2,372)	(1,672)
Expenditures on intangible fixed assets	(170)	(32)
Proceeds from sale of tangible fixed assets	13	—
Expenditures on investment securities	(1,117)	(1,442)
Proceeds from sale of investment securities	190	18
Investments in newly consolidated entity	(1,051)	—
Expenditures on loans	(41)	(2)
Proceeds from recovery of lending	1	56
Expenditures on increases in guarantee deposit assets	(53)	(30)
Proceeds from decreases in guarantee deposit assets	0	—
Proceeds from interest and dividends	26	29
Other cash used in investing activities	(1)	—
Net cash used in investing activities	(4,675)	(3,077)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from sale of treasury stock	—	73
Proceeds from issuance of bonds	—	0
Expenditures for repayment of bonds	(19)	(303)
Proceeds from issuance of new shares	49	319
Expenditures for acquisition of treasury stock	(11)	(58)
Interest expenses	(7)	(15)
Net cash used in/provided by financing activities	10	14
Net change in cash and cash equivalents	1,474	1,303
Cash and cash equivalents at beginning of term	5,866	4,547
Increase in cash and cash equivalents due to merger	—	14
Cash and cash equivalents at end of term	¥ 7,341	¥ 5,866

Notes: 1. Figures as of March 31, 2001 are non-consolidated basis.

2. Yen amounts are rounded down to the nearest million yen.

## Non-consolidated Balance Sheets

(Millions of Yen)

March 31, 2002 and 2001	2002/3	2001/3	Increase (Decrease)
<b>Assets</b>			
Current assets			
Cash	¥ 7,210	¥ 1,177	¥ 6,033
Accounts receivable—trade	4,906	2,486	2,420
Marketable securities	99	4,688	(4,589)
Treasury stock	—	4	4
Prepaid expenses	154	112	42
Accounts receivable—other	1,868	—	1,868
Deferred tax assets	373	195	178
Other current assets	147	11	136
Allowance for doubtful debt	(46)	(6)	(40)
Total current assets	14,715	8,669	6,045
Fixed assets			
Tangible fixed assets	3,212	2,354	858
Intangible fixed assets	225	104	120
Investments and others			
Investment securities	7,689	14,975	(7,285)
Investment in affiliated companies	1,319	60	1,259
Bonds of affiliated companies	400	400	
Equity funds	852	919	(67)
Prepaid expenses	57	51	6
Guarantee deposits	484	431	53
Others	1	5	(4)
Total investments and others	10,804	16,843	(6,038)
Total fixed assets	14,242	19,303	(5,060)
Total assets	¥ 28,957	¥ 27,972	¥ 984

Note: Yen amounts are rounded down to the nearest million yen.

(Millions of Yen)

March 31, 2002 and 2001	2002/3	2001/3	Increase (Decrease)
<b>Liabilities</b>			
Current liabilities			
Accounts payable—trade	¥ 939	¥ 8	¥ 931
Accounts payable—other	1,024	1,376	(352)
Current portion of long-term debt	117	—	117
Accrued income taxes	3,760	2,000	1,760
Accrued consumption taxes	425	240	184
Advance received profit	66	70	(3)
Subscription warrants	6	7	(1)
Other current liabilities	251	159	92
Total current liabilities	6,591	3,863	2,727
Long-term liabilities			
Bonds with warrants	—	137	(137)
Long-term deferred taxes	1,870	5,298	(3,427)
Retirement allowances	13	—	13
Total long-term liabilities	1,884	5,435	(3,551)
Total liabilities	8,475	9,299	(823)
<b>Shareholders' Equity</b>			
Common stock	6,033	5,993	39
Additional paid-in capital	1,110	1,099	10
Legal reserve	5	3	1
Other retained earnings			
Reserve for special depreciation	122	143	(20)
Current retained earnings	10,347	4,221	6,125
Other securities evaluation adjustment	2,878	7,211	(4,333)
Treasury stock	(15)	—	(11)
Total shareholders' equity	20,482	18,673	1,808
Total liabilities and shareholders' equity	¥ 28,957	¥ 27,972	¥ 984

## Non-consolidated Statements of Income

Years ended March 31, 2002 and 2001	2002/3		2001/3		Increase (Decrease)	
	Millions of Yen	% share	Millions of Yen	% share	Millions of Yen	%
Net sales	¥ 30,263	100.0	¥ 13,039	100.0	¥ 17,224	132.1
Cost of sales	8,024	26.5	63	0.5	7,961	12,635.2
Gross profit	22,238	73.5	12,976	99.5	9,262	71.4
SG&A expenses	11,530	38.1	7,667	58.8	3,863	50.4
Operating income	10,708	35.4	5,308	40.7	5,399	101.7
Non-operating income	59	0.2	58	0.4	1	2.0
Interest earned	23		28		(5)	
Dividend earned	4		—		4	
Gain on sales of treasury stock	—		19		(19)	
Exchange gain	2		—		2	
Other non-operating income	28		10		17	
Non-operating expenses	141	0.5	158	1.2	(16)	(10.7)
Debenture interest	5		12		(7)	
Exchange loss	—		2		(2)	
Expense for issuance of shares	2		40		(37)	
Merger-related expenses	—		2		(2)	
Loss on disposal of fixed assets	54		14		40	
Loss on revaluation of equity investment	71		80		(9)	
Other non-operating expenses	7		5		2	
Ordinary income	10,626	35.1	5,208	39.9	5,417	104.0
Extraordinary income	586	1.9	—	—	586	—
Sale of investment securities	586		—		—	
Extraordinary loss	611	2.0	13	0.1	597	4,437.1
Evaluation of investment securities	611		—		—	
Amortization of difference on conversion to new retirement benefit accounting method	—		13		—	
Income before income taxes	10,601	35.0	5,195	39.8	5,406	104.1
Income tax, inhabitants' tax and enterprise tax	4,929	16.3	2,404	18.4	2,524	
Adjustment to enterprise tax	(451)	(1.5)	(182)	(1.4)	(268)	
Net income	6,123	20.2	2,972	22.8	3,150	106.0
Retained earnings carried forward	4,223		1,249		2,974	
Unappropriated retained earnings	¥ 10,347		¥ 4,221		¥ 6,125	

Note: Yen amounts are rounded down to the nearest million yen.

## Non-consolidated Statements of Cash Flows

(Millions of Yen)

	2002/3	2001/3
Years ended March 31, 2002 and 2001		
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 10,601	¥ 5,195
Depreciation and amortization	1,208	672
Increase in allowance for doubtful debts	40	1
Increase in reserve for retirement allowances	17	—
Increase in prepaid pension expenses	—	(4)
Loss on disposal of fixed assets	54	14
Gain on sale of treasury stock	—	(19)
Loss on evaluation of investment securities	611	—
Gain/loss on sale of investment securities	(586)	—
Loss on evaluation of equity funds	71	80
Exchange gain/loss	(2)	2
Proceeds from interest and dividends	(28)	(28)
Interest expense	5	12
Other profit and loss adjustments	0	5
Increase in inventory	(0)	—
Increase in accounts receivable—trade	(2,424)	(941)
Increase in accounts payable—trade	931	5
Increase/decrease in accounts receivable—other	(1,296)	9
Increase/decrease in accounts payable—other	(16)	356
Increase/decrease in consumption taxes payable	184	144
Payment of bonuses to directors	(16)	(16)
Subtotal	9,355	5,489
Payment of income taxes and other taxes	(3,169)	(1,123)
Net cash provided by operating activities	6,186	4,366
<b>Cash Flows from Investing Activities:</b>		
Purchases of marketable securities	(99)	—
Expenditures on tangible fixed assets	(2,350)	(1,672)
Expenditures on intangible fixed assets	(144)	(32)
Proceeds from sale of tangible fixed assets	13	—
Expenditures on investment securities	(1,057)	(1,442)
Proceeds from sale of investment securities	190	18
Purchases of investment securities	(1,239)	—
Expenditures on loans	(141)	(2)
Proceeds from recovery of lending	1	56
Expenditures on increases in guarantee deposit assets	(53)	(30)
Proceeds from decreases in guarantee deposit assets	0	—
Proceeds from interest and dividends	27	29
Other cash used in investing activities	(1)	—
Net cash used in investing activities	(4,854)	(3,077)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from sale of treasury stock	—	73
Expenditures for repayment of bonds	(19)	(303)
Proceeds from issuance of new shares	49	319
Expenditures for acquisition of treasury stock	(11)	(58)
Interest expenses	(5)	(15)
Net cash used in/provided by financing activities	12	14
Net change in cash and cash equivalents	1,344	1,303
Cash and cash equivalents at beginning of term	5,866	4,547
Increase in cash and cash equivalents due to merger	—	14
Cash and cash equivalents at end of term	¥ 7,210	¥ 5,866

Note: Yen amounts are rounded down to the nearest million yen.

## Risk Factors

Yahoo! Japan and its consolidated subsidiaries (hereinafter referred to as “the Group”), has reported its results for the fiscal year ended March 31, 2002 in this document. However, a number of potential factors could substantially impact future performance.

Major factors contributing to business risk for the Group are discussed below. The Group proactively discloses those items it deems necessary for investors to consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group 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 Group and its future performance. However, it should be noted that the risks listed below do not represent complete coverage of risks that should be considered before investing in Yahoo! Japan shares.

### 1 Operations

#### 1 Business Content

The Group 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 the Group's business involve its Internet advertising business, through which the Group 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.

Segment information on sales performance and business content for the fiscal years ended March 2000, 2001, and 2002 is indicated below.

## ● Segment Information on Sales Performance

(Millions of Yen)

	FY ended March 2000 (April 1, 1999 to March 31, 2000)		FY ended March 2001 (April 1, 2000 to March 31, 2001)		FY ended March 2002 (April 1, 2001 to March 31, 2002)	
	Amount	%	Amount	%	Amount	%
Advertising	5,711	91.1 %	13,420	94.0 %	12,298	39.0 %
Yahoo! BB	—	—	—	—	13,286	42.2 %
Auction	—	—	—	—	2,416	7.7 %
Others	559	8.9 %	857	6.0 %	3,494	11.1 %
Total	6,271	100.0 %	14,277	100.0 %	31,497	100.0 %

### Notes:

1. The figures for the fiscal years ended March 2000 and 2001 are non-consolidated figures. Yahoo! Japan began disclosing consolidated statements in the interim period ended September 2001, but only for the balance sheets. Consequently, figures for the first half of the fiscal year ended March 2002 are equivalent to non-consolidated figures while those for the second half are consolidated.
2. Beginning with the fiscal year ended March 2002, sales figures, including agency commissions, are being disclosed on a gross basis. For the purposes of comparison, the figures for the fiscal years ended March 2000 and 2001 have been adjusted accordingly.
3. Yahoo! BB operations began in June 2001.
4. Auctions have been included as a separate segment because revenues have increased significantly as a result of introducing pay services for corporations as of April 2001 and charging personal identification fees to individuals as of May 2001.

## ● Business Content By Segment

Segment	Business
Advertising	Yahoo! Japan's advertising services utilize the services and other functions that the Company provides to users on the Internet's World Wide Web (www). The Company get paid by advertisers for placing advertising banners, sending e-mail advertising to registered users, and providing a range of marketing services that integrate these advertising activities.
Yahoo! BB	<p>Yahoo! BB is a integrated broadband service provided jointly with BB Technologies Corporation (BBT). The service includes ADSL services, Internet connection (ISP) services, a broadband portal site and content providing services, and other services.</p> <p>Yahoo! Japan's role in this joint business includes promoting the service and signing up users, customer services, operating a broadband portal site, and providing fee collecting platforms. BBT's responsibilities lie in supplying and maintaining an ASDL infrastructure and connections to the Internet, technological development and providing technical support. For its services, Yahoo! Japan receives monthly fees and viewing fees for pay content from users, and incentive commissions based on the number of new subscribers signed up and maintenance fees for charging deputy from BBT.</p>
Auction	Yahoo! Auctions is a service provided by the Company over the Internet that allows users to buy and sell items. The portion of the service that results directly in revenues for the Company is termed the Auctions operations. Auctions revenues include personal identification fees from individual users, system-use fees from enterprise sellers, and other fees.
Others	In addition to the business segments mentioned above, Yahoo! Japan carries out several other businesses related to the services the Company offers on the World Wide Web. Specifically, the Company has an information publishing business whereby it receives revenues for publishing information supplied by other companies on its site, a shopping business that is paid tenant and sales commission fees by stores operating on its site, a licensing business that receives revenues from the use of its name and logo on magazine and books, and a business services business that receives revenues from providing companies with information and marketing and information dissemination support.

## 2 Risks Affecting Individual Operations

### ① Advertising Business

#### a. Use of the Internet as an Advertising Medium

The Internet advertising business in Japan emerged almost simultaneously with the Group's establishment, and is therefore still in its infancy. As the future of the Internet remains uncertain, as is discussed in Section “ 5 Influence of the Internet Markets and Environment,” its value as an advertising medium has not been established with advertisers, consumers and advertising agencies.

Up to this point, with limited experience in Internet advertising, most advertisers still consider it a trial medium, and many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering the Group's major advertisers by industry, national clients that usually advertise more than other companies and on a national basis, 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 Group to achieve a stable flow of advertising revenue.

The Group 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.

#### b. 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 the Group's advertising revenue. Further, as the Group'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 Group'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 similar problems could force the Group to extend advertising contract periods or devise some other type of compensation that could negatively impact advertising revenues.

**c. Dependence on Business Contracts with Certain Advertising Agencies, and Large-Scale Business Contracts with Certain Advertisers**

As stated later in "Advertising Sales Structure," along with its direct sales efforts, the Group also sells through advertising agencies. Advertising agent Cyber Communications Inc., contributes a particularly high proportion of advertising revenues and any change in the level of revenues received from this agency could have substantial impact on Group performance.

The Group 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 Group's net sales, and in the fourth quarter of fiscal year ended March 31, 2002, there were three major advertisers that each accounted for 3% or more of advertising revenues. The Group cannot rule out the possibility of these contracts being broken for certain reasons. Consequently, the outcome of these contracts could affect the Group's business results.

**d. Advertising Sales Structure**

In the future the Group 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.

Based on changes made to the advertising sales structure to strengthen its capability to attract major advertising clients, the Group 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.

**e. The Competitive Environment**

As of March 31, 2002, 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, Inc.	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 Group 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 agencies and information providers, which would cause substantial negative impact on the Group's operating results.

## ② Yahoo! BB Business

The Group operates the Yahoo! BB service, a comprehensive broadband service offering fast Internet-access service for individuals using Asymmetric Digital Subscriber Lines (ADSL) and a portal for broadband content. The Group announced the service in June 2001, and began selling starter kits that month. Trial services were initiated in July, followed by the start up of the broadband portal site and content services in August. 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 is responsible for promotion and 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.

### a. Subscriber Signup Promotion Business and Incentive Commission

Beginning with the fiscal year ending March 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, will no longer be included in Yahoo! BB's revenues of the Group. The Group will newly receive an incentive commission from BBT based on the number of new subscribers signed up as a result of its promotional efforts. This step has been taken because the subscription route has been expanded to signups through consumer electronics outlets and other stores route as well as the Internet route and because it has become necessary to actively develop subscriptions from corporations as a result for the start up of BB Phone service, a broadband telephone service offered by Yahoo! Japan and BBT and other companies in the Softbank Group that was announced in December 2001.

One of the risks the Group may face will be failure to gather the anticipated number of subscribers despite promotion efforts using various campaigns and price-competitiveness backed by overwhelming brand strength. This may prevent the Group from making anticipated sales or demand that it bear much higher costs than expected, with subsequent significant impact on earnings. In addition, if the Group does not reach subscriber signup targets or if subscribers sign up only to cancel their subscriptions within a fixed period of time, there is the possibility that the Group will have to pay a portion of the facility charge or return commissions to BBT, and this could negatively impact on Group performance.

Since the Group is no longer selling the Yahoo! BB Starter Kit as of the fiscal year ending March 2003, it is assumed that, in principle, the Group will be able to avoid the risks associated with the kit's sales. However, the Company will continue to bear the liability risks associated with the starter kits that it has sold in the past.

**b. ADSL Infrastructure and Internet access service**

The Group 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 and operating costs for these services could exceed original estimates.

It is possible that the work contributed by BBT could indirectly but significantly influence the Group'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 the Group's 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. The Group therefore does not bear the risk of equipment investment, construction and obsolescence of facilities due to technological progress. The Group'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, the Group may have to make additional investment.

**c. Broadband Portal Service**

The Group 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 Group plans to act as the platform for consigned billing and settlements for said pay content 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 Group. In addition, technical and operating problems related to these consigned billing and settlements could result in demands for compensation from subscribers.

#### d. The Competitive Environment

As of March 31, 2002, the major providers in Japan of services similar to those the Group 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	Nippon Telegraph and Telephone East Corp. Nippon Telegraph and Telephone 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 Group 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 Group's operating results. As a result, in the worst case, the Group 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 Group's business.

#### e. Dependence on Certain Distributor

For the fiscal year ended March 2002, the Group's revenue showed a high level of dependence on BBT for sales in terms of the sales composition of the business among the Group's revenues. This can be attributed to Yahoo! BB's operations still being in the start up phase and to the related large volume of starter kits being supplied to new subscribers.

In the future, along with the change in the Yahoo! BB business structure, it is expected that the contribution of monthly ISP and other fees will increase along with the growth in the number of subscribers, reducing Yahoo! BB's dependence on BBT for sales. Nevertheless, in the short term, this dependence will remain high.

For this reason, any change in the business relationship with BBT could have an influence on Group performance.

### ③ Auction Business

#### a. Switching to Fee-Based Services

As of May 2001, the Group began charging fees for services, mainly for personal identification and damage compensation. More services are being switched to a fee basis. From April 2002, the Group introduced system-use fees for listing items on Yahoo! Auctions and for canceling items after they have been bid. And, from May 2002, system-use fees for selling items were introduced. There is a possibility that these new fees may result in a decline in the numbers of users, items auctioned and bid, and page views, resulting in the Group becoming unable to continue the fee-based services, or in the worse case, becoming unable to continue the entire auction service.

#### b. Damage Compensation

Yahoo! Japan 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.

#### c. 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. A proposal to reform the law regarding the sale of used goods on the Internet is currently being debated in the 154th Diet session, which, depending on its content when passed, could influence the Group's auction business. Among other risks, we cannot rule out the possibility of legal action being taken against Yahoo! Japan for claims or compensation related to these criminal activities.

Effective September, 2000, the Group 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 we cannot say for certain that illegal actions will not occur in future.

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

Note: The escrow service consists of a company acting as an intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and the payment. Because this service is provided by third parties and not Yahoo! Japan, the service varies according to the company used. However, in general, the escrow company receives payment from the purchaser and transfers it to the seller upon confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that items will not be delivered or payments not made.

**d. The Competitive Environment**

As of March 31, 2002, 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

With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition to impacting sales via the Yahoo! Japan's auction site, competition could decrease commission income by cutting participation and increase advertising costs, which would have a negatively impact on the Group's operating results.

## 2 Increased Risk from Diversification and New Business

### 1 Business Diversification

To achieve long-term growth, the Group started diversify into businesses that will expand the revenues of existing businesses and developing new businesses that will provide new sources of revenue in addition to the advertising revenues. Specific examples include the introduction of fee-based services for Yahoo! Auctions and the start of the Yahoo! BB business.

As a result, the Group's business mix has changed already shown in the table. In addition to diversification, deterioration in the Internet advertising market due to the weak Japanese economy has contributed to the decline in the proportion of advertising in sales.

### 2 Increased Risk from Diversification and New Business

The Group plans to further diversify and enter new businesses. For example, in December 2001, the Group made a full-fledged entrance into the retail market by increasing its stake in e-Shopping! Books Corp. and turning it into a subsidiary. Also in December 2001, Yahoo! Japan announced its entrance to broadband telephone services through the establishment of a BB Phone service jointly with BBT and other companies in the Softbank Group. In addition, the Group is pursuing 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.

The Group believes that these types of diversification and new business will strengthen its operating base. To realize this goal, it is possible that the Group will have to incur additional expenses to employ new staff, expand and upgrade its facilities, and to carry out research and development. Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group 's profitability may decline temporarily. In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover its investment expenses, and that this will impact significantly on performance.

### 3 Relationship with Softbank Corporation

#### 1 Positioning within the Softbank Group

At March 31, 2002, Softbank Corporation was the parent company of Yahoo! Japan, holding 50.5% of the Company's shares. As a holding company, Softbank Corporation has a variety of affiliated companies operating under its umbrella that are active in a variety of fields and regions, concentrated mainly on Internet business. Their businesses include e-commerce, e-finance, media and marketing services and an overseas fund investment service. Yahoo! Japan and its subsidiaries belong to the Internet Culture Segment of the Softbank Corporation.

#### 2 Joint Directorships

At March 31, 2002, two of the five directors of Yahoo! Japan also held directorships on the board of the parent company, Softbank Corporation as follows.

Yahoo! Japan President and CEO, Masahiro Inoue  
(Part-time director, Softbank Corporation)

Yahoo! Japan Chairman, Masayoshi Son  
(President, Softbank Corporation)

Yahoo! Japan's president and CEO Masahiro Inoue has been a part-time director of Softbank Corporation since June 2001. In addition, he sits on the boards of 13 other companies in the Softbank Group (excluding subsidiaries and affiliates of Yahoo! Japan) as part-time directors. Mr. Inoue has been engaged to sit on these boards to offer advice on the strategic direction of their businesses, not to be involved in the business activities of these companies. Consequently, the influence of his other directorships on the business activities of Yahoo! Japan is limited.

Yahoo! Japan's chairman Masayoshi Son was the president and CEO of the Company at its founding, and acts in the capacity of offering valuable overall advice from his perspectives as a founder of the Company and a representative of the parent company.

## 4 Business Relationship with Yahoo! Inc.

### 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 March 31, 2002. The Yahoo! trademark, software and tools (hereinafter referred to as "the trademark") used in the operation of the Group's Internet directory-search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License Name:	Yahoo! Japan License 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:	<ol style="list-style-type: none"> <li>1. Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"> <li>• 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").</li> <li>• Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark</li> <li>• Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li> <li>• Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of Yahoo! directory-search services</li> </ul> </li> <li>2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company</li> <li>3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: 3% of gross profit after deducting sales commissions, paid quarterly</li> </ol>

## **2 The Yahoo! Brand and Cooperation Overseas**

The establishment and proliferation of the Yahoo! brand are considered extremely important by the Group 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 Group 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 Group in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. The Group 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 the Group has not registered trademarks necessary to its business in Japan.

It is also possible that third parties may have acquired domain names that the Group finds necessary to its business or may use domain names that resemble Yahoo! or the services offered by the Group to carry out unfair competition with or harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

## **3 Other Joint Directorships**

Yahoo! Japan part-time director Jerry Yang is also a director of Yahoo! Inc. He has been engaged because, as previously stated, Yahoo! Inc. is one of the founding partners of Yahoo! Japan as well as a major business partner in Yahoo! Japan's core business. For these reasons, it has been necessary to have him on the board to support Yahoo! Japan's start up and expansion.

### 1 Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since its emergence as a recognizable force in 1995. As the Group 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 Group services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Group'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. The Group's main network infrastructure is concentrated in Tokyo, an area particularly susceptible to earthquakes, and the Group 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 the Group does not hold sufficient insurance to compensate for losses due to these events. Any of these events could incur serious negative impact on the Group's business, operating results and financial condition.

## 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 Group'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, the Group is constantly developing new technology to improve its services. Failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including a rising level of expenditures for localizing operation of the services.

The Group'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 Group 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 Group's sales and profit in favor of larger expenditures for development and other uses.

### 2 Dependence on Third Parties

Although the Group 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 Group 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.

The Group 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 Group's business and operating results could suffer substantial negative effects. In addition, the Group 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 the Group's relationship with users, hurt its brand image or impair operations.

The Group does not only rely on the previously mentioned Internet providers, but many of its services rely on outside third parties that the Group has commissioned operations to or receives information or support from. It is possible that the operations of the Group 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 Group 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, 2000, the Group 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 Group now owns much more detailed personal information than ever to help identify individual users.

Although the Group 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 Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group 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.

### **4 Collection of Sales Credit Claims**

In sales of advertising products and others, the Group 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 Group expects a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

### **5 Continued Support from Senior Management, etc.**

The Group 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 Group and its business. Consequently, if key personnel were to leave and the Group 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 Group 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 Group must further improve its administrative control systems. Although the Group 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 Group 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 Group's business will also be substantially affected.

Specifically, under the impact of such an event, the Group's advertising revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group'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 Group and links to business alliances. In the worst-case scenario, the Group's offices could be physically disabled. If other companies closely related to the Group'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 Group could become unable to continue operations.

## **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 Group 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 153rd 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 intermediaries. There is a possibility that the Group'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 Group'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 Group 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 Group also maintains the right to list Websites and remove Websites listed on its Internet directory-search services at any time. In addition, the Group 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 Group indicates clearly in its contracts with users that illegal or harmful content is prohibited and that full responsibility lies with the user. The Group 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 Group prohibits illegal and slanderous content on its site and protects the privacy of users. In addition, the Group publishes a disclaimer stating clearly that the user takes full responsibility for Web-browsing and that the Group accepts no responsibility for damage caused to users during Web-browsing. To protect minors from accessing harmful content, the Group is implementing such programs as Yahoo! Kids. However, no guarantees can be provided that these measures will be sufficient to avoid litigation. The Group 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! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Website content of the many retailers using these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group 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 Group 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 Group 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 the Group, and that the Group will be prohibited from using such technology or forced to pay large royalties to acquire said patents.

In addition, the extent to which patent rights can be applied remains unclear. As such, to avoid potential conflicts the Group 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 Group cannot rule out the possibility of patent issues arising overseas, in addition to Japan.

## 7 Risks Concerning Investment and Capital Investment Programs

### 1 Investment

The Group has invested in 42 companies and 1 co-op as stated below in the List of Companies Invested by Yahoo Japan Corporation. 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 Group cannot guarantee that these investments will be recovered.

Although as of March 31, 2002 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, with some of the companies that the Group has invested in, depending on the direction of the performance of the companies it has invested in, the Group may have to write down the value of its marketable securities based on the application of compulsory evaluation accounting, and this could influence the Group'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 Group 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 the Group 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 performance by companies in which the Group has invested could impact the Group's financial structure and operating results. In addition, unfavorable performance by companies in which Yahoo! Japan has invested could impact the Group's financial structure and operating results.

# List of Companies Invested by Yahoo Japan Corporation

(As of March 31, 2002)

	Investment targets	Listing	Date of investment	Stake (%)	BS accounting amount (Millions of Yen)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Yahoo Korea	—	97/10/06	4.12	4	Comprehensive Internet information-portal business in Korea	Yahoo! Japan offered technical services at startup	Yes
2	CyberMap Japan Corp.	—	98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Map	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	12.20	1,960	Internet technical-support service		Yes
4	Vector Inc.	NASDAQ Japan	99/03/25	10.77	2,664	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	NASDAQ Japan	99/05/28	5.07	780	Weather observation, data collection/analysis, weather forecast and related information services	Alliance for Yahoo! Weather	
6	e-Shopping! Toys CORP.	—	99/08/31	10.00	20	eS! Toys Website	Yahoo! Shopping tenant	Yes
7	CarPoint K.K.	—	99/10/06	6.54	89	Offering car-related information, quotes and dealer introductions		
8	SpeedNet. Inc.	—	99/12/10	1.67	125	Fiber-optic and high-speed wireless Internet service		
9	e-Shopping! CarGoods CORP.	—	00/02/28	10.00	0	(See Note 2)		Yes
10	Oricon Global Entertainment Inc.	NASDAQ Japan	00/03/28	1.53	144	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
11	e-Shopping! Wine CORP.	—	00/05/26	10.00	15	eS! Wine Website	Yahoo! Shopping tenant	Yes
12	SOFTBANK ZDNet Inc.	—	00/08/28	8.33	30	Comprehensive site for IT-related information	Alliance for Yahoo! News	Yes
13	BB Factory Corp.	—	00/11/13	10.00	31	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	Sales of personal computers, audio/visual and home equipment via the Internet	Yahoo! Shopping/Auctions tenant	
15	J-Yado Co., Ltd.	—	00/12/22	7.98	30	J-Yado.com hotel reservation website		
16	DBJ Co., Ltd.	—	00/12/26	2.27	15	E-commerce and supply of content related to motorcycles	Yahoo! Auctions tenant	
17	Power Print Inc.	—	00/12/27	15.00	30	Online order-taking, printing and delivery of various printed materials		
18	Naturum Corp.	—	00/12/29	10.01	79	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
19	Archinet, Inc.	—	01/01/19	13.85	50	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	An online shop for used golf equipment		
21	Axiv.com, Inc.	—	01/01/30	5.44	50	MyID promotion/gift campaign Website		
22	CafeGlobe.com	—	01/01/30	11.44	100	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet	
23	eBANK Corporation	—	01/03/12	2.07	299	eBANK operations	Alliance for Yahoo! Auctions /Research	
24	GameBox, Inc.	—	01/03/16	9.38	99	GAMEBOX game-related Website		

	Investment targets	Listing	Date of investment	Stake (%)	BS accounting amount (Millions of Yen)	Line of business	Relationship with the Company	Directors on loan
25	Digipri Corporation	—	01/03/27	0.82	100	Internet storage and output services for digital imaging		
26	Bitwave Corporation	—	01/03/29	1.21	25	Operating sales system for concert/sporting tickets		
27	Net Protections, Inc.	—	01/04/10	14.14	100	Online commercial settlement service	Alliance for Yahoo! Auctions	
28	Istyle Inc.	—	01/04/20	8.87	50	@cosme information site for cosmetics and beauty care		
29	Digital Check Co. Ltd.	—	01/04/24	1.23	24	EC settlements, content supply and networking business	Alliance for Yahoo! Auctions	
30	CarHoo Inc.	—	01/04/26	13.02	50	CarHoo driver-support site	Yahoo! Auctions tenant	
31	E-NEWS Inc.	—	01/06/26	13.33	50	Internet-based broadcasting and video production		
32	Hurricane Inc.	—	01/07/23	12.49	47	Planning, producing, referral and agency services for concerts and other events		
33	BB Technologies, Corp.	—	01/08/24	10.00	300	Installing, supplying and managing ASDL infrastructure	Installing and operating Yahoo! BB infrastructure	Yes
Shares in subsidiaries								
1	GeoCities Japan Corp.	—	00/08/03	100.00	10	(Maintaining the Company's services)	Maintaining www.geocities.co.jp domain	Yes
2	broadcast.com japan k.k.	—	00/08/03	100.00	10	(Maintaining the Company's services)	Maintaining www.bcast.co.jp domain	Yes
3	Dennotai Co., Ltd.	—	00/09/01	100.00	10	(Maintaining the Company's services)		Yes
4	Y's Agencies Inc.	—	01/08/02	100.00	10	Planning and sales of advertising		Yes
5	eGroups KK	—	01/09/28	90.50	900	eGroup groupware service, mainly e-mail	Alliance for Yahoo! eGroups	Yes
6	e-Shopping! Books Corp.	—	01/12/26	51.28	300	eS! Books Website	Yahoo! Shopping tenant	Yes
7	BridalConcierge Corp.	—	02/02/27	80.00	9	Provision of useful information for weddings and newly wed life as well as other services	Alliance for Yahoo! Wedding	Yes
Shares in affiliated companies								
1	Tavogator, Inc.	—	00/03/03	30.00	30	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	YPC Co., Ltd.	—	02/01/28	40.00	40	Sales of computers and related equipment via the Internet	Yahoo! Shopping tenant	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1	—	00/02/21	—	852			

Notes:

1. In principle, the date of investment is the date of the first investment made by Yahoo! Japan in the company. In the case of e-Shopping! Books, the date of investment is the date on which the company became a subsidiary of Yahoo! Japan as a result of additional investment.
2. On April 12, 2002, the decision was taken to dissolve e-Shopping! CarGoods CORP. Consequently, the investment is already shown on the balance sheets at its remaining value, but there is the possibility that additional losses may be booked in future accounting periods.

## Corporate Data

(As of March 31, 2002)

### Company Name

Yahoo Japan Corporation (Yahoo! Japan)

### Founded

January 31, 1996

### Capital

¥6,033 Million

### Businesses

Advertising Business on the Internet

Broadband-Related Business

Auction Business

Other Businesses

### Number of Employees

414

### Headquarters

Palacio Tower, 3-6-7,  
Kita-Aoyama, Minato-ku,  
Tokyo, 107-0061, Japan

### Home Page URL

<http://www.yahoo.co.jp>

### IR Page in English URL

<http://docs.yahoo.co.jp/info/investor/en>

## Directors and Auditors

(As of June 20, 2002)

### President and CEO

Masahiro Inoue

### Chairman of the Board of Directors

Masayoshi Son

### Director

Jerry Yang

### Director and CFO

Akira Kajikawa

### Statutory Auditor (Full Time)

Sumio Sue

### Statutory Auditor

Toshihiro Kiribuchi

### Statutory Auditor

Mitsuo Sano

### Statutory Auditor

Yukio Todoroki

## Consolidated Subsidiaries Data

(As of March 31, 2002)

### eGroups KK

Business: eGroup groupware service, mainly e-mail

Founded: January 1999

Headquarters: Minato-ku, Tokyo

Amount of Investment: ¥900 million

Yahoo! Japan's ownership: 90.5%

URL: <http://www.egroups.co.jp>

### e-Shopping! Books Corp.

Business: eS!Books on-line EC site service over the Internet

Founded: August 1999

Headquarters: Chuo-ku, Tokyo

Amount of Investment: ¥300 million

Yahoo! Japan's ownership: 51.3%

URL: <http://www.esbooks.co.jp>



**Yahoo Japan Corporation**  
Palacio Tower, 3-6-7, Kita-Aoyama, Minato-ku, Tokyo, 107-0061, Japan