

# Yahoo Japan Corporation

## Results for the Three Months Ended June 30, 2003

### **First Quarter Highlights**

The Yahoo! Japan Group's financial result continued to be strong. Net sales amounted to ¥15.5 billion, climbing 83.6% year on year and 8.1% compared with the previous quarter. At ¥8.4 billion, operating income jumped 106.0% year on year and 8.3% compared with the previous quarter. Due to a change in the method of recognizing sales, the operating margin reached 54.2%.

Note: Beginning with the quarter under review, the method of recognizing ISP fees related to sales has been changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas Yahoo! BB previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, the business division is now netting the amounts and only booking net sales of ¥200. In addition, the method of accounting for sales during free service campaigns has been changed to not recording any sales during the period. To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

Despite the difficult business conditions in the advertising market, the Group aggressively solicited business from national clients. Sponsor Site sales grew favorably, and advertising business sales amounted to ¥4.4 billion (up 50.9% year on year and 9.0% from the previous quarter), marking the sixth consecutive quarter of growth and a record high.

The transaction volume and number of unique users increased favorably in our Auction Business Division, and the transaction rate remained at a high level (transaction volume for June: ¥1.23 billion a day\*, number of unique users for June: 12.23 million unique browsers, transaction rate for April to June: 42%-52%). Consequently, Auction sales rose to ¥4.3 billion, increasing 15.8% from the previous quarter. Operating income advanced 20.1%, to ¥3.3 billion from the previous quarter. The business division took the first step in the conversion to a new computer system, and now constructing a system that can handle an auction item list of more than 10 million items.

\* Since post-auction cancellations have not been eliminated, this figure could be lower than shown.

Thanks to various campaigns to acquire new subscribers, the number of Yahoo! BB subscribers rose to 2.82 million at the end of June 2003 (up 19.4% from the previous quarter, 34.2% share).

The acquisition of Yahoo! BB users as a whole slowed down, and so did the number of users acquired through Yahoo! JAPAN.

The transaction volume of Shopping Business Division topped ¥10 billion for the first time.

Aiming for a launch date in August 2003, the Shopping Business Division is proceeding with plans to introduce a two-tier system of “Selected Stores” and “Stores” for Yahoo! Shopping, shifting its strategy from limiting its online stores to those with high brand power and high quality services to soliciting participation by a wider range of stores to expand the available merchandise lineup. By increasing the number of stores, the business division is aiming to expand the number of merchandise items offered.

Monthly page views topped 14.9 billion during the quarter.

## First Quarter Performance (Consolidated Information)

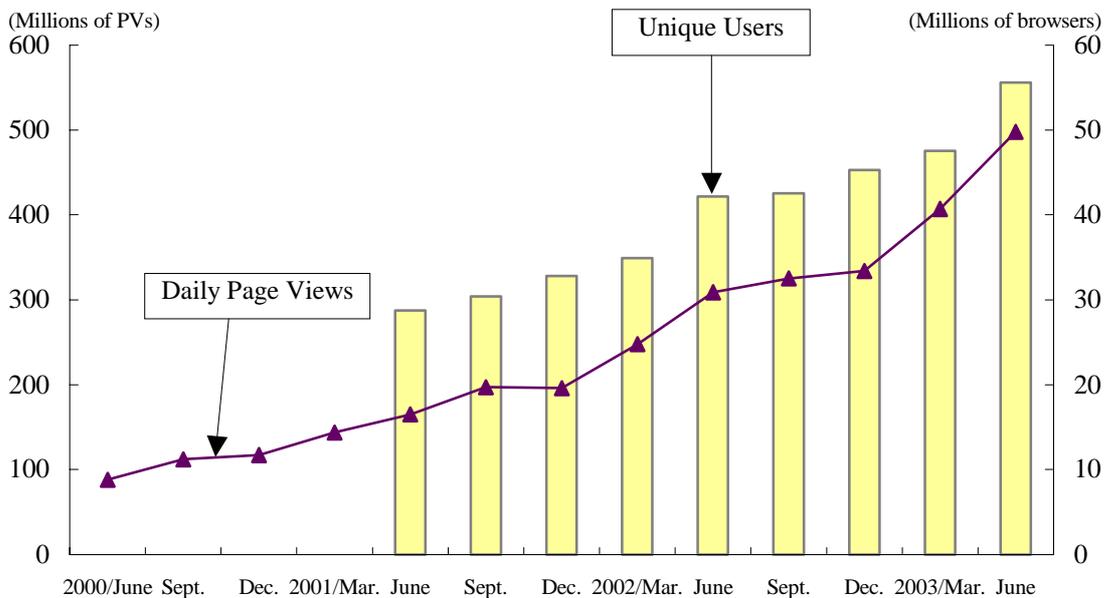
### <Internet Users>

According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPMHAPT), the number of Internet users at the end of 2002 amounted to 69.42 million, or one in every two Japanese. Of that amount, 19.55 million people were broadband users.

Survey Institution	Internet Users (millions of people)	Broadband Users (millions of people)	Yahoo! JAPAN Accessing Rate
MPMHAPT (Information Industry White Paper)	69.42(2002/12)	19.55(2002/12)	
Video Research Net-com Ltd.	56.70(2003/04)		80.8% (2003/05)
Internet Association Japan (Internet White Paper)	56.45(2003/02)		
Nippon Research Center, Ltd.	42.13(2003/05)		91.4% (2003/05/19 to 2003/06/15)
Nielsen// NetRatings (Home access only)	26.50(2003/05)	14.42(2003/05)	80.2% (2003/05)

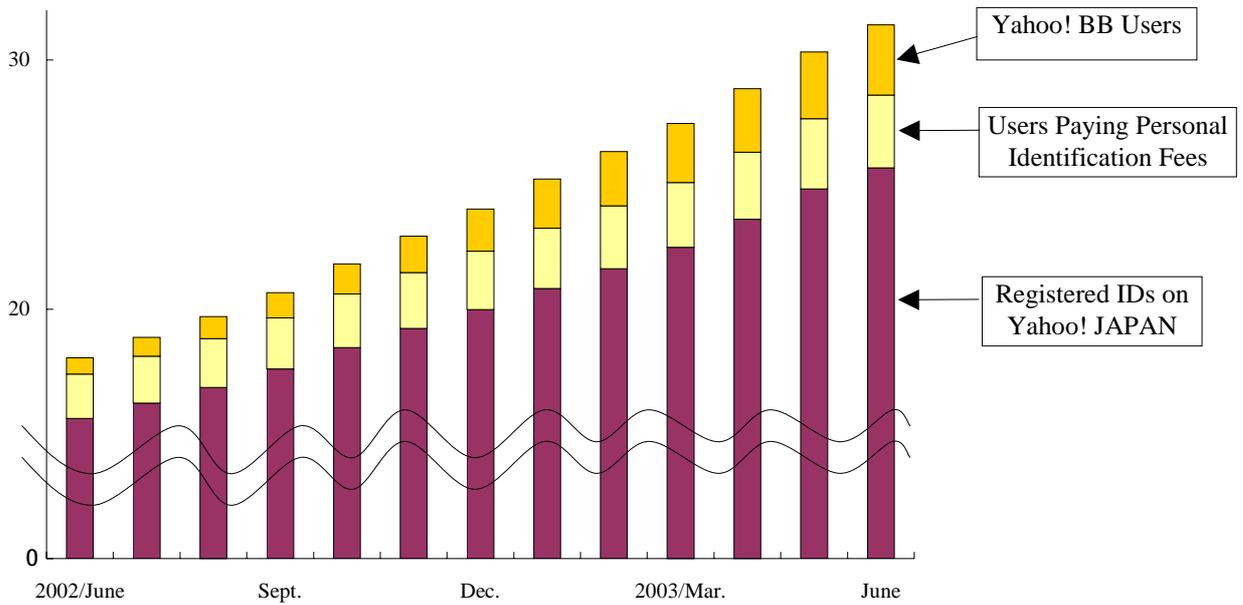
### (Page Views and Yahoo! JAPAN Users)

Daily page views of Yahoo! Japan topped 550 million for the first time during the first quarter. Yahoo! Japan Group monthly page views for June 2003 reached 14,932.51 million, representing an increase of 2,322.89 million page views, or 18.4%, compared with March 2003, the last month of the previous quarter, and an increase of 5,665.60 million page views, or 61.1%, compared with the same month a year earlier. The number of unique users at the end of this quarter was approximately 55.58 million browsers, up approximately 8.04 million browsers, or 16.9% from the previous quarter-end.



At the end of the first quarter under review, the number of registered IDs on Yahoo! JAPAN was approximately 25.68 million, up 3.19 million, or 14.2% compared with the previous quarter-end. The number of paying users for personal identification amounted to approximately 2.91 million, an increase of 310 thousand, or 12.0% compared with the previous quarter-end. The number of Yahoo! BB users (number of connected lines) increased to approximately 2.82 million lines, up approximately 0.46 million lines, or 19.4% from the end of the previous quarter.

(Millions of IDs and lines)



	2002/June	July	Aug.	Sept.	Oct.	Nov.	Dec.	2003/Jan.	Feb.	Mar.	Apr.	May	June
Registered IDs on Yahoo! JAPAN (millions of browsers)	15.62	16.24	16.87	17.61	18.47	19.23	19.99	20.83	21.63	22.49	23.61	24.83	25.68
Users paying personal identification fees (millions of IDs)	1.78	1.88	1.95	2.04	2.14	2.24	2.34	2.42	2.52	2.60	2.69	2.81	2.91
Yahoo! BB users (millions of lines)	0.66	0.75	0.89	1.01	1.21	1.46	1.69	1.97	2.18	2.36	2.55	2.68	2.82

Note: Users of each service can overlap the users of other services

## **< Consolidated Statements of Income >**

**(Notes)**

- 1. Starting with the first quarter under review, the method of recognizing ISP fees related to sales has been changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas we previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, we are now netting the amounts and only booking net sales of ¥200.**

Also starting with the first quarter, for all business divisions, we are no longer booking any sales for our free service sales campaigns. Previously, we accounted for any fees during these free service campaigns as sales as well as recording sales promotion costs.

To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

- 2. Commencing with the quarter under review, the management responsibility for services among the business divisions has been revised, with the responsibility for some services being changed. Specifically, platforms and personal information administration services have been collected into Inter-Divisional Businesses. In the Listing Business Division, services that do not fit into the categories of information listing, regional information, and directory searches have been transferred to other appropriate business divisions. No retroactive adjustment has been made to sales allocations to reflect these changes.**
- 3. All nine subsidiaries are included in the scope of consolidation as are all three affiliated companies, which are accounted for by the equity method.**

GeoCities Japan Corporation, broadcast.com japan k.k. and BridalConcierge Corp. do not actually conduct any business.

## **Consolidated Statements of Income (April 1, 2003-June 30, 2003)**

(Yen in Millions)

	Amount	% share	Comparison with the same period of the last fiscal year		Comparison with the previous quarter	
			Increase/ decrease	Change	Increase/ decrease	Change
Net Sales	15,564	100.0%	7,088	83.6%	1,170	8.1%
Cost of Sales	1,202	7.7%	481	66.8%	40	3.5%
Gross Profit	14,362	92.3%	6,607	85.2%	1,129	8.5%
SG&A Expenses	5,928	38.1%	2,267	61.9%	484	8.9%
Personnel Expenses	1,379	8.9%	433	45.8%	122	9.8%
Advertising Costs	82	0.5%	15	23.8%	44	116.6%
Content Provider Fees	405	2.6%	92	29.4%	25	6.6%
Sales Commission	665	4.3%	194	41.2%	-13	-2.0%
Depreciation Expenses	578	3.7%	235	68.8%	13	2.4%
Communication Charges	640	4.1%	343	115.4%	170	36.3%
Royalties	399	2.6%	186	87.4%	28	7.7%
Lease and Utility Expenses	259	1.7%	93	56.0%	51	24.7%
Business Commissions	676	4.3%	393	138.6%	78	13.1%
Sales Promotion Costs	242	1.6%	148	158.6%	75	45.2%
Doubtful Debt Accounts	-	-	6	-	-77	-
Amortization of Consolidated Accounts	16	0.1%	-64	-79.4%	-64	-79.4%
Others	581	3.7%	189	48.3%	28	5.2%
Operating Income	8,433	54.2%	4,339	106.0%	645	8.3%
Non-Operating Income (Expenses)	-176	-1.1%	-189	-	229	-56.5%
Ordinary Income	8,257	53.1%	4,149	101.0%	874	11.8%
Extraordinary Gains (Losses)	-301	-1.9%	-37	14.1%	369	-55.1%
Income before Income Taxes	7,955	51.1%	4,112	107.0%	1,244	18.5%
Income Taxes, Inhabitants' Taxes and Enterprise Taxes	3,422	22.0%	1,735	102.9%	-593	-14.8%
Adjustment to Income Taxes	-	-	-	-	851	-
Minority Interests in Loss of Consolidated Subsidiaries	6	0.0%	-14	-70.1%	-10	-63.9%
Net Income	4,539	29.2%	2,362	108.6%	975	27.4%

### Composition of Consolidated Net Sales by Business Division (First Quarter)

(Yen in millions)

	Sales	Contribution
Auction (including Netrust, Inc.)	¥4,349	27.9%
Yahoo! BB	2,588	16.6%
Listing	2,455	15.8%
Shopping (including e-Shopping! Books CORP.)	1,463	9.4%
Media (including eGroups KK and Y's Sports Inc.)	1,350	8.7%
ES	248	1.6%
Inter-Divisional Businesses (including UniCept, Inc.)	3,110	*20.0%
Eliminations or shared (consolidation elimination)	-2	-
Total	¥15,564	100.0%

Note: The sales of Y's Agencies Inc. have been allocated among the above business divisions. GeoCities Japan Corporation, broadcast.com japan k.k. and BridalConcierge Corp. do not actually conduct any business.

\*Consolidated sales contribution of Inter-Divisional Businesses includes consolidation elimination.

### Composition of Consolidated Operating Income by Business Division (First Quarter)

(Yen in millions)

	Operating Income	Contribution
Auction (including Netrust, Inc.)	¥3,378	40.1%
Listing	1,649	19.6%
Yahoo! BB	1,552	18.4%
Media (including eGroups KK and Y's Sports Inc.)	356	4.2%
Shopping (including e-Shopping! Books CORP.)	166	2.0%
ES	44	0.5%
Inter-Divisional Businesses (including UniCept, Inc.)	2,456	*15.2%
Eliminations or shared (consolidation elimination)	-1,171	-
Total	¥8,433	100.0%

\*Consolidated operating income contribution of Inter-Divisional Businesses includes consolidation elimination.

## **Main Points Regarding Statements of Income**

### **Net Sales**

The significant rise in quarterly sales year-on-year can mainly be attributed to the growth in Auction revenues. In addition, advertising sales increased.

Sales of consolidated subsidiaries, on a gross total basis, were ¥1,629 million for the first quarter under review.

### **Cost of Sales**

The main factors behind the growth in the cost of sales in the first quarter in comparison with the same period in the previous fiscal year were increases in costs from e-Shopping! Books CORP. and costs for Car Insurance Package Estimate Request Service.

### **Selling, General and Administrative Expenses**

- Personnel expenses

At the end of the first quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 775, up 256, or 49.3%, from the end of same quarter in the previous fiscal year.

- Advertising costs

Advertising costs increased compared with the previous quarter primarily because of the acquisition of Yahoo! BB Stadium naming rights.

- Sales commissions

Quarterly sales commissions decreased from the previous quarter mainly because of a downward revision in the sales commissions rates for advertising agencies.

- Communication Charges

Communications charges rose compared with the same period in the previous fiscal year primarily because of additions to the data center to expand and strengthen computer systems.

- Lease and Utility Expenses

The growth in lease and utility expenses compared with the same period in the previous fiscal year can be attributed to the relocation of the head office.

- Business commissions

The main business commissions for the first quarter were expenses for the settlement operations of personal service sales, temporary employees, and Yahoo! BB's call center.

- Sales Promotion Costs

Sales promotion costs for the quarter increased substantially from a year earlier primarily because the Group conducted campaigns to acquire Yahoo! BB users.

- **Doubtful Debt Accounts**

The main reason for the provision to doubtful debt accounts during the quarter under review was a revision of the accounting method for the provision based on the historical rate of default for receivables from users.

- **Amortization of consolidated accounts**

Amortization of consolidated accounts for the first quarter consisted of the consolidated accounts for e-Shopping! Books CORP. and BridalConcierge Corp.

- **Others**

The major components of others in the first quarter were the packaging and transport expenses of e-Shopping ! Books, expenses and commissions for Netrust, Ltd.'s Yahoo! Payment, and the compensation cost of Yahoo! Auctions.

### **Non-Operating Income (Expenses)**

The main component of non-operating expenses for the first quarter was the relocation expenses for the head office.

### **Extraordinary Gains (Losses)**

Extraordinary losses recorded during the first quarter were mainly the result of the application of depletion accounting to a portion of our investment securities and losses on disposal of fixed assets in connection with the relocation of the head office.

### **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. The income tax rate for the quarter under review was 43.0%.

### **Minority Interests in Loss of Consolidated Subsidiaries**

Minority interest losses booked during the first quarter resulting from the netting of the net income and losses of eGroups, e-Shopping! Books and Netrust, and reflects the losses of shareholders in those subsidiaries other than the Company.

The overall income and losses of consolidated subsidiaries, including the above three subsidiaries, improved compared with the previous quarter.

### **Net Income**

Net income per share for the quarter under review amounted to ¥4,818.55. The average number of shares outstanding used in the calculation of net income per share was 942,091 shares.

### <Consolidated Balance Sheets>

As of June 30, 2003, total assets amounted to ¥44,266 million, down ¥3,507 million or 7.3% from the previous quarter-end. Total liabilities were ¥8,856 million, declining ¥8,365 million or 48.6%. Minority interests in consolidated subsidiaries fell ¥6 million or 8.9%, to ¥63 million. Total shareholders' equity advanced ¥4,864 million or 16.0%, to ¥35,346 million from the previous quarter-end.

### Consolidated Balance Sheets (As of June 30, 2003)

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comments
		Increase/ decrease	Change	
<b>Assets</b>				
Current Assets				
Cash	21,210	-2,005	-8.6%	<ul style="list-style-type: none"> <li>• Decline in cash was principally due to the payment of income taxes, etc.</li> <li>• Decrease in accounts receivable—trade primarily due to change in sales recognition method in which ISP fees of Yahoo! BB are netted with its sales.</li> </ul>
Accounts Receivable Trade	8,586	-2,448	-22.2%	
Inventory	9	-4	-30.0%	
Deferred Tax Assets	1,004	-	-	
Accounts Receivable Other	155	2	1.3%	
Other Current Assets	518	164	46.4%	
Allowance for Doubtful Accounts	-266	23	-8.2%	
Total Current Assets	31,217	-4,267	-12.0%	
Fixed Assets				
Tangible Fixed Assets	6,365	549	9.5%	<ul style="list-style-type: none"> <li>• Increase in tangible fixed assets is mainly due to additional installations, such as servers, etc.</li> </ul>
Intangible Fixed Assets				
Consolidated Accounts	83	-16	-16.7%	
Other Intangible Fixed Assets	731	19	2.7%	
Total Intangible Fixed Assets	814	2	0.3%	
Investment and Others				
Investment Securities	3,740	544	17.0%	<ul style="list-style-type: none"> <li>• Growth in investment securities is chiefly due to mark-to-market revaluation of marketable securities.</li> <li>• The decline in total investment and others was primarily due to the return of deposit money from the old offices on relocation to the new head office.</li> </ul>
Deferred Taxes Assets	-	-132	-	
Others	2,137	-204	-8.7%	
Allowance for Doubtful Accounts	-8	0	-3.0%	
Total Investments and Others	5,868	208	3.7%	
Total Fixed Assets	13,048	760	6.2%	
<b>Total Assets</b>	<b>44,266</b>	<b>-3,507</b>	<b>-7.3%</b>	

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comments
		Increase/ decrease	Change	
<b>Liabilities</b>				
Current Liabilities				
Accounts Payable Trade	542	-3,155	-85.3%	<ul style="list-style-type: none"> <li>• Decline in accounts payable—trade was principally due to a change in sales recognition method in which ISP fees of Yahoo! BB are netted with its sales.</li> <li>• Drop in accrued income taxes can be attributed to payment of income taxes, etc.</li> </ul>
Accounts Payable Other	3,348	-56	-1.7%	
Accrued Income Taxes	3,511	-4,994	-58.7%	
Other Current Liabilities	1,281	-276	-17.8%	
Total Current Liabilities	8,684	-8,483	-49.4%	
Long-term Liabilities				
Long-term Deferred Taxes	128	128	-	
Other Long-term Liabilities	44	-10	-18.9%	
Total Long-term Liabilities	172	117	214.9%	
<b>Total Liabilities</b>	<b>8,856</b>	<b>-8,365</b>	<b>-48.6%</b>	
<b>Minority Interests in Consolidated Subsidiaries</b>				
Minority Interests in Consolidated Subsidiaries	63	-6	-8.9%	
<b>Shareholders' Equity</b>				
Common Stock	6,076	3	0.1%	<ul style="list-style-type: none"> <li>• Increase in retained earnings resulted mainly from the growth in net income.</li> <li>• Increase in the other securities evaluation adjustment was chiefly due to the mark-to-market of investment securities.</li> </ul>
Additional Paid-in Capital	1,157	3	0.3%	
Retained Earnings	26,779	4,477	20.1%	
Other Securities Evaluation	1,350	379	39.1%	
Treasury Stock	-17	-0	2.7%	
<b>Total Shareholders' Equity</b>	<b>35,346</b>	<b>4,864</b>	<b>16.0%</b>	
<b>Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity</b>	<b>44,266</b>	<b>-3,507</b>	<b>-7.3%</b>	

## <Consolidated Statements of Cash Flows>

The net decrease in cash and cash equivalents was ¥2,005 million for the quarter under review. The consolidated statements of cash flows for the first quarter follows.

### The Consolidated Statements of Cash Flows

(Yen in Millions)

	Three months ended June 30, 2003	Comments
<b>Cash Flows from Operating Activities:</b>	-413	<ul style="list-style-type: none"> <li>Although there was an increase in income before income taxes, cash provided by operating activities decreased because of payment of income taxes.</li> <li>The declines in accounts receivable—trade and accounts payable—trade are mainly related to the change in sales recognition method in which ISP fees of Yahoo! BB are netted with its sales.</li> <li>Purchases of equipment and facilities, such as new servers, and payment for relocation expenses of new office resulted in an increase in cash used in investing activities.</li> </ul>
Income before Income Taxes	7,955	
Depreciation and Amortization	589	
Amortization of Consolidated Accounts	16	
Decrease in Allowance for Doubtful Accounts	-24	
Loss on Disposal of Fixed Assets	224	
Loss on Evaluation of Investment Securities	103	
Exchange Gains	-0	
Equity in Gains under the Equity Method	-7	
Loss/gain on change of equity holdings in subsidiaries	-0	
Proceeds from Interest and Dividend	-5	
Interest Expense	0	
Other Profit and Loss Adjustments	26	
Decrease in Inventory	4	
Decrease in Accounts Receivable Trade	2,496	
Decrease in Accounts Payable Trade	-3,155	
Increase in Accounts Receivable Other	-201	
Increase in Accounts Payable Other	428	
Decrease in Consumption Tax Payable	-450	
Payment of Income Taxes and Other Taxes	-8,416	
<b>Cash Flows from Investing Activities:</b>	-1,598	
Expenditures on Tangible Fixed Assets	-1,712	
Expenditures on Intangible Fixed Assets	-94	
Expenditures on Investment Securities	-0	
Proceeds from Sale of Investment Securities	0	
Proceeds from Recovery of Lending	0	
Proceeds from Decrease in Guarantee Deposit Assets	207	
Proceeds from Interest and Dividends	0	
<b>Cash Flows from Financing Activities:</b>	6	
Proceeds from Issuance of Shares	7	
Expenditures for Acquisition of Treasury Stock	-0	
Interest Expenses	-0	
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0	
Net Change in Cash and Cash Equivalents	-2,005	
Cash and Cash Equivalents at beginning of Term	23,215	
Cash and Cash Equivalents at end of Term	21,210	

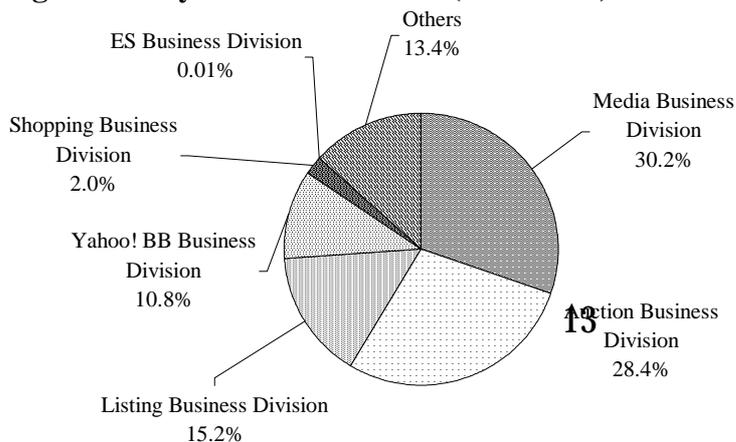
## Operating Review by Business Division

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 first 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"> <li>• Regular banner, text, e-mail and other advertising.</li> <li>• Results-based advertising, merchant margin, projected advertising production fees, and others.</li> <li>• Pay listing services (Sponsor Site)</li> </ul>
Business Service	Sales to corporations other than advertising. <ul style="list-style-type: none"> <li>• Yahoo! BB customer acquisition incentive fees</li> <li>• Tenant fees and sales commissions for BTOC auction and Yahoo! Shopping.</li> <li>• Research, Business Express, account opening fees, Yahoo! Portal Solutions, and other sales.</li> <li>• Content provider fees for Yahoo! Employment, Yahoo! Real Estate, Yahoo! Autos, and others.</li> <li>• Magazine and book licensing fees, fees for permission to use the Yahoo! name.</li> <li>• Yahoo! Cafe support funds</li> </ul>
Personal Service	Sales from services for individuals. <ul style="list-style-type: none"> <li>• Yahoo! BB ISP fees and content fees.</li> <li>• Personal identification fees for pay services including Yahoo! Auctions and Yahoo! Personals.</li> <li>• System-use fees for Yahoo! Auctions and others.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Sales of e-Shopping! Books CORP.</li> </ul>

### Page Views by Business Division (June 2003)



**Total monthly page views for the Group in June 2003 were 14,932.51 million page views.**

## Net Sales by Business Division (First Quarter)

( Yen in Millions )

	Advertising	Business Service	Personal Service	Other	Total
Auction	¥173	¥377	¥3,798	–	¥4,349
Yahoo! BB	120	1,347	1,119	–	2,588
Listing	1,914	540	0	–	2,455
Shopping	97	329	–	1,037	1,463
Media	1,276	53	20	–	1,350
ES	26	221	–	–	248
Inter-divisional Businesses	820	21	2,268	–	3,110
Elimination or shared (consolidation elimination)	-0	-1	–	-0	-2
Total	¥4,430	¥2,890	¥7,206	¥1,037	¥15,564

### (1) 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 on Premium Auctions.

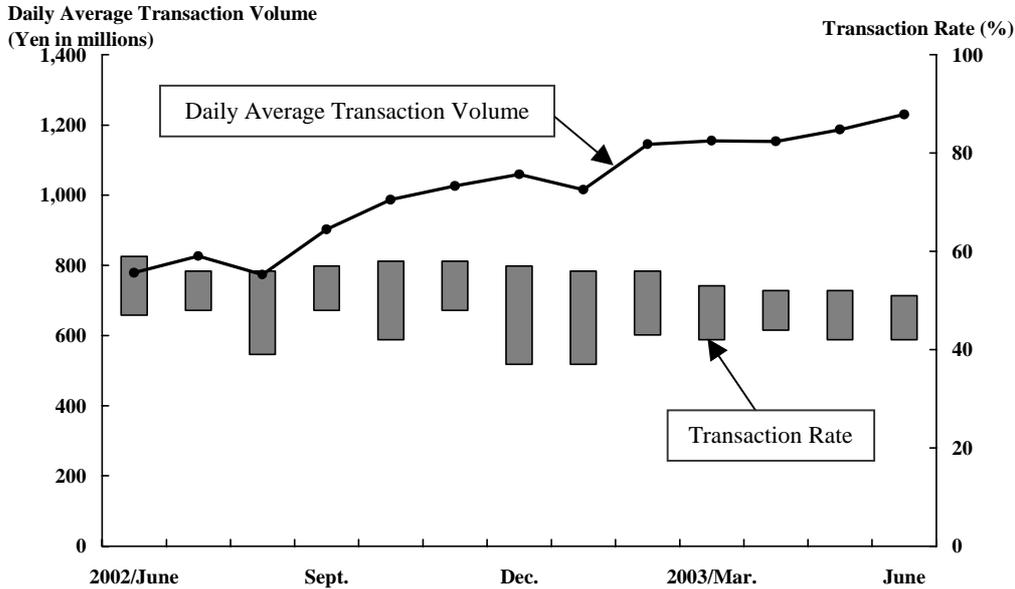
Main services: Yahoo! Auctions, Yahoo! Delivery, Yahoo! Payment, etc.

#### 2) Activities in the first quarter

During the first quarter, we took the first step in the conversion to a new system. Introducing a new system that can handle more than 10 million auction items, we extended our infrastructure including servers to meet the greater access volume. We improved our services and conducted campaigns to attract users. Among service improvements, we expanded our Yahoo! Yu-Pack service nationwide. In addition to a free item listing day and other campaigns, we held a Treasure Hunt campaign to commemorate the number of merchants on Yahoo! Auctions passing the 1,000 mark. Moreover, to promote the Yahoo! Payment service that we introduced in January 2003, we held a cash back campaign for both buyers and sellers who used this service. Yahoo! Payment allows users to make payments for items with just a credit card and their Yahoo! JAPAN ID.

As a result, the number of unique users of Yahoo! Auctions for June 2003 totaled approximately 12.23 million browsers, an increase of about 18.2% or 1.88 million browsers from March 2003. The number of merchants at the end of June 2003 also rose, climbing 283 stores, or 24.1%, to 1,457 stores from three months earlier. The number of items listed for Yahoo! Auctions grew by 22.0%, or approximately 740 thousand items, to about 4.4 million items at the end of June, compared with the end of March. The peak number of auction items listed on a daily basis during the quarter was 4.4 million, a new record. The transaction rate during the first quarter ranged between 42% and 52%, remaining at a high level. The number of transactions using Yahoo! Payment rose to more than 3,000 daily during the quarter.

<Daily Average Transaction Volume and Transaction Rate>



Note: The transaction volume 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
April 15	• Expanded our parcel delivery service Yahoo! Yu-Pack nationwide. This service enables users to send or pick up items 24 hours a day using the FamiPort multimedia terminal in Family Mart convenience stores.
April 23-May 13	• To commemorate breaking through the 1,000 level for stores on Yahoo! Auctions, held a special Treasure Hunt Campaign, in which carefully selected items were offered at half price or less.
May 28-July 31	• Commenced a Point Present Campaign, in which users automatically receive points for using Yahoo! Auctions that can be exchanged for gifts.

**Page Views (Figure in parentheses is change from previous quarter)**

Monthly Pages Views in June	4,235.29 million page views (+8.7%)	28.4% of total page views
-----------------------------	-------------------------------------	---------------------------

### Yahoo! Auctions number of total listed items and transaction rate, etc.

	April 2003	May 2003	June 2003
Number of Auction Unique Users	Approx. 10.80 million browsers	Approx. 11.93 million browsers	Approx. 12.23 million browsers
Number of Total Listed Items (As of the end of each month)	Approx. 3.62 million items	Approx. 3.92 million items	Approx. 4.09 million items
Monthly Total Number of New Listings	Approx. 11.03 million items	Approx. 11.98 million items	Approx. 12.37 million items
Monthly Volume of Transactions	Approx. ¥34.6 billion	Approx. ¥37.0 billion	Approx. ¥36.9 billion
Average Closing Price per Item	¥6,273	¥6,085	¥5,978
Transaction Rate	44-52%	42-52%	42-51%
Number of Stores (As of the end of each month)	1,235 stores	1,330 stores	1,457 stores

Note: Monthly volume of transactions figures do not include cancellations or adjustments.

### 3) Income statements for the first quarter

(Yen in Millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				
Advertising	173	42	32.4%	<ul style="list-style-type: none"> <li>• Main components of Business Services sales are registration fees, tenant fees and transaction fees of stores.</li> <li>• Sales included in Personal Services are system-use fees of Yahoo! Auctions.</li> </ul>
Business Service	377	112	42.5%	
Personal Service	3,798	437	13.0%	
Other	-	-	-	
Total	4,349	592	15.8%	
Cost of Sales	4	4	28.2 times	<ul style="list-style-type: none"> <li>• Main items in SG&amp;A are communication, business commissions, personnel expenses, and royalty expenses.</li> </ul>
Gross Profit	4,345	587	15.6%	
SG&A Expenses	966	21	2.3%	
Operating Income	3,378	565	20.1%	
Operating Margin	77.7%	-	-	

Notes:

1. Personal identification fee sales for Yahoo! Auctions are included in Inter-divisional Businesses sales.
2. Previously, fees incurred during free service campaigns were booked as sales and as sales promotion expenses, netting to zero. Beginning with the first quarter under review, however, no sales are booked during free service campaigns. To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

### (2) Yahoo! BB Business Division

#### 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 some ISP services, such as e-mail, homepage creation, and others.

Main services: Yahoo! BB, Yahoo! Mail, Yahoo! GeoCities, etc.

## 2) Activities in the first quarter

During the quarter under review, the business division conducted various campaigns to acquire new subscribers. The “Fifteen Zero Yen” campaign for new Yahoo! BB subscribers offered free services including up to three months of ISP services, two months of ADSL basic monthly services, and up to ¥50,000 calling rate of BB Phone dial services. The division also expanded and improved its services, beginning to accept applications for Yahoo! BB 26M, a new service with a download speed of 26Mbps. To improve and increase the convenience of its services, the business division launched a Move Your Yahoo! BB Too campaign 2 for existing subscribers, which provides the NTT central office reconnection service for free when subscribers move. In addition, the business division announced an exclusive pay viewing service of a secret live concert by Ayumi Hamasaki only for Yahoo! BB members. As a result, the number of Yahoo! BB subscribers amounted to approximately 2.82 million at the end of June 2003, rising about 460 thousand subscribers, or 19.4%, from the end of March in the previous quarter. The cumulative DSL share was approximately 34.2%. The acquisition of Yahoo! BB users as a whole slowed down, and so did the number of users acquired through Yahoo! JAPAN.

### Major New Services and Service Upgrades

Date	New Services and Service Upgrades
May 1-June 30	<ul style="list-style-type: none"> <li>• Kicked off the “Fifteen Zero Yen” campaign for new Yahoo! BB subscribers, offering 15 services for free, including up to three months of ISP services, two months of ADSL basic monthly services, and two months of BB Phone dial services up to ¥50,000 calling rate.</li> </ul>
May 22-June 23	<ul style="list-style-type: none"> <li>• Launched a Six-Months of Free Personal Identification Fee campaign. New subscribers of Yahoo! BB who also subscribe to Yahoo! Mail’s virus check service receive six-months of Yahoo! Auctions’ personal identification fee free. Also started the Virus Check Service Free to the End of the Year campaign, in which subscribers who apply for the virus check service receive it free up until the end of the year.</li> </ul>
May 30	<ul style="list-style-type: none"> <li>• Commenced a Let’s Go to the Ball Park campaign that features the crowd drawing appeal of Yahoo! BB STADIUM.</li> </ul>
June 17	<ul style="list-style-type: none"> <li>• Began a Yahoo! GeoCities GeoPlus campaign that offers a maximum of 25 MB for homepages for only ¥500 per month.</li> </ul>
June 25	<ul style="list-style-type: none"> <li>• Started accepting applications for Yahoo! BB 26M, a new service with a download speed of 26Mbps.</li> </ul>
June 26	<ul style="list-style-type: none"> <li>• Announced an exclusive pay viewing service of a secret live concert by Ayumi Hamasaki only for Yahoo! BB members. This service was free for the first 3,000 new Yahoo! BB subscribers following the announcement.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly Pages Views in June	1,609.76 million page views (+7.8%)	10.8% of total page views
-----------------------------	----------------------------------------	---------------------------

### Total Subscriber Lines for Yahoo! BB Services

End of April 2003	Approximately 2,547 thousand lines (including approximately 957 thousand lines marketed by Yahoo! Japan)
End of May 2003	Approximately 2,680 thousand lines (including approximately 973 thousand lines marketed by Yahoo! Japan)
End of June 2003	Approximately 2,822 thousand lines (including approximately 986 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 first quarter

(Yen in Millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				
Advertising	120	-29	-19.5%	<ul style="list-style-type: none"> <li>• Main components of Business Services sales are the customer acquisition incentive fees of Yahoo! BB.</li> <li>• Main components of Personal Services sales are the ISP fees for Yahoo! BB.</li> <li>• Main items in SG&amp;A expenses are business commissions, communication, sales promotion and personnel expenses.</li> </ul>
Business Service	1,347	-432	-24.3%	
Personal Service	1,119	323	40.7%	
Other	-	-	-	
Total	2,588	-137	-5.1%	
Cost of Sales	176	2	1.4%	
Gross Profit	2,412	-140	-5.5%	
SG&A Expenses	859	127	17.5%	
Operating Income	1,552	-268	-14.7%	
Operating Margin	60.0%	-	-	

Note: Beginning with the quarter under review, the method of recognizing ISP fees related to sales has been changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas Yahoo! BB previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, the business division is now netting the amounts and only booking net sales of ¥200. In addition, the method of accounting for ISP sales to new subscribers during free service campaigns has been changed to not recording any ISP sales during that period. To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

### (3) Listing Business Division

**Note: Commencing with the quarter under review, the services of the Listing Business Division have been grouped into three specialized fields: information listing, regional information, and directory searches. Services that do not fit into these categories, such as Yahoo! Mobile, Yahoo! Personals, and Yahoo! Beauty, have been transferred to other appropriate business divisions.**

#### 1) Major business

This business division provides information listing services, such as Yahoo! Employment and Yahoo! Autos; regional information services, such as Yahoo! Maps and Yahoo! Gourmet; and directory search services, such as Category Search and Yahoo! Phone Book. The business division builds revenues by charging fees to the information providers.

Main Services: Yahoo! Employment, Yahoo! Autos, Yahoo! Real Estate, Yahoo! Education, Yahoo! Wedding, Yahoo! Healthcare, Yahoo! Present, Yahoo! Maps, Yahoo! Transit, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Phone Book, Business Express, etc.

## 2) Activities in the first quarter

During the quarter under review, we took steps to make our sites more attractive not only for users but also for content providers who pay Yahoo! Japan to list their information content. We launched Going Out! Gourmet Special, a special feature, and expanded our banquet reservation and consulting services on Yahoo! Gourmet. We also began offering a mobile version Yahoo! Phone Book, a phone book search service that makes it simple to search for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan and strengthened our directory search services by linking up other services with Yahoo! Phone Book. Sponsor Site sales grew favorably during the quarter under review.

### Major New Services and Service Upgrades

Date	New Services and Service Upgrades
May 1-June 2	<ul style="list-style-type: none"> <li>Launched Going Out! Gourmet Special, a special feature that offered information on weather, sightseeing attractions, and restaurants as well as special interviews on such themes as seaside, mountain, and city.</li> </ul>
May 26	<ul style="list-style-type: none"> <li>Introduced a mobile version of Yahoo! Phone Book, a phone book search service that makes it simple to search for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly Pages Views in June	2,270.84 million page views (-2.1%)	15.2% of total page views
-----------------------------	----------------------------------------	---------------------------

### Business Express Orders

April 2003	May 2003	June 2003
920 contracts	968 contracts	1,103 contracts

### 3) Income statements for the first quarter

(Yen in Millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				
Advertising	1,914	58	3.1%	• Main components of Business Services sales are Business Express and information listing fees for recruiting, used car, real estate, and other information.
Business Service	540	61	12.7%	
Personal Service	0	-4	-96.5%	
Other	-	-	-	
Total	2,455	115	4.9%	
Cost of Sales	4	3	11.5 times	
Gross Profit	2,451	111	4.8%	• Main items in SG&A are sales commission, content provider, personnel, and royalty expenses.
SG&A Expenses	801	-171	-17.6%	
Operating Income	1,649	283	20.7%	
Operating Margin	67.2%	-	-	

### (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.

Main Services: Yahoo! Shopping, Yahoo! Books, Yahoo! Computer, Yahoo! Travel, eS! Books, etc.

#### 2) Activities in the first quarter

During the period under review, we decided to undertake a major expansion of the number of items available on Yahoo! Shopping. Specifically, starting in August, we will strengthen our lineup of stores by introducing a new store category. We will create a two-tier system of select stores—the existing popular brand stores with sophisticated services—and new stores to be developed. Through this strategy, we will aim to expand the lineup of items available and increase the degree of satisfaction of customers for our services. To increase store sales, we launched Father's Day Gift Collection and Summer Gift Selection campaigns. In addition, through a business tie-up with NTT Communications Corporation, we introduced a Safety Pass Cho-Com service, working to increase the convenience of our settlement services for our customers. In our Yahoo! Travel services, we started special features on Golden Week and summer holidays. Among other efforts to expand services, beginning with the quarter under review, we started sales of pre-order tickets. Sales volume for e-Shopping! Books continued to grow during the first quarter.

### Major New Services and Service Upgrades

Date	New Services and Service Upgrades
April 7	• Through a business tie-up with NTT Communications, introduced the joint service Safety Pass Cho-Com, which expands the number of settlement methods available on Yahoo! Shopping.
April 17-May 31	• Launched a Golden Week special feature, mainly with information on Road Stations and Green Tourism and provided accommodation reservation and shopping services.
May 12	• To strengthen Yahoo! Shopping's store lineup, the division decided to create a two-tier system of select stores—the existing popular brand stores with sophisticated services—and new stores to be developed. Through this strategy, the division plans to begin a full-fledged substantial expansion of the number of items available on Yahoo! Shopping.

### Page Views (Figure in parentheses is change from previous quarter)

Monthly Pages Views in June	298.35 million page views (+55.8%)	2.0% of total page views
-----------------------------	---------------------------------------	--------------------------

Note: Includes the page views of e-Shopping! Books.

### Shopping Business Transaction Volume

April 2003	May 2003	June 2003
¥3,571 million	¥3,492 million	¥3,734 million

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

### 3) Income statements for the first quarter

(Yen in Millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				<ul style="list-style-type: none"> <li>• Main components of Business Services sales are tenant fees and sales commissions of Yahoo! Shopping and Tavigator, Inc. sales commissions.</li> <li>• Main component of Others is sales of e-Shopping! Books.</li> </ul>
Advertising	97	-25	-20.9%	
Business Service	329	45	16.2%	
Personal Service	-	-	-	
Other	1,037	24	2.4%	
Total	1,463	44	3.2%	<ul style="list-style-type: none"> <li>• Main item in Cost of Sales is purchasing costs of e-Shopping! Books.</li> <li>• Main items in SG&amp;A are personnel, packing and delivery, commission paid, and communication expenses.</li> </ul>
Cost of Sales	843	35	4.4%	
Gross Profit	620	9	1.5%	
SG&A Expenses	453	21	4.9%	
Operating Income	166	-12	-6.8%	
Operating Margin	11.4%	-	-	

## **(5) Media Business Division**

### **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 and Yahoo! Finance; entertainment services, such as Yahoo! Movies and Yahoo! Music; community services, such as Yahoo! Message Boards and Yahoo! Avatar.

Main Services: Yahoo! News, Yahoo! Finance, Yahoo! Sports, Yahoo! Beauty, Yahoo! Weather, Yahoo! Movies, Yahoo! Music, Yahoo! Entertainment, Yahoo! TV Coverage, Yahoo! Fortune Telling, Yahoo! Game, Yahoo! Member Directory, Yahoo! Message Board, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! eGroups, Yahoo! Deliver, etc.

### **1) Activities in the first quarter**

During the quarter under review, along with the rapid growth in broadband users, we upgraded services in view of the longer time spent online by these users. We signed a basic contract with the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC) for interactive distribution of music over the Internet and provided a free video news service on the war with Iraq through a business tie-up with FNN (Fuji TV). In addition, in Yahoo! Sports, we introduce Fantasy Baseball 2003, a game approved by the Professional Baseball Organization of Japan. We also launched Yahoo! Avatar, a service that allows users to represent themselves as an original animated character (Avatar) on the Internet. We also expanded our pay services, targeting revenue growth. In Yahoo! News, we launched Newspaper Horizontal Search, a pay service that enables users to search two years of back issues of Japan's six major newspapers, containing about two million articles. In Yahoo! Finance, we started VIP Club, a pay service that provides 24-hour coverage of the latest domestic and foreign financial and economic market news as well as real time stock prices for all shares listed on exchanges in Japan.

### Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! News	April 3	<ul style="list-style-type: none"> <li>• Launched Newspaper Horizontal Search, a pay service that enables users to search two years of back issues of Japan's six major newspapers, containing about two million articles.</li> </ul>
	April 14	<ul style="list-style-type: none"> <li>• Launched a free video news service on the war in Iraq in collaboration with FNN (Fuji TV).</li> </ul>
	May 29	<ul style="list-style-type: none"> <li>• Began offering 'Nikkan Sports News' sports and celebrity news feeds on Yahoo! News and Yahoo! Sports.</li> </ul>
Yahoo! Finance	May 7	<ul style="list-style-type: none"> <li>• Started VIP Club, a pay service that provides 24-hour coverage of the latest domestic and foreign financial and economic market news as well as real time stock prices for all shares listed on exchanges in Japan.</li> </ul>
	May 14	<ul style="list-style-type: none"> <li>• Through a business tie-up with nine major insurance companies, began an automobile insurance estimate service that provides estimates from up to nine insurance companies based on one application.</li> </ul>
Yahoo! Sports	April 25	<ul style="list-style-type: none"> <li>• Through Sportsnavi, launched Fantasy Baseball 2003, a game approved by the Professional Baseball Organization of Japan.</li> </ul>
	May 22	<ul style="list-style-type: none"> <li>• Through a tie-up with the Japan Racing Association (JRA), commenced a pay service covering approx. 5,000 races including all G1 races.</li> </ul>
Yahoo! Entertainment	April 3	<ul style="list-style-type: none"> <li>• Signed a basic contract with JASRAC for the interactive distribution of music over the Internet.</li> </ul>
Yahoo! Messenger	April 23	<ul style="list-style-type: none"> <li>• Launched a beta version of Yahoo! Messenger for Macintosh. Three new functions added are video communications, highly efficient file forwarding for large data volumes, and conferencing that enables up to 10 people to chat at the same time.</li> </ul>
Yahoo! Avatar	April 8	<ul style="list-style-type: none"> <li>• Introduced Yahoo! Avatar, a service that allows users to represent themselves as an original animated character on the Internet.</li> </ul>
	May 19	<ul style="list-style-type: none"> <li>• Began using Yahoo! Avatar to develop merchandising (product development, product renewal, etc.) business on the Internet.</li> </ul>
Yahoo! Personals	June 24	<ul style="list-style-type: none"> <li>• Added function to enable members to substitute the illustration previously used when introducing themselves with an original character created using Yahoo! Avatar.</li> </ul>

### Page Views (Figure in parentheses is change from previous quarter)

Monthly Pages Views in June	4,514.03 million page views(+31.8%)	30.2% of total page views
-----------------------------	-------------------------------------	---------------------------

Note: Includes the page views of eGroups and Y's Sports.

### 3) Income statements for the first quarter

(Yen in millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				<ul style="list-style-type: none"> <li>• Main component of Business Services sales is Car Insurance Package Estimate Request Service sales.</li> <li>• Main component of Personal Services is sales of fee-based content.</li> </ul>
Advertising	1,276	92	7.8%	
Business Service	53	-41	-43.6%	
Personal Service	20	9	88.8%	
Other	-	-	-	
Total	1,350	60	4.7%	<ul style="list-style-type: none"> <li>• Main items in SG&amp;A are, personnel, sales commissions, content provider, and communication expenses.</li> </ul>
Cost of Sales	21	-13	-39.4%	
Gross Profit	1,329	74	5.9%	
SG&A Expenses	972	38	4.1%	
Operating Income	356	35	11.1%	
Operating Margin	26.4%	-	-	

### **(6) ES (Enterprise Solutions) Business Division**

**Effective July 1, 2003, the ES Business Division has changed its name to the BS (Business Solution) Business Division to reflect the broadened scope of its marketing efforts to companies and government bodies.**

#### **1) Major business**

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

Main Services: Yahoo! Portal Solutions, Yahoo! NetRoadshow, Yahoo! Research, Yahoo! Domain, etc.

#### **2) Activities in the first quarter**

During the period under review, we continued to aggressively make sales proposals for optimum navigation portals to companies and government bodies. We received our first order for an in-house corporate portal site from the international company, adidas Japan K.K. We began to extend our sales organization beyond during the quarter by focusing on developing sales agency agreements. In June we concluded a business alliance with Nihon Unisys, Ltd. to jointly sell solution products that either Yahoo! Portal Solutions or Nihon Unisys sources or develops. In addition, by linking up with Japan Unisys's system integration and outsourcing services, we will be able to expand the scope of our solution

marketing to companies with several hundreds to several thousands of employees and to local government bodies.

In other areas, the number and value of orders received by INTAGE Interactive Inc., an Internet research business, rose favorably during the quarter.

**Page Views (Figure in parentheses is change from previous quarter)**

Monthly Pages Views in June	1.49 million page views (+149.0%)	0.01% of total page views
-----------------------------	--------------------------------------	---------------------------

**3) Income statements for the first quarter**

(Yen in millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				
Advertising	26	-3	-12.2%	• Main components of Business Services sales were sales of Yahoo! Research, Yahoo! Portal Solutions, and NetRoadshow.
Business Service	221	16	7.8%	
Personal Service	-	-	-	
Other	-	-	-	
Total	248	12	5.2%	
Cost of Sales	140	7	5.8%	• Primary components of Cost of Sales were costs for Yahoo! Portal Solutions.
Gross Profit	108	4	4.5%	
SG&A Expenses	63	4	7.7%	• Main items in SG&A were personnel, communication, and rental expenses.
Operating Income	44	0	0.2%	
Operating Margin	18.0%	-	-	

**(7) Inter-Divisional Businesses and Headquarters**

Revenues and expenses related advertisements on the top page of Yahoo! JAPAN and personal identification fee 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. Sales and expenses from Headquarters are added up to Inter-Divisional Businesses.

Effective July 1, 2003, the term for paying users for personal identification has been changed along with the establishment of a Yahoo! Premium, a membership service that offers special advantages. Members of Yahoo! Premium have access to the services of Yahoo! Auctions, Yahoo! Personals, Yahoo! Avatar (special items, etc.). We intend to add further special services limited to members and expand Yahoo! Premium's membership base. With this change, Paying Users for Personal Identification are included in Premium Members.

Main services: Top Page, Yahoo! Kids, Yahoo! Broadcast, My Yahoo!, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Vote, Yahoo! Alert, Yahoo! Companion, Yahoo! Newsletter, Yahoo! Mobile, Yahoo! Volunteer, Yahoo! Bookmark, Yahoo! BB Top Page, Yahoo! JAPAN Help Center, Yahoo! Wallet, etc.

### Number of paying users for personal identification

April 2003	May 2003	June 2003
2.69 million	2.81 million	2.91 million

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

### Income statement for the first quarter

(Yen in millions)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				(Net Sales) • Main components of Inter-Divisional Businesses sales are advertising sales on top pages, etc. and personal identification fees. • Consolidation elimination figures are removed as sales of headquarters (SG&A) • Main components of Inter-Divisional Businesses SG&A were personnel, sales commissions, business commissions, and royalty expenses • Main items in Headquarters SG&A are personnel, depreciation, and business commission expenses.
Advertising	819	232	39.6%	
Business Service	20	13	219.5%	
Personal Service	2,268	236	11.6%	
Other	-0	-0	-	
Total	3,108	482	18.4%	
Cost of Sales	11	0	1.3%	
Gross Profit	3,096	482	18.5%	
SG&A Expenses	1,810	442	32.3%	
Operating Income	1,285	40	3.3%	
Operating Margin	41.4%	-	-	

## (Advertising Related Sales)

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

### Activities in the first quarter

According to an announcement by Dentsu Inc., total advertising expenses in Japan during 2002 amounted to ¥5,703.2 billion, declining 5.9% year on year. Weathering a drop in advertising spending for the second consecutive year, conditions continued to be difficult in the advertising industry. In response, the Yahoo! Japan Group strengthened its cooperative sales organization with advertising agencies, aggressively marketing broad reach products that feature highly efficient reach, such as the new Brand Panel launched in April 2003 along with the renewal of Yahoo! JAPAN's top page. In response to the advertising needs of advertisers, we also worked to win advertising from National Clients by conducting sales campaigns for such eye-catching advertisements as Super Banners in the topics area of Yahoo! News and Yahoo! Sports, which has a high number of unique users and of page views.

During the first quarter, one of the major trends continued to be the growing recognition by advertisers of Internet advertising as a media on par with traditional media, such as television along with the increase of the number of Internet users and the spread of broadband. Sales of Sponsor Sites also posted solid performance.

Based on our sales efforts, quarterly advertising business sales increased compared with the previous quarter for the sixth consecutive period, hitting a record high.

The first quarter advertising related sales were as follows.

(Yen in millions)

	Amount	Comparison with the same quarter in previous fiscal year		Comparison with the previous quarter	
		Increase/decrease	Change	Increase/decrease	Change
Advertising related sales	4,430	1,493	50.9%	367	9.0%

### Advertising Products

During the first quarter, sales were favorable for the new Brand Panel introduced in April along with the renewal of Yahoo! JAPAN's top page. Brand Panel is 1.5 times to 3 times bigger than Pilot Seat and has extremely strong appeal. Sales of large advertising space products such as Super Banners, Monster, and Large Rectangle that are placed on the top pages of each property or category also performed well as did sales of text-only advertising on specified pages.

One of the special features of the first quarter was an increase in cooperative efforts by Yahoo! JAPAN and advertisers to boost branding on the Internet. Yahoo! Japan sold more advertising products that require collaboration with advertisers in planning the products and collaborated on more promotions by National Clients. Specifically, to promote sales of a new low-malt beer from Asahi Breweries, Ltd., we designed Asahi's new product's top page to look like the design used by Yahoo! JAPAN's top page in other media advertising. Another

example was the launch of the special site “NISSAN presents ayumi hamasaki Limited TA LIVE TOUR Yahoo! Music Edition”. In this promotion, we cooperated with Nissan Motor Co., Ltd., to offer video of a secret live concert by popular artist Ayumi Hamasaki.

For the first quarter, rates for high-volume branding-type banner ads ranged from ¥0.25 to ¥1.00 per page view, rates for targeting-type banner ads varied from ¥1.25 to ¥20.00 per page view, and rates for the large-sized Super Banners varied from ¥0.80 to ¥4.00 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 ¥5 million to ¥9 million, depending on the number of browsers targeted 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 funds raised. Among our charity auctions in the first quarter, we again auctioned a Blythe doll. This type of doll was manufactured by Kenner Products, of the United States, for only one year from 1972 to 1973 and has become quite popular in Japan because of its use in advertisements and TV commercials. We also held an auction sponsored by the fan club operated by the agency that manages Hikaru Nishida. In total, we held 214 charity auctions during the first quarter, raising a total of approximately ¥5.89 million. All of the funds raised for such charities are being donated the following charities (not listed in any special order).

- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.
- Japan Spinal Cord Foundation, an NPO that support treatment and rehabilitation of people with damages spinal cords.
- Asian Children Orphaned by Traffic Accidents Support Association, an NGO that support Asian children who have lost their parents in traffic accidents.
- NPO Japan Association for UNHCR (United Nations High Commissioner for Refugees), which supports refugees worldwide.
- Central Community Chest of Japan, member of United Way International, this organization undertaking fundraising activities for volunteer public welfare services.

### 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.

### 4. Volunteer Activities

In commemoration of the seventh anniversary of the start of Yahoo! JAPAN services, we launched Yahoo! Volunteer on April 1, 2003. Part of our social contribution activities, Yahoo! Volunteer provides a Volunteer Group Information site where various volunteer groups can register and users can search volunteer group information and a community support service where people wanting to volunteer and groups looking for volunteers can link up. Yahoo! Volunteer hopes that by supplying a large amount of information, it will make the volunteer process more transparent and lead to greater participation in volunteer activities.

(Appendix)

## **Risk Factors**

Yahoo! Japan (hereinafter referred to as “the Company”), its consolidated subsidiaries and affiliated companies (hereinafter referred to as “the Group”), has reported its results for the first quarter ended June 30, 2003 in the document “Results for the Three Months Ended June 30, 2003.” 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. Group Business Risk**

#### **(1) Yahoo! BB Business**

Yahoo! BB is an integrated broadband service provided jointly with 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 ended 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 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 June 30, 2003, 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
FLET'S	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
ACCA	ACCA Networks, Co., Ltd.	ADSL 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) 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.

#### 2) 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 155<sup>th</sup> 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 patrol 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 Group has instituted a damage-compensation system, which pays a limited amount to users that have suffered damages due to illegal acts or accidents a limited amount. This could increase expenses by the Group.

Note: The escrow service consists of a company acting as an intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and 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.

### **3) Yahoo! Payment Service**

Yahoo! Payment is an escrow service provided by Yahoo! Japan's subsidiary Netrust, Ltd., whereby on the request of the seller and purchaser of an item sold on Yahoo! Auctions, Netrust acts as the intermediate in the settlement of the C2C transaction.

Since Netrust reimburses the seller of the item one to two days after the purchaser has made settlement by credit card, the subsidiary must carry the credit card receivables for the period up to the fixed settlement date of the bank used by the credit card company. The Group is currently exploring methods of reducing the amount of reimbursement funds by shortening the settlement cycle with the credit card companies' settlement banks as well as seeking methods of diversifying its source of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible the Group will not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where if interest rates rose the higher interest payments to banks could have a significant negative impact on the Group's business and performance.

In providing this service, the Group has taken all possible precautions to protect itself from such problems as the fraudulent use of credit cards and the leakage of personal information of individuals on-line. However, there is no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could

perpetrate a fraudulent act that would result in the Group being sued for compensation of losses, preventing the recovery of the funds reimbursed and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on Yahoo! Auctions and other Group services.

In addition to the online settlement market being crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and the lifecycle of services is short. Therefore, after a service has been launched, it is necessary to establish a service planning and system development organization that can respond quickly to the constantly changing demand in the market. However, there is a possibility that such problems as the service not properly meeting customer requirements, not being suitably compatible with new technologies, and not achieving a high-powered quick start could occur. These problems might result in an unavoidable decline in competitiveness within the market that would be detrimental to the Group's business and performance.

**4) The Competitive Environment**

As of June 30, 2003, 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
bidders	DeNA Co.	Online auction site
Rakuten Ichiba	Rakuten Inc.	Online mall and 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 Internet 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 businesses mentioned above. Therefore, we have chosen the Internet advertising areas that we think most important and will explain the associated risks. We will explain risks that could affect other businesses 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 Group 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 the Group's earnings.

### 5) The Competitive Environment

As of June 30, 2003, 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 June 30, 2003, SOFTBANK CORP. was the parent company of Yahoo! Japan, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. 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 and Broadband Infrastructure segments 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 16.6% of Group sales for the first quarter of fiscal 2003. We therefore consider the following contracts 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: Incentive agreement
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

Note: The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT has become SOFTBANK BB Corp. due to the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All of the merged companies had the same parent company, SOFTBANK CORP.

### **(3) Joint Directorships**

As of June 30, 2003, two of the five directors of Yahoo! Japan also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

SOFTBANK CORP. Part-time Director, Masahiro Inoue

SOFTBANK CORP. President, Masayoshi Son

Yahoo! Japan President and CEO Masahiro Inoue has been a part-time director of SOFTBANK CORP. since June 2001. In addition, he sits on the boards of 8 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 June 30, 2003. 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 CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted Party: Yahoo! Inc.
Main Conditions: 1. Licensing rights granted by Yahoo! Inc. to the Company: * 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. 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, as stated previously. 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 has dispersed its facilities in Tokyo to offset any of these events, but does not presently have multiple site capacity outside of Tokyo.

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. In particular, there have been several cases recently of specific Web sites or networks being targeted by sending huge volumes of data over a short period for the purpose of paralyzing the Web site or network. Although the Group has introduced effective security programs and other measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a 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.

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.

A law protecting the privacy of personal information was passed in the 156<sup>th</sup> Japan's Diet, creating an obligation for companies to protect the personal information they accumulate. Enforcement of the law is scheduled within two years. However, since the Group's procedures for dealing with personal information already meet the regulations of the new law, its enforcement is expected to have almost no impact on operations. Nevertheless, as the law was going through the approval process in the Diet, it was accompanied by a proposal to create a separate law for the information and communications industries. If this proposal resulted in law more severe than the current law regarding the protection of personal information, it could affect the Group's business.

## **(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 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. In particular, it is expected that the funds borrowed to allow Netrust to reimburse sellers of items on our auction site based on the previously described Yahoo! Payment service will increase to a significant amount. If the recovery of these reimbursed funds is blocked in some way, it could incur serious negative impact on the Group's business, operating results and financial condition.

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 risks that our subsidiaries and affiliates are generally small scale, and accordingly, their in-house management systems are also small scale. 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.

Because it operates Yahoo! BB, the Company 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.

### **(12) Change in Accounting Standards**

Against the backdrop of the recent trend to establishing International accounting standards, the Group has taken action appropriately and quickly to change its accounting standards for severance and retirement benefits, financial instruments, and other categories. Nevertheless, a significant change in accounting methods for the recognition of stock option expenses or other income or expense recognition could have a material impact on the Group's profits or losses.

## **6. Risks Concerning Investment, Loan, and Capital Investment Programs**

### **(1) Investment**

The Group has invested in 32 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 June 30, 2003 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.

To pursue business synergies or the expansion of the Group's business, it is anticipated that Yahoo! Japan will further invest or loan funds for capital participation in third party companies, fund joint ventures, and new investment by establishing companies, etc., or to adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risk of said investments or loans based on thorough analysis and compliance with in-house procedures. However, if these new investments or loans do not achieve the originally planned level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's financial condition in future.

### **(2) Capital Investment Programs and Investment Plans**

To support expected business expansion and continue introducing such new services as streaming video and audio, the Group has a capital investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after the other to adequately cope with higher peaks in access volume and larger volumes of data transmission over a short period. Consequently, the Group anticipates a growing necessity for even larger capital investments than in the past in a timely manner to build systems and networks to smoothly control large volumes of communications traffic, strengthen security systems to protect settlement services and the personal information of users, and expand systems to appropriately respond to the growth and diversification in user enquiries. Furthermore, in response to growth in business scope, the Group assumes that it will have to continuously acquire more office space and invest in the expansion and upgrading of its facilities.

In making these capital investments, the Group will take care to ensure that unnecessary cash outflows do not occur by closely considering costs and benefits, focusing on keeping the system development and equipment purchase expenses reasonable.

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may 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.

### **(3) Participation in Finance Scheme for Yahoo! BB**

In a meeting of the Board of Directors held on March 3, 2003, based on the following Finance Scheme, Yahoo Japan decided to consider financing the Japan Branch of a Special Purpose Company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The Board was aiming to make a decision by the end of March, but discussions were still ongoing at the end of June 2003.

#### Finance Scheme Summary

- The SPC raises funds by borrowing from several lenders as loans and as investments in a *Tokumei –Kumiai* (TK), an anonymous partnership.
- The SPC acquires modems and a modem rental agreement from SBB and pays SBB for them using the funds raised.
- The SPC operates a modem rental business and pays principal and interest to Lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fees revenues).
- In the case that modem rental fees are not paid using the underlying assets, SBB will provide credit compensation under the terms outlined in the Guarantee Agreement.

#### Scale of Finance Scheme

- The estimated total amount of funds to be raised at the present is approximately ¥19.1 billion, and the Company intends to finance ¥5.8 billion of this total.

#### Implementation Timing

- Currently at the consideration stage

If insufficient funds are raised from investors, the scheme may not be implemented. Moreover, the scheme is based on the assumption that the originally estimated rental fees will be paid from the underlying assets and that SBB will provide credit compensation if the rental fees are not paid from the underlying assets. If for some reason, a situation arises where SBB cannot adequately perform on its pledge to provide credit compensation, it could prevent the recovery of the principal and interest on the Company's portion of the financing.

In principle, the Group's risk in the above financing scheme is limited to the principal and interest on its loan: the Group does not intend to make any commitment to invest additional capital in the scheme.

However, participation in the scheme is still at the consideration stage, and it is possible that risks unimagined at this point in time could emerge later.

## List of Companies Invested by Yahoo Japan Corporation

(As of June 30, 2003)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 2)	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	11.75	1,316	Internet technical-support service		Yes
4	Vector Inc.	OSE Hercules	99/03/25	10.74	1,095	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	TSE 2nd Section	99/05/28	5.07	396	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	1	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	Oricon Inc.	OSE Hercules	00/03/28	1.53	53	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
9	e-Shopping! Wine CORP.		00/05/26	7.89	1	eS! Wine Website	Yahoo! Shopping tenant	
10	SOFTBANK ZDNet Inc.		00/08/28	8.33	30	Comprehensive site for IT-related information	Alliance for Yahoo! News	
11	BB Factory Corp.		00/11/13	10.00	31	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
12	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	
13	J-Yado Co., Ltd.		00/12/22	7.98	0	J-Yado.com hotel reservation website		
14	DBJ Co., Ltd.		00/12/26	2.27	0	E-commerce and supply of contents related to motorcycles		
15	Power Print Inc.		00/12/27	15.00	3	Online order-taking, printing and delivery of various printed materials		
16	Naturum Corp.		00/12/29	9.13	0	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
17	Archinet, Inc.		01/01/19	8.91	12	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
18	Golf Do Co., Ltd.		01/01/24	4.90	25	An online shop for used golf equipment		
19	Axiv.com, Inc.		01/01/30	5.44	12	MyID promotion/gift campaign website		
20	CafeGlobe.com		01/01/30	11.44	7	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet and Yahoo! Beauty	
21	eBANK Corporation		01/03/12	1.61	56	e-bank operations	Alliance for Yahoo! Auctions/Research	
22	GameBox, Inc.		01/03/16	9.38	10	GAMEBOX game-related Website		
23	Digipri Corporation		01/03/27	0.82	0	Internet storage and output services for digital imaging	Alliance for Yahoo! Photos	
24	Bitwave Corporation		01/03/29	1.19	0	Operating sales system for concert/sporting tickets	(See Note 3)	

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
25	Net Protections, Inc.		01/04/10	2.85	3	Online commercial settlement service		
26	istyle Inc.		01/04/20	8.51	5	@cosme information site for cosmetics and beauty care	Alliance for Yahoo! Beauty	
27	Digital Check Co. Ltd.		01/04/24	1.19	3	EC settlements, content supply and networking business	Alliance for Yahoo! Auctions	
28	CarHoo Inc.		01/04/26	13.02	0	Car Hoo driver-support site	Yahoo! Auctions tenant	
29	E-NEWS Inc.		01/06/26	13.33	0	Internet-based broadcasting and video production		
Shares in affiliated companies								
1	Tavigator, Inc.		00/03/03	30.00	94	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	ValuMore Corporation		02/01/28	26.67 (See Note 4)	41	Sales of computers and related equipment via the Internet	Yahoo! Shopping tenant	Yes
3	INTAGE Interactive Inc.		02/09/26	49.00	30	Internet-based marketing research services	Alliance for Yahoo! Research	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		600			

Notes:

1. In principle, the date of acquisition is the date of the first investment made by Yahoo! Japan in the company.
2. 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 B/S 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	-	Yahoo! eGroup groupware service, mainly e-mail
e-Shopping! Books CORP.	300	83	Operation of eS! Books on-line EC site service over the Internet, and Yahoo! Shopping tenant
BridalConcierge Corp.	0	-	Actually conducting no business
UniCept, Inc.	50	-	Consulting for Internet business and a range of planning, development, and operation services
Netrust, Ltd.	120	-	On-line settlement services

3. 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.

4. Stake held in ValuMore Corporation declined due to the merger with EC BRIDGE CORP. Japan, Inc. on June 2, 2003.