

Results for the Interim Period and the Three Months Ended September 30, 2000

Introduction

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 21 million people as of September 2000, with Web users accounting for approximately 19 million of this total. Also according to a survey by Video Research Netcom Ltd., the number of households using the Internet had risen to 30.5% of Japanese households as of September 2000. According to Dentsu Inc., the Internet advertising market in Japan greatly exceeded initial expectations of ¥19.8 billion and grew 111.4% to ¥24.1 billion in calendar 1999 compared with the previous year. Dentsu originally predicted that the market would increase an additional 53.1% to ¥36.9 billion in 2000, but revised this estimate upward in August to ¥50.0 billion, more than double its size in the previous year. For the years following 2000, Dentsu pushed forward its forecasts by two years, resulting in the market reaching ¥100 billion in 2002 and swelling to ¥200 billion in 2005, which is approximately the same scale as the radio advertising market today.

According to IAB report, the Internet advertising market in the United States surged 140.6% to US\$4.6 billion in calendar 1999, representing more than 2% of the total advertising market compared with the same period a year earlier. During the first half of the calendar year 2000, the market again advanced substantially, growing 150.6% compared to the same period in 1999, to US\$4.07 billion. Over the full year, the market is forecast to grow to between US\$8 billion to US\$10 billion.

Growth in Internet advertising is projected to accelerate owing to the rising value of the Internet as an advertising medium in tandem with user growth and increasing interest by advertisers. Internet shopping also appears to be keeping step with the increase in Internet users, and we are now witnessing the full-scale establishment of electronic commerce (EC) in Japan.

Amid these conditions, Yahoo Japan Corporation (“Yahoo! Japan” or “the Company”) achieved the following results for the interim (April to September) period and the second (July to September) quarter of fiscal 2001 (April 1, 2000 ~ March 31, 2001).

Page Views

In the three months ended September 30, 2000, daily page views exceeded 127 million for the first time, and monthly page views were more than 3.3 billion during September. This represents a rise of 717 million page views, or 27.1%, compared with June, and an increase of 2,304 million page views, or 216.8%, compared with the same month a year earlier.

By service, directory search services accounted for 25.1%, information services for 19.1%, community services such as message boards for 31.8%, commerce services for 23.6%, and mobile services for 0.4% of monthly page views for September 2000. Services other than directory search services accounted for 74.9% of total monthly page views.

Services

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

Information services were bolstered during the second quarter with the launch of music information in Yahoo! Music. Boasting a data base of over 2.3 million titles, the service comprises a directory search by album title or artist as well as CD review, music news, and ranking information based on feeds from various sources. Users can search for information

using three methods; the name of the artist, the album or the song. The CD review introduces famous recordings of oldie goldies as well as new releases, allowing users to view details on album and single titles, song names, and other information. With the ranking information provided by Yahoo! Music, users can view charts of daily and weekly CD sales and radio on-air rankings. As a special event, Yahoo! Music featured the Fuji Rock Festival '00 in August. The live performances of prominent Japanese and international artists were presented in an on-demand format using the streaming technology of Yahoo! Broadcast. The event recorded a substantial number of page views.

Yahoo! News and Yahoo! Sports collaborated in supplying news flashes for the Sydney Olympics. Using pictures provided by Reuters Limited and Jiji Press, Ltd., the service featured a visually oriented presentation of the latest breaking Olympic news. Page views topped 10 million per day, as the service was a big hit with users. As a part of Yahoo! Mobile's services, the news flash reports were also available to i-mode compatible mobile telephones.

Yahoo! News further bolstered its services by launching Video News, which carries video clips of press meetings held by TV celebrities; Dow Jones news reports on the U.S. economy and finance; and Planet's DVD sales rankings. Yahoo! Sports offered news flash reports on the summer high school baseball tournament; launched a golf club guide to strengthen its outdoor category; and added news to its F1 information. During the period under review, Yahoo! Sports presented Century Best Nine, a special event where baseball fans voted for who they thought were the best professional baseball players by position. Yahoo! Sports also achieved a marked expansion in its live streaming record. Carrying live radio coverage of baseball games of different clubs, it broadcasted Yakult Swallows games (Nippon Broadcasting System, Inc.) in the Central League and Seibu Lion games (Nippon Cultural Broadcasting Inc.) in the Pacific League. In addition, it provided radio coverage of the professional baseball all-star games (Nippon Broadcasting System, Inc. and Mainichi Broadcasting System, Inc.). Furthermore, Yahoo! Sports featured live video coverage of the Yokohama BayStars (BayStars TV.com, SOFTBANK Broadmedia Corporation).

Among other information services, the Company launched Yahoo! Dictionary Search, which works in tandem with a keyword search function to offer a Japanese, English-Japanese, and Japanese-English dictionary search service. Yahoo! Education added an English vocabulary and idiom study service for the Center Examination for college entrance that uses audio transmission technology. Yahoo! Gourmet provided a restaurant information directory search function that operates on specific user preferences. Yahoo! Employment strengthened its services by adding an unemployment benefits calculator and a business manner quiz, while Yahoo! Computer added download ranking, an indicator of the most popular software, and a software review for newly-released software. As its new concept for the quarter, the Company featured bridal and fashion information services, which were highly popular with users.

In commerce services, 16 shops joined Yahoo! Shopping during the second quarter, including the direct sales personal computer maker Gateway Japan, Inc., and Furosato Dayori, which home delivers specialty goods directly from their local areas. To commemorate its first year of operations, Yahoo! Shopping held a free delivery campaign during the month of September, aiming to expand sales.

Yahoo! Auctions, which had more than 1.3 million regular auctions listed during September, introduced an escrow service on September 26. Because a third party acts as an intermediary for the payment and delivery of goods by the buyer and seller, this escrow service can prevent fraud, which has been a problem with Internet auctions in the past.

Yahoo! Auctions also hosted the Yahoo! Japan Jeans Charity Auction in the second quarter. Held to raise the currently low level of public awareness of the disease multiple sclerosis, the event was endorsed by many well-known public figures and celebrities to promote research on treatment for this disease. The charity auction was strongly supported by Yahoo! Japan users. During the second quarter, Yahoo! Auction was also one of the popular items on Yahoo! Mobile's service menu.

In community services, Yahoo! Calendar and Yahoo! Chat services got under way during the second quarter. Yahoo! Calendar allows users to manage their daily schedules by accessing their personal daily schedules from any location— home, work, Internet cafe— by personal computer. The previously mentioned Olympic news flash service included a calendar function that posted the broadcast time of related television programs into the user's personal daily schedule. With Yahoo! Chat, users may select what topics in Yahoo! Japan's Chat Room they wish to participate in. Consequently, users can exchange information in real time with others who have the same interests and preferences.

In September, the number of users registered on Yahoo! Japan ID (an ID is necessary for use of the Company's community and commerce services, including the previously mentioned new services) exceeded 5 million, expanding by 1.08 million, or 27.1%, compared with the end of June 2000. Of this amount, the number of active users (IDs) that used the Company's services at least once every four weeks totaled approximately 2.6 million. Membership in Yahoo! GeoCities amounted to approximately 680 thousand users at the end of September 2000.

The services of Yahoo! Mobile, launched in the first quarter, were radically improved during the second quarter. Based on the cooperation of P.I.M., Inc., which officially merged with the Company on September 1, the Company introduced to its mobile services the previously mentioned Olympic news flashes and a bidding function for Yahoo! Auctions as well as Yahoo! Weather, and Yahoo! Fortune. The Company also added i-mode compatible home page creation support services to its free home page service Yahoo! GeoCities.

User Access

In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in September 2000, Yahoo! Japan was named most often by respondents as a site they access at least once every four weeks. Yahoo! Japan continues to hold the dominant position with 87.2% of the respondents, a wide margin over goo, which ranked second at 52.1%.

By multiplying the above percentage by the approximately 19 million Web users in Japan as of the end of September 2000, we estimate that there were 16.5 million unique users accessing Yahoo! Japan at least once every four weeks.

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

Financial Accounts

<Statements of Income>

Net Sales

Net sales for the second quarter increased to ¥3,014 million, a gain of ¥1,763 million, or 141.0%, compared with the same period a year earlier. This exceptional performance reflects a ¥1,783 million, or 165.3%, surge in advertising revenue to ¥2,862 million. Yahoo! Japan was able to post record sales for the ninth consecutive quarter. Compared with the previous quarter, net sales rose ¥629 million, or 26.4%.

Net sales for the first half advanced to ¥5,399 million, an increase of ¥3,278 million, or 154.5%, compared with the same period in the previous year. This strong performance was supported by a ¥3,286 million, or 182.2%, jump in advertising revenue to ¥5,090 million. (See Review of Operations)

Cost of Sales

Cost of sales for the second quarter dropped ¥19 million, or 62.6%, to ¥11 million, compared with the same period a year earlier. The main factors behind this decrease were the absence of outsourcing fees for production of *Yahoo! Internet Guide*. Consignment charges paid to Yahoo! Inc. for advertising appearing on Web sites of Yahoo! in various countries advanced ¥4 million, or 74.4%, in line with increased global sales.

Cost of sales for the first half declined ¥32 million, or 53.3%, to ¥28 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter expanded ¥1,006 million, or 130.6%, to ¥1,776 million compared with the same period of the previous fiscal year. Compared with the previous quarter, selling, general and administrative expenses grew ¥1,994 million, or 155.1%, to 3,279 million. The primary factors behind this increase are as follows.

Personnel expenses in the second quarter increased ¥296 million, or 121.2%, to ¥540 million compared with the same period a year earlier. This growth reflects 182 new staff, an increase of 151.7%, hired in response to our rapid business expansion, for a total of 302 employees. The rate of growth in personnel was greater than the rate of growth in personnel expenses because of the introduction of an incentive warrant in the second quarter of fiscal 1999.

The average number of employees for the first half of fiscal 2000 increased by 150.3, or 141.1%, to 256.8, compared with a year earlier. Personnel expenses were up ¥511 million, or 110.5%, to ¥974 million.

Advertising costs totaled ¥243 million in the second quarter, an increase of ¥158 million, or 186.7%, from the same period in the previous year. The major factors behind this increase were expenditures related to television and radio commercials aired to raise the brand recognition of Yahoo! Japan among non-Internet users who may become Internet users in the future. During the period under review, Yahoo! Japan won two prizes, a silver and a fifth place prize, for its radio advertising, at the 40th annual CM Festival sponsored by the All Japan Radio & Television Commercial Confederation (ACC).

Advertising costs for the first half of fiscal 2000 grew ¥448 million, or 512.5%, to ¥535 million, compared with a year earlier.

Content provider fees in the second quarter increased ¥78 million, or 110.2%, to ¥149 million compared with the same period a year earlier, as the Company worked to boost its information services.

Content provider fees for the first half of fiscal 2000 were up ¥126 million, or 98.3%, to ¥256 million, compared with the same period in the previous year.

Second-quarter sales commissions rose ¥53 million, or 68.9%, to ¥130 million, compared with the same period a year earlier, in line with increases in net sales. The rate of growth in sales commissions was less than the rate of growth in advertising revenues because of changes in the proportion of sales contributed by each sales channel and because of a partial review of the commissions system for advertising agencies in the first quarter of fiscal 2000.

Sales commissions for the first half of fiscal 2000 increased ¥120 million, or 81.7%, to ¥268 million, compared with the same period in the previous year.

Depreciation expenses in the second quarter rose ¥122 million, or 309.1%, to ¥162 million due to the acquisition of additional servers to handle growth in page views and upgrades to services, as well as the introduction of basic office equipment in line with personnel expansion.

Depreciation expenses for the first half of fiscal 2000 increased ¥202 million, or 297.5%, to ¥271 million, compared with the same period a year earlier.

Communications charges in the second quarter rose ¥104 million, or 370.9%, to ¥133 million as the Company expanded network connection contracts to improve the user-access environment and bolster its services, and the number of data centers grew by five due to the mergers with GeoCities Japan Corporation, broadcast.com Japan K.K., and P.I.M., Inc.

Communications charges for the first half of fiscal 2000 increased ¥154 million, or 320.1%, to ¥202 million, compared with the same period in the previous year.

Royalties paid to Yahoo! Inc., of the United States, increased ¥51 million, or 152.3%, to ¥85 million in the first quarter in accordance with the increase in net sales.

Royalties for the first half of fiscal 2000 grew ¥95 million, or 167.5%, to ¥152 million compared with the same period a year earlier.

Lease and utility expenses rose to ¥117 million in the second quarter, an increase of ¥60 million, or 107.7%, from the same period a year earlier, in line with the Company's expansion of the new headquarters.

Lease and utility expenses for the first half of fiscal 2000 were up ¥146 million, or 218.9%, to ¥213 million, compared with the same period in the previous year.

Operating Income

As a result of the above factors, Yahoo! Japan was able to achieve record operating income for the ninth consecutive quarter. Operating income for the three months ended September 30, 2000, climbed ¥777 million, or 173.1%, to ¥1,226 million.

Operating income for the first half of fiscal 2000 increased ¥1,316 million, or 169.6%, to ¥2,092 million, compared with the same period a year earlier.

Non-Operating Income (Expenses)

Net non-operating loss for the second quarter of fiscal 2000 was ¥55 million. The major item was a ¥39 million evaluation loss taken on the Company's investment in SOFTBANK Internet Technology Fund No. 1. This loss resulted from a partnership management service charge of the said fund.

Net non-operating loss for the first half of fiscal 2000 amounted to ¥40 million. The main items were the previously mentioned loss, a ¥17 million expense on issuance of shares, and a ¥14 million loss on disposal of fixed assets.

Ordinary Income

Ordinary income amounted to ¥1,170 million, an increase of ¥767 million, or 190.4%, from the second quarter a year earlier. Yahoo! Japan was able to post record ordinary income for the ninth consecutive quarter.

Ordinary income for the first half of fiscal 2000 expanded ¥1,325 million, or 182.6%, to ¥2,051 million.

Extraordinary Loss

During the first half of fiscal 2000, the Company recorded an extraordinary loss of ¥13 million. This charge was related to the accounting standard for retirement allowances.

Income, Inhabitant, and Enterprise Taxes

Income, inhabitant, and enterprise taxes for the first half of fiscal 2000 amounted to ¥898 million, representing an increase of ¥616 million, or 218.5%, from the same period in the previous fiscal year.

Net Income

In the first half of fiscal 2000, net income rose ¥760 million, or 184.2%, to ¥1,174 million. Net income per share was ¥11,229.1, a decline of 32.5% from the ¥23,272.19 recorded in the same period a year earlier.

Compared with the same period in the previous year, the average number of shares outstanding increased to 50,448 shares, an addition of 38,475 shares from 11,973 shares. After dilution, net income per share was ¥23,077.15.

(Reference)

EBITDA

EBITDA for the second quarter rose ¥888 million, or 201.0%, to ¥1,174 million. This represents an increase of ¥344 million, or 34.9%, from the previous quarter.

EBITDA for the first half of fiscal 2000 totaled ¥2,318 million, a gain of ¥1,525, or 192.5%, from the same period a year earlier.

<Balance Sheets>

Between June 30, 2000 and September 30, 2000, total assets increased ¥6,562 million, or 24.3%, to ¥33,597 million; total liabilities expanded ¥9,580 million, or 468.9%, to ¥11,623 million; and total shareholders' equity decreased ¥3,017 million, or 12.1%, to ¥21,973 million.

The primary factors behind the increase in total assets were a rise in accounts receivable—trade in line with sales growth, an increase in tangible fixed assets after a program to boost investments in servers and other equipment, and an increase in investment securities due to the introduction of mark-to-market accounting. By account, in current assets, accounts receivable—trade rose ¥418 million, or 24.3%, and marketable securities increased ¥452 million, or 12.6%. In fixed assets, buildings and fixtures, and equipment and furniture expanded ¥503 million, or 35.3%. Investment securities rose ¥5,104 million, or 29.1%.

In current liabilities, accrued bonuses rose ¥19 million, or 21.6%; accrued income taxes increased ¥509 million, or 133.1%; and accrued consumption taxes advanced ¥34 million, or 66.9%. Among long-term liabilities, retirement allowances rose ¥11 million, and long-term deferred taxes expanded ¥9,033 million, or 8,684.1%.

In shareholders' equity, common stock rose ¥110 million, or 3.8%; legal reserve increased ¥158 million, or 4.2%; and other securities evaluation adjustment declined ¥3,966 million, or 24.2%.

Due to the merger with P.I.M., Inc., effective September 1, 2000, common stock increased by ¥5 million and legal reserve by ¥58 million.

Note: If at the end of the previous quarter, the tax-effect amount equivalent to ¥6,904 million that was included in other securities evaluation adjustment had been booked to long-term deferred taxes, financial figures at the end of the previous quarter would have changed as follows: total liabilities, ¥2,676 million, up 29.9%; total shareholders' equity, ¥3,886 million, up 21.5%; long-term deferred taxes, ¥2,128, up 30.4%; and other securities evaluation adjustment, ¥2,938 million, up 30.9%.

<Statements of Cash Flows>

Net cash provided by operating activities increased ¥1,182 million in the second quarter. Although accounts receivable—trade expanded along with the growth in net sales, this was offset by an increase in net income.

Net cash used in investing activities declined ¥748million. The Company invested in SOFTBANK ZDNet Co., Ltd. and other companies, while investments in tangible fixed assets grew.

Net cash provided by financing activities increased ¥86 million due to the exercise of stock options under the Law on Temporary Measures to Facilitate Specific New Businesses and of warrants. As a result of these activities, cash and cash equivalents in the second quarter increased ¥520 million. Including the increase of ¥14 million in cash and cash equivalents due to the merger with P.I.M., Inc., cash and cash equivalents at end of term totaled ¥4,727 million.

For the first half of fiscal 2000, net cash provided by operations increased ¥1,170 million, and net cash used in investing activities declined ¥1,113 million. Net cash provided by financing activities expanded ¥109 million. As a result of these activities, cash and cash equivalents of the Company in the first half increased ¥165 million.

Review of Operations

Advertising Services

Sales of advertising services in the second quarter rose ¥1,783 million, or 165.3%, to ¥2,862 million compared with the same quarter a year earlier.

Management attributes this increase to several factors. Amid an increase in Internet users, interest in Internet advertising has grown, leading to successive orders from a broad range of industries. A sharp increase in companies that recognize Internet advertising as a full-blown media generated demand for larger-scale, longer-term advertising products. Efforts to strengthen marketing capabilities by successively introducing new products that meet advertisers' needs, such as Mega Yahoo! Series, Demographic Targeting and Market Jack, and by initiating a 100 Million Page Views Commemorative Campaign to avoid a drop in advertising during the summer supported net sales growth. The fact that the incentive system for advertising agencies has become well established also contributed to the increase in net sales.

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

For the same reasons as stated above, sales of advertising services in the first half of fiscal 2000 advanced ¥3,286 million, or 182.2%, to ¥5,090 million.

Specific results in the number of advertisers, advertisements and advertising agencies in the second quarter ended September 30, 2000, were as follows:

Major Advertisers

Yahoo! Japan set a new record in the second quarter for average number of monthly advertisers, as that figure increased by 552, or 203%, to 779 companies. The number of new advertisers averaged 118 companies per month and the total number of advertisers was approximately 2,300 companies. By industry, in addition to the Company's previous advertisers in the information and telecommunications, financial and insurance, food services, and various other services, the publishing, education, medical services, transportation and leisure, electrical home appliances and audiovisual equipment also came on board, increasing the number of companies posting information or announcements.

Among advertisers, the SOFTBANK Group represented approximately 6% of net sales, and Yahoo! Inc. purchased no advertising. No single customer accounted for 10% or more of net sales. (Note: The SOFTBANK Group comprises companies that have received more than 50% of their effective investment from SOFTBANK Corporation.)

The average number of monthly advertisers for the first half of fiscal 2000 rose by 469, or 211%, to 691 companies, compared with the same period in the previous year.

Advertisements

The Company posted another record result as the average number of monthly advertisements for the second quarter increased by 1,548, or 320%, to 2,032, compared with the same quarter a year earlier.

The average monthly advertisements for the first half of fiscal 2000 grew by 1,368, or 351%, to 1,758, compared with the same period a year earlier.

Advertising Agencies

For the second quarter, the Company established a new record for the monthly average of advertising agencies conducting business with it, as that total rose by 114, or 128%, to 203 companies compared with the same quarter a year earlier.

For the first half of fiscal 2000, the monthly average of advertising agencies conducting business with the Company increased by 107, or 135%, to 186 companies, compared with the same period in the previous year.

Advertisement Rates per Page View

For the second quarter, rates for high-volume “Branding-Type Banner” ads ranged from ¥0.7 to ¥4 per page view, while those for “Targeting-Type Banner” ads varied from ¥2.62 to ¥20 per page view.

Advertising Products

Second-quarter sales of core products Mega Yahoo! and Pilot Seat expanded robustly. In addition, sales were strong in Buttons for EC and Buttons for employment information, electronic mail advertising of GeoCities Mail, and West Modules that promote specific products.

During the second quarter, the Company responded in detail to the needs of advertisers by introducing a consecutive string of new products. To cope with the shift by advertisers to large budgets for Internet advertising, Yahoo! Japan expanded one of its core products to handle up to 12 months of advertising instead of just one month, unveiling Mega Yahoo! Series. The Company also launched Demographic Targeting, an advertising service that can target people by gender and age groups. In addition, the Company introduced Market Jack to support the investor relations activities of companies during initial public offerings.

Participants in Yahoo! Japan’s Merchant Program, which combines its directory search services with marketing of client products, totaled 18 companies in the second quarter.

Other Services

Other services generated revenues of ¥152 million in the second quarter. The principal contributors to this revenue were ¥32 million in licensing fees from Softbank Publishing, Inc., ¥74 million in information publishing commissions and other fees from Yahoo! Broadcast, Yahoo! Employment, Yahoo! Real Estate, and Yahoo! Shopping (tenant fee), as well as ¥26 million in sales commissions from Yahoo! Shopping etc.

In the first half of fiscal 2000, other services generated revenues of ¥309 million. The principal contributors to this revenue were ¥79 million in licensing fees from Softbank Publishing, Inc., ¥159 million in information publishing commissions and other fees from Yahoo! Broadcast, Yahoo! Employment, Yahoo! Real Estate, and Yahoo! Shopping (tenant fee), as well as ¥41 million in sales commissions from Yahoo! Shopping.

Yahoo! Shopping Tenants (99 shops)

(October 12, 2000)

Tenant Name	Summary
Shizenha Club NEW!	Carefully selecting only truly delicious foods, the Club collects superb quality items from around the nation and sells them through catalogs or the Internet.
STAR JEWELRY CO. NEW!	Major Japanese jewelry brand, which originated in Yokohama's famous Motomachi, offers a wide range of traditional jewelry known for unique designs and commitment to quality.
key@musicland NEW!	Online shop of the nationwide chain MUSIC LAND KEY which sells popular music instruments, from guitars to basses and drums at special low prices.
Kusuri Nihondo NEW!	Health food store specializing in herbal teas and medicines
Meijiya NEW!	Giftfood store offering everything from seasonal to anniversary gifts
PC Akindo NEW!	A computer and peripherals store located in Tokyo's famous electronics district Akihabara.
Inuneko.com NEW!	Pet shop that provides a comprehensive line of goods and services
eSPORTS NEW!	Sports good store carrying outdoor, tennis, and marine sports goods
King's Idea Online shop NEW!	Variety gift store
e-Shopping! Cargoods NEW!	Car part and accessory store that also caters to the manias of car hobbyists
Comp Kazumi NEW!	Personal computer store supplying computers, peripherals, and software
Cat Works NEW!	Personal computer store carrying SOTEC, SGI and other brands
Toshiba EMI Family Club NEW!	Store that features hard-to-find music and video software
Paso Q NEW!	Personal computer and peripherals store
Mondiale Ginza NEW!	Ginza 1-chome Rolex watch specialty store that usually has more than 500 new Rolexes in stock
Gateway PC Shop NEW!	B.T.O personal computer maker that has been chosen No. 1 for customer support in Nikkei Personal Computer Magazine's annual survey for two years running
handspring Shop NEW!	Store specializing in the Palm OS "Visor" PDA and related items
PANDA HOUSE NEW!	Tennis specialty store featuring original sportswear and a full-range of professional equipment
Nissen Virtual Brand Mall NEW!	Store specializing in brand items, such as bags and accessories
ASKUL	Industry's foremost office supply delivery service, handling approximately 8,700 items
Anasazi Santa Fe	Specializes in the sale of art jewelry popular in the United States

ICI Ishii Sports	Mountain climbing and ski equipment store
e-Shopping! Toys	Japan's first full-blown Internet toy store
e-Shopping! Books	Japan's first full-scale Internet book store
Ishibashi Music	Music store specializing in acoustic and digital musical instruments
Isetan	On-line storefront of the venerable Isetan department store; presently sells midyear gifts
eCHA.com	Tea specialist that flame roasts tea made to order
e-BEST	Computer and home appliance shop formed in a tie-up of Best Denki Co., Ltd. and Softbank E-Commerce Corporation
Wellness	Gift shop that specializes in flower and original potted plant gifts
KitchenPRO	Kitchenware specialist that handles highly practical, professional kitchenware
EVANCE	Rolex boutique that provides 10-year warranty services on new products
Engei.Net	Gardening tool specialist offering products ranging from seeds and bulbs to fertilizer and tools
Organic Cyber Store	Health food store providing safe products that are organic, have no additives, are easy on the environment and use carefully selected ingredients
OMRON 24	Wholly financed sales subsidiary of OMRON Corporation handling mainly OMRON health equipment
ORBIS	Major seller of cosmetics and nutritional supplements with no physical stores
Chaos Mart	Internet convenience store that offers food and beverages, daily necessities and sundries, and pet supplies
Gism Club	Handles primarily Casio products including G-SHOCK and BABY-G watches
Gulliver World	Shop specializing in sweets and ingredients for bread-making
Kanno Bee Head Store	Reputable store that sells honey, propolis and high-grade royal jelly
Netter Shopping	Camera specialist with a nationwide photo network
Kimonoyasan.com	Kimono specialist that showcases new kimono styles from Kyoto Muromachi
Kyocera On-line Shopping	Variety store operated by Kyocera Corporation that handles various products including fashion and hobby goods
Como	Store that bakes and sells bread that lasts for 30 to 60 days at room temperature
Golf Monster	Internet golf shop handling famous overseas and domestic brands in addition to original merchandise
THE SUPERMODEL	Fashion brand specialist that manages SUPERMODEL products based out of New York

ZAC	Interior store carrying items ranging from designer furniture to lighting and curtains
Sante Drug	On-line drugstore handles products that support a healthy lifestyle, including diet and health food products as well as blood-pressure measuring devices
Sanrio	Sanrio on-line shop features a broad selection of such characters as Hello Kitty
WWW.JWELL.COM	Internet jewelry shop that finishes products in a dedicated studio following customer orders
JB Computer	PC store with outlets mainly in the Kansai region
Jewelry Tsutsumi On-Line Shop	Jewelry store that sends products made at its own facilities directly to customers
Shintomi Golf	Golf equipment store that offers custom-made golf clubs to compensate for golfers' unique lay angle
SUEHIRO	Jewelry shop that designs and processes original in-house jewelry made to order
Sumisho Otto	Major reseller of products ranging from apparel and fashion goods to home beauty products
Seiko Store, Hotel Okura Branch	Wristwatch shop that handles popular Seiko brands, including SEIKO and ALBA
Sembikiya	Venerable fruit store that provides carefully selected fruits from around the world
Sohbi	European imported tableware store offers first-rate Western tableware, including Wedgwood and <u>Richard Genari</u>
ZOCCO PLAZA	Specialty store operated by TDK Design that handles popular accessories and daily sundries
SOFMAP	Major on-line retailer in PC sales
Daiichi Engei	Flower shop that delivers flowers fresh direct from the fields
Daiichi Kaden	Home appliance store that provides such electronics as TVs, refrigerators, washing machines and audio equipment
Tie Rack	Necktie and scarf specialist with 430 stores in 32 countries
Tasaki Shinju	Jewelry store that offers pearls through an integrated system from cultivation to processing and sale
Tano Mail	Office supply store operated by Osuka Shokai that handles products ranging from stationary and office supplies to daily sundries and foods
The dancyu shop	Specialty store that handles famous foods and beverages from regions throughout Japan and kitchenware
Ticket Pia Leisure	Ticket shop that provides such leisure tickets as those for theme parks and amusement parks
CHUMS	CHUMS on-line store operated by an agency that imports CHUMS accessories

Tsuhan @ Pia	Specialty store that carries selected goods related to movies and music
Lighting Specialist Terukunidenki	Lighting specialist that sells lighting fixtures of first-rate manufacturers
Camera Doi	Camera shop that carries a wide selection of cameras and related products
Dog Watch Outdoors	Outdoor store that offers leading-brand Harry Hanson outdoor and marine wear
National Azabu	Grocer that sells foods, wine, cheese and daily sundries imported from around the world
Naturum	Large-scale shop specializing in fishing and outdoor gear
Digicon!	Computer and audiovisual store located in the Kanto region
Heart Flower	Flower shop that carries flowers, arrangements, bouquets, potted plants and gardening materials
Paris Miki	Eyeglasses store operated by Miki that operates 857 stores in Japan and 61 stores overseas
Value Mart	Specialty store that carries products admired in European lifestyles, including leather goods, bags and mechanical timepieces
Hankoya.com	On-line name seal specialists that makes registered and corporate seals
PC DEPOT	PC store located in Kanagawa
Hibiya Kadan	On-line version of the venerable flower shop operated by Hibiya Kadan with 190 outlets in Japan
Beef-Net	Shopping site for all kinds of meat
FANCL	On-line reseller of easy-on-the-skin cosmetics with no additives and high-quality, inexpensive health foods
FUKUSUKE	Store operated by 118-year-old Fukusuke that carries socks, stockings and underwear
Food's Mart	Selective food shop operated by Food's-Foo, one of the largest food-related sites in Japan
Furusato Dayori	Foods store that delivers the tastes and scents of hometowns throughout Japan directly to customers
Brooks	Selective foods store that mainly handles regular coffee
Honma Golf	Golf equipment shop with 110 stores in Japan and 14 overseas
Marchef	Market that carries foods used by professionals, including Japanese, Chinese and Italian foods
Miki House	Store specializing in children's clothing and accessories
Mary's Chocolate	Chocolate specialist offering chocolate, gifts and other products
Mercian	Provides grape-based basic cosmetics and health foods based on the fine qualities of wine
Megane Top	Eyewear specialist that mainly carries premium brand-name sunglasses
Media Max Sumiya Cyber Shop	Software store that offers DVD titles and game software

Media Valley	PC store of the Daiei Group
Yamagiwa	Interior store carries popular imports, selective home appliances, lighting and interior goods
Yamagiwa Soft	Software store with a broad selection of the latest DVDs, CDs, PC software and console videogames
Le Noble	Specialty store that carries brand-name Western tableware, such as Royal Copenhagen
Rohto Pharmaceutical	Provides nutritional supplements and skin-care products
World Car Shop Pentagon	Car goods specialty shop with a wide range of car-related merchandise

Balance Sheets

(Yen in millions)

	Three months ended September 30, 2000		Three months ended June 30, 2000		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 695	2.1%	¥ 612	2.3%	13.5%
Accounts receivable— trade	2,140	6.4%	1,722	6.4%	24.3%
Marketable securities	4,032	12.0%	3,580	13.2%	12.6%
Prepaid expenses	77	0.2%	88	0.3%	(12.9)%
Deferred tax assets	88	0.2%	62	0.2%	42.6%
Other current assets	28	0.1%	19	0.1%	51.9%
Total current assets	7,064	21.0%	6,086	22.5%	16.1%
Fixed Assets					
Tangible fixed assets	1,929	5.7%	1,425	5.3%	35.3%
Intangible fixed assets	92	0.3%	83	0.3%	10.4%
Investments and Others					
Investment securities	22,670	67.5%	17,565	65.0%	29.1%
Investment to affiliated companies	60	0.2%	48	0.1%	25.0%
Bonds of affiliated companies	400	1.2%	400	1.5%	0.0%
Equity funds	960	2.8%	1,000	3.7%	(4.0)%
Long-term loans	0	0.0%	0	0.0%	(41.8)%
Prepaid expenses	18	0.1%	22	0.1%	(17.9)%
Guarantee deposits	401	1.2%	401	1.5%	0.0%
Others	0	0.0%	0	0.0%	0.0%
Total investments and others	24,511	73.0%	19,439	71.9%	26.1%
Total fixed assets	26,533	79.0%	20,948	77.5%	26.7%
Total assets	¥33,597	100.0%	¥27,034	100.0%	24.3%

(Yen in millions)

Liabilities	Three months ended September 30, 2000		Three months ended June 30, 2000		Increase (Decrease)
Current Liabilities					
Accounts payable—trade	¥ 3	0.0%	¥ 4	0.0%	(27.0)%
Accounts payable—other	932	2.8%	916	3.4%	1.7%
Accrued bonuses	107	0.3%	88	0.3%	21.6%
Accrued income taxes	893	2.7%	383	1.4%	133.1%
Accrued consumption taxes	85	0.3%	50	0.2%	66.9%
Advance received profit	81	0.2%	17	0.1%	379.7%
Subscription warrants	13	0.0%	23	0.1%	(41.3)%
Other current liabilities	24	0.1%	18	0.1%	35.4%
Total current liabilities	2,141	6.4%	1,502	5.6%	42.5%
Long-Term Liabilities					
Retirement allowances	11	0.0%	—	—	—
Long-term debt	332	1.0%	436	1.6%	(23.7)%
Long-term deferred taxes	9,137	27.2%	104	0.4%	8,684.1%
Total long-term liabilities	9,481	28.2%	540	2.0%	1,655.8%
Total liabilities	11,623	34.6%	2,043	7.6%	468.9%
Shareholders' Equity					
Common stock	3,012	9.0%	2,901	10.7%	3.8%
Additional paid-in capital	3,957	11.8%	3,798	14.1%	4.2%
Legal reserve	3	0.0%	3	0.0%	0.0%
Reserve for special depreciation	143	0.4%	143	0.5%	0.0%
Retained earnings	2,423	7.2%	1,743	6.4%	39.0%
Other securities evaluation adjustment	12,433	37.0%	16,400	60.7%	(24.2)%
Total shareholders' equity	21,973	65.4%	24,991	92.4%	(12.1)%
Total liabilities and shareholders' equity	¥33,597	100.0%	¥27,034	100.0%	24.3%

Balance Sheets

(Yen in millions)

	Six months ended September 30, 2000		Six months ended September 30, 1999		Increase (Decrease)
Assets					
Current Assets					
Cash	¥ 695	2.1%	¥ 217	4.1%	220.1%
Accounts receivable— trade	2,140	6.4%	935	17.9%	128.8%
Marketable securities	4,032	12.0%	2,096	40.0%	92.4%
Prepaid expenses	77	0.2%	29	0.6%	158.1%
Deferred tax assets	88	0.2%	26	0.5%	233.0%
Other current assets	28	0.1%	9	0.2%	206.4%
Total current assets	7,064	21.0%	3,315	63.3%	113.1%
Fixed Assets					
Tangible fixed assets	1,929	5.7%	553	10.6%	248.4%
Intangible fixed assets	92	0.3%	40	0.8%	129.2%
Investments and Others					
Investment securities	22,670	67.5%	551	10.5%	4,014.3%
Investment to affiliated companies	60	0.2%	165	3.1%	(63.6%)
Bonds of affiliated companies	400	1.2%	400	7.6%	0.0%
Equity funds	960	2.8%	—	0.0%	—
Long-term loans	0	0.0%	—	0.0%	—
Prepaid expenses	18	0.1%	—	0.0%	—
Guarantee deposits	401	1.2%	214	4.1%	87.4%
Others	0	0.0%	—	0.0%	—
Total investments and others	24,511	73.0%	1,330	25.3%	1,742.5%
Total fixed assets	26,533	79.0%	1,924	36.7%	1,278.9%
Total assets	¥33,597	100.0%	¥5,239	100.0%	541.2%

(Yen in millions)

Liabilities	Three months ended September 30, 2000		Six months ended September 30, 1999		Increase (Decrease)
Current Liabilities					
Accounts payable—trade	¥ 3	0.0%	¥ 20	0.4%	(83.4%)
Accounts payable—other	932	2.8%	511	9.8%	82.3%
Accrued bonuses	107	0.3%	43	0.8%	148.6%
Accrued income taxes	893	2.7%	284	5.4%	214.4%
Accrued consumption taxes	85	0.3%	33	0.6%	154.6%
Advance received profit	81	0.2%	76	1.5%	7.0%
Subscription warrants	13	0.0%	24	0.5%	(43.9%)
Other current liabilities	24	0.1%	12	0.2%	96.6%
Total current liabilities	2,141	6.4%	1,006	19.2%	112.9%
Long-Term Liabilities					
Retirement allowances	11	0.0%	—	—	—
Long-term debt	332	1.0%	488	9.3%	(31.9%)
Long-term deferred taxes	9,137	27.2%	42	0.8%	21,506.5%
Total long-term liabilities	9,481	28.2%	530	10.1%	1,686.1%
Total liabilities	11,623	34.6%	1,537	29.3%	656.2%
Shareholders' Equity					
Common stock	3,012	9.0%	1,483	28.3%	103.1%
Additional paid-in capital	3,957	11.8%	1,546	29.5%	155.9%
Legal reserve	3	0.0%	2	0.1%	72.5%
Reserve for special depreciation	143	0.4%	—	—	—
Retained earnings	2,423	7.2%	670	12.8%	261.6%
Other securities evaluation adjustment	12,433	37.0%	—	—	—
Total shareholders' equity	21,973	65.4%	3,702	70.7%	493.5%
Total liabilities and shareholders' equity	¥33,597	100.0%	¥5,239	100.0%	541.2%

Statements of Income (Three-Month Periods)

(Yen in millions)

	Three months ended September 30, 2000		Three months ended September 30, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥3,014	100.0%	¥1,250	100.0%	¥1,763	141.0%
Cost of sales	11	0.4%	31	2.5%	(19)	(62.6)%
Gross profit	3,002	99.6%	1,219	97.5%	1,783	146.2%
SG&A expenses	1,776	58.9%	770	61.6%	1,006	130.6%
Operating income	1,226	40.7%	449	35.9%	777	173.1%
Net non-operating income (expenses)	(55)	(1.8)%	(45)	(3.7)%	(9)	20.6%
Ordinary income	¥ 1,170	38.9%	¥403	32.2%	¥ 767	190.4%

(Yen in millions)

	Three months ended September 30, 2000		Three months ended June 30, 2000		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		
Net sales	¥3,014	100.0%	¥2,385	100.0%	¥629	26.4%
Cost of sales	11	0.4%	16	0.7%	(4)	(28.8)%
Gross profit	3,002	99.6%	2,369	99.3%	633	26.8%
SG&A expenses	1,776	58.9%	1,502	63.0%	273	18.2%
Operating income	1,226	40.7%	866	36.3%	359	41.6%
Net non-operating income (expenses)	(55)	(1.8)%	14	0.6%	(69)	(479.1)%
Ordinary income	¥ 1,170	38.9%	¥ 880	36.9%	¥290	32.9%

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

Three months ended September 30, 2000 (Yen in millions)

Net Sales	Total	%
Advertising services	¥2,862	94.9%
Other	152	5.1%
Total	¥3,014	100.0%

Three months ended September 30, 2000 (Yen in millions)

SG&A Expenses	Total	%
Personnel expenses	¥540	30.4%
Advertising costs	243	13.7%
Content provider fees	149	8.4%
Sales commissions	130	7.4%
Depreciation expenses	162	9.2%
Communication charges	133	7.5%
Royalties	85	4.8%
Lease and utility expenses	117	6.6%
Other	213	12.0%
Total	¥1,776	100.0%

Statements of Income (Six-Month Periods)

(Yen in millions)

	Six months ended September 30, 2000		Six months ended September 30, 1999		Increase (Decrease)	Increase (Decrease)
	Total	%	Total	%		%
Net sales	¥5,399	100.0%	¥2,121	100.0%	¥3,278	154.5%
Cost of sales	28	0.5%	60	2.8%	(32)	(53.3)%
Gross profit	5,371	99.5%	2,061	97.2%	3,310	160.6%
SG&A expenses	3,279	60.7%	1,285	60.6%	1,994	155.1%
Operating income	2,092	38.8%	776	36.6%	1,316	169.6%
Net non-operating income (expenses)	(40)	(0.8)%	(50)	(2.3)%	9	(18.9)%
Ordinary income	¥ 2,051	38.0%	¥726	34.3%	¥1,325	182.6%

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

Six months ended September 30, 2000

(Yen in millions)

Net Sales	Total	%
Advertising services	¥5,090	94.3%
Other	309	5.7%
Total	¥5,399	100.0%

Three months ended September 30, 2000

(Yen in millions)

SG&A Expenses	Total	%
Personnel expenses	¥974	29.7%
Advertising costs	535	16.3%
Content provider fees	256	7.8%
Sales commissions	268	8.2%
Depreciation expenses	271	8.3%
Communication charges	202	6.2%
Royalty	152	4.7%
Lease and utility expenses	213	6.5%
Other	404	12.3%
Total	¥3,279	100.0%

Risk Factors

The Company has reported its results for the second quarter of fiscal 2001 in the document “Results for the Three Months Ended June 30, 2000.” However, a number of potential factors could substantially impact its future performance. Major factors contributing to the business risk of the Company are discussed below. The Company proactively discloses those items it considers necessary for investors to include in their investment decision, including external factors beyond the control of the Company and business risks with a low probability of materializing.

Cognizant of the potential risks, the Company makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the following issues before assessing the position of the Company and its future performance.

1. Risks Affecting Operations

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

1) Dependence on Specific Operations

Advertising services comprise the Company’s principal source of revenue and accounted for 94.9% of net sales in the second quarter of fiscal 2001. As a result, operating results are highly dependent on advertising services. The following uncertainties are implicit in advertising sales:

- a. Advertising business is highly susceptible to trends in the overall economy. During downward cycles, advertising expenditures are among the first expenses to be reduced by companies.
- b. As the Internet advertising market is still developing in Japan, an accurate forecast of market conditions is not available at this time.

- c. Although Yahoo! Japan continually works to increase the value it supplies its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Company purchases content from third parties. Failure to consistently provide high-quality content that appeals to users could lower traffic and subsequently impact advertising revenue. In addition, the number of users accessing the Internet through cellular telephones and other mobile terminals has increased substantially. Although the Company 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 par with their use with personal computers. User share could fall as a result.
- d. As the entire catalogue of Yahoo! Japan services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Company's own servers and equipment as well as telecommunications equipment owned and operated by third parties. If for any reason the connecting environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue. In addition, although advertising contract periods and page views are guaranteed for the majority of products, failure to obtain the number of required page views could force the Company to extend advertising contract periods, or devise some other type of compensation that could negatively impact advertising revenues.
- e. The contract period for Internet advertisements is relatively short. In addition, Internet usage and demand among advertisers tends to be seasonal. These factors produce underlying short-term fluctuations in advertising revenue. Furthermore, as the Company's cost structure includes a high portion of fixed costs such as personnel expenses and lease expenses, expenditures cannot easily be adjusted to changes in revenue, contributing to underlying volatility in the Company's earnings stream.
- f. Operations are vulnerable to impact from such phenomena as fires, power outages and damages to telephone lines. Yahoo! Japan's main network infrastructure is concentrated in Tokyo, an area particularly susceptible to earthquakes, and the Company does not presently have multiple site capacity to offset any of the above occurrences. Despite the implementation of network security measures, the possibility of damage from computer viruses or hackers cannot be completely ruled out, and Yahoo! Japan does not hold sufficient insurance to compensate for losses due to these events. Any of these events could incur serious negative impact on the Company's business, operating results and financial condition.

2) Short Corporate History

Yahoo! Japan was founded in January 1996 and began its core advertising operations in April 1996. An operating loss was recorded in the fiscal year ended March 31, 1996 (see below), as a result of this lag. Although net sales increased and earnings were reported in the year ended March 31, 1997, the scale was small and large non-recurring revenues were

included in other revenues. Although both net sales and earnings have increased substantially each term since the fiscal year ended March 31, 1998, quarterly trends in revenues show noticeable fluctuations. As the Company's history is extremely short, financial data is unavailable over a period long enough for meaningful comparison. As a result, past performance is inadequate for gauging the Company's ability to continue expanding revenues and sustaining profitability.

In addition, the history of Internet usage and the Internet advertising market in Japan is also limited. As a result, the Company cannot easily obtain information necessary for creating a management plan that accurately reflects future revenues, costs and required staff. Unexpected expenditures, investments or other factors could arise, as well as large disparities from the Company's expected revenues.

(Yen in thousands)

ITEM	1ST TERM	2ND TERM	3RD TERM	4TH TERM	5TH TERM
Closing Date	March 31, 1996	March 31, 1997	March 31, 1998	March 31, 1999	March 31, 2000
Net Sales	¥ 636	¥413,066	¥1,269,260	¥1,914,849	¥5,695,710
Advertising Services	—	345,939	908,803	1,432,365	5,136,459
Others	636	67,126	360,457	482,484	559,251
Operating Income (loss)	(3,213)	56,584	165,693	399,454	2,110,411
Ordinary Income (loss)	(5,241)	56,535	150,985	391,300	2,031,407
Net Income (loss)	(5,290)	23,954	64,428	183,658	1,153,628
Shareholders' Equity	194,709	218,664	1,018,055	3,263,566	8,106,758
Total Assets	205,659	375,839	1,247,583	3,919,919	10,475,821
Page Views (million per month)	—	71.0	188.7	561.5	2,125.0
Number of Advertisers	—	37	71	111	300

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

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

3) Licensing Agreement with Yahoo! Inc.

Yahoo! Japan's operations are based on a licensing agreement with Yahoo! Inc., a founder of the Company and owner of 33.9% of shareholders' voting rights as of September 30, 2000. The Yahoo! trademark, software and tools (hereafter referred to as "the trademark") used in the operation of the Company's Internet directory search services are the property of Yahoo! Inc., Yahoo! Japan conducts business operations through a license obtained for use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Company's core operations.

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

4) Need to Stay Ahead of Technological Innovations

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

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

5) The Yahoo! Brand and Cooperation Overseas

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

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

6) Government Regulations

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

The Company's operations may be restricted through new laws aimed at Internet users and Internet-related services and businesses. Operations may also be restricted by clarification of existing laws or voluntary restraints.

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

7) Potential Litigation

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

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

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

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

8) Patents for Internet Technology and Business Plans

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

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

9) Yahoo! Shopping and Yahoo! Auctions

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

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

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

Effective September 26, 2000, the Company began an escrow service for its online auctions for the purpose of avoiding fraud and other illegal activities, however it is impossible to determine how many users will take advantage of this service. Therefore, the Company cannot say for certain that illegal actions will not occur in future.

10) User Information

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

11) Large-Scale Business Contracts with Certain Advertisers

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

12) Dependence on Key Personnel, etc.

The Company depends on continued support from senior management and key technical personnel. These include the President, Managing Directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technological expertise concerning the Company and its business. Consequently, if key personnel were to leave, the Company would face a difficult task in replacing them.

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.

2. Risks Concerning Investments and Capital Investment Programs

1) Investment in Yahoo! Korea

On October 6, 1997, the Company invested US\$50,000 for 5% ownership in Yahoo! Korea, a joint venture established by Yahoo! Inc. and other companies. Ownership was 4.1% as of March 31, 2000, due to an increase in the company's capital. Based on successes in translating Yahoo! Inc. technologies into 2-byte format to enable Japanese characters, the Company provided technological services necessary for establishing Yahoo! Korea. On September 3, 1997, Yahoo! Korea began services and quickly grew to be Korea's number one Web site through robust growth in page views and net sales.

However, as that company faces the same risks as Yahoo! Japan, no assurances can be given that invested capital will be recovered. In addition, currency fluctuations could produce fluctuations in the value of the investment.

2) Investment in CyberMap Japan

On March 31, 1998, the Company invested ¥50 million for 11.1% ownership of CyberMap Japan Corp., a joint venture with Toppan Printing Co., Ltd. and Nippon Telegraph and Telephone Corporation (NTT). Ownership was 10.2% as of June 30, 2000, due to an increase in the company's capital. This company provides the Mapion service, which is a free map search service for information on companies, retail outlets and other sites on the Internet.

Although users have responded favorably to Yahoo! Maps, a service provided through CyberMap Japan, the Company can make no assurances that its investment will be recovered.

3) Investment in Internet Research Institute

On July 31, 1998, the Company invested ¥100 million for 29.4% ownership of Internet Research Institute, Inc. (IRI). Ownership was 12.49% as of June 30, 2000, after an increase in the company's capital and listing of its shares on the "Mothers" section of the Tokyo Stock Exchange on December 22, 1999. IRI's core operations are ISP* and test laboratory** businesses. Yahoo! Japan plans to utilize the technological capabilities of this company to increase the quality of Yahoo! Japan services.

Although a provisional estimate based on the closing share price conducted on September 29, 2000, placed the value of that company at ¥13.8 billion, there is a risk that this value may decline.

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

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

4) Investment in Vector

On March 24, 1999, the Company invested ¥165 million, or 26.3% ownership, in Vector Inc. Ownership is currently 13.7%, due to an increase in the company's capital and its listing on NASDAQ Japan on August 11, 2000. This company distributes software through downloads from the Internet and through books containing CD-ROMs. The Yahoo! Downloads service provided by this company has been well received by users.

Although a provisional estimate based on the closing share price conducted on September 29, 2000, placed the value of that company at ¥7.6 billion, there is a risk that this value may decline.

5) Investment in Weathernews

On May 28, 1999, the Company invested ¥300 million for 5.8% ownership (following increase in that company's capital) in Weathernews Inc. This company provides a range of information over the Internet, including weather observations, data collection, weather analysis and weather reports.

Although the Yahoo! Weather service provided in cooperation with Weathernews is extremely popular with users, the Company can provide no assurances as to the recovery of its investment.

6) Investment in e-Shopping! Toys

On August 30, 1999, the Company invested ¥20 million, or 10% ownership, in e-Shopping! Toys CORP. This company operates eS-Toys, Japan's first full-scale all-toys EC site, and sells a full range of toys over the Internet. Internet users will have access to a database containing the latest product information on approximately 200,000 toys, and be able to freely order products 24 hours-a-day. Services began on November 24, 1999, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

Nevertheless, because a number of uncertainties exist over the course of future business development, Yahoo! Japan can provide no assurances that its invested capital will be recovered.

7) Investment in e-Shopping! Books

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

titles, then pick up their purchase and make payments at local convenience stores. Services began on November 24, 1999, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

Nevertheless, because a number of uncertainties exist over the course of future business development, Yahoo! Japan can provide no assurances that its invested capital will be recovered.

8) Investment in CarPoint

On October 6, 1999, the Company invested ¥67.2 million, or 8% ownership, in CarPoint K.K. Through this company's site, prospective car buyers can obtain detailed information on automobiles and other related areas, including information on all Japanese-made automobiles and the latest details on a variety of foreign-made cars. In addition, the service provides users with a free appraisal of cars and introduces them to dealers who sell these cars. As a result, users are saved the bother of bargaining and can conduct their car search on the Internet to the point of purchase. CarPoint increased its capital through an issue of new shares on March 28, 2000. Yahoo! Japan invested an additional ¥112.5 million and acquired 6.7% of the new issue. As a result, ownership in CarPoint was 7.65% as of June 30, 2000.

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

9) Investment in e-Shopping! Information

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

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

10) Investment in SpeedNet

On December 10, 1999, the Company invested ¥125.0 million, or 5% ownership, in SpeedNet Inc. (SpeedNet is planning to increase its capital. Yahoo! Japan has signed an agreement to maintain 5% ownership by increasing its investment to a maximum of ¥300 million). Based on its Internet protocol (IP) network, this company combines such diverse technologies as fiber optics, metal and wireless technologies to provide low-cost, continuous high-speed Internet access. This company ran trial services in Tokyo's Toshima, Shinjuku and Bunkyo Wards from October 1999 to January 2000, and plans to begin trial services over a wide area extending as far as Urawa, Omiya and Yono cities in Saitama Prefecture in September 2000.

However, no schedule yet exists for the start of actual operations. As such, the Company can provide no assurances as to the return of its investment.

11) Investment in eS! Music

On January 12, 2000, the Company invested ¥30.0 million, or 10% ownership, in eS! Music CORP. This company is a music distributor that allows users to purchase their

favorite songs any time of the day by downloading them from the Internet. The service will comply with DAWN 2001, the new copyright administration system proposed by Japanese Society for Rights of Authors, Composers and Publishers (JASRAC).

However, no schedule yet exists for the start of actual operations. As such, the Company can provide no assurances as to the return of its investment.

12) Investment in e-Shopping! CarGoods Corp.

On February 28, 2000, the Company invested ¥30.0 million, or 10% ownership, in e-Shopping! CarGoods Corp. This company operates eS-Car goods, Japan's first EC site specializing in car-related goods and parts, with plans to market a full range of these products over the Internet. Users can access an extensive database featuring the latest in product information (approximately 400,000 goods listed) and order products 24-hours-a-day. Operations began on May 29, 2000, with the company opening a virtual store on our Yahoo! Shopping site that has been well received by users.

Nevertheless, because a number of uncertainties exist over the course of future business development, the Company can provide no assurances that its invested capital will be recovered.

13) Investment in Oricon Direct Digital Inc.

On March 28, 2000, the Company invested ¥50.0 million, or 1.65% ownership, in Oricon Direct Digital Inc. Established on October 1, 1999, this company has built a highly practical, easy-to-search database of music-related information. Its main business consists of renting this database to EC merchants. The company has already begun operations, with the services being provided through our Yahoo! Music site based on our tie-up being popular with users.

However, the Company can provide no assurances that the value of the company may not decline, after the its shares' listing on NASDAQ Japan on November 6, 2000.

14) Investment in Tavigator

On March 5, 2000, Yahoo! Japan established Cybercircle Co., Ltd. as a subsidiary with ¥10.0 million in capital. On May 17, 2000, the company increased its capital through a third-party allotment of shares to Yahoo! Japan, Japan Travel Bureau, Inc. and Softbank E-Commerce Corporation. As a result of this transaction, the company's capital increased to ¥100.0 million and Yahoo! Japan's ownership totaled 48% as of June 30, 2000 (the Company plans to sell 18% of its holdings at book value to the Softbank Group in the future). On May 22, 2000, this company changed its name to Tavigator, Inc. It conducts on-line sales of top-selling travel packages in Japan and overseas, and also sells travel-related products. The company began operations selling domestic accommodations on June 16, 2000, with the services being provided through our Yahoo! Travel site by agreement with Yahoo! Japan being well received by users.

Nevertheless, because a number of uncertainties exist over the course of future business development, the Company cannot rule out the possibility that it will receive no return on its investment. In addition, because this company may be consolidated by Yahoo! Japan, Tavigator results may have impacts on the Company's financial situation and the results of its operations.

15) Investment in e-Shopping! Wine

On May 26, 2000, the Company invested ¥30 million, or 10% ownership, in e-Shopping! Liquor. This company changed its name to e-Shopping! Wine on July 7, 2000. This company will operate the eS-Wine Web site, an e-commerce site specializing in wine and other alcoholic beverages, and will sell wine from around the world over the Internet. Users will be able to access the site's database to gain the latest wine information and order products twenty-four hours a day.

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

16) Investment in SOFTBANK ZDNet Co., Ltd.

On August 28, 2000, the Company invested ¥30 million for 10% ownership in SOFTBANK ZDNet Co., Ltd. This company provides Japanese users with the translated contents of ZDNet in the United States as well as offering online computer, Internet, and video game related magazine content from SOFTBANK Publishing Inc. In addition, the company has begun Inter@ctive Investor (ZDII), a investment information service specializing in the Internet and IT fields. ZDII covers stock movements in the global Internet and IT markets with special emphasis on the markets in the United States and Japan. It also provides market information, including the views of analysts. Through its tie-up with Yahoo! Japan, the company is provided services on Yahoo! News that are popular with users.

Nevertheless, because a number of uncertainties exist over the course of future business development, Yahoo! Japan can provide no assurances as to the return of its investment.

17) Capital Investment Programs and Investment Plans

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

Although Yahoo! Japan believes business expansion will result in earnings growth sufficient to cover these depreciation costs, ineffective capital investments could put the Company behind its competitors and substantially impact future earnings. In addition, unfavorable performance by companies in which Yahoo! Japan holds equity investments could impact the Company's financial structure and operating results.

3. Concerning the Internet Advertising Industry

1) Dependence on Internet Usage Rates

Internet usage in Japan has continued steady growth since first emerging as a recognizable force in 1995. As the Company is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are continued expansion in

communication and commercial activity over the Internet and a stable and secure environment for Internet users. However, a number of factors contribute to uncertainty in the outlook for Internet usage, including the availability of such necessary infrastructure as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols to respond to surging Internet traffic and increasingly advanced applications; and the possibility of regulation or charges on Internet use.

2) Use of the Internet as an Advertising Medium

The Internet advertising business in Japan emerged almost simultaneously with the Company's establishment, and is therefore still in its infancy. As the future of the Internet remains uncertain, its value as an advertising medium is also unclear with respect to advertisers, consumers and advertising agencies.

The Company has continued to attract an increasing number of advertisers from a variety of sectors. However, with limited experience in Internet advertising, the majority of advertisers still consider it a trial medium. Many advertisers allocate only a small portion of their advertising budget to Internet advertising.

The Company believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness needs to be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept a role in this area, none have progressed far enough to be capable of full-scale evaluation. Despite recognition from Internet-related companies, it remains unclear whether the Internet can establish itself as an advertising medium on a par with such traditional media as newspapers, magazines, radio or television.

3) Competitive Environment

As of June 30, 2000, the major providers of Japanese-language Internet navigational services or similar services directed at Japanese Internet users were as follows (not listed in any particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
goo	NTT-ME Information Xing, Inc.	Information site
Lycos	Lycos Japan	Information site
MSN	Microsoft Corporation	Information site
Infoseek	Infoseek Japan	Information site
excite	Excite Japan	Information site
ISIZE	RECRUIT CO., LTD.	Information site
@nifty	NIFTY Corporation	ISP and information site
So-net	Sony Communication Network Corporation	ISP and information site
BIGLOBE	NEC Corporation	ISP and information site
Rakuten	Rakuten, Inc.	On-line shopping mall and auctions site
bidder	DeNA Co., Ltd.	Online auctions site

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

4. Increased Risks from Expansion

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

1) Technological Development

The Company's directory search and advertising services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant changes in standards and customer needs, and continuous development of new technologies and services. Responding to these conditions and sustaining a strong competitive position requires not only close cooperation with Yahoo! Inc., which operates almost identical services in the United States, but also increasing internal development efforts, including a rising level of funds expended in localizing operations of these services. As of September 30, 2000, Yahoo! Japan's research and development team consisted of 82 engineers under the supervision of the Director of Development.

In the future, management believes it will be necessary to increase engineering staff and strengthen administrative capabilities.

2) Sales Promotion

Although advertising services are by far the major revenue source, until March 1998, the Company depended entirely on advertising agent cyber communications inc. for marketing its services and generating advertisement revenues. In April 1998, Yahoo! Japan began direct marketing to advertising agencies and, as of September 30, 2000, had a sales force of 57 staff members assisting in these operations.

In the future, the Company will need to increase its sales force and strengthen its sales management system to match the market's expansion. However, these measures alone will be insufficient to guarantee increased advertising revenue. Consequently, cyber communications continues to be a comparatively major contributor to the Company's revenue growth. As a result, fluctuation in related revenues could substantially impact the earnings of Yahoo! Japan.

3) Increasing Fixed Costs

The Company needs to increase staff to support the large number of new Web sites created by the recent surge in Internet use, and to carry out operation and management of its community services. Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness. The

Company plans substantial staff expansion and administrative reinforcement to eliminate possible trouble with Web site creators and community service users, and prevent erosion in the efficiency of operations.

Although Yahoo! Japan will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.