

Yahoo Japan Corporation

Results for the Interim Period and the Three Months Ended September 30, 2003

Interim Period and Second Quarter Highlights

The financial results of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates continued to be strong. Second quarter net sales amounted to ¥17.5 billion, rising 61.0% year on year and 12.8% compared with the previous quarter. At ¥9.2 billion, operating income rose 71.4% year on year and 9.4% compared with the previous quarter. Interim net sales climbed 70.9%, to ¥33.1 billion and operating income for the first six months totaled ¥17.6 billion, up 86.4% year on year. Due to a change in the method of recognizing sales, etc., the operating margin was 52.6% in the second quarter and 53.3% for the first half of the fiscal year.

Note: Beginning with the first quarter of fiscal year ending March 31, 2004 (fiscal 2003), the method of recognizing ISP fees related to sales was 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 now nets the amounts and only books net sales of ¥200. In addition, the method of accounting for sales during free service campaigns was changed to not recording any sales during the period. To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

In addition to the traditional sales slowdown in summer, the unusually low temperatures and other conditions created a difficult environment for our advertising business in the second quarter. There was a cutback trend among national clients and the sales of major advertising products for top pages and other areas suffered. In response, the Group developed new products that can distribute large volume advertising banners and implemented a variety of sales campaigns targeting at IT, Real Estate, Recruiting, and Educational sectors, which are familiar with Internet. In addition, Sponsor Site sales grew favorably. As a result, advertising business sales for the second quarter amounted to ¥4.8 billion (up 58.4% year on year and 10.5% from the previous quarter), marking the seventh consecutive quarter of growth and a record high.

In our Auction Business Division, the transaction volume and other performance figures dropped in August due to the summer holidays, but picked up again in the second half of September, rising to a new daily transaction volume high on September 28. A new computer system that can handle an auction item list of more than 10 million items came online, and the total number of listed items was 4.47 million at the end of September.

Thanks to various campaigns to acquire new subscribers, the number of Yahoo! BB subscribers acquired directly by the Company broke through the one million mark in July

for the first time. The total number of subscribers rose to 3.24 million at the end of the second quarter (approx.35.2% accumulated share).

The Shopping Business Division introduced 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. As a result of its solicitation of more “Stores” at the end of September, the number of participating stores increased to 565 stores, up 325 stores, or 135.4%, from the previous quarter.

Monthly page views topped 16.5 billion during the quarter.

Interim Period and Second Quarter Performance
(Consolidated Information)

<Internet Users>

According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, 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. Japan now has the third largest number of broadband subscribers, following the United States and the Republic of Korea. In the same survey, it was noted that the number of Japanese households subscribing to broadband services at the end of August had risen to approximately 11.8 million households, or about double that in August 2002, reflecting the rapid growth in the number of households using broadband. The amount of time being spent on the Internet is also rising. According to a July 2003 survey by NetRatings, the average time spent on the Internet per person during a month exceeds 14 hours. Looking at a breakdown by age groups, in addition to the 20-to-30 year-old group, the usual big users of the Internet, the amount of time being spent on the net by people 40 years old or over and by children has expanded remarkably.

Along with the spread of fixed or low cost continuous connection services, uses of the Internet have diversified beyond e-mail and searches to include purchasing or booking a wide range of goods and services, participating in auctions, and using it for practical consumer activities, such as paying bills. According to the Ministry of Economy, Trade and Industry, the B-to-C electronic market in Japan grew 80% to ¥2.7 trillion in 2002, and is forecast to expand approximately 4.6 times, to ¥12.3 trillion by the end of 2007.

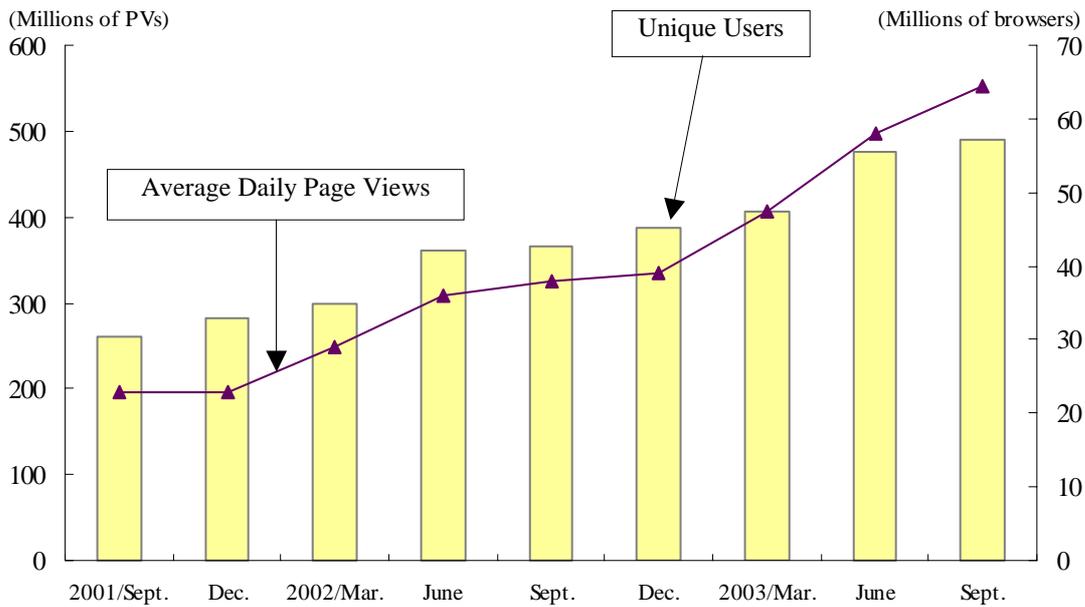
Thus, the Internet has become an indispensable lifestyle service and its influence is expected to grow in leaps and bounds.

Against this backdrop, the Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Group) achieved the following results for the interim period and the second quarter of fiscal 2003.

(Page Views and Yahoo! JAPAN Users)

Daily page view of Yahoo! Japan topped 590 million for the first time during the second quarter. The Group monthly page views for September 2003 reached 16,520.96 million, representing an increase of 1,588.45 million page views, or 10.6%, compared with June 2003, the last month of the previous quarter, and an increase of 6,774.58 million page views, or 69.5%, compared with the same month a year earlier. On October 6, 2003, the number of daily page views exceeded 600 million for the first time.

The number of unique users at the end of the quarter was approximately 57.00 million browsers, up approximately 1.60 million browsers, or 2.9% from the previous quarter-end.

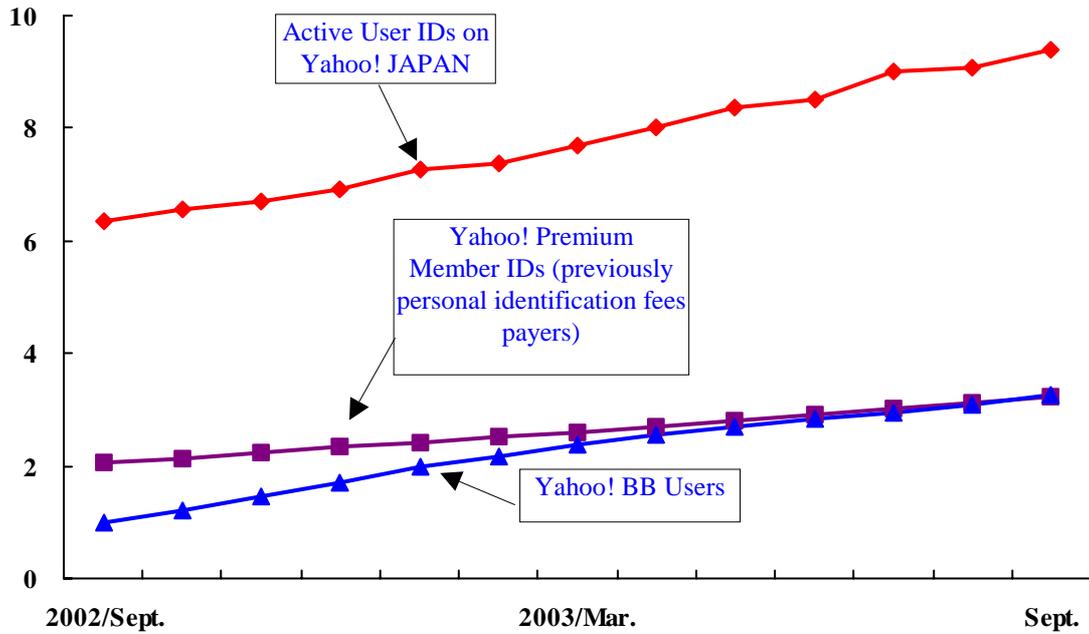


(Source: Company data)

Note: The number of unique users (browsers) does not necessary equate to the number of different individuals accessing our sites. This figure is a compilation of the number of browsers viewing our services and does not distinguish when a single individual accesses our sites from multiple locations, such as work and home, using different browsers, or when multiple people use the same browser on a single computer to access our sites.

At the end of the second quarter under review, the number of active IDs (at least one access during the month) on Yahoo! JAPAN was approximately 9.38 million, up 870 thousand, or 10.3% compared with the previous quarter-end. The number of Premium Member IDs, or users of pay services including the personal identification service, amounted to approximately 3.23 million, an increase of 320 thousand, or 10.9% compared with the previous quarter-end.

(Millions of IDs and lines)



(Source: Company data)

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

< Consolidated Statements of Income >

(Notes)

1. Starting with the first quarter of fiscal 2003, 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 first quarter of fiscal 2003, 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 Corporate Common Businesses. In 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 (July 1, 2003-Sept. 30, 2003)

(Yen in Millions)

	Amount	% share	Comparison with the previous quarter		Comparison with the same period of the last fiscal year	
			Increase/ decrease	Change	Increase/ decrease	Change
Net Sales	17,549	100.0%	1,984	12.8%	6,650	61.0%
Cost of Sales	1,257	7.2%	55	4.6%	477	61.2%
Gross Profit	16,291	92.8%	1,928	13.4%	6,172	61.0%
SG&A Expenses	7,064	40.2%	1,135	19.1%	2,327	49.1%
Personnel Expenses	1,628	9.3%	249	18.1%	403	32.9%
Advertising Costs	73	0.4%	-9	-11.4%	-42	-36.5%
Content Provider Fees	451	2.6%	45	11.1%	6	1.4%
Sales Commission	664	3.8%	-0	-0.0%	152	29.7%
Depreciation Expenses	684	3.9%	106	18.4%	289	73.3%
Communication Charges	680	3.9%	39	6.2%	343	102.0%
Royalties	455	2.6%	56	14.0%	171	60.3%
Lease and Utility Expenses	315	1.8%	55	21.5%	120	62.1%
Business Commissions	838	4.8%	161	23.8%	461	122.7%
Sales Promotion Costs	364	2.1%	121	50.2%	252	224.7%
Allowance for Doubtful Debt Accounts	81	0.5%	81	—	-57	-41.3%
Amortization of Consolidated Accounts	16	0.1%	-0	-0.0%	-51	-75.5%
Others	810	4.4%	228	39.4%	277	52.0%
Operating Income	9,227	52.6%	793	9.4%	3,845	71.4%
Non-Operating Income (Expenses)	58	0.3%	234	—	188	—
Ordinary Income	9,285	52.9%	1,028	12.5%	4,034	76.8%
Extraordinary Gains (Losses)	-31	-0.2%	270	-89.6%	256	-89.1%
Income before Income Taxes	9,254	52.7%	1,298	16.3%	4,291	86.5%
Income Taxes, Inhabitants' Taxes and Enterprise Taxes	3,201	18.2%	-220	-6.4%	657	25.8%
Adjustment to Income Taxes	137	0.8%	137	—	496	—
Minority Interests in Loss of Consolidated Subsidiaries	-2	-0.0%	-8	—	-26	—
Net Income	5,912	33.7%	1,372	30.2%	3,111	111.1%

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

(Yen in millions)

	Sales	Contribution
Auction (including Netrust, Inc.)	¥4,851	27.6%
Yahoo! BB	3,118	17.8%
Listing	3,060	17.4%
Shopping (including e-Shopping! Books CORP.)	1,537	8.8%
Media (including eGroups KK and Y's Sports Inc.)	1,426	8.1%
BS	268	1.5%
Corporate Common Business (including UniCept, Inc.)	3,304	18.8%
Elimination or Corporate	-19	
Total	¥17,549	100.0%

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

- Eliminations or shared items include the consolidation eliminations between business divisions.

Composition of Consolidated Operating Income by Business Division (Second Quarter)

(Yen in millions)

	Operating Income	Contribution
Auction (including Netrust, Inc.)	¥3,691	40.0%
Listing	2,162	23.4%
Yahoo! BB	1,825	19.8%
Media (including eGroups KK and Y's Sports Inc.)	338	3.7%
Shopping (including e-Shopping! Books CORP.)	185	2.0%
BS	37	0.4%
Corporate Common Business (including UniCept, Inc.)	2,577	10.7%
Elimination or Corporate	-1,592	
Total	¥9,227	100.0%

Note: Eliminations or shared items include the consolidation eliminations between divisions, the personnel and accounting expenses of head office, and the common expenses of business segments for which the benefits cannot be clearly assigned to any one segment.

Consolidated Statements of Income (April 1, 2003-Sept. 30, 2003)

(Yen in Millions)

	Amount	% share	Comparison with the same period of the last fiscal year	
			Increase/ decrease	Change
Net Sales	33,114	100.0%	13,739	70.9%
Cost of Sales	2,459	7.4%	959	63.9%
Gross Profit	30,654	92.6%	12,780	71.5%
SG&A Expenses	12,993	39.3%	4,595	54.7%
Personnel Expenses	3,008	9.1%	836	38.6%
Advertising Costs	156	0.5%	-26	-14.4%
Content Provider Fees	856	2.6%	98	13.0%
Sales Commission	1,329	4.0%	346	35.2%
Depreciation Expenses	1,263	3.8%	525	71.2%
Communication Charges	1,320	4.0%	686	108.3%
Royalties	855	2.6%	357	71.9%
Lease and Utility Expenses	574	1.7%	213	59.3%
Business Commissions	1,515	4.6%	855	129.5%
Sales Promotion Costs	606	1.8%	400	194.6%
Allowance for Doubtful Debt Accounts	81	0.2%	-51	-38.6%
Amortization of Consolidated Accounts	33	0.1%	-115	-77.6%
Others	1,391	4.3%	466	50.4%
Operating Income	17,661	53.3%	8,184	86.4%
Non-Operating Income (Expenses)	-118	-0.3%	-0	0.5%
Ordinary Income	17,542	53.0%	8,184	87.4%
Extraordinary Gains (Losses)	-332	-1.0%	219	-39.8%
Income before Income Taxes	17,209	52.0%	8,403	95.4%
Income Taxes, Inhabitants' Taxes and Enterprise Taxes	6,624	20.0%	2,392	56.5%
Adjustment to Income Taxes	137	0.4%	496	—
Minority Interests in Loss of Consolidated Subsidiaries	3	0.0%	-40	-92.5%
Net Income	10,452	31.6%	5,474	110.0%

Composition of Consolidated Net Sales by Business Division (Interim Period)

(Yen in millions)

	Sales	Contribution
Auction (including Netrust, Inc.)	¥9,201	27.8%
Yahoo! BB	5,707	17.2%
Listing	5,516	16.7%
Shopping (including e-Shopping! Books CORP.)	3,001	9.1%
Media (including eGroups KK and Y's Sports Inc.)	2,776	8.4%
BS	517	1.6%
Corporate Common Businesses (including UniCept, Inc.)	6,414	19.2%
Elimination or Corporate	-21	
Total	¥33,114	100.0%

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

- Eliminations or shared items include the consolidation eliminations between business divisions.

Composition of Consolidated Operating Income by Business Division (Interim Period)

(Yen in millions)

	Operating Income	Contribution
Auction (including Netrust, Inc.)	¥7,069	40.0%
Listing	3,812	21.6%
Yahoo! BB	3,378	19.1%
Media (including eGroups KK and Y's Sports Inc.)	695	3.9%
Shopping (including e-Shopping! Books CORP.)	351	2.0%
BS	82	0.5%
Corporate Common Businesses (including UniCept, Inc.)	5,034	12.9%
Elimination or Corporate	-2,763	
Total	¥17,661	100.0%

Note: Eliminations or shared items include the consolidation eliminations between divisions, the personnel and accounting expenses of head office, and the common expenses of business segments for which the benefits cannot be clearly assigned to any one segment.

Main Points Regarding Statements of Income

Net Sales

The large increase in quarterly sales year-on-year is principally the result of the growth in the personal service revenues of the Auction and Yahoo! BB business divisions. In addition, advertising sales of the Listing Business Division increased.

Sales of consolidated subsidiaries, on a gross total basis, were ¥1,769 million for the second quarter and ¥3,399 million for the interim period.

Cost of Sales

The main factors behind the growth in the cost of sales in the second quarter and interim period in comparison with the same periods 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 second quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 838, up 272, or 48.1%, from the end of same quarter in the previous fiscal year.

- Advertising costs

Advertising costs for the second quarter and interim period decreased year on year primarily because of our focus on marketing methods that cost less.

- Sales commissions

Interim period sales commissions increased compared with the first half of fiscal 2002 mainly because of the growth in advertising sales.

- Communication charges

Communications charges for the second quarter and interim period rose from a year earlier primarily because of expansion of the space of data center to expand and strengthen computer systems.

- Lease and utility expenses

The growth in lease and utility expenses for the second quarter and interim period compared with the same period in the previous fiscal year can be attributed to office expansion due to increased personnel.

- Business commissions

The main business commissions for the second quarter and interim period 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 second quarter and interim period jumped substantially from a year earlier primarily because the Group conducted campaigns to acquire Yahoo! BB users.

- Allowance for Doubtful debt accounts

The main reason for the increase in the provision to allowance for doubtful debt accounts in the second quarter compared with the previous quarter was the increase in accounts receivable-trade.

- Amortization of consolidated accounts

Amortization of consolidated accounts for the second quarter consisted of the consolidated accounts for e-Shopping! Books CORP.

- Others

The major components of others in the second quarter and interim period were expenses and commissions for Yahoo! Payment, the packaging and transport expenses of e-Shopping ! Books, and cleaning and system maintenance costs for the head office.

Non-Operating Income (Expenses)

The main component of non-operating income was interest earned from loan based on Yahoo! BB finance scheme. The main components of non-operating expenses were losses in value of investments in other companies and a provision to a reserve against non-operational loans.

Extraordinary Gains (Losses)

Extraordinary losses recorded during the second quarter and interim period were mainly the result of the application of retirement of fixed assets due to office relocation and depletion accounting to our investment securities and other assets.

Income Taxes, etc.

On a consolidated basis, the income tax rate for the interim period under review was 39.3% after application of the IT investment promotion tax incentive system.

Minority Interests in Loss of Consolidated Subsidiaries (Profit)

Minority interest losses booked during the interim period resulting from the netting of the net income and losses of eGroups KK, e-Shopping! Books Corp. and Netrust, Ltd 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 interim period under review amounted to ¥10,740.95.

<Consolidated Balance Sheets>

As of September 30, 2003, total assets amounted to ¥58,311 million, up ¥14,044 million or 31.7% from the previous quarter-end. Total liabilities were ¥14,348 million, increasing ¥5,491 million or 62.0%. Minority interests in consolidated subsidiaries rose ¥50 million or 79.7%, to ¥113 million. Total shareholders' equity advanced ¥8,502 million or 24.1%, to ¥43,849 million from the previous quarter-end.

Consolidated Balance Sheets (As of September 30, 2003)

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comparison with the same period of the last year	
		Increase/ decrease	Change	Increase/ decrease	Change
Assets					
Current Assets					
Cash	24,291	3,080	14.5%	9,755	67.1%
Accounts Receivable Trade	9,576	989	11.5%	2,533	36.0%
Marketable Securities	-	-	-	-99	-
Inventory	33	23	236.3%	23	227.0%
Deferred Tax Assets	832	-172	-17.1%	363	77.5%
Accounts Receivable Other	153	-1	-1.0%	22	17.5%
Other Current Assets	763	245	47.3%	435	132.9%
Allowance for Doubtful Accounts	-372	-106	39.8%	-203	120.0%
Total Current Assets	35,277	4,059	13.0%	12,830	57.2%
Fixed Assets					
Tangible Fixed Assets	7,140	774	12.2%	3,430	92.5%
Intangible Fixed Assets					
Consolidated Accounts	66	-16	-20.0%	-578	-89.7%
Other Intangible Fixed Assets	860	129	17.8%	106	14.1%
Total Intangible Fixed Assets	927	113	13.9%	-472	-33.7%
Investment and Others					
Investment Securities	7,357	3,616	96.7%	2,019	37.8%
Long-term loans	5,966	5,966	-	5,966	-
Others	1,694	-442	-20.7%	256	17.8%
Allowance for Doubtful Accounts	-52	-44	508.7%	-43	463.1%
Total Investments and Others	14,965	9,096	155.0%	8,199	121.2%
Total Fixed Assets	23,033	9,984	76.5%	11,157	93.9%
Total Assets	58,311	14,044	31.7%	23,987	69.9%

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comparison with the same period of the last year	
		Increase/decrease	Change	Increase/decrease	Change
Liabilities					
Current Liabilities					
Accounts Payable Trade	515	-26	-4.9%	-1,296	-71.5%
Accounts Payable Other	3,573	224	6.7%	1,510	73.2%
Accrued Income Taxes	6,709	3,198	91.1%	2,457	57.8%
Other Current Liabilities	1,789	508	39.6%	670	59.9%
Total Current Liabilities	12,587	3,903	45.0%	3,341	36.1%
Long-term Liabilities					
Long-term Deferred Taxes	1,728	1,600	13.5 times	980	131.2%
Other Long-term Liabilities	32	-12	-27.9%	-107	-77.0%
Total Long-term Liabilities	1,760	1,587	919.0%	873	98.5%
Total Liabilities	14,348	5,491	62.0%	4,215	41.6%
Minority Interests in Consolidated Subsidiaries					
Minority Interests in Consolidated Subsidiaries	113	50	79.7%	11	11.5%
Shareholders' Equity					
Common Stock	6,181	104	1.7%	108	1.8%
Additional Paid-in Capital	1,262	104	9.1%	108	9.4%
Retained Earnings	32,691	5,912	22.1%	17,508	115.3%
Other Securities Evaluation	3,733	2,383	176.5%	2,039	120.4%
Treasury Stock	-20	-2	15.3%	-5	32.3%
Total Shareholders' Equity	43,849	8,502	24.1%	19,760	82.0%
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	58,311	14,044	31.7%	23,987	69.9%

Main Points Regarding Balance Sheets

Assets

- The growth in cash compared with the previous quarter-end and the same period in the previous fiscal year was principally due to the increase in net income.
- The increase in accounts receivable—trade compared with the first quarter and year on year was mainly related to growth in revenues from corporations and from system-use fees for Yahoo! Auctions etc.
- Marketable securities declined year on year because of the maturity of securities being held.
- Allowance for doubtful accounts rose compared with the previous quarter and year on year because of the increase in receivable along with growth in sales.
- The increase in tangible fixed assets compared with the previous quarter and year on year is mainly due to additional installations, such as servers, etc.
- The substantial decrease in the consolidated accounts from the same period in the previous fiscal year was primarily due to the lump sum write off of amounts related to eGroups KK.

- The large increase in investment securities compared with the previous quarter and year on year was mainly a result of mark to market revaluation.
- The appearance of long-term loans on the balance sheets is due to the loan based on a finance program related to the operations of Yahoo! BB.

Liabilities

- The significant decline in accounts payable—trade year on year was principally due to a change in the sales recognition method for the ISP fees of Yahoo! BB.
- The large increase in accounts payable—other year on year was mainly due to the addition of servers and equipment.
- The growth in accrued income taxes compared with the previous quarter and year on year can be primarily attributed to the increase in profits.
- The rise in long-term deferred taxes from the previous quarter-end and the same period-end in the previous fiscal year was chiefly due to the marking to market of investment securities.

Shareholders' Equity

- The substantial increase in retained earnings compared with the previous quarter and year on year resulted principally from the increase in net income.
- The large increase in the other securities evaluation adjustment year on year was mainly due to the marking to market of investment securities.

<Consolidated Statements of Cash Flows>

The net increase in cash and cash equivalents was ¥3,080 million for the quarter and ¥1,075 million on interim period under review. The consolidated statement of cash flows for the second quarter and interim period follows.

The Consolidated Statements of Cash Flows

(Yen in Millions)

	Three months ended Sept. 30, 2003	Interim period ended Sept. 30,2003	Comments	
Cash Flows from Operating Activities:	8,978	8,564		
Income before Income Taxes	9,254	17,209	• Cash increased thanks to the growth in income before income taxes.	
Depreciation and Amortization	693	1,283		
Amortization of Consolidated Accounts	16	33	• The increase in accounts receivable—trade in the second quarter was mainly related to growth in revenues from system-use fees for Yahoo! Auctions, etc.	
Decrease in Allowance for Doubtful Accounts	150	126		
Loss on Disposal of Fixed Assets	31	256		
Loss on Evaluation of Investment Securities	7	110		
Loss on Evaluation of Loans	24	24		
Exchange Gains	0	0		
Equity in Gains under the Equity Method	-24	-31		
Loss/gain on change of equity holdings in subsidiaries	-	-0		
Proceeds from Interest and Dividend	-124	-129		• The declines in accounts receivable—trade and accounts payable—trade for the interim period were mainly related to the change in sales recognition method in which ISP fees of Yahoo! BB are netted with its sales.
Interest Expense	0	0		
Increase in Inventory	-23	-19		
Increase/Decrease in Accounts Receivable Trade	-994	1,502		
Decrease in Accounts Payable Trade	-26	-3,182		
Increase in Accounts Receivable Other	-152	-354		
Increase in Accounts Payable Other	19	448		
Increase/Decrease in Consumption Tax Payable	157	-292		
Payment of Directors' Bonuses	-62	-62		
Other Cash Flows from Operating Activities	33	59		
Payment of Income Taxes and Other Taxes	-3	-8,420		
Cash Flows from Investing Activities:	-6,151	-7,749		
Expenditures on Tangible Fixed Assets	-1,197	-2,909	• Purchases of new servers and other equipment and a loan made under a finance scheme related to the operations of Yahoo! BB resulted in an increase in cash used in investing activities.	
Expenditures on Intangible Fixed Assets	-106	-201		
Expenditures on Investment Securities	-	-0		
Proceeds from Sale of Investment Securities	-	0		
Proceeds from Debt Maturity of Associated Companies	400	400		
Expenditures on Lending	-5,700	-5,700		
Proceeds from Recovery of Lending	15	15		
Expenditures on Increase in Guarantee Deposit Assets	-11	-11		
Proceeds from Decrease in Guarantee Deposit Assets	333	541		
Proceeds from Interest and Dividends	115	116		

	Three months ended Sept. 30, 2003	Interim period ended Sept. 30,2003	Comments
Cash Flows from Financing Activities:	254	260	
Proceeds from Issuance of Shares	257	264	
Expenditures for Acquisition of Treasury Stock	-2	-3	
Interest Expenses	-0	-0	
Effect of Exchange Rate Changes on Cash and Cash Equivalents	-0	-0	
Net Change in Cash and Cash Equivalents	3,080	1,075	
Cash and Cash Equivalents at beginning of Term	21,210	23,215	
Cash and Cash Equivalents at end of Term	24,291	24,291	

Operating Review by Business Division

Beginning with January 2002, Yahoo Japan Corporation 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 Corporate Common Business.

The following is an outline of the activities of the six business divisions and Corporate Common Business for the second quarter and interim period. 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	<p>Sales of banner, e-mail advertising, and other advertising listed on the sales sheet as well as related sales.</p> <ul style="list-style-type: none"> • Regular banner, text, e-mail, and other advertising. • Results-based advertising, merchant margin, projected advertising production fees, and others. • Pay listing services (Sponsor Site)
Business Service	<p>Sales to corporations other than advertising.</p> <ul style="list-style-type: none"> • Yahoo! BB customer acquisition incentive fees • Tenant fees and sales commissions for B to C auction and Yahoo! Shopping. • Research, Business Express, account opening incentive fees, Yahoo! Portal Solutions, and other sales. • Content provider fees for Yahoo! Employment, Yahoo! Real Estate, Yahoo! Autos, and others. • Magazine and book licensing fees, fees for permission to use the Yahoo! name. • Yahoo! Cafe support funds, etc.
Personal Service	<p>Sales from services for individuals.</p> <ul style="list-style-type: none"> • Yahoo! BB ISP fees and content fees. • Yahoo! Premium revenues. • System-use fees for Yahoo! Auctions and others.
Other	<ul style="list-style-type: none"> • Sales of e-Shopping! Books CORP.

Net Sales by Business Division (Second Quarter)

(Yen in Millions)

	Advertising	Business Service	Personal Service	Other	Total
Auction	¥188	¥463	¥4,200	-	¥4,851
Yahoo! BB	167	1,519	1,432	-	3,118
Listing	2,433	627	-0	-	3,060
Shopping	109	337	-	1,090	1,537
Media	1,261	109	55	-	1,426
BS	18	250	-	-	268
Corporate Common Business	721	42	2,541	-	3,304
Elimination or Corporate	-2	-16	-	-	-19
Total	¥4,896	¥3,333	¥8,228	¥1,090	¥17,549

Net Sales by Business Division (Interim Period)

(Yen in Millions)

	Advertising	Business Service	Personal Service	Other	Total
Auction	¥362	¥841	¥7,998	-	¥9,201
Yahoo! BB	288	2,867	2,551	-	5,707
Listing	4,348	1,168	0	-	5,516
Shopping	207	666	-	2,128	3,001
Media	2,538	162	75	-	2,776
BS	45	472	-	-	517
Corporate Common Business	1,541	63	4,809	-	6,414
Elimination or Corporate	-3	-18	-	-0	-21
Total	¥9,327	¥6,223	¥15,434	¥2,128	¥33,114

(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 second quarter

During the second quarter, we brought our new system online and established an organization that can handle more than 10 million auction items. In commemoration of the fourth anniversary of the start of our services, we launched a Fourth Anniversary Commemoration Campaign, in which we had a free auction item listing day and offered such prizes as trips, working to attract more users of our services. Furthermore, to promote the services of Yahoo! Payment, we ran a cash back campaign and expanded its services to include not only payments between individuals but also between individuals and some auction stores (merchant stores). Yahoo! Payment allows the payment of successful auction bids by buyers and sellers using only a credit card and a Yahoo! JAPAN ID. As a result, the

number of unique users of Yahoo! Auctions for September 2003 totaled approximately 13.10 million browsers, an increase of about 7.1% or 870 thousand browsers from June 2003. The number of merchants at the end of September 2003 also increased, rising 136 stores, or 9.3%, to 1,593 stores from three months earlier. The number of items listed for Yahoo! Auctions grew by 9.4%, or approximately 380 thousand items, to about 4.47 million items at the end of September, compared with the end of June. A new record high for auction items listed on a daily basis of 5.05 million items was reached on October 3 just after the end of the quarter. The transaction rate during the second quarter ranged between 33% and 49%, remaining at a high level.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 16	<ul style="list-style-type: none"> • Yahoo! Payment launched a service for users to settle payments directly with stores. A total of 129 stores started offering the service.
Aug. 4	<ul style="list-style-type: none"> • Began Ezweb Mobile Auction, the first pay service for mobile phones.
Sept. 1-Dec. 2	<ul style="list-style-type: none"> • Launched Maternity and Baby, a super special feature through which users can not only purchase maternity and baby clothes but also learn about child rearing techniques.
Sept. 18-Oct. 6	<ul style="list-style-type: none"> • Jointly with the Recycle Movement Citizens' Group, decided to hold a large flea market on December. Inviting people to set up shops at the flea market.
Sept. 29-Oct. 31	<ul style="list-style-type: none"> • Commenced a Fourth Anniversary Commemoration Campaign to commemorate the fourth anniversary of the start of Yahoo! Auctions.

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

Monthly Pages Views in September	4,742.41 million page views (+12.0%)	28.7% of total page views
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Yahoo! Auctions number of total listed items and transaction rate, etc.

	July 2003	Aug. 2003	Sept. 2003
Number of Auction Unique Users	Approx. 12.47 million browsers	Approx. 12.71 million browsers	Approx. 13.10 million browsers
Number of Total Listed Items (As of the end of each month)	Approx. 4.11 million items	Approx. 4.36 million items	Approx. 4.47 million items
Monthly Total Number of New Listings	Approx. 12.97 million items	Approx. 12.99 million items	Approx. 13.38 million items
Monthly Volume of Transactions	Approx. ¥38.9 billion	Approx. ¥35.6 billion	Approx. ¥37.6 billion
Average Closing Price per Item	¥6,189	¥5,940	¥5,995
Transaction Rate	37-49%	38-46%	33-49%
Number of Stores (As of the end of each month)	1,550 stores	1,547 stores	1,593 stores

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

3) Income statements for the second quarter and interim period

(Yen in Millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales are registration fees, tenant fees and transaction fees of stores. • Sales included in Personal Services are system-use fees of Yahoo! Auctions.
Advertising	188	14	8.1%	362	
Business Service	463	86	22.8%	841	
Personal Service	4,200	401	10.6%	7,998	
Other	-	-	-	-	
Total	4,851	501	11.5%	9,201	<ul style="list-style-type: none"> • Main items in SG&A are communication, business commissions, personnel expenses, and royalty expenses.
Cost of Sales	6	1	28.7%	10	
Gross Profit	4,845	500	11.5%	9,190	
SG&A Expenses	1,153	186	19.3%	2,120	
Operating Income	3,691	313	9.3%	7,069	
Operating Margin	76.1%	-	-	76.8%	

Notes:

The Yahoo! Premium membership fees necessary to participate in Yahoo! Auctions are included in Corporate Common Businesses sales.

(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 second quarter

During the quarter under review, the business division continued to conduct various campaigns to acquire new subscribers as well as improving and expanding its pay services for members. Specifically, the division added Yahoo! BB 26M, a new service with a maximum download speed of 26Mbps. It also held a campaign offering no charge for the initial registration period fees for Yahoo! BB SOHO, a service to support the introduction of information technology by small and medium-sized small office home office (SOHO) businesses. The division took several steps during the quarter to increase the convenience of its services and improve them. It launched GeoCreator, a new service that allows paying users of Yahoo! GeoCities to easily create homepages even if they are beginners. For Yahoo! BB users, the division began an agency service for signing up for BB Cable TV. As a result, the number of Yahoo! BB subscribers amounted to approximately 3.24 million at the end of September 2003, rising about 420 thousand subscribers, or 15.1%, from the end of June. The cumulative DSL share was approximately 35.2%. The acquisition of Yahoo! BB users directly through Yahoo! JAPAN broke through the one million mark in July 2003.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 14	<ul style="list-style-type: none"> • Launched GeoCreator as a test service for Yahoo! BB users and pay users of GeoPlus. The service allows even beginners to easily make homepages.
July 15	<ul style="list-style-type: none"> • Began recruiting a total of 820 participants (children) in the Enjoy Yahoo! BB Day to be held at Yahoo! BB STADIUM on August 26. • Commenced Yahoo! BB 26M, a new service offering a maximum download speed of 26 Mbps.
July 17	Expanded the BB Cable TV service area from the previous 23 wards of Tokyo to Tokyo and the surrounding prefectures of Kanagawa, Chiba, and Saitama, and began accepting user applications.
Aug. 1	<ul style="list-style-type: none"> • Began a free test service of Yahoo! BB Mobile at Yahoo! BB STADIUM that allows users to enjoy high-speed wireless connections at the stadium.
Sept. 1- Oct. 31	<ul style="list-style-type: none"> • Started a Hello Yahoo! BB SOHO campaign offering no charge for the initial registration fees for first time users of Yahoo! BB SOHO.

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

Monthly Pages Views in September	1,821.71 million page views (+13.2%)	11.0% of total page views
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Total Subscriber Lines for Yahoo! BB Services

End of July 2003	Approximately 2,961 thousand lines (including approximately 1,001 thousand lines marketed by Yahoo! JAPAN)
End of Aug. 2003	Approximately 3,092 thousand lines (including approximately 1,015 thousand lines marketed by Yahoo! JAPAN)
End of Sept. 2003	Approximately 3,248 thousand lines (including approximately 1,034 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 second quarter and interim period

(Yen in Millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					
Advertising	167	46	38.2%	288	• Main components of Business Services sales are the customer acquisition incentive and continuation fees of Yahoo! BB.
Business Service	1,519	171	12.7%	2,867	
Personal Service	1,432	312	27.9%	2,551	
Other	-	-	-	-	
Total	3,118	530	20.5%	5,707	• Main components of Personal Services sales are the ISP fees for Yahoo! BB.
Cost of Sales	176	0	0.3%	353	• Main items in SG&A expenses are sales promotion, business commissions, communication, and personnel expenses.
Gross Profit	2,942	529	22.0%	5,354	
SG&A Expenses	1,116	257	30.0%	1,975	
Operating Income	1,825	272	17.6%	3,378	
Operating Margin	58.5%	-	-	59.2%	

Note: Beginning with the first quarter of fiscal 2003, the method of recognizing ISP fees related to sales was 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 now nets the amounts and only books net sales of ¥200. In addition, the method of accounting for ISP sales to new subscribers during free service campaigns was 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 first quarter of fiscal 2003, 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, Yahoo! Phone Book, and Yahoo! Gourmet; and directory search services, such as Category Search. 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 second quarter

During the quarter under review, we added a House Maker Case Collection corner on Yahoo! Real Estate that features a searchable database of about 300 houses that have actually been built. On Yahoo! Autos, we expanded our services, forming, among other efforts, a business alliance with CarSensor.net—Recruit Co., Ltd.'s used car information site. We expanded the information offered by our Category Search service and made it easier to use, revamping the site design and adding popular new key words. Moreover, the search results page is now linked to Yahoo! Music and Yahoo! Shopping, allowing users to check the latest information and make purchases based on their search results. Sponsor Site sales also grew favorably during the quarter under review.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 10	<ul style="list-style-type: none"> Added a House Maker Case Collection corner on Yahoo! Real Estate. The service features a searchable database of about 300 houses taken from Recruit's ISIZE Home Information site. Users can request estimates from multiple builders from the corner.
Aug. 12	<ul style="list-style-type: none"> Renewed our Yahoo! Category site to make it easier to navigate. In addition to including popular new key words and providing introduction to sites, the service now also shows the services of Yahoo! JAPAN, such as auctions, news, bulletin board, most highly related to the category search topic.
Sept. 2	<ul style="list-style-type: none"> Yahoo! Autos formed a business alliance with Recruit's user car information site CarSensor.net. Based on this tie-up, our site now provides information on a catalog of 25,000 grades of cars covering 1,400 different models as well as the linking this information to the latest used car information. The service is also linked to Used Car Store Auction, allowing users to compare prices on both services and check specifications.
Sept. 5-Sept. 30	<ul style="list-style-type: none"> Launched Yahoo! JAPAN's 2003 Legal White Paper, a service that offered free legal consultation over the Internet for a limited period.

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

Monthly Pages Views in Sept.	2,428.97 million page views (+7.0%)	14.7% of total page views
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Business Express Orders

July 2003	Aug. 2003	Sept. 2003
1,226 contracts	969 contracts	1,255 contracts

3) Income statements for the second quarter and interim period

(Yen in Millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales are Business Express and information listing fees for recruiting, used car, real estate, and other information.
Advertising	2,433	518	27.1%	4,348	
Business Service	627	86	16.1%	1,168	
Personal Service	-0	-0	-	0	
Other	-	-	-	-	
Total	3,060	604	24.6%	5,516	<ul style="list-style-type: none"> • Main items in SG&A are sales commission, content provider, personnel, and royalty expenses.
Cost of Sales	11	7	172.8%	15	
Gross Profit	3,049	597	24.4%	5,501	
SG&A Expenses	886	84	10.6%	1,688	
Operating Income	2,162	513	31.1%	3,812	
Operating Margin	70.7%	-	-	69.1%	

(4) Shopping Business Division

1) Major business

This business division operates a two-tier online shopping site, comprising “Selected Stores,” which have high brand name recognition and offer high quality services, and “Stores,” which offer a wide assortment of highly individualistic and appealing goods. 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 second quarter

During the period under review, we began to recruit new stores for our site to expand the scope of goods offered and to boost customer satisfaction. Besides the high name recognition, high quality service “Selected Stores,” we have introduced a new category of “Stores” based on a new standard under which we began accepting applications by stores to be on our site. As a result, at the end of September, we had a total of 565 stores, up 325 stores, or 135.4%, from the previous quarter. Among other events, we hosted a Fourth Anniversary Festival to commemorate the fourth anniversary of the start of our services. We also took steps to support sales promotion by participating stores and improve customer convenience, such as the integration of the book category under eS! Books. In addition, we expanded and improved the services of Yahoo! Travel. We renewed its top page and offered a richer and easier to read selection of travel-related information, including special features on topics of high interest among users and detailed information on seasonal tourist spots.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
July 1	• Renewed the top page of Yahoo! Travel.
July 1-July 15	• To further heighten public recognition of the Yahoo! Travel site, we conducted Train Jack, an advertising campaign in which we chartered one of the cars on a train in metropolitan Tokyo. The purpose of the campaign was to encourage potential users that were considering how to plan their summer holidays to visit the Yahoo! Travel site.
July 2	• Commenced recruiting new “Stores” for the site with the aim of expanding the scope of merchandise offered.
Aug. 27	• A total of 176 new stores held their grand openings on Yahoo! Shopping. By creating a two-tier site.
Aug. 27-Sept. 30	• Held Yahoo! Shopping Fourth Anniversary Festival to commemorate the fourth anniversary of the start of our services.
Sept. 17- Nov. 27	• Launched Maple Leaf Trips 2003, a collection of information on famous autumn leaves viewing spots throughout Japan.

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

Monthly Pages Views in Sept.	307.30 million page views (+3.0%)	1.9% of total page views
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Note: Includes the page views of e-Shopping! Books.

Shopping Business Transaction Volume

July 2003	Aug. 2003	Sept. 2003
¥4,744 million	¥4,208 million	¥4,190 million

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

3) Income statements for the first second quarter and interim period

(Yen in Millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales are tenant fees and sales commissions of Yahoo! Shopping and Tavigator, Inc. sales commissions. • Main component of Others is sales of e-Shopping! Books. • Main item in Cost of Sales is purchasing costs of e-Shopping! Books. • Main items in SG&A are personnel, packing and delivery, commission paid, and business commissions expenses.
Advertising	109	12	13.1%	207	
Business Service	337	8	2.5%	666	
Personal Service	-	-	-	-	
Other	1,090	53	5.1%	2,128	
Total	1,537	74	5.1%	3,001	
Cost of Sales	849	5	0.7%	1,693	
Gross Profit	688	68	11.0%	1,308	
SG&A Expenses	503	49	10.9%	956	
Operating Income	185	18	11.3%	351	
Operating Margin	12.0%	-	-	11.7%	

(5) Media Business Division

1)Major Business

Our Media business division provides users with a variety of desired content and services, thereby stimulating page views and increasing advertising sales. The business also provides fee-based content and services. Services provided include information providing services, such as Yahoo! News 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! Comic, Yahoo! Member Directory, Yahoo! Message Board, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! eGroups, Yahoo! Deliver, etc.

2) Activities in the second 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 began offering a service on Yahoo! News that distributes free video news clips from three major commercial TV stations. We launched Yahoo! Comic, a service that enables users to enjoy online 288 (1,199 books) of the works of famous comic book and strip cartoonists, such as Osamu Tezuka and Shotaro Ishinomori. We also made efforts to increase revenues by boosting our pay content. For Yahoo! Avatar, a service that allows users to represent themselves as an original animated character (Avatar) on the Internet, we added a pay service for such items as hair styles, clothes, and backgrounds that can be used to coordinate the look of users' personalized avatars (service limited to Yahoo! Premium members). Moreover, we started offering free and pay versions of *Hagakumi Item*, an item that makes a digital pet change shape in response to the passage of time.

Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! News	July 25	<ul style="list-style-type: none"> • Launched Video News, a free service that offers on demand viewing of video news clips from three major commercial TV stations.
Yahoo! Finance	Aug. 19	<ul style="list-style-type: none"> • Set up Yahoo! Finance Credit Card Information, a service that enables users to easily investigate which credit card best suits them and request information and applications from the credit card companies.
Yahoo! Sports	July 4 Aug. 6 Sept. 16	<ul style="list-style-type: none"> • Through a tie-up with bicycle racing related associations, began offering the first bicycle racing information on a general information site in Japan for free. • Started Summer 2003 High School Baseball, which listed the latest news on the 85th National High School Baseball Tournament and provided text live coverage of games in real time. • Began selling special tickets to the 2003 NBA Japan Games, the official opening games of the 2003-4 season of the U.S. Professional Basketball Association.
Yahoo! Comic	Sept. 3	<ul style="list-style-type: none"> • Forming tie-ups with eBook Initiative Japan Co., Ltd., and Leed Publishing Co., Ltd., commenced distribution of their comic books over the Internet. This service allows users to enjoy online 288 animated works done by 26 famous comic book and strip cartoonists (1,199 books). The works can be viewed as many times as wished for 80 hours and one book costs from ¥280 to ¥360 (excluding tax).
Yahoo! Avatar	Aug. 4 Sept. 24	<ul style="list-style-type: none"> • Limited to Yahoo! Premium members began a service offering pay items that enable users to further coordinate their personalized avatar made using Yahoo! Avatar. • Added <i>Hagukumi Item</i>, an item that makes a digital pet change shape and movement in response to the passage of time or the movement of the user.

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

Monthly Pages Views in Sept.	5,053.27 million page views (+11.9%)	30.6% of total page views
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Note: Includes the page views of eGroups and Y's Sports.

3) Income statements for the second quarter and interim period

(Yen in millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main component of Business Services sales is Car Insurance Package Estimate Request Service sales. • Main component of Personal Services is sales of fee-based content. • Main items in SG&A are, personnel, sales commissions, content provider, and communication expenses.
Advertising	1,261	-15	-1.2%	2,538	
Business Service	109	56	106.1%	162	
Personal Service	55	35	174.0%	75	
Other	-	-	-	-	
Total	1,426	76	5.6%	2,776	
Cost of Sales	59	37	178.3%	80	
Gross Profit	1,367	38	2.9%	2,696	
SG&A Expenses	1,028	55	5.8%	2,001	
Operating Income	338	-17	-4.9%	695	
Operating Margin	23.8%	-	-	25.0%	

(6) Business Solution (BS) Business Division

Effective July 1, 2003, the ES Business Division changed its name to the Business Solution (BS) 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 Group to offer business solutions to companies and government bodies, including sole proprietors. Specifically, it provides such services as licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C businesses (Sales End-users) or B-to-B businesses (Sales outlets), Web design consulting, NetRoadshow (online presentation), the Internet survey service Yahoo! Research, and server hosting services.

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

2) Activities in the second quarter

During the period under review, we continued to aggressively make sales proposals for optimum navigation portals to companies and government bodies. In in-house corporate portal site development, we sold a license to Tech Engineering Co., Ltd., the subsidiary of Toshiba Tech Corporation, a major producer of point of sales (POS) systems. We also began sales promotion seminars and other sales activities in conjunction with Nihon Unisys, Ltd., with which we concluded a business alliance in the previous quarter. For sole proprietors and small and medium-size businesses, we commenced Yahoo! Web Hosting, a service that enables the simple construction of an original domain for a Web site and an e-mail environment. In other areas, INTAGE Interactive Inc., our Internet research business, concentrated on sales efforts and increased the value of orders received despite the harsh business climate in the research market due to the continued economic slump.

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

Monthly Pages Views in Sept.	1.44 million page views (-3.3%)	0.01% of total page views
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3) Income statements for the second quarter and the interim period

(Yen in millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales were sales of Yahoo! Research and Yahoo! Portal Solutions. • Primary components of Cost of Sales were costs for Yahoo! Portal Solutions. • Main items in SG&A were personnel, communication, and rental expenses.
Advertising	18	-8	-30.3%	45	
Business Service	250	28	12.8%	472	
Personal Service	-	-	-	-	
Other	-	-	-	-	
Total	268	20	8.1%	517	
Cost of Sales	142	2	1.7%	282	
Gross Profit	126	17	16.4%	234	
SG&A Expenses	88	24	38.9%	152	
Operating Income	37	-6	-15.6%	82	
Operating Margin	14.1%	-	-	16.0%	

(7) Corporate Common Business-Elimination or Corporate

Revenues and expenses related advertisements on the top page of Yahoo! JAPAN and Sales on Yahoo! Premium relating to other services for the Company are not allocated to the sales or expenses of business divisions, but considered sales and expenses of Corporate Common Business that develop our corporate brand. Sales and expenses from Headquarters are added up to Corporate Common Business.

Effective July 1, 2003, the term for paying users for personal identification was 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 (pay 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, My Yahoo!, Yahoo! Calendar, Yahoo! Notepad, Yahoo! Address Book, Yahoo! Photo, Yahoo! Briefcase, Yahoo! Polls, 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 Premium member IDs

July 2003	Aug. 2003	Sept. 2003
3.02 million IDs	3.12 million IDs	3.23 million IDs

Income statement for the second quarter and interim period

(Yen in millions)

	Second quarter	Comparison with the previous quarter		Interim period	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Corporate Common Business sales are advertising sales on top pages, etc. and Yahoo! Premium fees. • Consolidation elimination figures are removed as sales of headquarters. • Main components of Corporate Common Business SG&A were personnel, business commissions, and sales commissions expenses. • Main items in Headquarters SG&A are personnel, depreciation, and business commission expenses.
Advertising	718	-101	-12.4%	1,538	
Business Service	25	5	28.8%	45	
Personal Service	2,541	272	12.0%	4,809	
Other	-	0	-	-0	
Total	3,284	176	5.7%	6,393	
Cost of Sales	12	0	4.3%	24	
Gross Profit	3,272	176	5.7%	6,368	
SG&A Expenses	2,287	476	26.3%	4,098	
Operating Income	985	-299	-23.3%	2,270	
Operating Margin	30.0%	-	-	35.5%	

(Advertising Related Sales)

The following is an outline of our advertising business in the second quarter and interim period based on combining the advertising sales of each business division.

Activities in the second quarter

Conditions remained difficult in the advertising industry during the second quarter. Amid continued uncertainty about economic recovery, the industry suffered a double punch from the usual slowdown in summer and the unusually cold weather. Sales of the main advertising products of the Group, such as Brand Panel for Yahoo! JAPAN's top page, struggled as advertisers restrained their Internet advertising amid a cutback in advertising expenses among National Clients. In response, the Group strengthened its cooperative sales organization with advertising agencies, aggressively marketing high impact products, such as Super Banners in the topics areas of Yahoo! News and Yahoo! Sports, which have a high number of unique users and page views. In its advertising efforts, the Group offered a diversified range of products. Keeping up with the new broadband age, the Group launched Visual Banner, a service that can adjust to the user's computer environment and send large volume banners up to 210K. Aiming to acquire advertising from IT, Real Estate, Recruiting, and Educational sectors, which are familiar with Internet, the Group ran aggressive sales campaigns for such products as East Modules and Yahoo! Deliver.

During the second quarter, along with the increase of the number of Internet users and the spread of broadband, one of the major trends continued to be the increased use of Internet advertising by advertisers when conducting such promotions as large-scale sweepstakes or carrying out sales promotion activities. Consequently, the Group began an Internet promotion business during the quarter in cooperation with Dentsu Inc. Sales of Sponsor Sites also recorded solid performance.

Based on our sales efforts, quarterly advertising business sales increased compared with the previous quarter for the seventh consecutive period, posting another record high.

The second quarter and interim period advertising related sales were as follows.

Second quarter

(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	4,896	1,805	58.4%	465	10.5%

Interim period

(Yen in millions)

	Amount	Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change
Advertising related sales	9,327	3,298	54.7%

Advertising Products

During the second quarter, sales of such large-scale products as Brand Panel and Yahoo! Billboard struggled, but sales of such large advertising space products as Super Banners, Monster, and Large Rectangle that are placed on the top pages of each property or category performed well.

A new product introduced in the second quarter, Visual Banner is tailored for the broadband age, able to deliver large volume advertisements up to 210K. Because this product can adjust to the user's computer environment, sending out large volume banners only when it recognizes that bandwidth is sufficient, it has even greater impact than the standard flash banner advertising. Satisfying the more creative needs of National Clients, Visual Banner is being used for the Super Banners and etc. of Nissan Motor Co., Ltd., and Dell Inc.

For the second 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 ¥1.20 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 ¥8 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 second quarter, we auctioned a unicycle and an autographed card from Aya Ueto, an actress who has attract much attention for her roles in popular TV dramas and films, and a baseball and card autographed by Senichi Hoshino, manager of the Hanshin Tigers, which won their league pennant this year for the first time in 18 years. In total, we held 143 charity auctions during the second quarter, raising a total of approximately ¥9.44 million. All of the funds raised for such charities are being donated to 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.
- The Sasagawa Memorial Health Foundation, which supports the Global Leprosy Elimination Campaign.

3. Personal Privacy Protection Trustmark TRUSTe

On April 3, 2002, the Company 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.

Moreover, starting in October 2003, we began a large-scale campaign over the Internet for the Pink Ribbon Campaign, which seeks to warn the importance of early discovery and treatment of breast cancer. The Company used its Web site to provide an opportunity for people to participate in the campaign and encourage women to go to medical facilities for breast examinations.

(Appendix)

Risk Factors

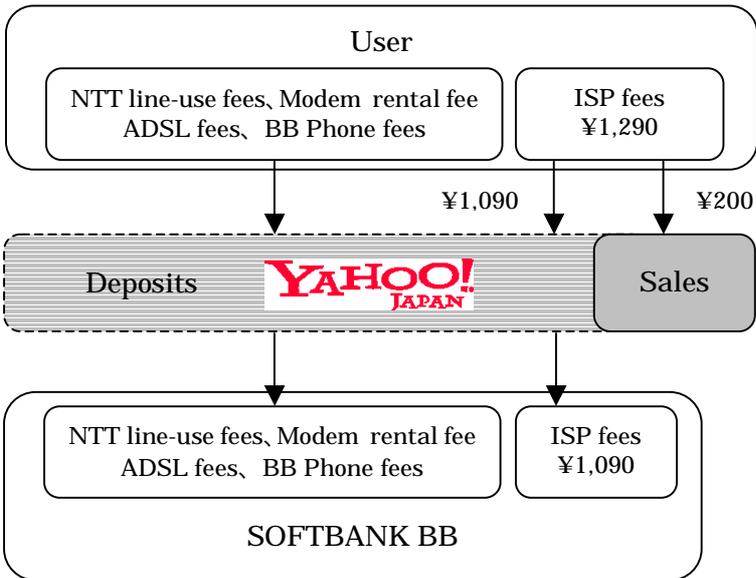
Yahoo Japan Corporation (hereinafter referred to as “the Company”) and its consolidated subsidiaries and affiliated companies (hereinafter referred to as “the Group”) have reported their results for the interim period and the second quarter ended September 30, 2003, in the document *Results for the Interim Period and the Three Months Ended September 30, 2003*. A number of potential factors could substantially impact future performance.

Major factors contributing to the business risks 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 Corporation shares.

1. Group Business Risk

(1) Yahoo! BB Business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, Internet connection (ISP) services, a broadband portal site and content-provision services, and other services. The Company’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, developing technology and providing technical support. The allocation of revenues based on the above separation of roles is as follows.



Note:
Of the ¥1,290 collected in ISP fees from the user, the Company only records a proportional share of ¥200 as sales.

a. Subscriber Sign-up 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, is 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 sign-up through electronic wholesalers 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 start-up of BB Phone service, a broadband telephone service offered by Yahoo Japan Corporation, 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, this may prevent the Group from making anticipated sales or require that it bear much higher costs than expected, with a 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.

b. 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 the 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 home pages 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.

c. 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 effect collections. For that reason, the Group intends to improve its operating efficiency by hiring specialists and technically skilled staff and by 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.

d. The Competitive Environment

As of September 30, 2003, the major providers in Japan of services similar to those the Group offers 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 a significant impact on the Group's business.

e. Dependence on a Certain Distributor

In its Yahoo! BB business, Group revenues show a high level of dependence on SBB for sales 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

a. Damage Compensation

The Group 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 for 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.

b. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold using the Group's Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. Effective September 2003, a revision of the law regarding the sale of used goods to prevent crimes that abuse Internet auctions was enforced. 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 to 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 to cooperate 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 the Company 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. 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 the Company, 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.

c. Yahoo! Payment Service

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

Since Netrust, Ltd 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 exploring methods of reducing the amount of reimbursement funds by shortening the settlement cycle with the credit card companies' settlement banks as well as by 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 raised 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 online. 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.

d. The Competitive Environment

As of September 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
bidder	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 on 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. But there are 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.”

a. 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 companies, 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 is taking steps to educate them by regularly holding seminars and through other methods. At the same time, as elaborated on later in this document, to reduce the previously stated risks we are expanding and firming up our advertiser base by changing our advertising sales structure and by 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.

b. 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 to devise some other type of compensation that could negatively impact Group advertising revenues.

c. Dependence on Business Contracts with Certain Advertising Agencies and Large-Scale Business Contracts with Certain Advertisers

As stated below 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 a 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 its 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.

d. Advertising Sales Structure

In future, the Group will need to increase its sales force and to 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 that the Group made in 2001 to its 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.

e. The Competitive Environment

As of September 30, 2003, the major providers to Japanese Internet users of Japanese-language Internet navigational services or similar services 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
MSN	Microsoft Corp.	Comprehensive information site
infoseek	Rakuten Inc.	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 have a substantial negative impact on the Group's operating results.

f. Growth in Advertising Sales from Sponsor Sites

Sales of Sponsor Site advertising have expanded favorably since the Company formed business tie-ups with Google and Overture in November 2002 to offer these services. Since Sponsor Sites involve a link up between Yahoo! Japan's directory search services and the pay listing services of these business partners, it is possible that a disruption in the system of a business partner could result in a long-term stoppage in services or other situations that would have a negative effect on the sales of the Group. Moreover, if litigation or some other trouble arose between a business partner and a client, it might affect the operations of the Group in some way. In addition, changes in the relationship between the Company and these business partners or the termination of the business relationship, etc., could potentially have a large impact on the performance of the Sponsor Site service or even on the viability of the service itself.

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of September 30, 2003, SOFTBANK CORP. was the parent company of Yahoo Japan Corporation, 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 but that are concentrated mainly on Internet business. Their businesses include broadband infrastructure, e-commerce, e-finance, media and marketing services, and an overseas fund investment service. The Group belongs to the Internet Culture and Broadband Infrastructure segments of the 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 the Yahoo! BB business. Yahoo! BB accounted for 17.8% of Group sales in the second quarter of the fiscal year ending March 2004. 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~(Perpetual contract)
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 Web site 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 (automatically renewed annually)
Contractor: SBB
Main content: 1) The Company attempts to obtain users of one 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 continuing 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 September 30, 2003, two of the five directors of the Company 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 Corporation 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 six other companies in the SOFTBANK Group (excluding subsidiaries and affiliates of Yahoo Japan Corporation) 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 the Company is limited.

Yahoo Japan Corporation 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 as a representative of the parent company.

3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

The Group’s operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.6% of the Company’s voting shares as of September 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 <i>Note:</i> 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: * Nonexclusive rights granted to the Company for the 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”) * Nonexclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company to publish the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! directory search services 2. Nonexclusive 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) <i>Note:</i> 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 for 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 for boosting brand recognition could increase substantially.

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

its brand rights through applications, registrations, and presence, there is the possibility that Yahoo! Inc. has not registered trademarks necessary to the Group's 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 to harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

(3) Other Joint Directorships

Yahoo Japan Corporation 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 Corporation as well as a major business partner in the Company's core business, as stated previously. For these reasons, it has been necessary to have him on the board to support the Company's start up and expansion.

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

Internet usage in Japan has grown steadily since the Internet's emergence there as a recognizable force in 1995. As the Group is dependent on the Internet indirectly and directly, the most basic requirements for its operations are the continued expansion of communication and commercial activity on 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 the necessary infrastructure, such as reliable backbones and high-speed modem capabilities; the need for the 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 Connectivity

As the entire catalog of Group services is dependent on the Internet, business operations require a stable environment for Internet connectivity, 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 the Group's 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 have multiple site capacity outside 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 to 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 its 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. Through such cooperation, the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or of 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 by adapting its services for use with mobile terminals, it can provide no guarantee that its 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 was 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 its operations.

Moreover, among the services offered by the Group 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 to stop. 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 also many of its services rely on third parties that the Group has consigned operations to or that it 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 a 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 that 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, including personalizing a variety of information sources by inputting individual information. In addition, the Group's acquisition of GeoCities in March 2000 enabled the Group to begin services providing space for registered users to create their own Web sites.

The Company uses information obtained from users internally to better match advertisements to users. This information is not disclosed to advertisers or to other outside parties.

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

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 deals with information access rights within the Group with extreme care by assigning specific persons control over access rights.

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 156th session of Japan's Diet, obliging 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 results in a 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 the sale of advertising and other products, the Group carefully examines the credit standing 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 through sales agents. Nevertheless, economic fluctuation and the 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 operations and the ramping up of our e-commerce business, mainly through subsidiaries and affiliates, the proportion of our business that garners 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 its management of this pool of customers and to take such steps as introducing a new system to improve business efficiency.

Despite these measures, it is possible that compared with its 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, the amount of uncollected receivables, the number of credit card settlement problems, and the costs of receivables collection. In particular, it is expected that the funds borrowed to allow Netrust, Ltd 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 the nature and quantity of inquiries from customers may expand. Previously, most inquiries were related to the use of our services. But inquiries may now shift to inquiries about payment, the return or exchange of services and goods, and matters related to commissioned third parties, such as distribution or settlement. To properly respond to inquiries from 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, these measures do not eliminate the possibility that customers will not be sufficiently satisfied. By hurting our brand image and other factors, such a result could negatively impact 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, the continuation and development of the business would suffer if key personnel were to leave and the Group fails to replace them.

In addition, some senior managers participate in one of the Company's personnel incentive measures, the stock option plan. Depending on the fortunes of the stock market, it is possible that these stock options may not motivate the participants in the plan and, indeed, may reduce their 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 Web sites created by the recent surge in Internet use, to carry out the operation and management of its community 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 such measures 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 risk exists that because our subsidiaries and affiliates are generally small scale, their in-house management systems are also small scale. It is the Group's policy to acquire necessary additional staff and to strengthen organizations as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect the Group's performance.

Tie-ups with the parent company's services or network or personnel support are essential to the operations of any of the services of the Group's 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 because of the expansion of the businesses of the parent company and its 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 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) Share Distribution

At September 30, 2003, the major shareholders of Yahoo Japan Corporation held a very high stake in the Company, with over 75% of its equity owned by SOFTBANK CORP. and Yahoo Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares, but at present it is difficult to imagine any significant change in the short term. As a result, it is highly likely that the proportion of fixed shares will remain high for the time being. In future, if the two above companies were to further increase the proportion of fixed shares by purchasing shares from certain other major shareholders, it is possible in the worst case scenario that the Company would violate the listing standards of the stock exchange its shares are listed on and be forced to delist its shares.

The Company has made and intends to continue efforts to increase the liquidity of its shares and the number of shareholders. It has made a number of stock splits in the past and is working to increase recognition of the Company among potential shareholders by conducting vigorous investor relations programs.

(11) 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 its 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 would impede the support structure that Yahoo! Inc. provides for the Group and its 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.

(12) Legal Restrictions, Lawsuits, and Intellectual Property Rights

a. 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, a number of other countries are 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.

b. Potential Litigation

Moves are being made to regulate the flow of information on 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 Web sites accessed through advertising links. As expressed in a written contract with the advertiser, the advertiser takes full responsibility for the content of the advertisement. The Group also maintains the right to list Web sites and remove Web sites 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 Web sites with clauses indicating the full responsibility of creators for the content of their sites. For such services as auctions and bulletin boards, where users can transmit information freely, the 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 anytime 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, Web sites accessed through links on its site, content contributed to community message boards, and trading through its auction business. The resulting decline in user confidence could lead to a drop in hits or a 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 Web site 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.

c. 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 suits 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 in Japan.

(13) Change in Accounting Standards

Against the backdrop of the recent trend to establish 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

As of September 30, 2003, the Group has invested in 32 companies and one cooperative as stated below in the List of Companies Invested in by Yahoo Japan Corporation. These investments have been made to form ties with the companies invested in and with their businesses for present or future purposes. The Group cannot guarantee that these investments will be recovered.

Although as of September 30, 2003, four of these companies had been publicly listed and the value of the Company's investment in all of these companies had 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 based on general accounting standards and by applying compulsory evaluation accounting. Nevertheless, the performances of those companies could have an even greater adverse effect on the Group's fiscal profit or loss in the future.

To pursue business synergies or the expansion of the Group's business, it is anticipated that Yahoo Japan Corporation will further invest or loan funds for capital participation in third-party companies, fund joint ventures, and pursue 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 the future.

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and to 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 inquiries. Furthermore, in response to growth in business scope the Group assumes that it will have to continuously acquire more office space and to 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 July 17, 2003, based on the following Finance Scheme Yahoo Japan Corporation decided to make a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental PLC and is registered in the Cayman Islands. On July 31, the Company made a loan of ¥5.7 billion that will mature in 42 months.

Finance Scheme Summary

- The SPC will raise a total of ¥19.14 billion from several lenders as loans and as investments in a *Tokumei Kumiai* (TK), an anonymous partnership. This amount will be structured as senior and mezzanine loans and a TK investment.
- 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.

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.

If, in future, SBB should decide to raise further funds based on identical or similar finance schemes, the Company will examine the conditions and nature of each finance scheme on a separate basis, and make a decision on whether to extend loans based on the merits of each case.

List of Companies Invested by Yahoo Japan Corporation

(As of September 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	3,811	Internet technical-support service		
4	Vector Inc.	OSE Hercules	99/03/25	10.74	2,294	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	TSE 2nd Section	99/05/28	5.07	684	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	Carview Corp.		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	77	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	22	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	11.18	7	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet and Yahoo! Beauty	
21	eBANK Corporation		01/03/12	1.41	56	e-bank operations	Alliance for Yahoo! Auctions/Research	
22	GameBox, Inc.		01/03/16	9.38	6	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	7.85	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	105	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	ValuMore Corporation		02/01/28	26.67	41	Sales of computers and related equipment via the Internet	Yahoo! Shopping tenant	Yes
3	INTAGE Interactive Inc.		02/09/26	49.00	37	Internet-based marketing research services	Alliance for Yahoo! Research	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		588			

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 Corp.	10	-	Maintaining geocities.co.jp domain
broadcast.com japan k.k.	10	-	Maintaining bcast.co.jp domain
Y's Sports Inc.	0	-	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.	350	66	Operation of eS! Books on-line EC site service over the Internet, and Yahoo! Shopping tenant
BridalConcierge Corp.	0	-	Effective April 30, 2003, services were terminated.
UniCept, Inc.	50	-	Consulting for Internet business and a range of planning, development, and operation services
Netrust, Ltd	120	-	On-line settlement services

BridalNet Co., Ltd. was made a wholly owned subsidiary of Yahoo Japan Corporation on October 1, 2003.

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. Registration for dissolution was completed on September 3, 2003, and Bitwave is now a liquidated company.