

Yahoo Japan Corporation

Results for the Three Months Ended December 31, 2002

Highlights

The Yahoo! Japan Group continued to achieve growth in sales and profits. Net sales amounted to ¥16.3 billion, up 85.6% year on year and 23% from the previous quarter. Operating income totaled ¥6.8 billion, up 128.2% year on year and 26.5% from the previous quarter.

Through business tie-ups with Overture and Google, the Group launched Sponsor Site services to diversify its advertising methods. Amid severe conditions in the Internet advertising market in Japan, the Group's advertising sales posted double-digit growth, at 13.9% from the previous quarter, as well as increasing for the fourth consecutive quarter.

Based on adding new services, such as IP telephone services, and expanding sales channels, Yahoo! BB increased the number of subscribers to 1.69 million, a rise of 67.3% from the previous quarter, for a cumulative share of 30%.

As a result, Personal Services sales (ISP fees) grew sharply, supporting a 31.7% increase in Yahoo! BB Business Division sales from the second quarter, to ¥6.2 billion.

In our Auction Business Division, transaction volume and number of unique users increased favorably, and the transaction rate remained at a high level. Daily transaction volume reached ¥1.05 billion, the number of unique users in December totaled 9.77 million browsers, and the transaction rate for the third quarter ranged from 37% to 58%.

Consequently, Auction sales expanded 24.9% from the previous quarter, to ¥3.3 billion, and operating income increased 26.3%, to ¥2.6 billion.

Note: For December 2002 data, it is possible that actual transaction amounts were lower than stated if cancellations occurred after the auction was completed.

Monthly page views topped 10 billion for the first time.

Consolidated Information

<Introduction>

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 39 million as of December 2002, with Web users accounting for approximately 32 million of this total. There has been a sharp increase in broadband users, including DSL users. According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of DSL subscribers at the end of December 2002 had risen to approximately 5.6 million, up about 3.7 times from a year ago. A think tank affiliated with a major securities firm predicts that the number of households using DSL and other broadband services will rocket to 33.93 million by the end of 2006, of which 19.94 million households will be using DSL services.

Not only does the spread of broadband service boost the value of the Internet as a media, it also has a substantial impact on people's lives. Because broadband allows people to access the Internet continuously at low, fixed rates, the number of people viewing Internet sites while watching or listening to TV, radio and other media, is on the rise. Moreover, the number of people using the Internet in conjunction with other media, such as viewing news that they missed on TV or searching information on topics that caught their eye on TV or in a magazine is increasing. People's reasons for using the Internet also have greatly diversified to include using IP telephone services and other communication tools, purchasing and booking a range of goods and services, participating in auctions, and using it for practical consumer activities, such as paying bills. Moreover, the use of wireless large area networks (LANs) is growing in popularity in homes and public areas, and the so-called ubiquitous Internet access environment is becoming a reality.

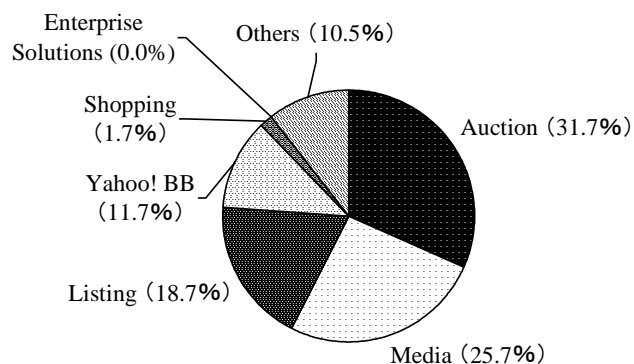
With the further spread of broadband services and emergence of a ubiquitous Internet access environment, the influence of the Internet will grow in leaps and bounds.

Amid these conditions, Yahoo Japan Corporation and its consolidated subsidiaries ("Yahoo! Japan Group" or "the Group") achieved the following results for the third quarter (October to December) of the fiscal year ending March 31, 2003.

<Page Views>

Daily page views of Yahoo! Japan topped 400 million for the first time during the third quarter, and Yahoo! Japan Group monthly page views exceeded 10 billion for the first time. Yahoo! Japan Group monthly page views for December reached 10,359 million, representing an increase of 612 million page views, or 6.3%, compared with September 2002, the last month of the previous quarter, and an increase of 4,292 million page views, or 70.8%, compared with the same month a year earlier. Looking at monthly page views of December 2002 by business division, Auction accounted for 31.7%, Media (including eGroups KK and Y's Sports, Inc.) for 25.7%, Listing (including BridalConcierge Corp.) for 18.7%, Yahoo! BB for 11.7%, Shopping (including e-Shopping! Books CORP.) for 1.7%, Enterprise Solutions for 0.0%, and Others (including top page) for 10.5%.

Page Views by Business Division



In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in December 2002, 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 87.7% of the respondents.

By multiplying the above percentage by the approximately 32 million Web users in Japan as of December 2002, we estimate that there were 28 million unique users accessing Yahoo! Japan at least once every four weeks.

Top Five Web Sites

	Domain	NAR (%)
1.	yahoo.co.jp	87.7
2.	nifty.com	69.1
3.	microsoft.com	66.0
4.	biglobe.ne.jp	64.0
5.	rakuten.co.jp	61.7

Notes: 1. Source: Nippon Research Center survey (Dec. 2-Dec. 29, 2002)

2. Net Access Rate (NAR) is the rate of access by respondents at least once every four weeks.

<Consolidated Statements of Income>

Note: As of the quarter under review, all nine subsidiaries are included in the scope of consolidation as are all three affiliated companies, which are accounted for by the equity method.

Consolidated Statements of Income (October 1 ~ December 31, 2002)

(Yen in Millions)

	Amount	% share	Comparison to the same period of the last fiscal year		Comparison to the previous quarter	
			Increase/ decrease	%	Increase/ decrease	%
Net Sales	16,326	100.0%	7,531	85.6%	3,051	23.0%
Cost of Sales	4,242	26.0%	1,423	50.5%	1,173	38.3%
Gross Profit	12,083	74.0%	6,108	102.2%	1,877	18.4%
SG&A Expenses	5,276	32.3%	2,284	76.4%	451	9.4%
Personnel Expenses	1,293	7.9%	463	55.8%	68	5.6%
Sales Commission	574	3.5%	198	52.9%	61	12.0%
Business Commissions	554	3.4%	316	132.8%	178	47.3%
Depreciation Expenses	461	2.8%	113	32.5%	66	16.9%
Communication Charges	392	2.4%	94	31.6%	55	16.6%
Sales Promotion Costs	378	2.3%	357	18.3 times	178	89.6%
Content Provider Fees	362	2.2%	91	33.6%	-81	-18.4%
Royalties	338	2.1%	170	101.6%	53	18.8%
Lease and Utility Expenses	196	1.2%	41	26.6%	1	1.0%
Advertising Costs	125	0.8%	41	49.9%	9	8.4%
Amortization of Consolidated Accounts	80	0.5%	16	26.0%	12	19.0%
Doubtful Debt Accounts	43	0.3%	43	-	-94	-68.6%
Others	474	2.9%	336	244.3%	-58	-10.9%
Operating Income	6,807	41.7%	3,823	128.2%	1,425	26.5%
Non-Operating Income (Expenses)	-24	-0.2%	2	-8.4%	105	-80.9%
Ordinary Income	6,782	41.5%	3,826	129.4%	1,531	29.2%
Extraordinary Gains (Losses)	-572	-3.5%	-349	157.3%	-283	98.4%
Income before Income Taxes	6,210	38.0%	3,476	127.1%	1,247	25.1%
Income Taxes, Inhabitants' Taxes and Enterprise Taxes	2,671	16.4%	1,455	119.7%	126	5.0%
Adjustment to Income Taxes	-	-	-	-	358	-
Minority Interests in Loss of Consolidated Subsidiaries	15	0.1%	12	486.7%	-7	-33.8%
Net Income	3,554	21.7%	2,033	133.7%	753	26.9%
EBITDA	6,680	-	3,577	115.3%	1,250	23.0%

Composition of Consolidated Net Sales by Business Division (Third Quarter)

(Yen in millions)

	Sales	Contribution (%)
Yahoo! BB	¥6,218	38.1
Auction	3,355	20.6
Listing (including BridalConcierge)	2,054	12.6
Shopping (including e-Shopping! Books)	1,377	8.4
Media (including eGroups and Y's Sports)	906	5.5
Enterprise Solutions	98	0.6
Inter-Divisional Businesses	2,316	14.2
Elimination or shared (consolidation elimination)	-1	-
Total	¥16,326	100.0

Note: The sales of Y's Agencies Inc. have been allocated among the above business divisions. GeoCities Japan Corporation and broadcast.com japan k.k. do not actually conduct any business. In addition, UniCept, Inc. and Netrust, Ltd. have only recently been established or been acquired, and did not contribute any sales during the third quarter.

Main Points Regarding Statements of Income

Net Sales

The significant jump in quarterly sales year-on-year can mainly be attributed to the sharp growth in sales of Yahoo! BB, which began operations in the first quarter of the previous fiscal year and in revenues of Auction, which started charging system-use fees in the first quarter of fiscal year 2002. Sales of consolidated subsidiaries for the third quarter of the fiscal year under review, on a gross total basis, were ¥1,098 million.

Cost of Sales

The main factors behind the growth in the cost of sales in the third quarter in comparison with the same period in the previous fiscal year were an increase in the ISP costs of Yahoo! BB in conjunction with the increase in the number of subscribers using the service.

Selling, General and Administrative Expenses

- Personnel expenses

At the end of the third quarter, after eliminating overlap, the total number of employees of the Group amounted to 627, up 185, or 41.9%, from the end of same quarter in the previous fiscal year. Growth in personnel expenses was greater than growth in the number of employees because expanded sales in the third quarter were reflected in higher compensation under the quarterly employee compensation system, which is linked to company performance.

- Sales commissions

Sales commissions increased from the same quarter in the previous fiscal year primarily because the Group further increased its emphasis on fundamentally marketing advertising through advertising agencies. In addition, there were increases in some sales commission rate, which vary according to sales volume.

- Business commissions

The main business commissions for the third quarter were ¥148 million in expenses for the settlement operations of Yahoo! Wallet, ¥111 million in expenses for temporary employees, and ¥109 million in expenses for Yahoo! BB's call center.

- Sales Promotion Costs

Sales promotion costs increased sharply from a year earlier for the quarter primarily because the Group conducted campaigns to acquire Yahoo! BB users and because of the costs of a gift campaign to commemorate exceeding 10 billion monthly page views and one million Yahoo! BB subscriber lines.

- Content provider fees

The decline in content provider fees compared with the previous quarter can be mainly attributed to start up costs for such new services as Yahoo! Phone Book, which were first kicked off in the previous quarter.

- Advertising costs

Quarterly advertising costs expanded year on year because of sales promotions targeting Yahoo! BB subscribers and publicity activities aimed at increasing Yahoo! Auctions users.

- Amortization of consolidated accounts

Amortization is being made on consolidated accounts for eGroups and e-Shopping! Books.

- Doubtful Debt Accounts

The decline in the provision to doubtful debt accounts for the third quarter compared with the previous quarter can mainly be attributed to a downward revision in the actual rate of payment default in the previous quarter.

- Others

The major components of others were insurance premiums and packaging and transport expenses.

Non-Operating Income (Expenses)

The main components of non-operating expenses were losses on sales of credits and consulting fees regarding the relocation of the head office.

Extraordinary Gains (Losses)

We recorded extraordinary losses during the third quarter as the result of the application of depletion accounting to a portion of our investment securities.

Income Taxes, etc.

The income tax rate used for the consolidated accounts is a simple compilation of the income tax rates of each of the consolidated subsidiaries. As a result, the tax rate for the period under review was 43.0%.

Minority Interests in Loss of Consolidated Subsidiaries

Minority interest losses booked during the third quarter came from eGroups, e-Shopping! Books, and Netrust.

Net Income

Net income per share for the quarter under review amounted to ¥7,546.28. The average number of shares outstanding used in the calculation of net income per share was 471,046.48 shares, excluding treasury stock.

<Consolidated Balance Sheets>

As of December 31, 2002, total assets amounted to ¥38,121 million, up ¥3,797 million or 11.1% from the previous quarter-end. Total liabilities were ¥11,045 million, rising ¥912 million or 9.0%. Total shareholders' equity also advanced, increasing ¥2,900 million or 12.0%, to ¥26,989 million. Minority interests in consolidated subsidiaries, however, declined, falling ¥15 million or 15.2%, to ¥86 million.

Consolidated Balance Sheets (As of December 31, 2002)

(Yen in Millions)

	Amount	Comparison to the previous quarter		Comments
		Increase/ decrease	% change	
Assets				
Current Assets				<ul style="list-style-type: none"> • The growth in cash was principally due to the increase in net income. • Marketable securities were down because of the redemption of notes on maturity. • The increase in accounts receivable—trade was mainly related to growth in revenues from system-use fees by Yahoo! Auctions and greater ISP fees from Yahoo! BB's operations and content fees, resulting in an expansion in credit loans. • The increase in allowance for doubtful debt was mainly be attributed to the jump in receivables, including Yahoo! Auctions system-use fees.
Cash	16,607	2,072	14.3%	
Accounts Receivable Trade	8,774	1,731	24.6%	
Marketable Securities	-	-99	-100.0%	
Inventory	6	-4	-39.5%	
Deferred Tax Assets	468	-	-	
Accounts Receivable Other	165	35	26.9%	
Other Current Assets	306	-21	-6.5%	
Allowance for Doubtful Accounts	-213	-43	25.8%	
Total Current Assets	26,116	3,669	16.3%	
Fixed Assets				<ul style="list-style-type: none"> • The increase in tangible fixed assets was principally due to the set up of a new office. • The decrease in the consolidated accounts was primarily due to the periodic amortization of these amounts. • The decline in investment securities was mainly a result of mark to market revaluation. • The increase in others from investment and others was primarily attributable to rental and construction deposits for the new office.
Tangible Fixed Assets	4,744	1,034	27.9%	
Intangible Fixed Assets				
Consolidated Accounts	564	-80	-12.5%	
Other Intangible Fixed Assets	777	23	3.1%	
Total Intangible Fixed Assets	1,342	-57	-4.1%	
Investment and Others				
Investment Securities	3,658	-1,679	-31.5%	
Others	2,268	829	57.7%	
Allowance for Doubtful Accounts	-9	0	-2.7%	
Total Investments and Others	5,917	-849	-12.6%	
Total Fixed Assets	12,004	127	1.1%	
Total Assets	38,121	3,797	11.1%	

(Yen in Millions)

	Amount	Comparison to the previous quarter		Comments
		Increase/ decrease	% change	
Liabilities				
Current Liabilities				
Accounts Payable Trade	2,458	645	35.6%	<ul style="list-style-type: none"> • The rise in accounts payable—trade was primarily due to the expansion in Yahoo! BB's ISP services. • The growth in accounts payable—other can mainly be attributed to increases in business commissions and sales promotional costs. • The increase in accrued income taxes was mainly because of the growth in net income. • The decline in long-term deferred taxes was chiefly due the mark to market of investment securities.
Accounts Payable Other	2,451	388	18.8%	
Accrued Income Taxes	4,491	240	5.7%	
Other Current Liabilities	1,255	135	12.1%	
Total Current Liabilities	10,656	1,410	15.3%	
Long-term Liabilities				
Long-term Deferred Taxes	273	-473	-63.4%	
Other Long-term Liabilities	114	-24	-17.6%	
Total Long-term Liabilities	388	-498	-56.2%	
Total Liabilities	11,045	912	9.0%	
Minority Interests in Consolidated Subsidiaries				
Minority Interests in Consolidated Subsidiaries	86	-15	-15.2%	
Shareholders' Equity				
Common Stock	6,073	-	-	<ul style="list-style-type: none"> • The increase in retained earnings resulted principally from the increase in net income. • The decrease in the other securities evaluation adjustment was mainly due to the mark to market of investment securities.
Additional Paid-in Capital	1,154	-	-	
Retained Earnings	18,737	3,554	23.4%	
Other Securities Evaluation	1,041	-653	-38.5%	
Treasury Stock	-16	-0	6.0%	
Total Shareholders' Equity	26,989	2,900	12.0%	
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	38,121	3,797	11.1%	

<Consolidated Statements of Cash Flows>

The net increase in cash and cash equivalents for the quarter under review was ¥2,072 million. The consolidated statements of cash flows follow.

The Consolidated Statements of Cash Flows

(Yen in Millions)

	Three month period ended December 31, 2002	Comments
Cash Flows from Operating Activities:	4,410	
Income before Income Taxes	6,210	<ul style="list-style-type: none"> • Although there were increases in payment of income taxes and other taxes and in accounts receivable—trade, net cash provided by operating activities increased because of income before income taxes growth. • The increase in accounts receivable—trade is mainly related to growth in revenues from system-use fees by Yahoo! Auctions and greater ISP fees from Yahoo! BB's operations and content fees, resulting in an expansion in credit loans.
Depreciation and Amortization	477	
Amortization of Consolidated Accounts	80	
Increase in Allowance for Doubtful Accounts	43	
Loss on Disposal of Fixed Assets	2	
Loss on Evaluation of Investment Securities	565	
Loss on Sale of Sales Credits	21	
Exchange Gains/Losses	-0	
Equity in Gains/Losses under the Equity Method	-13	
Proceeds from Interest and Dividend	-4	
Interest Expense	1	
Other Profit and Loss Adjustments	0	
Decrease in Inventory	4	
Increase in Accounts Receivable Trade	-1,759	
Increase in Accounts Payable Trade	645	
Increase in Accounts Receivable Other	-1	
Increase in Accounts Payable Other	352	
Increase in Consumption Tax Payable	213	
Payment of Income Taxes and Other Taxes	-2,430	
Cash Flows from Investing Activities:	-2,336	<ul style="list-style-type: none"> • Despite proceeds from the redemption of notes on maturity, expenses for construction at the new office, and rental and construction deposits resulted in a increase in cash used in investing activities.
Proceeds from Disposal of Marketable Securities	100	
Expenditures on Tangible Fixed Assets	-1,480	
Expenditures on Intangible Fixed Assets	-116	
Proceeds from Recovery of Lending	0	
Expenditures on Increases in Guarantee Deposit Assets	-844	
Proceeds from Decrease in Guarantee Deposit Assets	4	
Proceeds from Interest and Dividends	0	
Other Cash Used in Investment Activities	0	
Cash Flows from Financing Activities:	-2	
Expenditures for Acquisition of Treasury Stock	-0	
Interest Expenses	-1	
Other Cash Provided by Financing Activities	0	
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	
Net Change in Cash and Cash Equivalents	2,072	
Cash and Cash Equivalents at beginning of Term	14,535	
Cash and Cash Equivalents at end of Term	16,607	

Operating Review by Business Division

Beginning with January 2002, Yahoo! Japan has introduced a business division organizational system. The reason for changing to this type of business organization was to clarify responsibility for profits and losses and cause individual business division to do their own business planning and create their own budgets. Moreover, the system is intended to optimize the allocation of human, physical, and financial resources and speed up decisions, thus maximizing results. Business that is not related to any one business division but common to all business divisions is termed Inter-divisional Businesses.

The following is an outline of the activities of the six business divisions and Inter-divisional Business for the third quarter. For the statement of income by business division, the net sales have been classified into the following types of services.

Type of Service	Sales Content
Advertising	Sales of banner, e-mail advertising, and other advertising listed on the sales sheet as well as related sales. <ul style="list-style-type: none"> • Regular banner, text, e-mail and other advertising. • Results-based advertising, merchant margin, projected advertising production fees, and others. • Pay listing services (sponsor site)
Business Services	Sales to corporations other than advertising. <ul style="list-style-type: none"> • Tenant fees and sales commissions for B2C auction and Yahoo! Shopping. • Research, search word ranking, Business Express, account opening fees, Yahoo! Portal Solutions, and other sales. • Content provider fees for Yahoo! Employment, Yahoo! Real Estate, Yahoo! Corporate Information, and others. • Magazine and book licensing fees, fees for permission to use the Yahoo! name. • Yahoo! Cafe support funds
Personal Services	Sales from services for individuals. <ul style="list-style-type: none"> • Yahoo! BB ISP fees and content fees. • Personal identification fees for pay services including Yahoo! Auctions and Yahoo! Personals. • System-use fees for Yahoo! Auctions and others.
Others	<ul style="list-style-type: none"> • Sales of e-Shopping! Books CORP.

Net Sales by Business Division (Third Quarter)

(Yen in Millions)

	Advertising	Business Services	Personal Services	Others	Total
Yahoo! BB	124	2,178	3,915	–	6,218
Auction	182	129	3,043	–	3,355
Listing	1,635	414	3	–	2,054
Shopping	148	225	–	1,003	1,377
Media	879	23	4	–	906
Enterprise Solutions	18	79	–	–	98
Elimination or shared (consolidation elimination)	-0	-0	–	–	-1
Inter-divisional Businesses	534	–	1,782	–	2,316
Elimination or shared (consolidation elimination)	-0	-0	–	–	-1
Total	3,522	3,051	8,749	1,003	16,326

(1) Yahoo! BB Business Division

Note: Starting with the first quarter of the fiscal year ending March 31, 2003, Yahoo! BB's revenue model has changed, and the items in Sales and Cost of Sales are different from those recorded for the same quarter of the previous fiscal year. Please see page VIII of "Risk Factors" for detailed information on the revenue model change of Yahoo! BB business.

1) Major business

Yahoo! BB's business activities revolve around its comprehensive broadband service Yahoo! BB. They mainly comprise the acquisition of subscribers over the Web and the provision of ISP services, such as e-mail, homepage creation, calendar functions, photograph functions, and others.

2) Activities in the third quarter

During the quarter under review, this business division used its existing infrastructure to successively introduce new services as shown below. At the same time, it worked to attract new users by improving and expanding its existing services and carrying out various campaigns. Helped as well by improvement of added services such as IP phone and expansion of sales channels, the number of Yahoo! BB users grew to approximately 1.69 million at the end of December, an increase of about 680 thousand users or 67.3% from the end of September in the previous quarter. The cumulative DSL share was approximately 30%.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Oct. 1	<ul style="list-style-type: none"> Began offering a trial Yahoo! BB 12M + Wireless LAN Pack service that adds inside and outside wireless LAN services to Yahoo! BB and BB Phone services.
Oct. 18	<ul style="list-style-type: none"> Launched sales of SNOOPY! BB, a pay content service featuring the Snoopy comic character.
Oct. 22~Nov. 30	<ul style="list-style-type: none"> To commemorate Yahoo! BB topping 1 million subscribers, kicked off a One Million Subscriber Commemoration Introduction campaign, an improved version of the previous introduce-a-friend campaign.
Nov. 15	<ul style="list-style-type: none"> Yahoo! Photos commenced its New Year's Card printing service.
Nov. 20	<ul style="list-style-type: none"> Formed a business tie-up with ANA Mileage Club whereby subscribers can earn ANA mileage points for joining Yahoo! BB and for use of the service based on subscription fees.
Dec. 1~Jan. 31	<ul style="list-style-type: none"> Started the Yahoo! BB With You! campaign in which all people who introduce new subscribers receive a ¥3,000 gift certificate and two web cameras will be awarded to 1,000 pairs of introducer/introducee by lottery.
Dec. 5~Dec. 25	<ul style="list-style-type: none"> Held Yahoo! Japan Thank-You Festival to commemorate Yahoo! BB topping 1 million subscribers and topping 10 billion monthly page views. Began Gotta Subscribe Right Now campaign in which 100 new Yahoo! BB subscribers received a ¥10,000 gift certificate daily for 21 days.
Dec. 12	<ul style="list-style-type: none"> Commercial version of Yahoo! BB 12M + Wireless LAN Pack service gets under way. In a promotional campaign, 600 Yahoo! BB users won two tickets by lottery (1,200 tickets in all) to see a Maki Oguro Live concert. Yahoo! Mail commenced free virus check service.
Dec. 16	<ul style="list-style-type: none"> On a lottery basis, 200 Yahoo! BB users won invitations to a premier showing of PUFFY's upcoming DVD/VHS recording of live concerts entitled Rolling Debut Revue CANADA USA Tour 2002.
Dec. 25~Dec. 26	<ul style="list-style-type: none"> On a lottery basis, 1,000 Yahoo! BB users won a free online viewing of Jam Films, a hot new film scheduled to show in theaters in Japan.

Page Views

Monthly Pages Views in December	1,210.48 million page views	11.7% of total page views
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Total Subscriber Lines for Yahoo! BB Services

End of Oct. 2002	Approximately 1,208 thousand lines (including approximately 769 thousand lines marketed by Yahoo! Japan)
End of Nov. 2002	Approximately 1,461 thousand lines (including approximately 807 thousand lines marketed by Yahoo! Japan)
End of Dec. 2002	Approximately 1,691 thousand lines (including approximately 842 thousand lines marketed by Yahoo! Japan)

Note: Jumper installation completed, excluding service cancellations. Figures include subscribers who only use BB Phone services. Figures also include lines of the Metallic Communications Group.

3) Income statements for the third quarter

(Yen in Millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	124	46	59.0%	<ul style="list-style-type: none"> • Main components of Business Services sales are the customer acquisition commissions of Yahoo! BB. • Main components of Personal Services sales are the ISP fees for Yahoo! BB.
Business Services	2,178	245	12.7%	
Personal Services	3,915	1,204	44.4%	
Others	-	-	-	
Total	6,218	1,496	31.7%	
Cost of Sales	3,420	1,064	45.2%	• Main component of Cost of Sales is the cost of ISP service of Yahoo! BB.
Gross Profit	2,798	431	18.2%	<ul style="list-style-type: none"> • Main items in SG&A expenses are sales promotion, business commissions, communication, depreciation, royalty, and personnel expenses.
SG&A Expenses	993	337	51.4%	
Operating Income	1,804	94	5.5%	
Operating Margin	29.0%	-	-	

(2) Auction Business Division

1) Major Business

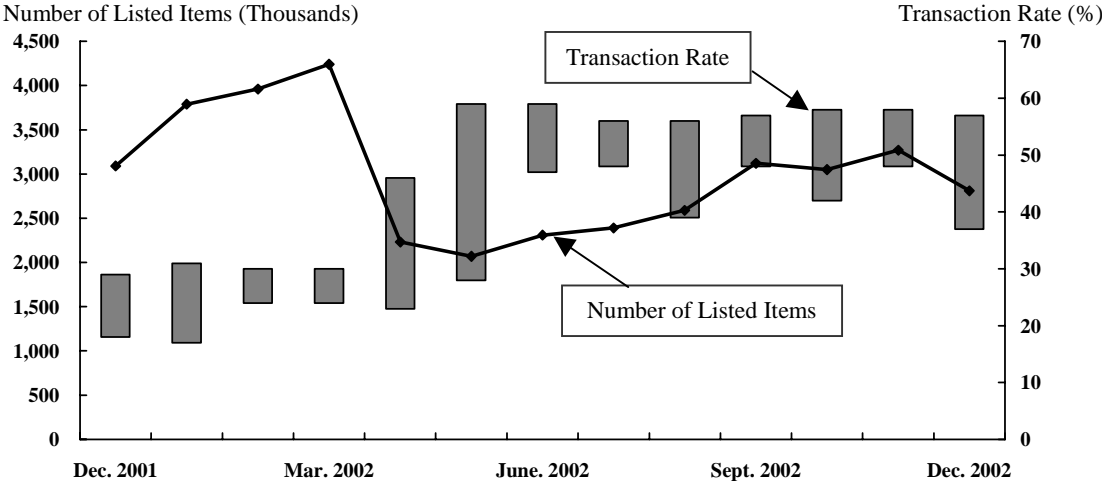
Based on its Yahoo! Auctions services, this business provides a place where individuals can buy and sell items and companies can sell their goods by auction. In addition, it supports companies which are listed as merchant stores on Premium Auctions.

2) Activities in the third quarter

During the third quarter, we continued to improve our services, offering option search functions that make even easier for users to find the items they want and a bookmark function for each auction category. To promote growth in the number of merchant stores participating on our Premium Auctions site, we added a merchant newsletter function that can send sales promotional email and a merchant booth function that allows merchants to customize the display of items. We also took steps to increase the transaction rate by introducing popular items. We began offering Ranking de Auction Fashion Item Latest Information, a service which offers practical information for participating in auctions from a women's point of view, including popular item rankings and product introductions by fashion leaders. Furthermore, as a new service, we began offering Target Search, a listing of the most popular keywords being searched for on Yahoo! Auctions.

As a result, the number of unique users of Yahoo! Auctions at the end of December totaled approximately 9.77 million browsers, an increase of about 3.4% or 320 thousand browsers from the end of September. The number of merchant stores also rose, climbing 117 stores, or 43.8%, to 384 stores. Because of the long New Year holidays, the number of items listed for auction declined by 9.9%, or approximately 310 thousand items from the end of September to about 2.81 million items at the end of December. The transaction rate during the third quarter ranged between 37% to 58%, continuing to maintain a high level.

Number of Listed Items and Transaction Rate



Note: The number of listed items and the transaction rate typically exhibit a downward trend during the summer and year-end because of holidays and other factors.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Oct. 17	• Strengthened option search functions, allowing searches for participant IDs and searches combining keywords, prices, and icons.
Nov. 1	• Launched Master of Auctions, an information service on techniques for listing and winning bids, assessing listed items, and other information.
Nov. 21	• Added Yahoo! Bookmark function, allowing favorite category page addresses to be stored.
Dec. 11	• Launched Merchant Newsletter function, allowing Premium Auctions merchants to send sales promotional email.
Dec. 12	• Through a tie-up with OZmall, a well-recognized women’s information Web site, began offering Ranking de Auction Fashion Item Latest Information.

Page Views

Monthly Pages Views in December	3,283.87 million page views	31.7% of total page views
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Yahoo! Auctions number of total listed items and transaction rate, etc.

	Oct. 2002	Nov. 2002	Dec. 2002
Number of Auction Unique Users	Approx. 10.0 million browsers	Approx. 9.74 million browsers	Approx. 9.77 million browsers
Number of Total Listed Items (As of the end of each month)	Approx. 3.05 million items	Approx. 3.27 million items	Approx. 2.81 million items
Monthly Total Number of New Listings	Approx. 8.52 million items	Approx. 8.95 million items	Approx. 8.74 million items
Monthly Volume of Transactions	Approx. ¥29.6 billion	Approx. ¥30.7 billion	Approx. ¥32.8 billion
Average Closing Price per Item	Approx. ¥6,500	Approx. ¥6,500	Approx. ¥7,000
Transaction Rate	42~58%	48~58%	37~57%
Number of Merchants	318 stores	360 stores	384 stores

Note: Monthly Volume of Transactions are figures before cancellation.

3) Income statements for the third quarter

(Yen in Millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	182	-9	-5.1%	<ul style="list-style-type: none"> • Main components of Business Services sales are registration fees, tenant fees and transaction fees of merchants. • Sales included in Personal Services are system-use fees of Yahoo! Auctions. • Main items in SG&A are personnel, communication, business commissions, royalty, and insurance expenses.
Business Services	129	53	69.2%	
Personal Services	3,043	626	25.9%	
Others	-	-	-	
Total	3,355	669	24.9%	
Cost of Sales	0	0	-	
Gross Profit	3,354	668	24.9%	
SG&A Expenses	720	119	19.9%	
Operating Income	2,634	549	26.3%	
Operating Margin	78.5%	-	-	

Note: Personal identification fee sales for Yahoo! Auctions are included in Inter-divisional Businesses sales.

(3) Listing Business Division

1) Major business

This business division provides and continues to improve directory services on Web sites and mobile services; information listing services, such as Yahoo! Employment, Yahoo! Autos, Yahoo! Computers, Yahoo! Real Estate, Yahoo! Gourmet, and others; and community services, such as Yahoo! Personals, Yahoo! Greetings, and others. Listing revenues come from fees charged to the information providers.

2) Activities in the third quarter

During the quarter under review, we strove to further upgrade our information listing services as shown below. In October, we launched Yahoo! Phone Book. This new service makes it simple to search for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan. Utilizing the regional characteristics of Japan, this new mega service aims to be a nationwide information service. Also in October, we reached an agreement with Recruit Co., Ltd., to develop a joint Internet business. It has been decided to consider a business with more comprehensive cooperation than in the past and one that

maximizes the strengths of each partner. We concluded more business agreements in November, this time with Overture and Google. Aiming to diversify our earning sources, we introduced Sponsor Site services that link Overture and Google’s pay listing services and Yahoo! Japan’s keyword search services. In December, we launched Yahoo! Japan’s first women’s content site Yahoo! Beauty. The site aims to achieve a reputation as a site that is both appealing to cosmetics and other companies and to the women they are targeting.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Oct. 1	• Launched Yahoo! Phone Book, a search service for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan.
Oct. 21	• Introduced a mobile version of Yahoo! Mail that makes it possible to receive e-mail on mobile phones.
Oct. 23	• Formed a business tie-up with Recruit for joint Internet business.
Oct. 24	• Yahoo! Mobile adds function to allow mobile phone users to access Yahoo! Part-time Job Information.
Nov. 14	• Yahoo! Mobile adds News Flash service offering free viewing of the latest breaking news. At the same time, it expands its variety of mobile phone models for Yahoo! Calendar.
Nov. 18	• Yahoo! Gourmet unveils a Year-End Party and Party Special Feature. Free Year-End Party campaign gets under way.
Nov. 27	• Business tie-ups formed with Overture and Google, resulting in the launch of Sponsor Site services that link their pay listing services.
Dec. 2	• Recruit began offering information services on the courses for adults section of Yahoo! Education.
Dec. 9	• Yahoo! Mobile added Mobile Phone Handset Information and address book functions.
Dec. 16	• Yahoo! Japan launched Yahoo! Beauty, its first women’s content site.

Page Views

Monthly Pages Views in December	1,933.33 million page views	18.7% of total page views
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Note: Includes the page views of BridalConcierge.

Business Express Orders

Oct. 2002	Nov. 2002	Dec. 2002
730 contracts	774 contracts	682 contracts

Note: The number of orders for Business Express in December declined because of year-end long holiday.

3) Income statements for the third quarter

(Yen in Millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	1,635	191	13.2%	• Main components of Business Services sales are Business Express and information listing fees for second-hand car, real estate information, recruiting information, and others.
Business Services	414	55	15.5%	
Personal Services	3	0	23.1%	
Others	-	-	-	
Total	2,054	247	13.7%	
Cost of Sales	1	-1	-50.9%	
Gross Profit	2,053	248	13.8%	
SG&A Expenses	911	1	0.2%	• Main items in SG&A are sales commission, content provider, personnel, royalty, and depreciation expenses.
Operating Income	1,141	246	27.6%	
Operating Margin	55.6%	-	-	

Note: Personal identification fees for Yahoo! Personals are included in Inter-divisional Business.

(4) Shopping Business Division

1) Major business

This business division operates a quality online shopping site, carefully choosing stores that have a wide selection of products and provide adequate customer support. It also supplies items related to travel, such as domestic and overseas accommodation and airline tickets, and information on travel preparation.

2) Activities in the third quarter

During the period under review, to promote the sales of merchant stores on Yahoo! Shopping, we implemented a variety of special features and campaigns in keeping with the year-end sales drive and company employee bonus period. We also conducted mini sales campaigns for DVD box sets, personal computers and other items, and improved the interface for search results pages. In addition, Yahoo! Travel expanded and improved its services, launching accommodation packages that suited the Christmas, Ski, and other seasonal activities, adding rent-a-car information, and improving the interface for accommodation reservations pages.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Oct. 24	• Launched Winter Bonus 2002, a special feature introducing a collection of appealing items for those spending their winter bonuses.
Oct. 30	• Launched a special feature on Oseibo (year-end gifts) introducing the best gifts for the occasion. Began an Early Bird campaign at the same time, offering special treatment for those who purchased their gifts early, such as free delivery, luxurious gifts, and other advantages.
Nov. 20	• Commenced offering shopping information on Yahoo! Japan Christmas Special Feature 2002, a feature that annually provides useful Christmas information, such as the location of illumination spots nationwide.
Dec. 10	• Began special feature on Greeting the New Year, introducing a collection of items for year-end and the new year.

Page Views

Monthly Pages Views in December	178.01 million page views	1.7% of total page views
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Note: Includes the page views of e-Shopping! Books.

Shopping Business Transaction Volume

Oct. 2002	Nov. 2002	Dec. 2002
¥2,948million	¥3,153 million	¥3,667 million

Note: The figures represent the total transaction volume of Yahoo! Shopping, Yahoo! Travel, and e-Shopping! Books.

Yahoo! Shopping Store Performance

	Third quarter	Increase/decrease in comparison to the same quarter of previous fiscal year	% Change
Number of Merchants	221 stores	45 stores	25.6%
Total Sales Commissions and Tenant Fees	¥187 million	¥91 million	94.3%
Total Turnover	¥6,636 million	¥2,854 million	75.5%
Turnover of Each Shop	¥30 million	¥8 million	39.7%

3) Income statements for the third quarter

(Yen in Millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	148	35	31.5%	<ul style="list-style-type: none"> • Main components of Business Services sales are tenant fees and sales commissions of Yahoo! Shopping and Tavigator, Inc. sales commissions. • Main component of Others is sales of e-Shopping! Books. • Main item in Cost of Sales is costs of e-Shopping! Books. • Main items in SG&A are personnel, packing and delivery, commission, and depreciation expenses.
Business Services	225	26	13.1%	
Personal Services	-	-	-	
Others	1,003	137	15.9%	
Total	1,377	199	16.9%	
Cost of Sales	778	107	16.1%	
Gross Profit	599	91	18.0%	
SG&A Expenses	404	41	11.5%	
Operating Income	195	49	34.3%	
Operating Margin	14.2%	-	-	

(5) Media Business Division

1) Major Business

Our Media business division provides users with a variety of desired content and services, thereby stimulating page views and increasing advertising sales. The business also provides fee-based content and services. Services provided include information providing services, such as Yahoo! News, Yahoo! Finance, and Yahoo! Sports; entertainment services, such as Yahoo! Movies and Yahoo! Music; community services, such as Yahoo! Message Boards, Yahoo! Chat, and Yahoo! Messenger; and mail services, such as Yahoo! Deliver and Yahoo! Alert.

2) Activities in the third quarter

During the quarter under review, we took steps to further expand the number of page views and increase advertising sales by linking the development of popular content with advertising special features. In particular, we leveraged our advanced planning and technological capabilities in music, movies, games, and sports to produce the content and advertising special features shown below. Moreover, by expanding its communication services in line with the full-fledged start of the broadband era, we worked to make its services more enjoyable and more intimate. For example, we included a moving picture function for Yahoo! Chat and added instant messenger (IM) theme functions to Yahoo! Messenger, such as SNOOPY and K-1 Grand Prix.

Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! Sports	Oct. 1	• Launched Samurai, Japanese Players Starring Worldwide, a special feature on Japanese sports players active around the world.
	Oct. 25	• Started offering fee-based Premier League Photo News, a picture news service for Premier League soccer games.
	Nov. 22	• Commenced Ski & Snow 2002-2003, the annual special feature offering ski slope information throughout Japan.
Yahoo! Music	Dec. 2	• Launched Yahoo! Music PUFFY Special Feature, created jointly with PUFFY, a popular music group.
Yahoo! Finance	Dec. 19	• Started a trial service of bank account management that allows users to manage accounts at multiple financial institutions with Yahoo! Japan ID number.
Yahoo! Fortune Telling	Dec. 27	• Added first fee-based fortune telling services (25 types).

Page Views

Monthly Pages Views in December	2,667.86 million page views	25.7% of total page views
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Note: Includes the page views of eGroups and Y's Sports.

3) Income statements for the third quarter

(Yen in millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	879	185	26.8%	<ul style="list-style-type: none"> • Main component of Business Services sales is information listing fees for Yahoo! Game. • Main component of Personal Services is sales of fee-based content.
Business Services	23	7	51.0%	
Personal Services	4	0	17.2%	
Others	-	-	-	
Total	906	194	27.2%	
Cost of Sales	7	5	219.2%	<ul style="list-style-type: none"> • Main items in SG&A are personnel, sales commissions, content provider, amortization of consolidation accounts, communication, and business commissions expenses.
Gross Profit	899	188	26.6%	
SG&A Expenses	783	25	3.3%	
Operating Income	115	-	-	
Operating Margin	12.7%	-	-	

(6) Enterprise Solutions Business Division

1) Major business

This business division utilizes the know-how and technology developed by the Yahoo! Japan Group to offer business solutions to companies. Specifically, it provides such services as portal site development support, Web design consulting, NetRoadshow (online presentation), and Research Monitor, an Internet survey service.

2) Activities in the third quarter

During the period under review, we continued to aggressively market our navigation portal development support services for corporations that create the optimum portal for each of the employees. As a result, we received our first orders from major companies including Panasonic Mobile Communications Co., Ltd. (formerly Matsushita Communication Industrial Co., Ltd.). On December 10, we formed an business alliance with Sun Microsystems, Inc., which has particular strengthen in the local government market, resulting in its corporate portal creation software, Sun ONE Portal Server 6.0, becoming a built-in feature of Yahoo! Portal Solutions. This new capability will allow us to utilize a much wider range of products in our solutions for clients.

In Yahoo! Research, we progressed with preparations kick off the operations of INTAGE Interactive Inc. Established in October 2002 as a joint venture with INTAGE Inc., the company aims to become the No.1 in the Internet research business.

Page Views

Monthly Pages Views in December	0.43 million page views	0.004% of total page views
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3) Income statements for the third quarter

(Yen in millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				
Advertising	18	11	172.3%	• Main components of Business Services sales are sales of Portal Solutions, Research Monitor, and NetRoadshow.
Business Services	79	19	32.9%	
Personal Services	-	-	-	
Others	-	-	-	
Total	98	31	47.2%	
Cost of Sales	21	14	210.8%	• Primary components of Cost of Sales are costs for Portal Solutions
Gross Profit	76	16	28.3%	
SG&A Expenses	69	12	22.5%	• Main items in SG&A are personnel, business commissions, and communication expenses.
Operating Income	7	4	130.3%	
Operating Margin	7.6%	-	-	

(7) Inter-Divisional Businesses and Headquarters

Revenues and expenses related to advertisements on the top page of Yahoo! JAPAN and personal identification fees for the array of services offered on Yahoo! JAPAN are not allocated to the sales or expenses of business divisions, but considered sales and expenses of the Inter-Divisional Businesses that develop our corporate brand. These and sales and expenses from Headquarters are combined in Inter-Divisional Businesses.

Number of paying users for personal identification

Oct. 2002	Nov. 2002	Dec. 2002
2.14 million	2.24 million	2.34 million

Note: Total number of registered users for Yahoo! Auctions and Yahoo! Personals.

Income statement for the third quarter

(Yen in millions)

	Third quarter	Comparison to the previous quarter		Comments
		Increase/decrease	% change	
Net Sales				(Net Sales)
Advertising	533	-30	-5.3%	• Main components of Inter-Divisional Businesses sales are advertising sales on top pages, etc. and personal identification fees. • Consolidated elimination figures are removed as sales of Headquarters.
Business Services	-0	-0	-	
Personal Services	1,782	242	15.8%	
Others	-	0	-	
Total	2,315	212	10.1%	
Cost of Sales	13	-17	-57.3%	(SG&A)
Gross Profit	2,302	230	11.1%	• Main components of Inter-Divisional Businesses SG&A are sales commissions, personnel, business commission, and royalty expenses
SG&A Expenses	1,392	-86	-5.9%	• Main items in Headquarters SG&A are personnel and depreciation expenses and license fees.
Operating Income	909	317	53.6%	
Operating Margin	39.3%	-	-	

(Advertising Business)

The following is an outline of our advertising business based on combining the advertising sales of each business division.

Activities in the third quarter

During the period under review, amid further deterioration in the economy, the advertising market continued to face difficult conditions. With advertising expenditures falling overall, the Group also struggled as advertisers became increasingly cautious about Internet advertising. Despite these conditions, the Yahoo! Japan Group strengthened its cooperative sales organization with advertising agencies, targeting advertising from National Clients by aggressively marketing Yahoo! Pilot Seat, Yahoo! Billboard, and other broad reach products with a high reach to these clients. We also worked to win a continued flow of advertising from National Clients, which place strong emphasis on proof of the effectiveness of promotions, by repeated research to measure the effectiveness of their advertising. Moreover, we aggressively sold more sophisticated planning services for advertising content, creating advertising copy that met our client's needs.

During the third quarter, along with the rapid progress in the spread of broadband services, companies began to allocate budgets for Internet advertising as a supplement to television advertising. Television commercials are now been shown over the Internet and companies are beginning to show short edition movies that include their products in a casual manner on the Internet as part of their new product promotional campaigns.

Based on our sales efforts, quarterly advertising business sales increased compared with the previous quarter for the fourth consecutive period. Third quarter results for advertising business sales and number of advertisers, advertisements and advertising agencies were as follows.

(Third Quarter)

	Amount	Comparison to the same period of the last fiscal year		Comparison to the previous quarter	
		Increase/decrease	% Change	Increase/decrease	% Change
Advertising business sales	¥3,526 million	791	28.9%	435	14.1%
Number of monthly advertisers	931	88	10%	21	2%
(Number of monthly new advertisers)	62	-3	-5%	5	9%
Number of monthly advertisements	3,128	318	11%	111	4%
Number of monthly advertising agencies	230	-9	-4%	-	-

Notes:

1. The above figures are on a non-consolidated basis.
2. The figures for number of monthly advertisers, number of monthly advertisements, and number of advertising agencies are averages for the quarter. They exclude figures for Sponsor Sites (Overture, Google), and others.
3. At the end of Dec. 2002, there were approximately 4,200 companies that have advertised on Yahoo! Japan.
4. Among advertisers, companies that have received more than 50% of their effective investment from SOFTBANK CORP. accounted for less than 2% of advertising business sales, and Yahoo! Inc. purchased no advertising.
5. Advertising business sales on consolidated basis are as follows. (Yen in millions)

Oct.-Dec. 2001	Jan.-Mar. 2002	Apr.-June 2002	July-Sept. 2002	Oct.-Dec. 2002
2,741	2,840	2,937	3,091	3,522

Advertising Products

During the third quarter, sales of broad reach products with high reach efficiency, such as Pilot Seat and Yahoo! Billboard continued to be robust. In particular, Pilot Seat again registered record sales on a quarterly basis and the number of advertisements and sales volume of Yahoo! Billboard, which is targeted at National Clients, reached record highs. Sales of large advertising space products such as West Modules, which are placed on the top pages of each property and category, Super Banners, Monster, and Product Shot, also performed well. Moreover, sales of text-only advertising on specified pages were favorable.

One of the special features of the third quarter was that so-called broadband advertising began to be shown on the Internet such as short edition movies as part of promotion campaigns for new products of electronic maps, fuel additives for automobiles, and others. Other special features included the growth in the number of large-scale sales promotions for such products as Sony Corporation's Clie and Nissan Motor Co., Ltd.'s March that made coordinated use of a variety of Yahoo! Japan's services and content as well as sales promotions based only on the Internet, such as a campaign by a major cosmetics company to sell its new products through convenience stores.

For the third quarter, rates for high-volume "Branding-Type Banner" ads ranged from ¥0.25 to ¥1.12 per page view, rates for "Targeting-Type Banner" ads varied from ¥1.25 to ¥20 per page view, and rates for the large-sized Super Banners varied from ¥1.25 to ¥8 per page view. Rates for the group-specific e-mail advertising Yahoo! Deliver were ¥10 to ¥24 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥4 million to ¥8.4 million, depending on the number of browsers to be reached and the length of the advertising period.

Reference

1. Environmental Protection Activities

As a company in the service industry, we do not have any operations that produce industrial waste. However, we take environmental protection very seriously, and are contributing in terms of conserving natural resources. To reduce the burden on the environment, we are undertaking the following recycling activities for natural resources. We intend to remain actively involved in tackling the issue of environmental protection.

- Eco Mark (envelopes, paper shopping bags, etc.)
- Recycling resources (use of Mamoru-kun, distribution of eco paper plates to Eco League participating universities for campus festivals)

2. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate the fund raised. Among our charity auctions in the third quarter, we auctioned a baseball bat and glove signed by Hideki Matsui and the custom GYRO scooter Himawari No. 1, seen on Masaharu Fukuyama's television program. In total, we held 219 charity auctions, raising a total of approximately ¥17 million. All of the funds raised for such charities are being donated to a fund for high-school baseball team that have not yet won a game in the national tournament in the two years since that start of the 21st century and to NGOs, Act Against AIDS (AAA), which carry out AIDS awareness and overseas aid programs, and other organizations.

3. Personal Privacy Protection Trustmark TRUSTe

On April 3, 2002, Yahoo! Japan obtained the right to use the trustmark of the non-profit privacy protection licensing institution TRUSTe, having passed its standards for becoming a licensee of the TRUSTe privacy program.

The Yahoo! Japan Group intends to give the protection of the privacy of its users top priority in operating its various services and adding new ones in order that users may enjoy the convenience of its service in full confidence.

(Appendix)

Risk Factors

Yahoo! Japan, its consolidated subsidiaries and affiliated companies (hereinafter referred to as "the Group"), has reported its results for the third quarter ended December 31, 2002 in the document "Results for the Three Months Ended December 31, 2002." However, a number of potential factors could substantially impact future performance.

Major factors contributing to business risk for the Group are discussed below. The Group proactively discloses those items it deems necessary that investors consider in their investment decisions, including external factors beyond the control of the Group and business risks with a low probability of materializing. Cognizant of the potential risks, the Group makes every effort to prevent these risks from materializing and will respond rapidly should problems arise. Management recommends that shareholders and other investors consider the issues below before assessing the position of the Group and its future performance. However, it should be noted that the risks listed below do not represent complete coverage of risks that should be considered before investing in Yahoo! Japan shares.

1. Operations

(1) Yahoo! BB business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, Internet connection (ISP) services, a broadband portal site and content-provision services, and other services. Yahoo! Japan's role in this joint business includes promoting the service and signing up users, providing customer service, operating a broadband portal site, and providing a fee-collection platform. SBB's responsibilities lie in supplying and maintaining an ADSL infrastructure and connections to the Internet, technological development, and providing technical support.

1) Subscriber Signup Promotion Business and Incentive Commission

Beginning with the fiscal year ending March 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving incentive commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to signups through consumer electronics outlets and other stores as well as the Internet route, and because it has become necessary to actively develop subscriptions from corporations as a result of the startup of BB Phone service, a broadband telephone service offered by Yahoo! Japan, SBB and other companies in the Softbank Group starting in April 2002.

The Group strives to attract greater numbers of subscribers through promotion efforts using various campaigns and price competitiveness supported by brand strength. If the Group fails to gather the anticipated number of new subscribers, it may prevent the Group from making anticipated sales or require that it bear much higher costs than expected, with subsequent significant impact on earnings.

In addition, if subscribers sign up only to cancel their subscriptions within a short period, there is the possibility that the Group will have to return commissions to SBB, and this could negatively impact Group performance.

Since the Group has stopped selling the Yahoo! BB Starter Kit, it is assumed that, in principle, the Group will be able to avoid the risk associated with sales of the kits. However,

the Company will continue to bear the liability risk associated with starter kits it has sold in the past.

2) ADSL Infrastructure and Internet access service

The Group has begun offering versions of some of its regular services, such as e-mail and Web page-creation services, as special services to Yahoo! BB service subscribers, and it is possible that the development and operating costs of these services could exceed original estimates.

It is possible that the work contributed by SBB could indirectly but significantly influence Group performance. Specifically, there is risk of extended construction periods and related delays in offering services to users who have signed up for them, resulting in delayed accounting of sales as well as lost sales opportunities due to cancellations. Other risks are failure to build infrastructure and problems with service quality, leading to subscriber cancellations, damage to the Yahoo! Japan brand image, and subsequent negative effect on the Group's business. In addition, service delays and technical upgrade problems could result in demand for compensation from subscribers. The Group works closely with SBB, making efforts to reduce the risk involved with its direct interface with users in particular such as its homepages and other areas, but these efforts do not eliminate all risk regarding the relationship with SBB.

It is SBB's responsibility to build infrastructure for the services. The Group therefore does not bear the risk of equipment investment, construction or obsolescence of facilities due to technological progress.

3) Broadband Portal Service

The Group offers and plans to offer subscribers broadband content, such as films and music, in cooperation with companies offering various high-quality content. It is possible, however, that expected sales will not be made due to insufficient assemblage of content or content costing far more than expected. This may impact sales and profit.

The Group acts as the platform for consigned billing and settlements for said pay content-provision and access services to affect collections. For that reason, the Group intends to improve operating efficiency by hiring specialists and technically skilled staff and undertaking business cooperation with other companies with a proven record in the business. There is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems related to consigned billings and settlements could result in demand for compensation from subscribers.

4) The Competitive Environment

As of December 31, 2002, the major providers in Japan of services similar to those the Group is to offer were as follows (in no particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
@nifty	Nifty Corp.	ISP business and comprehensive information site
So-net	Sony Communication Network Corp.	ISP business and comprehensive information site
BIGLOBE	NEC Corp.	ISP business and comprehensive information site
OCN	NTT Communications Corp.	Long-distance telecommunication business and ISP business
NTT	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
Usen	Usen Corp.	Broadcasting and optical IP communications business
ITSCOM	its Communications Inc.	Cable television and Internet business
J-com	Jupiter Telecommunications Co., Ltd.	Cable television and Internet business

With competition from these service providers expected to grow, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition to cutting access revenues, competition could increase advertising costs, which would have a negative effect on the Group's operating results. As a result, in the worst case, the Group and SBB could no longer afford to continue providing services and would be forced to withdraw from the business. In this way competition could have significant impact on the Group's business.

5) Dependence on a Certain Distributor

In Yahoo! BB business, Group revenues shows a high level of dependence on SBB for sale in terms of sales composition of the business among other Group revenues. This can be attributed to Yahoo! BB's operations still being in the start up phase and to the related high volume of incentive revenues made from gathering new subscribers.

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

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

(2) Auction Business

1) Switching to Fee-Based Services

As of May 2001 the Group began charging fees for services, mainly for personal identification and damage compensation. More services are being switched to a fee basis. In April 2002 the Group introduced system-use fees for listing items on Yahoo! Auctions and for canceling items after they have been bid. Starting in May 2002, system-use fees for selling

items are being introduced. Because of these fees, the number of listed items temporarily fell to nearly half that of the previous peak, but is now recovering. On the other hand, the rate of successful bids almost doubled. The Group intends to introduce a variety of new services and campaigns to counteract the decline in competitiveness, however, there is no guarantee that the number of listed items will return back to the initial, pre-fee level, or that the successful bid rate will be maintained.

There is a possibility that these new fees will result in a decline in the numbers of users and page views, just like the decline in items listed, resulting in the Group becoming unable to continue the fee-based services or, in the worst case, becoming unable to continue the entire auction service.

2) Damage Compensation

Yahoo! Japan delegates all responsibility to the user and accepts no responsibility for Yahoo! Auctions, making no guarantees as to the selection, display or bidding of goods or services offered, or the formation or honoring of contracts agreed to while using this service. However, the possibility exists that users of these services or other related parties may take legal action against the Company for claims or compensation related to the content of its services.

3) Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. In November 2002, the 155th Diet Session approved a proposal to reform the law regarding the sale of used goods to prevent crimes abusing Internet auctions. In addition to imposing a registering system on Internet auction operators, the reformed law requires operators to make efforts to confirm the identity of participants and maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reform law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, we do not expect that the reformed law will have a significant impact on our auction business. Nevertheless, if a law regulating actual auction transactions on the Internet was to be adopted in the future, depending on its content when passed, it could influence the Group's auction business.

The Group has taken multiple measures to provide information on illegal acts, improve its services, and reduce risks. In September 2000 the Group began an escrow service (see note below) for its online auctions and in May 2001, the Group introduced a fee-based personal identification system. In addition, the Group has set up a pilot team to remove illegal items from auctions, and cooperated with law enforcement agencies and copyright related groups. Despite these measures taken by the Group, we cannot say for certain that illegal actions will not occur in the future. Therefore, we cannot rule out the possibility of legal action being taken against Yahoo! Japan for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading our capabilities to allow proper management could lead to increased costs and subsequent negative impact on earnings.

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

Note: The escrow service consists of a company acting as a intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and payment. Because this service is provided by third parties and not Yahoo! Japan, the service varies

according to the company used. However, in general, the escrow company receives payment from the purchaser and transfers it to the seller upon confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that items will not be delivered or payments not made.

4) The Competitive Environment

As of December 31, 2002 the major providers of Japanese-language online mall and auction business directed to Japanese Internet users were as follows (in no particular order):

SITE	PROVIDER	BUSINESS DESCRIPTION
Rakuten Ichiba	Rakuten Inc.	Online mall and auction site
Bidders	DeNA Co.	Online auction site

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

(3) Risks Affecting Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those above. Therefore, we have chosen the advertising areas that we think most important and will explain the associated risks. For risks that could affect other businesses, we will explain in section 5, "Other Overall Business Risks."

1) Use of the Internet as an Advertising Medium

The Internet advertising business in Japan emerged almost simultaneously with establishment of the Group, and is therefore still in its infancy. As its history is still short, its value as an advertising medium has not been established among advertisers, consumers and advertising agencies. Up to this point, with limited experience in Internet advertising, most advertisers still consider it a trial medium, and many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering the Group's major advertisers by industry, national clients that usually advertise more than other companies and on a national basis, such as food products, cosmetics, toiletries, beverages, drugs and health-care goods, do not spend as much on Internet advertising as they do on other media. If this condition continues, it may be difficult for the Group to achieve a stable flow of advertising revenue.

To increase the understanding and appreciation of Internet advertising among advertisers and advertising agencies, the Group taking steps to educate them by regularly holding seminars and other methods. At the same time, as elaborated on later in this document, in order to reduce the previously stated risks, we are expanding and firming up our advertiser base by changing our advertising sales structure and building a close, cooperative relationship with advertising agencies.

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

television.

2) Characteristics of Internet Advertising

The advertising business is highly susceptible to trends in the overall economy. During downward cycles advertising expenditures are among the first expenses to be reduced by companies. Moreover, Internet advertising has a short history, and changes in more developed markets, such as the United States, could affect the Japanese market.

Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand among advertisers tend to be seasonal. These factors produce underlying short-term fluctuations in the Group's advertising revenue. Further, as the Group's cost structure includes a high proportion of fixed costs, such as personnel and leasing expenses, expenditures cannot easily be adjusted according to revenues, contributing to underlying volatility in the Group's earnings stream.

In addition, although advertising contract periods and page views ('hits') are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or devise some other type of compensation that could negatively impact advertising revenues.

3) Dependence on Business Contracts with Certain Advertising Agencies, and Large-Scale Business Contracts with Certain Advertisers

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

The Group has entered into advertising contracts with certain advertisers or advertising agencies whereby the parties concerned have agreed to advertising with annual payments in the ¥100 million range. Sales revenue from these advertisers accounts for a comparatively large portion of the Group's net sales. To maintain contracts with these advertisers, the Group follows up advertising with evaluations of their effectiveness and keeps up a high level of marketing activities, including proposing new types of advertising. Nevertheless, the Group cannot rule out the possibility that these contracts could be broken for various reasons. Consequently the outcome of these contracts could affect the Group's business results.

4) Advertising Sales Structure

In the future the Group will need to increase its sales force and strengthen its sales-management system to suit market expansion. However, these measures alone will not be sufficient to guarantee increased advertising revenues.

Based on changes made in 2001 to the advertising sales structure to strengthen its capability to attract major advertising clients, the Group expects that sales by advertising agencies and the proportion of those sales within overall sales will rise. However, it is possible that, depending on the distribution and amount of advertising, commissions to these advertising agencies will rise significantly, resulting in a decline in overall sales.

5) The Competitive Environment

As of December 31, 2002, the major providers of Japanese-language Internet navigational services or similar services directed to Japanese Internet users, earning advertising income through comprehensive information sites for those services, were as follows (in no particular order): (These companies are considered largely in competition with Group services in the listings and media businesses.)

SITE	PROVIDER	BUSINESS DESCRIPTION
goo	NTT X	Comprehensive information site
Lycos	Lycos Japan Inc.	Comprehensive information site
MSN	Microsoft Corp.	Comprehensive information site
Infoseek	Infoseek Japan K.K.	Comprehensive information site
excite	excite Japan Co., Ltd.	Comprehensive information site
ISIZE	Recruit Co., Ltd.	Comprehensive information site

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

2. Relationship with Softbank Group

(1) Positioning within the Softbank Group

As of December 31, 2002, Softbank Corporation was the parent company of Yahoo! Japan, holding 50.4% of the Company's shares. As a holding company, Softbank Corporation has a variety of affiliated companies operating under its umbrella that are active in a range of fields and regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, e-commerce, e-finance, media and marketing services and an overseas fund investment service. Yahoo! Japan and its subsidiaries belong to the Internet Culture Segment of Softbank Group.

(2) Alliance contracts and other arrangements with SBB

The Company has signed the following contracts with Softbank Corp. affiliate SOFTBANK BB Corp. (SBB) concerning Yahoo! BB business. Yahoo! BB business accounted for 38.1% of Group sales for the third quarter of fiscal 2002. We therefore consider the following contracts especially important to Group operations.

Contract name: Business alliance contract
Contract date: June 20, 2001
Term: Indefinite from June 20, 2001
Contractor: SBB
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities
* Promoting Yahoo! BB services
* Recruiting users of Yahoo! BB services
* Operating the Yahoo! BB portal site
* Providing mail and Website services
* Providing a fee-collection platform
3) SBB's main responsibilities
* Providing ADSL service between users and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks
* Handling user inquiries and providing technical support
Use charges are ¥990 per month for ADSL and ¥1,290 per month for ISP. From the ISP charge the Company takes ¥200 in exchange for service.

Contract name: Agreement on incentives
Contract date: April 1, 2002
Term: One year from April 1, 2002
Contractor: SBB
Main content: 1) The Company makes effort to obtain users of 1 million lines during the contract period. 2) Incentive fees * Lump-sum incentive fees (80% at application, remainder after six months) BB Phone services: approximately ¥7,000 per application Yahoo! BB services: approximately ¥11,000 per application * Bonus Incentive fees In addition to the lump-sum fees above, a bonus incentive is awarded per 100 thousand line applications (cumulative total) * Continual incentive fees BB Phone services: approximately ¥100 per month per continuing user Yahoo! BB services: approximately ¥150 per month per continued user

(3) Joint Directorships

As of December 31, 2002, two of the four directors of Yahoo! Japan also held directorships on the board of the parent company, Softbank Corporation, as follows:

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

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

Yahoo! Japan President and CEO Masahiro Inoue has been a part-time director of Softbank Corporation since June 2001. In addition, he sits on the boards of 12 other companies in the Softbank Group (excluding subsidiaries and affiliates of Yahoo! Japan) as a part-time director. Mr. Inoue has been engaged to sit on these boards to offer advice on the strategic direction of their businesses, not to be involved in the business activities of these companies. Consequently, the influence of his other directorships on the business activities of Yahoo! Japan is limited.

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

3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

Yahoo! Japan's operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.6% of voting shares as of end of December 2002. The Yahoo! trademark, software and tools (hereinafter referred to as "the trademark") used in the operation of the Group's Internet directory-search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License Name: Yahoo! Japan Licensing Agreement
Contract date: April 1, 1996
Contract term: From April 1, 1996, termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following 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 shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
(Continued:) Contracted Party: Yahoo! Inc.
Main Conditions: 1. Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory-search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! directory-search services") * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of Yahoo! directory-search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. (see Note) Note: 3% of gross profit after deducting sales commissions, paid quarterly

(2) The Yahoo! Brand and Cooperation Overseas

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

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

agreements are valid. Although Yahoo! Inc. is making effort around the world to protect trademarks that are core to its brand rights through applications, registrations and presence, there is the possibility that the Group has not registered trademarks necessary to its business in Japan.

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

(3) Other Joint Directorships

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

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since its emergence as a recognizable force in 1995. As the Group is dependent on the Internet both indirectly and directly, the most basic requirements for its operations are the continued expansion of communication and commercial activity via the Internet and a stable and secure environment for Internet users.

However, a number of factors contribute to uncertainty in the outlook for Internet usage, including the availability of necessary infrastructure, such as reliable backbones and high-speed modem capabilities; the need for development and application of technological standards and new protocols for responding to growing Internet traffic and increasingly advanced applications; and the possibility of new regulation or charges related to Internet use.

(2) Dependence on the Environment for Internet Connection

As the entire catalog of Group services is dependent on the Internet, business operations require a stable environment for Internet connection, which includes the operations of the Group's own servers and equipment as well as telecommunications equipment owned and operated by third parties.

If for any reason the connecting environment should deteriorate and prevent users from easily using the Internet, usage could decline, reducing site traffic and negatively impacting advertising revenue.

Operations are vulnerable to impact from such phenomena as fires, power outages and damage to telephone lines. The Group's main network infrastructure is concentrated in Tokyo, an area particularly susceptible to earthquakes, and the Group does not presently have multiple site capacity to offset any of these events.

Despite the implementation of network security measures, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. Any of these events could incur serious negative impact on the Group's business, operating results and financial condition.

5. Other Overall Business Risks

(1) Increased Risk from Diversification and New Business

The Group plans to further diversify and enter new businesses to strengthen its operating base. To realize this goal, it is possible that the Group will have to incur additional expenses to employ new staff, expand and upgrade its facilities, and carry out research and development.

Moreover, it is anticipated that some time will be needed for these businesses to begin contributing stable revenues. Consequently, the Group's profitability may decline temporarily.

In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover its investment expenses, and that this will significantly impact performance.

(2) Keeping Up with Technology

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. The Group's services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

Responding to these conditions and sustaining a strong competitive position requires close cooperation with Yahoo! Inc., which operates almost identical services in the United States. With this, the Group is constantly developing new technology to improve its services. Failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including a rising level of expenditures for localizing operation of the services.

The Group's small-scale capabilities in research and development could also impede competitiveness due to such factors as more time needed for development. Either of these contingencies could severely impact operating results.

Although the Group has responded to this increase by adapting its services for use with mobile terminals, we can provide no guarantee that our services will achieve ratings in this medium on a par with their use with personal computers. User share could fall as a result, and that could compress the Group's sales and profit in favor of larger expenditures for development and other uses.

(3) Dependence on Third Parties

Although the Group works continuously to build the value it supplies its users by providing such information services as up-to-the-minute news, weather and stock quotes, the Group purchases this content from third parties on contract. Failure to consistently provide high-quality content that appeals to users could lower traffic and subsequently impact advertising revenue.

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

Moreover, among the services offered by the Group, there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party's system.

These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the related sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise that obstructed operation or that some other event could cause the system of a third party to which the Group's service is linked could be stopped. Such events could lead to the loss of sales opportunities and reduce the competitiveness of the Group's system, negatively impacting the Group's performance or in the worst-case resulting in the termination of the service.

The Group not only relies on the previously mentioned Internet providers, but many of its services rely on third parties that the Group has consigned operations to or receives information or support from.

It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in negative impact on performance.

To prevent our customers from misunderstanding or being confused about the scope of services provided by third parties through an agreement with the Group and those provided by the Group itself, we take measures to ensure their understanding and agreement through user rules or clauses posted on the Group's sites. Despite these efforts, there is the possibility that these measures will fail and customers will demand compensation for damages from the Group that actually are the responsibility of the third party. This could result in additional costs to the Group or hurt its brand image, impacting negatively on performance.

(4) User Information

In July 1998 the Group added a service enabling users to customize Yahoo! Japan categories to match their individual tastes and personalize a variety of information sources by inputting individual information. In addition, with acquisition of GeoCities on March 2000, the Group began services providing space for registered users to create their own Websites free of charge.

Yahoo! Japan uses this information internally to better match advertisements to appropriate users. This information is not disclosed to advertisers or other outside parties.

As a result of personal identification for Yahoo! Auctions, the start of the Yahoo! BB service, recruiting of Yahoo! Research collaborators and the aggressive efforts to develop e-commerce through subsidiaries and affiliates, the Group now owns much more detailed personal information than ever to help identify individual users.

Although the Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service, it also deals with information access rights within the Group with extreme care by assigning specific persons to control it.

Nevertheless, the Group cannot completely eliminate the possibility that this information will be obtained and abused by third parties. As a result, we could be involved in legal disputes.

(5) Collection of Sales Credit Claims

In sales of advertising and other products, the Group carefully examines the credit standings of sellers, following a set of internal rules. It also undertakes sufficient precautions so the collection of sales credit claims will not be delayed in cases of credit-card settlements via sales agents. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the occurrence of defaults. With the expansion of business, the Group expects a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing

personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

(6) The Risks of Doing Business with A Large Pool of Unspecified Customers

Along with the expansion of our Yahoo! BB services and Yahoo! Auctions operation and the ramping up of our e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's business that comprises direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to be responsible for strengthening management of this pool of customers as well as taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that compared with our previous focus on corporate customers, the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables, amount of uncollected receivables, credit card settlement problems and receivable collection costs.

It is also possible that nature and quantity of enquiries from customers may expand. Previously, most enquiries were related to usage of our services, but may now shift to enquiries about payment, the return or exchange of services and goods and the matters that related to commissioned third parties, such as distribution or settlement. In order to properly respond to enquiries from these customers, we are in the process of increasing staff, strengthening and expanding our management organization and improving efficiency by standardizing businesses and computerizing them. It is possible that the costs of these measures and improvements could negatively affect the Group's profits. In addition, it does not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting our brand image and other factors, such a result could negatively impact on Group performance.

(7) Continued Support from Senior Management, etc.

The Group depends on continued support from senior management and key technical personnel. These include the President, Directors and other representatives of various departments serving on the Management Committee who possess specialized knowledge and technological expertise concerning the Group and its business. Consequently, if key personnel were to leave and the Group fails to replace them, that would negatively influence the continuation and development of the business.

In addition, some senior managers participate in one of the Company's personnel incentive measures, the stock option plan. Depending on the fortunes of the stock market, it is possible that these stock options may not motivate the participants in the plan, and indeed may reduce motivation and cause them to leave the Company.

(8) Internal Control System and Human Resources

In addition to the enhancement of personnel and organization for greater advertising sales and technology development, the Group must increase staff to support the large number of new Websites created by the recent surge in Internet use, to carry out operation and management of its community services and shopping services, and to control billing and offer user support concerning fee-based services related to Yahoo! BB.

Failure on the part of the organization or staff to respond adequately to these expanded administrative duties could undermine competitiveness, create problems with users and tenants, and affect the efficiency of operations.

To respond to personnel increases and business diversification, the Group must further improve its administrative control systems. Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other

fixed costs will likely rise, resulting in lower profit margins.

To prevent inconvenience resulting from human error in business, such as the inappropriate management of test IDs for Yahoo! Auctions revealed in March 2002, the Group has taken measures such as stricter controls and operation standards for behavioral norms. Nevertheless, there remains the possibility of similar problems occurring in the future in terms of business management and control.

(9) Risk Regarding Consolidated Group Operations

The Group comprises the parent company, nine subsidiaries and three affiliates accounted for by the equity method. Because the scale of the subsidiaries and affiliates is small compared to the parent company, the in-house management organization is also small. It is the Group's policy to acquire necessary additional staff and strengthen organizations as businesses expand, but if these measures are not implemented with the appropriate timing, it could negatively affect the Group's performance.

Currently, tie-ups with the parent company's services or network or personnel support are essential to the operations of any of the services of its subsidiaries and affiliates. The related sections of the parent company work closely with the individual companies to provide that support. However, it is possible that it will become difficult to adequately provide this cooperation or support due to the expansion of the businesses of the parent companies, subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several of the subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partner, especially in the areas of sales, supplies, distribution, and systems. At this time, relationships with the joint venture partners are excellent and the cooperative relationship with these partners contributes strongly to the performance of these Group's companies. However, if for some reason a situation occurred that created an obstruction to the business cooperation or the tie-up between the partners, it could be damaging to the performance of each company, and depending on the company, it may become impossible to continue to operate.

(10) International Conflicts, Terrorist Attacks and Natural Disasters

As illustrated by the multiple terrorist attacks on the United States in September 2001 and the subsequent military retaliation, the Group expects that in the event of international conflicts, terrorist attacks or natural disasters that lead to substantial change in international political conditions or the economic framework, the Group's business would also be substantially affected.

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

(11) Legal Restrictions, Lawsuits and Intellectual Property Rights

1) Government Regulations

Distribution of information over the Internet and electronic commerce are currently under review by the Japanese government. Although no regulations governing the advertising operations of the Group exist at present, a number of other countries are now considering regulating Internet use and publicizing legal opinions on the subject.

"The Law Regarding Limitations on the Liability of Providers of Specified Electronics Communications Services and Regarding Privacy of User Information" was passed during the 153rd Session of the Diet. However, this law only clarifies the scope of liability for illegal behavior previously provided by civil law, and does not increase the liability of businesses that act as intermediaries in distributing information over the Internet. Nevertheless, the passing of the new law may start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business may be restricted through the introduction of new laws or the implementation of rules on self-regulation.

Yahoo! BB, as a Class 2 Telecommunications Operator, is required to observe the Telecommunication Business Law and related ordinances issued by related government divisions. Changes in the law or ordinances could influence the Group's business.

2) Potential Litigation

Moves are being made to regulate the flow of information via the Internet, both to ban the distribution of illegal or harmful content and to protect the privacy of individuals.

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

Through such internal regulations the Group prohibits illegal and slanderous content on its site and protects the privacy of users. In addition, the Group publishes a disclaimer stating clearly that the user takes full responsibility for Web-browsing and that the Group accepts no responsibility for damage caused to users during Web-browsing. To protect minors from harmful content, the Group is implementing such programs as Yahoo! Kids. However, no guarantee can be provided that these measures will be sufficient to avoid litigation. The Group could be subject to claims, damage suits or reprimands from users, related parties or government agencies in regard to the content of advertisements, Websites accessed through links on its site, content contributed to community message boards and trading on its auction business. The resulting decline in user confidence could lead to a drop in hits or suspension of services.

Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services or Website content of the many retailers using these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss or difficulty in the delivery of said items. However, the possibility exists that users of these

services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Furthermore, if the current proposed treaty regarding the jurisdiction of international courts is approved as is, it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

3) Patents for Internet Technology and Business Plans

The Japanese Patent Office (JPO) recently began approving patents for Internet technologies and business plans. Many patent applications have been filed with the JPO claiming rights particularly to Internet technologies based on computer and telecommunications technologies that facilitate electronic commerce. Some recent patents and patent applications cover not only technology but also business models. As such, the possibility exists that third parties in possession of these patents will make claims or file suit against the Group, and that the Group will be prohibited from using such technology or forced to pay large royalties to acquire said patents. In addition, the extent to which patent rights can be applied remains unclear.

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

6. Risks Concerning Investment and Capital Investment Programs

(1) Investment

The Group has invested in 34 companies and 1 cooperative as stated below in the List of Companies Invested by Yahoo Japan Corporation. These investments have been made to form ties with the companies invested and their businesses, or to form business ties for the future. The Group cannot guarantee that these investments will be recovered.

Although as of December 31, 2002 four of these companies had been publicly listed and the value of the Company's investment for three of these companies has increased, this value could decline in the future.

The Group takes the utmost care to ensure that the performances of the companies it invests in are reflected appropriately in its own performance by operating according to in-house rules in accordance with general accounting standards and by applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies, they could have an even greater adverse effect on the Group's fiscal profit or loss in future.

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and continue introducing new services such as streaming video and audio, the Group is launching a capital investment program and an investment plan of comparatively large scale considering its current operations. Since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be relatively short. As a result, depreciation terms are expected to be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of extraordinary losses on disposal of current facilities.

Although the Group believes business expansion will result in earnings growth sufficient to cover these increased costs, ineffective capital investments and delayed effect could substantially impact future earnings, which could impact the Group's financial structure and operating results. In addition, unfavorable performance by companies in which Yahoo! Japan has invested could impact the Company's financial structure and operating results.

List of Companies Invested by Yahoo Japan Corporation

(As of December 31, 2002)

	Investment targets	Listing	Date of investment (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 3)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Yahoo! KOREA Inc.		97/10/06	4.12	4	Comprehensive Internet information-portal business in Korea	Yahoo! JAPAN offered technical services at startup	Yes
2	CyberMap Japan Corp.		98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Map	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	11.95	767	Internet technical-support service		Yes
4	Vector Inc.	OSE Hercules	99/03/25	10.75	1,110	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	OSE Hercules	99/05/28	5.07	462	Weather observation, data collection/analysis, weather forecast and related information services	Alliance for Yahoo! Weather	
6	e-Shopping! Toys CORP.		99/08/31	10.00	10	eS! Toys Website	Yahoo! Shopping tenant	Yes
7	CarPoint K.K.		99/10/06	6.54	38	Offering car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos	
8	SpeedNet. Inc.		99/12/10	1.67	58	Fiber-optic and high-speed wireless Internet service		
9	Oricon Inc.	OSE Hercules	00/03/28	1.53	44	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
10	e-Shopping! Wine CORP.		00/05/26	7.89	2	eS! Wine Website	Yahoo! Shopping tenant	
11	SOFTBANK ZDNet Inc.		00/08/28	8.33	30	Comprehensive site for IT-related information	Alliance for Yahoo! News	Yes
12	BB Factory Corp.		00/11/13	10.00	31	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
13	e-Net Japan Co., Ltd.		00/12/14	5.20	11	Sales of personal computers, audio/visual and home equipment via the Internet	Yahoo! Shopping/Auctions tenant	
14	J-Yado Co., Ltd.		00/12/22	7.98	0	J-Yado.com hotel reservation website		
15	DBJ Co., Ltd.		00/12/26	2.27	6	E-commerce and supply of contents related to motorcycles		
16	Power Print Inc.		00/12/27	15.00	24	Online order-taking, printing and delivery of various printed materials		
17	Naturum Corp.		00/12/29	10.01	2	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
18	Archinet, Inc.		01/01/19	8.91	50	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
19	Golf Do Co., Ltd.		01/01/24	4.90	25	An online shop for used golf equipment		
20	Axiv.com, Inc.		01/01/30	5.44	12	MyID promotion/gift campaign website		
21	CafeGlobe.com		01/01/30	11.44	100	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet and Yahoo! Beauty	
22	eBANK Corporation		01/03/12	1.79	89	e-bank operations	Alliance for Yahoo! Auctions/Research	
23	GameBox, Inc.		01/03/16	9.38	10	GAMEBOX game-related Website		

	Investment targets	Listing	Date of investment (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 3)	Line of business	Relationship with the Company	Directors on loan
24	Digipri Corporation		01/03/27	0.82	2	Internet storage and output services for digital imaging	Alliance for Yahoo! Photos	
25	Bitwave Corporation		01/03/29	1.19	0	Operating sales system for concert/sporting tickets	(See Note 2)	
26	Net Protections, Inc.		01/04/10	4.43	7	Online commercial settlement service		
27	istyle Inc.		01/04/20	8.51	5	@cosme information site for cosmetics and beauty care	Alliance for Yahoo! Beauty	
28	Digital Check Co. Ltd.		01/04/24	1.19	5	EC settlements, content supply and networking business	Alliance for Yahoo! Auctions	
29	CarHoo Inc.		01/04/26	13.02	50	Car Hoo driver-support site	Yahoo! Auctions tenant	
30	E-NEWS Inc.		01/06/26	13.33	50	Internet-based broadcasting and video production		
31	Hurricane Inc.		01/07/23	12.49	42	Planning, producing, referral and agency services for concerts and other events		
Shares in affiliated companies								
1	Tavigator, Inc.		00/03/03	30.00	91	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	ValuMore Corporation		02/01/28	40.00	36	Sales of computers and related equipment via the Internet	Yahoo! Shopping tenant	Yes
3	INTAGE Interactive Inc.		02/09/26	49.00	23	Internet-based marketing research services	Alliance for Yahoo! Research	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		759			

Notes:

1. In principle, the date of investment is the date of the first investment made by Yahoo! Japan in the company.
2. Because of its application for reconstruction under the Civil Reorganization Law on December 17, 2002, the investment in Bitwave Corporation is shown at remainder value.
3. B/S accounting amounts are shown on a consolidated basis. Because the amounts are shown in millions of yen, figures less than one million yen are shown as "0". Because subsidiaries' investment portions are subject to elimination under consolidation, their BS accounting amounts are shown below on a non-consolidated basis with the consolidated accounts amount indicated for reference.

Company	B/S accounting amount (¥ MM)	Consolidated accounts (¥MM)	Line of business
GeoCities Japan Corporation	10	-	Maintaining geocities.co.jp domain
broadcast.com japan k.k.	10	-	Maintaining bcast.co.jp domain
Y's Sports Inc.	100	-	Operation of the comprehensive sports information site sportsnavi.com.
Y's Agencies Inc.	10	-	Planning and sales of advertising
eGroups KK	900	448	Yahoo! eGroup groupware service, mainly e-mail
e-Shopping! Books CORP.	300	116	Operation of eS! Books on-line EC site service over the Internet, and Yahoo! Shopping tenant
BridalConcierge Corp.	0	-	Provision of useful information for weddings and newly wed life as well as other services
UniCept, Inc..	50	-	Consulting for Internet business and a range of planning, development, and operation services
Netrust, Ltd.	120	-	On-line settlement services