

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 ADSL 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 a 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"> 1. Licensing rights granted by Yahoo! Inc. to the Company: <ul style="list-style-type: none"> • Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory-search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! directory-search services"). • Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark • Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan • Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of Yahoo! directory-search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: 3% of gross profit after deducting sales commissions, paid quarterly |

2 The Yahoo! Brand and Cooperation Overseas

The establishment and proliferation of the Yahoo! brand are considered extremely important by the 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 intermediates. 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.