NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Organization and nature of business

Yahoo Japan Corporation (the “Company”) was incorporated in January 1996 in Japan. The Yahoo Japan Corporation and its consolidated subsidiaries and affliates (the “Group") are involved in the following businesses:

- Yahoo! BB business

The Yahoo! BB business revolves around the Company's comprehensive broadband services branded as “Yahoo! BB," provided jointly with SOFTBANK BB Corp. (“SBB"), a wholly owned subsidiary of SOFTBANK CORP. The business provides, an Internet service providing (ISP) service using mainly “Yahoo! BB 8M," “Yahoo! BB 12M" or a packaged cable-less LAN with “Yahoo! BB 12M," to individual subscribers whom the Company has acquired through the Web site on an Internet or whom SBB has acquired at electronic wholesalers and by other means. The ISP service also includes e-mail, homepage creation, calendar functions, etc.

- Auction business

Auction business provides, for a charge, an Internet platform on which a number of individuals can freely sell or buy through an auction process. It also provides, for a fee, support services to entities in relation to corporate shops called “Premium Auctions."

- Listing business

Listing business publishes various providers’ information for users through the Company’s Web site. It comprises directory and mobile services on the Web site, listing services of information such as “Yahoo! Employment," “Yahoo! Auto," “Yahoo! Computers," “Yahoo! Real Estate," “Yahoo! Gourmet," etc. and community services such as “Yahoo! Personals," “Yahoo! Greeting,” etc. It has also started a paid search service, which is called “Sponsor Site,” by cooperating with two commercial search services; Overture and Google. These two companies serve search results to “Sponsor Site" in the key word search result of Yahoo! JAPAN for a fee.

- Shopping business

Shopping business operates the “Yahoo! Shopping” site, which provides a high-quality, online-based shopping site with stores selected based on the number of goods available and high levels of customer support and satisfaction. It also supplies goods and services relating to travel, such as domestic or overseas accommodation, airline tickets, etc. and provides various travel information for travel arrangement or preparation.

- Media business

Media business provides various content and services, with or without charges, to users in order to stimulate the number of page views and increase the volume of advertising sales. It comprises four services; information services such as “Yahoo! News," “Yahoo! Finance," “Yahoo!

Sports," etc., entertainment services such as "Yahoo! Movies," "Yahoo! Music," etc., community services such as "Yahoo! Message Boards," "Yahoo! Chat," "Yahoo! Messenger," etc., and mailing services such as "Yahoo! Deliver," "Yahoo! Alert," etc.

- ES (Enterprise Solutions) business

ES business provides the Company's solutions, know-how and technologies to corporations or government bodies. It includes support services relating to development of such entities' own portal sites, Web designing consulting services, online presentation services such as "NetRoadshow" services, and Internet-based inquiry services known as "Yahoo! Research," etc.

- Corporate Common business

Corporate Common business represents sales of advertisements on the top page, "Yahoo! JAPAN Top Page," and admission fees as a personal identification. These revenues are characterized as "Corporate Common business," as they create the corporate brand of the Group and therefore are not allocated to each of the above businesses. It also includes revenues and expenses relating to the Company's headquarters.

The Company and its subsidiaries operate in Japan. The Company established its wholly owned subsidiary, UniCept, Inc. and acquired a majority shareholding in Netrust, Ltd. during the current year ended March 31, 2003.

At March 31, 2002 and 2003, the Company consolidated two and nine subsidiaries, respectively.

2. Basis of presenting the consolidated financial statements

The Company and its subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively the "Group") are an English translation of the Japanese consolidated financial statements of the Group, which have been prepared in accordance with accounting principles and practices generally accepted in Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan, but which is provided herein as additional information. None of the reclassifications or rearrangements had a material effect on the financial statements.

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

3. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are controlled by the Group. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards.

All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation, and the portion thereof attributable to minority shareholders is credited or charged to “Minority interest." All the assets and liabilities of subsidiaries are recorded at fair value as of the acquisition of control. All consolidated subsidiaries have a fiscal year ending on March 31.

Investments in affiliates over which the Company and its consolidated subsidiaries have significant influence are accounted for under the equity method. Consolidated income includes the Company’s and its consolidated subsidiaries’ current equity in the net income of affiliates, after elimination of unrealized inter-company profits.

The excess of cost over the underlying net equity of investments in subsidiaries and affiliates accounted for under the equity method is recognized as goodwill and is amortized on a straight-line basis over a period of three years. Other than temporary declines in the value of the goodwill are reflected in current income.

(2) Translation of foreign currency transactions and accounts

Foreign currency transactions are generally translated using the foreign exchange rates prevailing at the respective transaction dates. All assets and liabilities in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates.

(3) Financial instruments

◆ Investments in debt and equity securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities, which are substantially similar to available-for-sale securities, as defined below. These categories are treated differently for purposes of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income or loss. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses on these other securities are

reported as a separate component of “Shareholders’ equity," net of tax. Other securities for which market quotations are unavailable are stated at cost based on the moving average cost method. Declines in the value of other securities and unlisted securities that are deemed to be other than temporary are reflected in current income.

◆ Allowance for doubtful accounts:

The allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses on doubtful receivables, plus an amount for receivables other than doubtful receivables calculated using an historical write-off experience ratio from certain prior periods.

(4) Inventories

Inventories are stated at cost, where cost is determined using the specific identification method.

(5) Depreciation and amortization

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed based on the declining-balance method.

Software used for sales purposes is amortized using the sales unit method over its estimated useful life of no more than three years.

Software for internal use is amortized using the straight-line method over its estimated useful life of five years.

(6) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

(7) Retirement benefit plan

The Company and its domestic consolidated subsidiaries participate in a multi-employer contributory defined benefit welfare pension plan (the “welfare pension plan”) covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law and includes a portion relating to the governmental welfare pension program and another portion into which contributions are made by the respective companies and their employees.

Contributions made by the Company and its domestic consolidated subsidiaries into the welfare pension plan are expensed when paid since the pooled fund assets and the entire pension obligations for the welfare pension plan cannot be reasonably determined by each of the participants. The pooled fund assets of the Company and most of its domestic subsidiaries at fair value at March 31, 2003 amounted to ¥62,205 million ($517,515 thousand), and the participation ratio of the Company and the relevant subsidiaries was 0.9%, based on employee numbers.

Following the enactment of the Act for Defined Contribution Pension, the Company and some of its subsidiaries transferred their defined benefit pension plans to defined contribution pension plans in July 2002 and adopted Financial Accounting Standards Implementation Guidance No.1: “Accounting for Transfers between Retirement Benefit Plans," issued by the Accounting Standards Board of Japan on January 31, 2002.

(8) Leases

Under Japanese accounting standards, capital leases, as defined therein, other than those whereby ownership of the assets is transferred to the lessee at the end of the lease term, are allowed to be accounted for as operating leases with footnote disclosure of the acquisition cost equivalent, the accumulated depreciation equivalent and future lease payments or receipts (see Note 15).

(9) Net income per share

Net income per share is computed based on the weighted-average number of shares of common stock issued and outstanding during each fiscal period, with a retroactive adjustment being made to reflect the impact of stock splits.

The Group issued dilutive potential common stock equivalents, such as stock options or warrants, etc., during the relevant periods. Dilutive net income per share for the years ended March 31, 2002 and 2003, computed in accordance with the new standards as described below, has been retroactively disclosed in the accompanying consolidated statements of income.

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. The Company and its consolidated subsidiaries have adopted these new accounting standards from the fiscal year commencing on April 1, 2002. Under the new accounting standards, “bonuses to directors," which are determined through appropriation of retained earnings by resolution of a general shareholders’ meeting subsequent to fiscal year-end and not reflected in the statements of income of the current fiscal year, should be reflected in the calculation of net income per share, as if “bonuses to directors” were charged to income in the current fiscal year.

On May 20 and November 20, 2002, the Company effected two-for-one stock splits, which increased the number of shares issued by 353,061.32 in total. Earnings per share data for the years ended March 31, 2002 and 2003 has therefore been restated to give retroactive effect to these stock splits.

(10) Appropriation of retained earnings

Appropriation of retained earnings reflected in the accompanying consolidated financial statements has been recorded after approval by the shareholders as required under the Commercial Code of Japan.

4. U.S. dollar amounts

The Company and its domestic subsidiaries maintain their accounting records in Japanese yen, and the translated U.S. dollar amounts presented in the accompanying consolidated financial statements and notes thereto are included solely for the convenience of readers. These translations should therefore not be construed as representation that the original yen amounts have been or could be readily converted into U.S. dollars at the rate used (¥120.20 = US$1 at March 31, 2003).

5. Mergers, acquisitions and restructuring

(1) Acquisition of Netrust, Ltd.

In August 2002, the Group acquired shares of Netrust, Ltd. for ¥120 million ($1,002 thousand) and consolidated Netrust in the consolidated financial statements for the year ended March 31, 2003.

(2) Acquisition of eGroups KK and e-Shopping! Books CORP.

The Group acquired shares of eGroups KK at September 28, 2001 for ¥900 million and e-Shopping! Books CORP. at December 26, 2001 for ¥280 million and consolidated these two companies in the consolidated financial statements for the year ended March 31, 2002. However, a decline in goodwill of eGroups KK was determined to be other than temporary at March 31, 2003, and the Group recognized impairment losses of ¥384 million as “Amortization of goodwill” in the accompanying statements of income.

6. Inventories

Inventories at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Merchandise	¥7	¥10	$ 82
Work-in-process	—	4	36
Total	¥7	¥14	$118

7. Investments in debt and equity securities

Investments in debt and equity securities at March 31, 2002 and 2003 consisted of “Marketable securities” and “Investment securities," most of which were classified as other securities, as described in Note 3 (3).

(1) The aggregate cost and market value of held-to-maturity debt securities and other securities with a market quotation at March 31, 2002 and 2003 were as follows:

	Millions of yen			
	March 31, 2003			
	Cost	Gross unrealized		Market value
		Gains	(Losses)	
Held-to-maturity securities	¥400	¥ 0	¥ —	¥ 400
Other securities—				
Equity securities	586	1,647	(11)	2,222
Total	¥986	¥1,647	¥(11)	¥2,622

	Thousands of U.S. dollars			
	March 31, 2003			
	Cost	Gross unrealized		Market value
		Gains	(Losses)	
Held-to-maturity securities	$3,328	$ 0	$ —	$ 3,328
Other securities—				
Equity securities	4,872	13,704	(93)	18,483
Total	$8,200	$13,704	$(93)	$21,811

	Millions of yen			
	March 31, 2002			
	Cost	Gross unrealized		Market value
		Gains	(Losses)	
Held-to-maturity securities	¥400	¥ 0	¥ —	¥ 400
Other securities—				
Equity securities	586	4,963	—	5,549
Total	¥986	¥4,963	¥ —	¥5,949

(2) Details of other securities sold during the years ended March 31, 2002 and 2003 are as follows:

	Millions of yen		
	For the year ended March 31, 2003		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	¥301	¥ —	¥41

	Thousands of U.S. dollars		
	For the year ended March 31, 2003		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	$2,506	$ —	$339

	Millions of yen		
	For the year ended March 31, 2002		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	¥806	¥587	¥ —

(3) Unlisted investment securities at March 31, 2002 and 2003 had the following carrying amounts:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Unlisted equity securities (excluding over-the-counter stocks)	¥2,260	¥416	$3,459

8. Investments in and advances to non-consolidated subsidiaries and affiliates

Investments in and advances to non-consolidated subsidiaries and affiliates at March 31, 2002 and 2003 consisted of the following:

	(%)	(%)	Millions of yen		Thousands of U.S. dollars
	March 31, 2003		March 31		March 31, 2003
	Ownership percentage	Interest percentage	2002	2003	
Affiliates					
Tavigator, Inc.	30	30	¥ 30	¥ 94	$ 780
ValuMore Corporation (*A)	40	40	40	37	311
INTAGE Interactive Inc. (*B)	49	49	—	27	226
Non-consolidated subsidiaries					
GeoCities Japan Corporation (*C)	100	100	10	—	—
broadcast.com japan k.k. (*C)	100	100	10	—	—
Dennotai Co., Ltd. (*C) (*D)	100	100	10	—	—
Y's Agencies Inc. (*C)	100	100	10	—	—
BridalConcierge Corp. (*C)	80	80	10	—	—
Total investments			¥120	¥158	$1,317

Notes:

(*A): ValuMore Corporation was formerly named YPC Co., Ltd. before May 16, 2002.

(*B): INTAGE Interactive Inc. was established at October 1, 2002.

(*C): At March 31, 2003, these entities were accounted for as consolidated subsidiaries of the Company.

(*D): Dennotai Co., Ltd. changed its name to Y's Sports Inc. at August 5, 2002.

9. Cash flow information

(1) "Cash and cash equivalents" comprise cash on hand, bank deposits withdrawable on demand and highly liquid investments with initial maturities of three months or less and a low risk of fluctuation in value.

(2) "Cash and cash equivalents" at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Cash on hand and deposits	¥7,341	¥23,216	$193,142
Cash and cash equivalents	¥7,341	¥23,216	$193,142

(3) Acquisition

As described in Note 5, the Group acquired shares of Netrust, Ltd. ("Netrust"). Upon consolidation, a net cash flow of ¥6 million ($51 thousand), representing the excess of the cash consideration of ¥120 million ($1,002 thousand) paid for the acquisition over the "Cash and cash equivalents" of ¥114 million ($951 thousand) held by Netrust as at the date of acquisition, was disclosed as "Payments for acquisitions of shares of entities newly consolidated" in the consolidated statement of cash flows for the year ended March 31, 2003.

The cash consideration of ¥120 million ($1,002 thousand) paid for the acquisition was allocated as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥114	$ 951
Non-current assets	109	904
Current liabilities	(1)	(7)
Goodwill	(13)	(107)
Minority interest	(89)	(739)
Cash consideration	120	1,002
Cash and cash equivalents acquired	114	951
Net cash flows	¥ 6	$ 51

As described in Note 5, the Company acquired shares of eGroups KK and e-Shopping! Books CORP. Upon consolidation, a net cash flow of ¥1,051 million, representing the excess of the cash consideration of ¥1,180 million paid for the acquisition over the "Cash and cash equivalents" of ¥129 million held by these two companies as at the date of acquisition, was disclosed as "Payments for acquisitions of shares of entities newly consolidated" in the consolidated statement of cash flows for the year ended March 31, 2002.

	Millions of yen
Current assets	¥ 586
Non-current assets	339
Current liabilities	(417)
Non-current liabilities	(167)
Goodwill	968
Minority interest	(109)
Cash consideration	1,200
Cash already paid in prior year	(20)
Net cash consideration	1,180
Cash and cash equivalents acquired	(129)
Net cash flows	¥1,051

10. Retirement and pension plan

As described in Note 3 (7), on July 1, 2002, the Company and its subsidiaries adopted defined contribution pension plans.

The impact of the transfer of projected benefit obligation (PBO) and pension assets under the tax qualified non-contributory defined benefit plan to the defined contribution plan at March 31, 2003 was as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in PBO	¥93	$771
Decrease in plan assets	(71)	(589)
Unrecognized actuarial losses	(1)	(5)
Reversal of accrued pension costs	¥21	$177

The total amount to be transferred to the defined contribution pension plan within three years was ¥81 million ($676 thousand), of which ¥9 million ($76 thousand) had not yet been transferred at March 31, 2003 and was included in “Other long-term payable."

(1) The funded status of the Company’s accrued pension costs at March 31, 2002 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Projected benefit obligations (PBO)	¥85	¥ —	$ —
Plan assets at fair value	70	—	—
Unfunded PBO	15	—	—
Unrecognized actuarial losses	(1)	—	—
Accrued pension costs	¥14	¥ —	$ —

(2) The composition of net pension costs for the years ended March 31, 2002 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31, 2003
	2002	2003	
Service costs	¥23	¥ 8	$ 68
Interest costs	1	1	4
Expected return on plan assets	(1)	(0)	(3)
Recognized actuarial losses	25	0	2
Contributions	50	109	910
	98	118	981
Losses on transfer of pension plans	—	1	8
Net pension costs	¥98	¥119	$989

(3) The assumptions used for the actuarial computation of the pension benefit obligations for the years ended March 31, 2002 and 2003 were as follows:

Discount rate	2.5%
Expected return on plan assets	2.2%

11. Selling, general and administrative expenses

The main components of "Selling, general and administrative expenses" for the two years ended March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31, 2003
	2002	2003	
Payroll and bonuses	¥2,715	¥4,051	$333,701
Sales commission	1,503	2,236	18,604
Depreciation and amortization	1,256	1,765	14,680
Information service charges	1,054	1,502	12,497
Communication charges	1,115	1,496	12,450
Allowance for doubtful accounts	40	253	2,105
Pension costs	98	118	981

12. Common stock and treasury stock

On March 7 and September 10, 2002, the board of directors of the Company resolved a two-for-one stock split of common stock, which was effected on May 20 and November 20, 2002 for shareholders of record at March 31, 2002 and September 30, 2002, and issued 117,531.80 and 235,529.52 shares, respectively. There was no increase in the common stock account since the new shares were distributed from the portion of previously issued shares in accordance with the Commercial Code of Japan.

In October 2001, the Commercial Code of Japan was amended to allow companies to acquire its own shares called treasury stock to the extent that the aggregate acquisition cost of the treasury stock falls within the maximum amount available for dividends. Upon resolution at the shareholders' meeting held on June 20, 2003, the Company established a maximum limit for the acquisition of treasury stock of 8,000 issued shares of common stock for a consideration not exceeding ¥10,000 million ($83,195 thousand) in total. This resolution is effective until the conclusion of the general shareholders' meeting to be held for the year ending March 31, 2004.

At March 31, 2003, the number of shares of treasury stock held by the Company was 13.28 shares.

13. Retained earnings

Under the Commercial Code of Japan, any appropriation of retained earnings for a fiscal year is made upon resolution of the shareholders at a general meeting, to be held within three months of the balance sheet date, and any approved appropriations are reflected in the accounts in the period in which the resolution is passed.

Until October 2001, under the Commercial Code of Japan, it was required that an amount equivalent to at least 10% of cash dividends and bonuses to directors be appropriated as a “Legal reserve” (included in “Retained earnings” in the consolidated financial statements) until such a reserve equaled 25% of the common stock. This reserve was not available for dividends, but could have been used to reduce a deficit or may have been transferred to the stated capital.

In October 2001, the Commercial Code of Japan was amended to allow companies to draw down that portion of the “Statutory reserve” (defined as the aggregate of “Additional paid-in capital” and the “Legal reserve”) that exceeds 25% of the common stock. The excess portion may be available for dividends subject to the approval of shareholders.

Bonuses to directors of ¥62 million ($516 thousand) in the proposed appropriation of “Retained earnings” of the Company for the year ended March 31, 2003 were approved at the general shareholders’ meeting on June 20, 2003.

The Company paid no cash dividends in accordance with its dividend policy.

14. Income taxes

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in aggregate, resulted in a statutory income tax rate in Japan of approximately 42.05% for each of the two years ended March 31, 2002 and 2003.

(1) The significant components of deferred tax assets and liabilities at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Deferred tax assets:			
Impairment charges on investment securities	¥ 257	¥ 797	$ 6,630
Enterprise tax payable	336	768	6,387
Loss carryforwards	235	575	4,787
Allowance for doubtful accounts	13	121	1,005
Amortization of long-term prepaid expenses	30	44	368
Accounts payable	20	23	191
Business office tax payable	4	6	48
Accrued retirement benefits	6	—	—
Others	0	102	848
Gross deferred tax assets	901	2,436	20,264
Less: valuation allowance	(235)	(576)	(4,789)
Total deferred tax assets	666	1,860	15,475
Deferred tax liabilities:			
Valuation gain on investment securities	(2,089)	(666)	(5,541)
Reserve for special depreciation	(74)	(58)	(479)
Total deferred tax liabilities	(2,163)	(724)	(6,020)
Net amount of deferred tax assets (liabilities)	¥(1,497)	¥1,136	$ 9,455

The valuation allowance was provided primarily against the deferred tax assets relating to future tax-deductible temporary differences and the operating tax loss carryforwards of certain consolidated subsidiaries, as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in the total valuation allowance for the year ended March 31, 2003 was an increase of ¥341 million ($2,837 thousand).

(2) The difference between the statutory income tax rate and the income tax rate reflected in the consolidated statements of income can be reconciled as follows:

	2003
Statutory income tax rate	42.05%
Reconciliation—	
Amortization of goodwill	1.34
Changes in valuation allowance	0.74
Change in statutory tax rate	0.18
Other	0.37
Income tax rate per statements of income	44.68%

Differences between the statutory income tax rate and the income tax rate for the year ended March 31, 2002 were insignificant and not presented.

The statutory income tax rate used in calculation of deferred tax assets and liabilities has been changed due to a change in Japanese tax laws. At March 31, 2002, 42.05% was used in the calculation. At March 31, 2003, deferred tax assets and liabilities expected to be realized in the following year were calculated using a 42.05% tax rate, while those expected to be realized after April 1, 2004 were calculated using a 40.69% tax rate.

The effect of this change for the year ended March 31, 2003 was a decrease in net deferred tax assets, net of deferred tax liabilities, of ¥17 million ($138 thousand), and an increase in income tax expense of ¥39 million ($324 thousand).

15. Leases

As described in Note 3 (8), the Group, as a lessee, charges periodic capital lease payments to expenses when paid. Such payments for the years ended March 31, 2002 and 2003 amounted to ¥2.1 million and ¥2.3 million ($19 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term had been capitalized, capital lease assets at March 31, 2002 and 2003 would have been as follows:

Capital lease assets	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Equivalent to acquisition cost:			
Property and equipment	¥6	¥6	$52
Less: accumulated depreciation	(2)	(4)	(33)
Net book value	¥4	¥2	$19

The depreciation and amortization expense for these leased assets for the years ended March 31, 2002 and 2003 would have been ¥1.9 million and ¥2.1 million ($17 thousand), respectively, if it had been computed using the straight-line method over the period of the leases, assuming no residual value except in cases where the residual value is guaranteed in the lease contract.

The interest expense on lease payments under these capital leases for the years ended March 31, 2002 and 2003 would have been ¥0.3 million and ¥0.2 million ($1 thousand), respectively.

The future lease payments for capital leases at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2003
	2002	2003	
Due within one year	¥2	¥2	$18
Due after one year	2	0	2
Total	¥4	¥2	$20

16. Contingent liabilities

There were no material contingent liabilities at March 31, 2003.

17. Subsequent events

On February 19, 2003, the board of directors of the Company resolved a two-for-one stock split of common stock, which was effected at May 20, 2003 for shareholders of record on March 31, 2003, and issued 471,059.04 shares. Giving effect to the stock split, net income per share for the two fiscal years ended March 31, 2002 and 2003 would be retroactively restated as follows:

	Yen		U.S. dollars
	For the years ended March 31		For the year ended March 31, 2003
	2002	2003	
Net income per share:			
Primary	¥6,221.92	¥12,784.19	$106.36
Diluted	¥6,210.44	¥12,764.61	$106.19

18. Segment information

(1) Business segment information

The Company categorizes its businesses based on the nature of business operation and the type of services provided for the purpose of disclosure of business segment information.

Prior to April 1, 2002, the Company had presented business segment information by dividing its overall businesses into four business segments; Advertising business, Yahoo! BB business, Auction business, and Other business.

In January 2002, the Company implemented a divisional business organization in order to prepare its business plan and budget by business division more effectively, to clarify responsibilities for profit and loss, and to allocate human resources, assets and funding more appropriately. In line with these purposes and in an aim to disclose revenues and expenses by each of the business divisions more clearly, effective from the fiscal year beginning April 1, 2002, the Company changed the basis for presenting its business segment information by dividing its overall businesses into seven segments, as follows:

Business	**Main service**
Yahoo! BB	Acquires customers of Yahoo! BB, provides ISP service, and offers Yahoo! Mail, etc.
Auction	Provides platform for sales of goods between individuals and for auctions by enterprises
Listing	Publishes information, mainly on the request of information providers
Shopping	Provides shopping mall with quality stores
Media	Provides useful information, both free of charge and for fees
ES (Enterprise Solutions)	Provides services to enterprises based on the technology and experience of Yahoo! JAPAN
Corporate Common business	Sells advertisements on Yahoo! JAPAN Top Page and accepts personal identification fees for services offered on Yahoo! JAPAN

The prior year segment information has been restated to conform to the 2003 presentation. Segment results were as follows:

	Millions of yen									
	For the year ended March 31, 2003									
	Business								Elimination or corporate	Consolidated
	Yahoo! BB	Auction	Listing	Shopping	Media	ES	Corporate Common	Total		
Net sales—										
External										
customers	¥22,245	¥11,081	¥7,923	¥5,033	¥3,592	¥451	¥8,770	¥59,095	¥ —	¥59,095
Inter-segment	—	—	—	2	1	0	0	3	(3)	—
Total	22,245	11,081	7,923	5,035	3,593	451	8,770	59,098	(3)	59,095
Operating expenses (a)	15,391	2,730	3,538	4,361	3,235	399	1,478	31,132	3,890	35,022
Operating income (loss)	¥ 6,854	¥ 8,351	¥4,385	¥ 674	¥ 358	¥ 52	¥7,292	¥27,966	¥(3,893)	¥24,073
Assets (b)	¥12,697	¥ 9,660	¥6,583	¥1,380	¥1,551	¥300	¥8,653	¥40,824	¥ 6,950	¥47,774
Depreciation and amortization	326	206	161	112	106	54	11	976	828	1,804
Capital expenditures	527	460	232	41	189	23	27	1,499	2,783	4,282

	Thousands of U.S. dollars									
	For the year ended March 31, 2003									
	Business								Elimination or corporate	Consolidated
	Yahoo! BB	Auction	Listing	Shopping	Media	ES	Corporate Common	Total		
Net sales—										
External										
customers	$185,068	$92,188	$65,914	$41,873	$29,884	$3,757	$72,960	$491,644	$ —	$491,644
Inter-segment	—	—	—	20	7	1	1	29	(29)	—
Total	185,068	92,188	65,914	41,893	29,891	3,758	72,961	491,673	(29)	491,644
Operating expenses (a)	128,048	22,711	29,434	36,279	26,911	3,326	12,298	259,007	32,362	291,369
Operating income (loss)	$ 57,020	$69,477	$36,480	$ 5,614	$ 2,980	$ 432	$60,663	$232,666	$(32,391)	$200,275
Assets (b)	$105,624	$80,359	$54,769	$11,488	$12,906	$2,503	$71,992	$339,641	$ 57,814	$397,455
Depreciation and amortization	2,706	1,712	1,332	939	887	453	98	8,127	6,881	15,008
Capital expenditures	4,385	3,825	1,929	341	1,569	191	229	12,469	23,152	35,621

	Millions of yen									
	For the year ended March 31, 2002									
	Business								Elimination or corporate	Consolidated
	Yahoo! BB	Auction	Listing	Shopping	Media	ES	Corporate Common	Total		
Net sales—										
External										
customers	¥14,388	¥1,684	¥6,700	¥2,258	¥2,563	¥422	¥3,482	¥31,497	¥ (0)	¥31,497
Inter-segment	—	—	—	—	—	—	—	—	—	—
Total	14,388	1,684	6,700	2,258	2,563	422	3,482	31,497	(0)	31,497
Operating expenses (a)	9,760	1,108	2,442	2,037	1,897	205	970	18,419	2,671	21,090
Operating income (loss)	¥ 4,628	¥ 576	¥4,258	¥ 221	¥ 666	¥217	¥2,512	¥13,078	¥(2,671)	¥10,407
Assets (c)	¥ 5,927	¥1,136	¥4,595	¥1,030	¥1,606	¥366	¥2,745	¥17,405	¥11,813	¥29,218
Depreciation and amortization	201	125	92	59	56	21	36	590	667	1,257
Capital expenditures	516	240	186	67	123	16	24	1,172	1,109	2,281

(a) The amount of unallocated operating expenses in the column "Elimination or corporate," which mainly represents the expenses of the human resources and accounting divisions of the Company, was ¥2,671 million and ¥3,890 million ($32,362 thousand) for the years ended March 31, 2002 and 2003, respectively.

(b) The amount of corporate assets included in the column "Elimination or corporate" at March 31, 2003 was ¥6,950 million ($57,814 thousand). Corporate assets are mainly investment securities of the Company, guaranteed deposits of the headquarters' building and common assets of the Company.

(c) The amount of corporate assets included in the column "Elimination or corporate" at March 31, 2002 was ¥11,813 million. Corporate assets are mainly investment securities and common assets of the Company.

(2) Geographic segment information

Segment information by geographic area has been omitted because all operations were performed in Japan.

(3) Sales to overseas customers

Information on sales to overseas customers has been omitted since the sales amount to overseas customers is less than 10% of total sales.