Yahoo Japan Corporation

Annual Report

Year ended March 31, 2003

Profile

Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group”) provide Internet users with a wide range of services, including directory search, information, community, commerce, and mobile services. Our Web site is the overwhelming leader in Japan in the number of users and page views.

Utilizing its overpowering dominance in its industry as a business resource, the Group is aggressively developing businesses, such as advertising, the comprehensive broadband service Yahoo! BB, auction, and other businesses. The Group intends to continue to pursue the diversification of its earnings, aiming to further strengthen its business base.

Contents

Forward-Looking Statements

Statements included in this Annual Report that are not historical facts are forward-looking statements about the future performance of the Group.

Yahoo Japan Corporation (the “Company”) cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to, the items mentioned in “Risk Factors.”

Following the conversion of eGroups KK and e-Shopping! Books CORP. into subsidiaries during the fiscal year ended March 31, 2002, Yahoo Japan Corporation began reporting on a consolidated basis, effective the fiscal year ended March 31, 2002. Readers are cautioned, however, to be aware that while figures after the fiscal year ended March 31, 2002, are reported on a consolidated basis, the figures for previous fiscal years are reported on a non-consolidated basis. For this reason, no comparative figures are given.

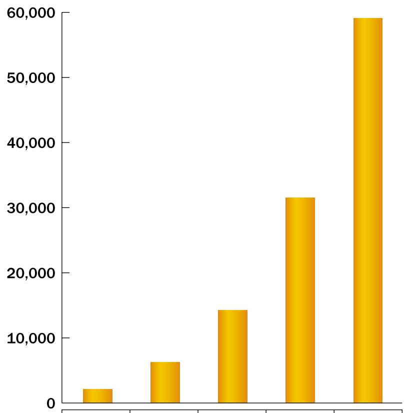
Financial Highlights

(Millions of yen)

For the years ended	1999/3	2000/3	2001/3	2002/3	**2003/3**
Net sales	2,088	6,271	14,278	31,497	**59,095**
Operating income	399	2,110	5,309	10,407	**24,073**
Net income	184	1,154	2,973	5,868	**12,096**
Net income per share (Yen)	387	2,552	6,343	12,444	**25,155**
Shareholders' equity	3,264	8,107	18,674	20,227	**30,483**
Total assets	3,920	10,476	27,973	29,218	**47,774**

Note: Effective from the fiscal year ended March 31, 2003, net income per share is calculated in accordance with "Accounting Standards for Earnings per Share"(Financial Accounting Standards No. 2) and "Implementation Guidance for Accounting Standards for Earnings per Share" (Financial Accounting Standards Implementation Guidance No. 4).
Net income per share is calculated based on the weighted average number of share issued and outstanding during each fiscal year.
Figures have been retroactively adjusted to reflect the above accounting standards (See Notes to Consolidated Financial Statements 3(9)) and the following stock splits:
November 20, 2002 (2:1)/May 20, 2002 (2:1)/November 20, 2000 (2:1)/May 19, 2000 (2:1)/November 19, 1999 (2:1)/May 20,1999 (2:1)

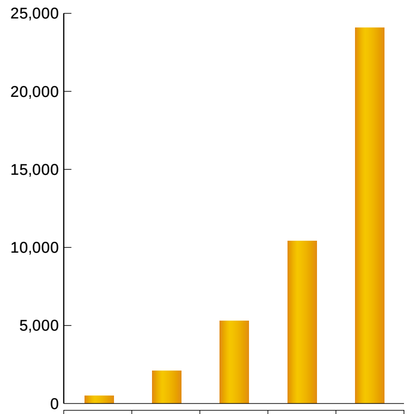
Net Sales



1999/3	2000/3	2001/3	2002/3	**2003/3**
2,088	6,271	14,278	31,497	**59,095**

(Millions of yen)

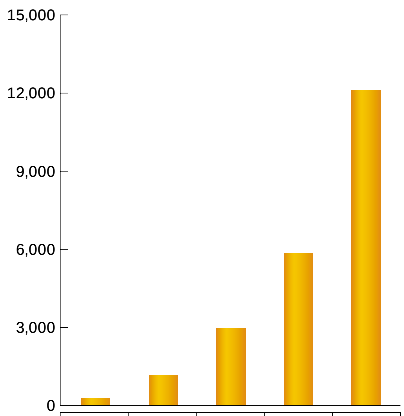
Operating Income



1999/3	2000/3	2001/3	2002/3	**2003/3**
399	2,110	5,309	10,407	**24,073**

(Millions of yen)

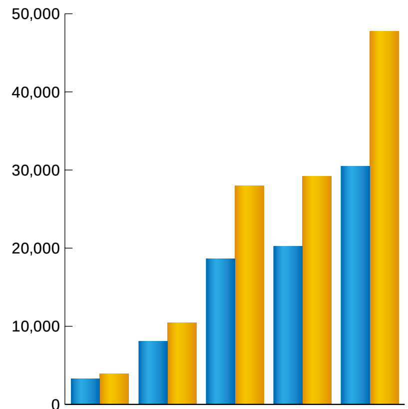
Net Income



1999/3	2000/3	2001/3	2002/3	**2003/3**
184	1,154	2,973	5,868	**12,096**

(Millions of yen)

Shareholders' Equity—Total Assets



	1999/3	2000/3	2001/3	2002/3	**2003/3**
Shareholders' Equity	3,264	8,107	18,674	20,227	**30,483**
Total Assets	3,920	10,476	27,973	29,218	**47,774**

(Millions of yen)

To Our Shareholders

It gives me great pleasure to report on Yahoo Japan Corporation and its consolidated subsidiaries and affiliates' results for the fiscal year ended March 31, 2003.

During the fiscal year under review, we again took steps to strengthen our business base, aggressively pursuing the diversification of our earnings. In addition, we reorganized our businesses into business divisions in January 2002, aiming to create a structure that will maximize organizational benefits. Some of those benefits include the creation of business plans and budgets by individual business divisions, clearly defined profit centers and responsibility for them, speedy decision making, and the optimum allocation of resources.

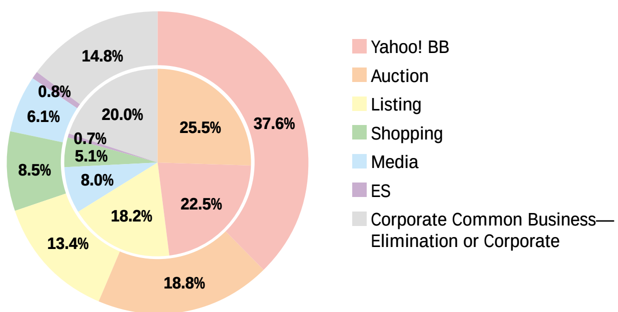
Our organization now comprises the six business divisions of Yahoo! BB, Auction, Listing, Shopping, Media, and ES (Enterprise Solutions) in addition to our Corporate Common Business. All of these businesses achieved profits for the fiscal year. While pursuing further expansion in the earnings of these six divisions, we plan to develop bases for other new businesses to further diversify our income sources.

Performance

In the fiscal year ended March 31, 2003, net sales climbed 87.6%, to ¥59,095 million. The growth in net sales can be mainly attributed to sales expansion in the Yahoo! BB Business Division and in the Auction Business Division, in which we introduced system-use fees in April 2002. In addition, the advertising business that we carry out in our divisions, particularly in the Listing and the Media Business Divisions, also posted a record high in sales during the fiscal year. Yahoo! BB's performance was especially notable. Despite converting its business model for acquiring subscribers to an incentive-based method as of April 2002, Internet service provider (ISP) sales and incentive-based sales grew substantially. Similarly, in our Auction Business Division, despite the introduction of system-use fees in April 2002, the volume of transactions and the number of unique users continued to expand. Moreover, system-use fees now provide an important source of earnings for the Group.

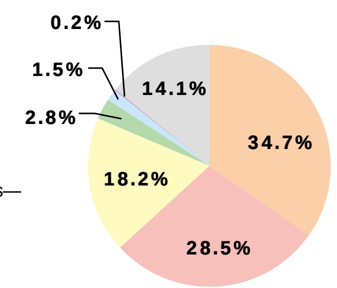
As a result, operating income grew 131.3%, to ¥24,073 million, and net income increased 106.1%, to ¥12,096 million.

Net Sales and Gross Profit by Business Division



Outer circle: Net sales
Inner circle: Gross profit

Operating Income Contribution by Business Division



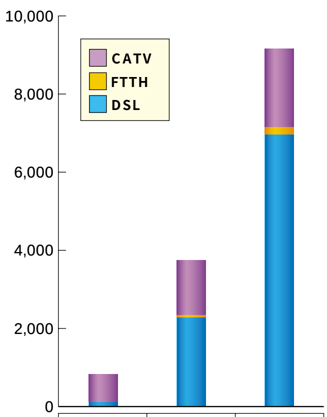
Operating Environment

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 40 million as of March 2003, with Web users accounting for approximately 34 million of this total. There also has been a sharp increase in broadband users. According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of digital subscriber line (DSL) subscribers at the end of March 2003 had risen to approximately 7.0 million, up about three times from a year ago. Including cable television (CATV) and fiber to the home (FTTH) services, the number of broadband subscribers has expanded to approximately 9.4 million.

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

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

Broadband Subscribers

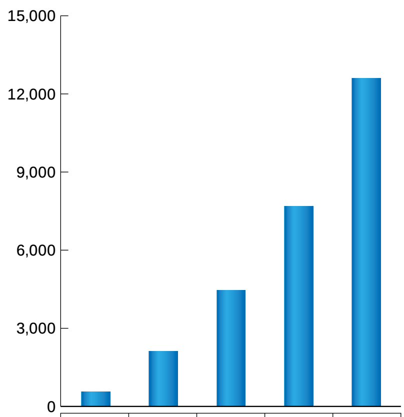


2001/3	2002/3	**2003/3**
850	3,860	**9,390**

(Thousands of subscribers)

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications

Monthly Page Views



1999/3	2000/3	2001/3	2002/3	**2003/3**
562	2,125	4,469	7,684	**12,609**

(Millions of page views)

Operational Review

The Group monthly page views for March 2003 reached 12,609 million. In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in March 2003, Yahoo! JAPAN was named most often by respondents as a site they access at least once every four weeks. Yahoo! JAPAN continues to hold the dominant position with 88.7% of the respondents. By multiplying the above percentage by the approximately 34 million Web users in Japan as of March 2003, we estimate that there were 30 million unique users accessing Yahoo! JAPAN at least once every four weeks.

We are proud of the high rating our services have received from our users and are committed to providing services that will maintain their patronage in future. As indicated by these outstanding figures, as one of the major Internet services companies in Japan we have worked steadily to build assets, in terms of the "Yahoo! brand," "technology," and "high reach rate to users," since our founding. With these assets as a base, the Group continued to strive to improve and expand the services of our individual business divisions and to expand earnings during the fiscal year under review.

The Yahoo! BB Business Division carried out a variety of campaigns during the fiscal year to acquire new subscribers. In addition, the division upgraded its services by launching BB Phone, a broadband phone service, and a packaged cable-less LAN with Yahoo! BB 12M service, among other services. As a result of these efforts, the number of Yahoo! BB subscribers grew to approximately 2.36 million at the end of March 2003, representing 33.6% of total DSL subscribers in Japan.

One of the reasons for the introduction of system-use fees in our auction business was to try and rid the auction system of items that were actually only advertisements parading as auction items. Following the implementation of these system-use fees, the number of items listed fell temporarily but then began to expand steadily. In March 2003, the number of listed items rose to about 3.35 million and the transaction rate ranged from 42% to 53%, which is considerably higher than the figure before the introduction of system-use fees. Among other measures to improve services during the fiscal year, we began our Yahoo! Payment service, which increases the convenience of settlement for auction users by allowing them to make payments for items with just a credit card and their Yahoo! JAPAN ID. We also took steps to improve the safety of auction transactions by beginning to announce bank accounts about which we had received multiple complaints, urging users to be cautious.

Advertising sales—carried out by all our business divisions, but particularly by the Listing and the Media Business Divisions—faced challenging conditions during the fiscal year. Despite the overall decline in advertising expenditures by corporations, the Group strengthened its cooperative sales organization with advertising agencies, targeting advertising from National Clients by aggressively marketing broad reach products with a high reach to Internet users. Moreover, in November 2002 we launched a paid search service, which is called Sponsor Site, by cooperating with Overture and Google, which serve search results to Sponsor Site in the key word search result of Yahoo! JAPAN for a fee. The new service began contributing fully to sales in the fourth quarter.

Business Strategies

In our Yahoo! BB Business Division, the phase of rapid acquisition of subscribers interested in leading-edge services has ended, and we are now focusing on adding new subscribers based mainly on trend followers. At the same time, we are aggressively introducing high-speed asymmetric digital subscriber line (ADSL) and other new technologies to maintain our leading-edge subscribers. As an ISP, we are planning to differentiate our services from those of competitors by expanding our broadband services to keep our subscriber base and attract new subscribers.

Commencing April 2003, we have changed our method of accounting for ISP fees. Under the old method, we booked the ¥1,290 monthly subscriber fee as sales and recorded ¥1,090 of that fee as cost of sales, earning a net amount of ¥200. Under the new system, we are just booking net sales of ¥200. This adjustment will more accurately reflect Yahoo! BB’s business in the financial statements.

To provide even more stable auction services to users, the Auction Business Division is planning to convert to a new computer system that will be able to host a massive amount of auction items. After the introduction of the new system, the business division will undertake an active promotion campaign to attract new users. It will also work to further increase the level of user satisfaction with the system by maintaining its reliability, establishing a preferential system for heavy users, and upgrading its support system.

The Shopping Business Division is also introducing something new. To strengthen its lineup of stores, the division is creating a two-tier system of select stores, which are the popular brand stores with sophisticated services offered in the past, and new stores that the business division intends to develop. The division expects this expanded merchandise lineup to further boost its reputation with customers.

The Group believes that Internet advertising, over the medium to long term, will steadily grow in value as an advertising medium in accordance with the spread of broadband and growth in the number of Internet users and eventually it will stand on a par with the other four major advertising medias. For that reason, we intend to continue to seek expansion in the advertising sales of our business divisions, of which the Listing and the Media Business Divisions have the largest components. Our main targets will be National Clients, which we are targeting by using methods that measure the effectiveness of Internet advertising and by offering advertising products that appeal to advertisers.

To develop new business outside our business divisions, we have established a specialized organization, that is already in operation. Using its capabilities, we intend to focus on creating new sources of earnings and developing them into businesses.

Based on these various measures, we are committed to maintaining our position as the No. 1 Internet services brand in Japan, diversifying our sources of earnings and strengthening our business base.

Dividends

Since its foundation, the Group has recognized maximizing shareholder return as a crucial management issue. Our decision of whether or not to pay dividends is taken after considering business results and appropriating adequate retained earnings for future business development. To date, no dividends have been paid under this policy. On the other hand, we have instituted two-for-one stock splits seven times since our initial public stock offering.

We will make our best efforts to meet the expectations of our shareholders by targeting the further growth and diversification of earnings. In pursuing these goals, we look forward to the continued support of our shareholders.

Masahiro Inoue
President and CEO
June 2003

Segment Report by Business Division

Effective January 2002, the Group reorganized itself into a business division system. This change was made 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.

Beginning with the fiscal year under review, we have changed our classifications for reporting on our operations from the old format of advertising, Yahoo! BB, Auction, and others to one that reflects the new business divisions and our Corporate Common Business.

Business Divisions	Major Business	Advertising Sales
Yahoo! BB	The Yahoo! BB business revolves around comprehensive broadband services branded as Yahoo! BB, provided jointly with SOFTBANK BB Corp. (SBB). The business provides ISP service using mainly Yahoo! BB 8M, Yahoo! BB 12M and others to individual subscribers whom the Company or SBB has acquired at electronic wholesalers and by other means. The ISP service also includes e-mail, homepage creation, calendar functions, etc.	444
Auction	Auction business provides, for a charge, an Internet platform on which a number of individuals can freely sell or buy through an auction process. It also provides, for a fee, support services to entities in relation to corporate shops called Premium Auctions.	697
Listing	Listing business publishes various providers' information for users through the Company's Web site. It comprises directory and mobile services on the Web site, listing services of information and community services. It has also started a paid search service, which is called Sponsor Site, by cooperating with two commercial search services; Overture and Google. These two companies serve search results to Sponsor Site in the key word search result of Yahoo! JAPAN for a fee.	6,336
Shopping	Shopping business operates the Yahoo! Shopping site, which provides a high-quality, online-based shopping site with stores selected based on the number of goods available and high levels of customer support and satisfaction. It also supplies goods and services relating to travel, such as domestic or overseas accommodation, airline tickets, etc. and provides various travel information for travel arrangement or preparation.	522
Media	Media business provides various content and services, with or without charges, to users in order to stimulate the number of page views and increase the volume of advertising sales. It comprises four services; information services, entertainment services, community services, and mailing services.	3,406
ES (Enterprise Solutions)	ES business provides the Company's solutions, know-how and technologies to corporations or government bodies. It includes support services relating to development of such entities' own portal sites, Web designing consulting services, online presentation services such as NetRoadshow services, and Internet-based inquiry services known as Yahoo! Research, etc.	65
Corporate Common Business—Elimination or Corporate	Corporate Common Business represents sales of advertisements on the top page, and admission fees as a personal identification. These revenues are characterized as Corporate Common Business, as they create the corporate brand of the Group and therefore are not allocated to each of the above businesses. It also includes revenues and expenses relating to the Company's headquarters.	2,144
Total		13,614

(Millions of yen)

Business Service Sales	Personal Service Sales	Other Sales	Net Sales	Cost of Sales	Gross Profit	SG&A Expenses	Operating Income	Operating Margin
7,481	14,320	—	22,245	12,492	9,753	2,899	6,854	30.8%
527	9,857	—	11,081	1	11,080	2,729	8,351	75.4%
1,575	12	—	7,923	7	7,916	3,531	4,385	55.3%
892	—	3,621	5,035	2,833	2,202	1,528	674	13.4%
133	54	—	3,593	115	3,478	3,120	358	10.0%
386	—	—	451	166	285	233	52	11.5%
6	6,617	(0)	8,767	68	8,699	5,300	3,399	38.8%
11,000	**30,860**	**3,621**	**59,095**	**15,682**	**43,413**	**19,340**	**24,073**	**40.7%**

Note: Advertising sales comprise banner and e-mail advertising sales, Sponsor Site sales, and others. Business service sales comprise corporate sales excluding advertising. Personal service sales comprise business sales to individuals.

Yahoo! BB Business Division

In the fiscal year ended March 31, 2003, sales of the Yahoo! BB Business Division amounted to ¥22,245 million, generating 37.6% of consolidated net sales. The business division's sales comprise incentive commissions for acquiring Yahoo! BB subscribers and ISP fees. Operating income totaled ¥6,854 million, and the operating margin was 30.8%.

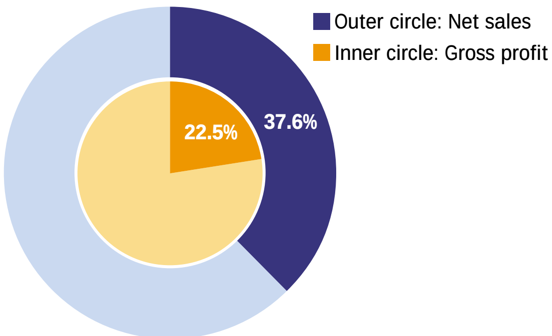
Operational Review

In June 2001, the Group began offering Yahoo! BB, a comprehensive broadband service, in collaboration with SOFTBANK BB Corp. (SBB), a wholly owned subsidiary of SOFTBANK CORP. Until March 2002, the Group acquired modems from SOFTBANK CORP. and modem manufacturers and packaged them into Yahoo! BB Starter Kits, which were then sold to SBB. Beginning April 2002, however, the Group no longer acquires modems or sells the starter kits. It has shifted to a new business model wherein it receives incentive fees from SBB for acquiring subscribers. Based on the number of subscribers acquired by the Group through its own promotional campaigns, SBB pays the Group incentive fees for new subscribers and incentive fees for subscribers that continue to use the service. This step was taken because Yahoo! BB expanded the sales route for its services to include consumer electronics chain store outlets and others as well as the traditional Internet route. In addition, along with the start of BB Phone, a broadband phone service, it became necessary to aggressively acquire corporate subscribers.

During the fiscal year, Yahoo! BB initiated a variety of campaigns to attract new subscribers. Among other active efforts to build our subscriber base, we leveraged our existing infrastructure to introduce new services and improve existing ones.

Among the major promotional campaigns of the fiscal year, we conducted a Yahoo! BB Free Trial Campaign, which offered up to two months of basic charges free. We also beefed up our regular Introduce-a-Friend Campaign, conducting a One Million Subscribers Commemoration Introduction Campaign. Other campaigns included the Three Zero Yen Campaign, which offered free of charge home installation of ADSL service and up to two months of basic charges for ADSL services and BB Phone dial charges. For existing subscribers, we worked to increase convenience by offering exclusive online events and on-demand video of live shows and by improving the functions of Yahoo! Mail.

Net Sales and Gross Profit Composition



Yahoo! BB Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	444
Business service	7,481
Personal service	14,320
Other	—
Total	22,245
Cost of sales	12,492
Gross profit	9,753
SG&A expenses	2,899
Operating income	6,854
Operating margin	30.8%

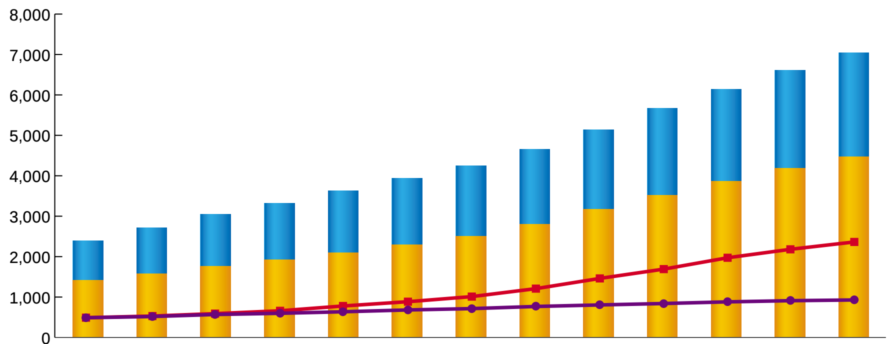
We launched several new and improved commercial services during the fiscal year. In April 2002, we began offering BB Phone services. This service was followed in August by the start of our Yahoo! BB 12M, an ADSL connection service with maximum downloading speed of 12 megabits per second and superior resistance to falloffs in speed due to long distances and communication interference. In December 2002, we began a packaged cable-less LAN with Yahoo! BB 12M service.

As a result of these efforts, the number of subscribers totaled 2.36 million at the end of March 2003, a gain of 1.88 million subscribers compared with the figure of the previous year. This represents 33.6% of total DSL subscribers in Japan.

Outlook

The initial development period of the ADSL services market is over, with the acquisition phase for subscribers interested in leading-edge services having gone full circle. Moreover, expanding sales channels outside the Group has resulted in lower subscriber acquisition rates for subscribers acquired through the Yahoo! JAPAN Web site. The Yahoo! BB Business Division will continue to carry out promotional campaigns to try to acquire new subscribers, focusing on trend followers. At the same time, the division will actively introduce new technologies, such as high-speed ADSL services, to maintain its leading-edge subscriber base. By further expanding exclusive free and pay content for subscribers and by supplying content that appeals to subscribers, the business division is targeting earnings growth.

DSL Subscribers in Japan



	2002/3	4	5	6	7	8	9	10	11	12	2003/1	2	3
NTT East & West	967	1,127	1,276	1,387	1,517	1,624	1,727	1,841	1,954	2,136	2,258	2,406	2,558
Other providers	1,411	1,573	1,753	1,914	2,093	2,291	2,496	2,799	3,163	3,509	3,862	4,184	4,465
Total	2,378	2,699	3,028	3,300	3,610	3,915	4,223	4,639	5,117	5,645	6,119	6,589	7,023
Yahoo! BB subscribers	490	530	590	660	779	885	1,011	1,208	1,461	1,691	1,972	2,181	2,363
Yahoo! JAPAN sales channel subscribers	490	520	570	600	638	683	716	769	807	842	883	912	930

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications and Yahoo Japan Corporation

(Thousands of lines)

Auction Business Division

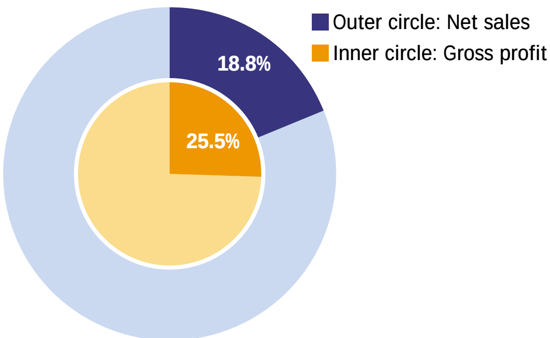
Sales of the Auction Business Division totaled ¥11,081 million, accounting for 18.8% of consolidated net sales. Sales primarily comprised system-use, merchant shop registration, basic, and commission fees. Operating income was ¥8,351 million, and the operating margin was 75.4%.

Operational Review

From April 2002, we began introducing system-use fees for our auction system in a bid to eliminate advertising items that were masquerading as auction items and to increase the stability of our services. We imposed a listing fee of ¥10 per item on items put up for auction and a cancellation fee of ¥500 per item canceled after it has been bid on. For items in special categories, such as automobiles, motorcycles, real estate, and others, the listing fee is ¥500 per item. At the same time, we introduced a pay option for listed items that allow Special, Gift or Buy-it-now icons to be displayed in the auction items list. In May 2002, we began charging a transaction fee of 3% of the auction proceeds. For items in special categories, the transaction fee is ¥3,000 regardless of the final auction price. Although the number of listed items dipped temporarily after the introduction of system-use fees, it then started to steadily expand. The transaction rate has also improved substantially compared with the pre-system-use fee period.

In January 2003, we introduced Yahoo! Payment, a new service aimed at increasing user convenience in making settlements on auctions. The new service enables users to make payments for auctioned items with only a credit card and their Yahoo! JAPAN ID. This service is a first in Japan and represents a major breakthrough by enabling the seller and buyer to settle a transaction without ever leaving their homes. In the same month, we began to announce information about bank accounts for which we had received multiple complaints, urging users to be cautious. Among other steps taken to further improve the security of transactions, we introduced the new system that the bank accounts being registered on Yahoo! Payment to receive transference of money has to be examined before registeration.

Net Sales and Gross Profit Composition



Auction Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	697
Business service	527
Personal service	9,857
Other	—
Total	11,081
Cost of sales	1
Gross profit	11,080
SG&A expenses	2,729
Operating income	8,351
Operating margin	75.4%

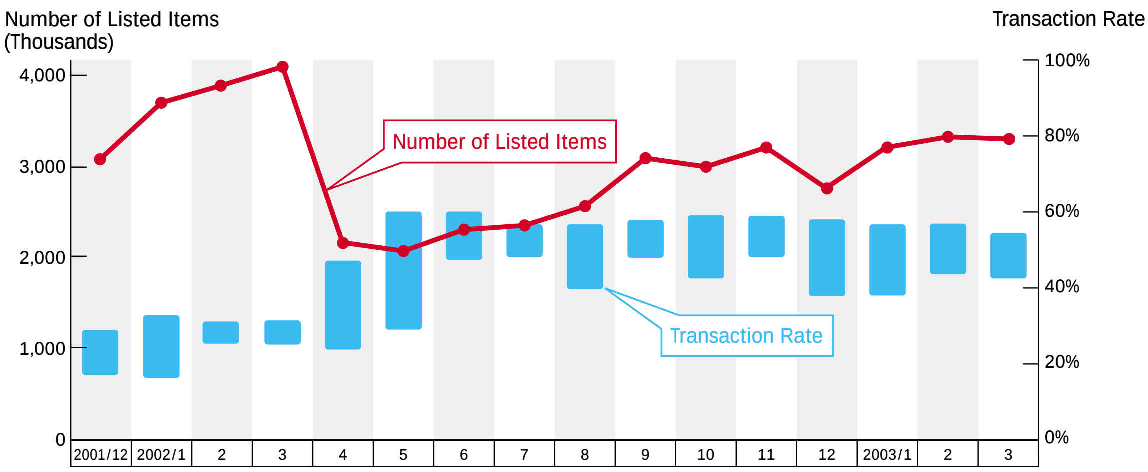
In February 2003, we commenced a Used Car Premium Auction service in collaboration with Recruit Co., Ltd. Japan's first genuine B-to-C used car auction involving car dealers, the service had 645 selected car dealers registered as merchant shops and aims to provide the same broad selection and support services as car dealers.

In March 2003, as a result of our efforts, the number of unique users of Yahoo! Auctions amounted to approximately 10.34 million browsers on a monthly basis. The number of merchant stores reached 1,174, and the number of listed items rose to about 3.35 million. The transaction rate for the fiscal year under review ranged from 23% to 59%, representing significant increases compared with those before the introduction of system-use fees.

Outlook

By continuing to expand and improve its services, the Auction Business Division is aiming to attract new users and increase transaction volume. To enable it to provide even more stable auction services to users, the business division is planning to convert to a new computer system during the current fiscal year that will be able to host a large amount of auction items. After the introduction of the new system, the business division will undertake an active promotion campaign to attract new users. At the same time, it will also work to further increase the level of user satisfaction by maintaining its system's reliability, establishing a preferential system for heavy users, and upgrading its compensation system. Furthermore, by soliciting the participation of more corporate merchant shops the business division plans to further expand the scope of auction items.

Yahoo! Auctions' Number of Listed Items and Transaction Rate



Listing Business Division

The Listing Business Division posted sales of ¥7,923 million for the fiscal year, accounting for 13.4% of consolidated net sales. Sales were contributed mainly by advertising, Business Express service and information listing services. Operating income was ¥4,385 million, and the operating margin was 55.3%.

Operational Review

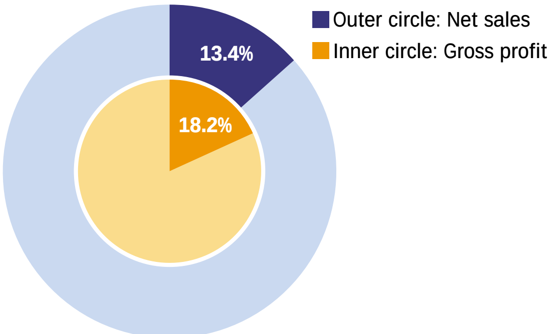
During the fiscal year, we continued to focus on further improving our information listing services. In April 2002, we launched Yahoo! Personals, a new communications support service that enables people to search for new friends or for people with the same interests based on personal criteria. In October 2002, we introduced Yahoo! Phone Book, an easy-to-use search service for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan. Utilizing the regional characteristics of Japan, this new mega service aims to be a nationwide information service. In December 2002, we launched Yahoo! JAPAN's first women's content site, Yahoo! Beauty. The site aims to achieve a reputation as a site that is appealing to cosmetics and other companies to post advertisements targeting women.

Among business alliances formed during the fiscal year, in October 2002 we reached an agreement with Recruit Co., Ltd., to develop a joint Internet business. We have decided to explore possible businesses that would involve greater collaboration and maximize the strengths of each partner. And in November, we concluded business agreements with Overture and Google. Aiming to diversify our earnings sources, we introduced a paid search service, Sponsor Site, that links Overture and Google with Yahoo! JAPAN's key word search services.

Outlook

The Listing Business Division remains committed to launching new services and to improving existing services to attract information providers who post information for a fee. At the same time, to increase earnings the business division intends to introduce optimum payment models for each of its information listing services, with a view to expanding information listing sales. In regional advertising, the business division plans to increase its online pay services, to develop regional sales channels, and to promote advertising products that focus on select targets. In the directory search field, the business division will be aiming to provide users with easier-to-use directory search services, to energize its Sponsor Site services, and to boost its role as the hub for the many services that Yahoo! JAPAN offers.

Net Sales and Gross Profit Composition



Listing Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	6,336
Business service	1,575
Personal service	12
Other	—
Total	7,923
Cost of sales	7
Gross profit	7,916
SG&A expenses	3,531
Operating income	4,385
Operating margin	55.3%

Shopping Business Division

Shopping Business Division sales were ¥5,035 million in the fiscal year under review, contributing 8.5% of consolidated net sales. Sales principally came from the sales of e-Shopping! Books CORP. and tenant fees and sales commissions from Yahoo! Shopping. Operating income amounted to ¥674 million, and the operating margin was 13.4%.

Operational Review

During the fiscal year, we solicited the participation in Yahoo! Shopping of major companies with strong brand power and of Internet shopping stores with strong performance records. We also targeted improved performance based on trying to improve on four performance indices at each store: the number of customers approached, purchase rate, average amount spent per customer, and repeat rate. Specifically, we made efforts to attract customers to stores from Yahoo! JAPAN's top page, revised Yahoo! Shopping's top page to improve its usability, and introduced special features and campaigns to support the store sales. We also worked to improve the services of Yahoo! Travel by starting to offer reservation services for international flights and undertook a major renewal of its domestic tourism information.

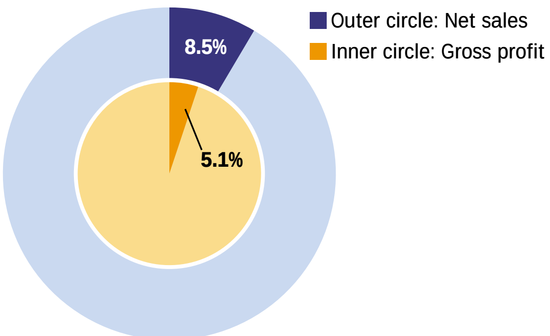
Consequently, at the end of March 2003 the number of stores listed on Yahoo! Shopping totaled 227, an increase of 45 stores or 24.7% year on year. Sales commissions and tenant fees amounted to ¥721 million, a gain of ¥303 million or 72.5% from the previous fiscal year. Shopping transaction value, including the transaction volumes of Yahoo! Travel and e-Shopping! Books, for the entire fiscal period came to ¥34,651 million.

Outlook

Yahoo! Shopping is preparing to make a full-fledged drive to substantially expand the scale of items offered. Specifically, to strengthen the lineup of stores it plans to establish a category for new stores, creating a two-tier system of select stores—the existing popular brand stores with sophisticated services are included here—and of new stores to be developed. The Shopping Business Division expects this expanded merchandise lineup to further boost its reputation with customers. We aim to be the nation's largest Internet shopping site in number of users as well as transaction volumes by further cultivating new stores.

With Yahoo! Travel, the business division is aiming to become a comprehensive travel manager, providing services to support users in all aspects of their travel plans and actual trips. Concurrently, the business division plans to expand its lineup of travel products.

Net Sales and Gross Profit Composition



Shopping Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	522
Business service	892
Personal service	—
Other	3,621
Total	5,035
Cost of sales	2,833
Gross profit	2,202
SG&A expenses	1,528
Operating income	674
Operating margin	13.4%

Media Business Division

The Media Business Division recorded sales of ¥3,593 million in the fiscal year under review, which accounted for 6.1% of consolidated net sales. Sales mainly comprised advertising sales and pay content revenues. Operating income amounted to ¥358 million, and the operating margin was 10.0%.

Operational Review

During the fiscal year, the Media Business Division devoted its efforts to adding user-appealing services and content to stimulate further growth in page views and in advertising sales.

During May 2002, we upgraded our content based on being the official site of the FIFA World Cup™, offering such fee-based services as on-the-spot photographs and video on demand. In August, we acquired a portion of the assets of Sports Navigation Inc., which operates the highly popular comprehensive sports site sportsnavi.com. By bringing its content under the Group's umbrella and merging it with that of Yahoo! Sports, we aim to become Japan's largest provider of comprehensive sports content on the Internet.

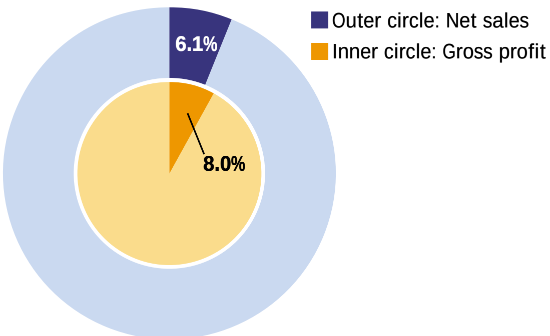
Our broadband content efforts also got fully under way in the fiscal year. We expanded our pay content by adding online animation video and the distribution of comic book content. Among the other new services launched for the rapidly increasing number of broadband users were Fantasy Soccer, a new type of game linked to actual results of J1 League soccer matches, and video functionality for Yahoo! Chat. Through these and other measures, we strive to provide appropriate services for the longer access time of broadband users.

Outlook

In April 2003, the Group introduced Yahoo! Avatar, a service that allows users to represent themselves on the Internet as original characters. The Media Business Division intends to develop Yahoo! Avatar into one of the pillars of its business and plans to expand content by introducing additional items.

The business division is working to further strengthen the power of its media by achieving substantial increases in the number of page views and unique users and the length of access time. Based on its overwhelming media power, the business division will pursue the development of its core advertising business, of the pay content of its personal service, and of its business service.

Net Sales and Gross Profit Composition



Media Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	3,406
Business service	133
Personal service	54
Other	—
Total	3,593
Cost of sales	115
Gross profit	3,478
SG&A expenses	3,120
Operating income	358
Operating margin	10.0%

ES (Enterprise Solutions) Business Division

Sales of the ES Business Division amounted to ¥451 million, accounting for 0.8% of consolidated net sales. Sales primarily comprised the sales of Yahoo! Research, Yahoo! Portal Solutions, and Yahoo! NetRoadshow. Operating income was ¥52 million, and the operating margin was 11.5%.

Operational Review

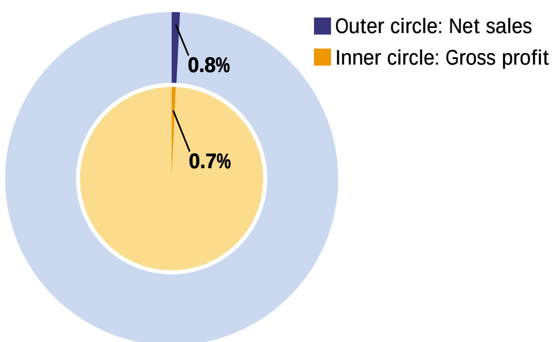
During the fiscal year, we worked with TIBCO Software Inc., IBM Japan, Ltd., Hewlett-Packard Japan, Ltd., and SOFTBANK BB Corp. in aggressively marketing our corporate portal site development support service Yahoo! Portal Solutions. We continued to receive orders for our corporate portal site development services from such major companies as Panasonic Mobile Communications Co., Ltd., (formerly Matsushita Communication Industrial Co., Ltd.) and adidas Japan K.K. In addition, we received an order from Mitsui Fudosan Co., Ltd., to create a portal site linking at the company with its customers. With government bodies, which are introducing IT on a large scale against the backdrop of the government's e-Japan Project, the motto of which is "Become a leading IT country by 2005," our active marketing efforts resulted in our first orders from Gifu Prefecture and others.

In October 2002, we established INTAGE Interactive Inc., a joint venture with INTAGE Inc., to conduct Internet research business. As a result of an aggressive sales campaign, the new company received orders from many major companies during the fiscal year.

Outlook

The ES Business Division is pursuing individual sales strategies for each of its products by industry and segment. In addition, the business division is developing portal solution packages for small and medium-size businesses, aiming to expand its business scope. At the same time, the business division is concentrating on developing new products for corporations to expand its earnings.

Net Sales and Gross Profit Composition



ES Income Statement

(Millions of yen)

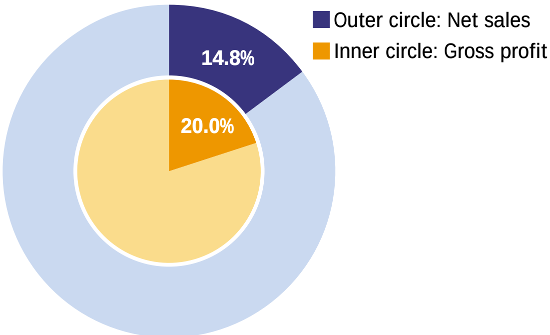
	2003/3
Net sales:	
Advertising	65
Business service	386
Personal service	—
Other	—
Total	451
Cost of sales	166
Gross profit	285
SG&A expenses	233
Operating income	52
Operating margin	11.5%

Corporate Common Business—Elimination or Corporate

The Group does not recognize revenues and expenses related to advertisements on the top page of Yahoo! JAPAN and personal identification fees for the array of services offered on Yahoo! JAPAN as sales or expenses of business divisions. The Group considers them to be sales and expenses of the Corporate Common Business that develops its corporate brand and combines them with the Elimination or corporate profits and losses.

Corporate Common Businesses—Elimination or corporate sales totaled ¥8,767 million, accounting for 14.8% of consolidated net sales. Sales were primarily advertising sales for Yahoo! JAPAN Top Page and personal identification fees for services. Operating income amounted to ¥3,399 million, and the operating margin was 38.8%.

Net Sales and Gross Profit Composition

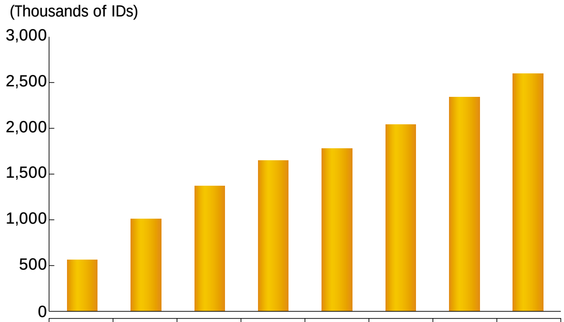


Corporate Common Business—Elimination or Corporate Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	2,144
Business service	6
Personal service	6,617
Other	(0)
Total	8,767
Cost of sales	68
Gross profit	8,699
SG&A expenses	5,300
Operating income	3,399
Operating margin	38.8%

Users Paying Personal Identification Fees



2001/6	9	12	2002/3	6	9	12	2003/3
560	1,010	1,370	1,650	1,780	2,040	2,340	2,600

Note: The services for which personal identification fee—a monthly charge of ¥280—is required are Yahoo! Auctions, Yahoo! Personals, and Yahoo! Avatar.

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, and others)
- Recycling resources (use of *Mamoru-kun*, a system of recycling confidential documents, and the distribution of eco paper plates to Eco League participating universities for campus festivals)

Advertising Business

The Group is made up of the six business divisions of Yahoo! BB, Auction, Listing, Shopping, Media, and ES and of our Corporate Common Business. Sales of these divisions and one business segment are accounted for under the four categories of advertising, business services, personal services, and others. Of those categories, advertising sales comprise banner, e-mail advertising sales, Sponsor Site, and others. Business services sales cover corporate sales excluding advertising, while personal service sales include sales to individuals.

Combining the advertising sales of the Group's businesses, total advertising sales during the fiscal year under review amounted to ¥13,614 million, up 10.7% year on year for a record high.

Operational Review

During the period under review, amid successive failures of major corporations and further deterioration in the economy under the impact of the war in Iraq the advertising market continued to face difficult conditions. With advertising expenditures falling overall, the Group also struggled as advertisers became increasingly cautious about Internet advertising. Despite these conditions, the Group strengthened its cooperative sales organization with advertising agencies, targeting advertising from National Clients by aggressively marketing Yahoo! Pilot Seat, Yahoo! Billboard, and other broad-reach products with a high reach to Internet users. In response to the advertising needs of advertisers, we introduced larger versions of our eye-catching type of products one after the other. We also conducted various campaigns to acquire a portion of companies' fiscal advertising budgets. One of the major trends during the fiscal year was the increased use of cross-media promotions. Along with the rising number of Internet users and the spread of broadband, there is a growing recognition among advertisers of Internet advertising as a media that is on par with traditional media, such as television. Accordingly, cross-media promotions, where television and other media advertising is run simultaneously with Internet advertising, have increased for a variety of products.

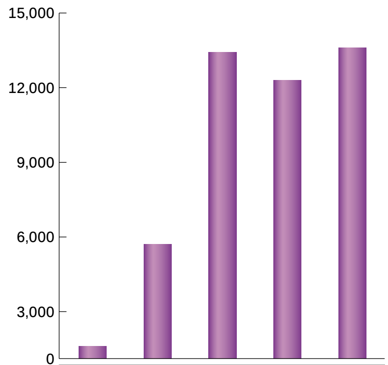
In November 2002, we launched a Sponsor Site advertising service through business alliances with Overture and Google. The new service began contributing fully to sales in the fourth quarter.

Based on our sales efforts, the Group's advertising business sales registered a record high during the fiscal year under review despite the difficult conditions in the overall advertising market.

Outlook

Over the medium to long term, the Group believes that the value of Internet advertising will grow along with the spread of broadband and the increase in the number of Internet users. Consequently, we expect that Internet advertising, as a new media, will remain a growth market. The Group will continue to target increased advertising, particularly from National Clients, by finding ways to evidence the effectiveness of Internet advertising and by offering attractive advertising products.

Advertising Sales



1999/3	2000/3	2001/3	2002/3	**2003/3**
1,606	5,712	13,420	12,299	**13,614**

(Millions of yen)

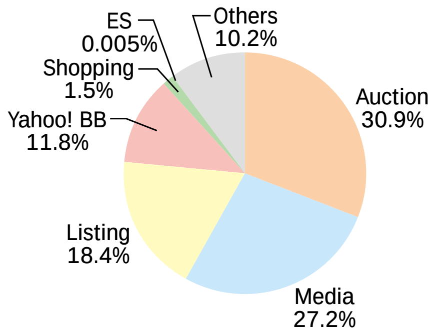
Services

The Group continues to improve and expand its services, which has led to steady growth in page views. At the end of March 2003, monthly page views exceeded 12.6 billion.

Looking at a breakdown of page views by business division for March 2003, Auction accounted for 30.9%, Media for 27.2%, Listing for 18.4%, Yahoo! BB for 11.8%, Shopping for 1.5%, ES for 0.005% , and Others (including Yahoo! JAPAN Top Page) for 10.2%.

The following pages summarize some of the major new services, functions, and events launched during the fiscal year.

Page Views by Business Division (March 2003)



Yahoo! BB Business Division

Yahoo! BB

- Commenced our Yahoo! BB Dial-up Connection Service (April 25, 2002)
- Started accepting orders for rental and sales of the PlayStation BB Unit, necessary for the Yahoo! BB for PlayStation 2 service, at major consumer electronics chain stores and over the Web (April 27, 2002)
- Commenced commercial services of Yahoo! BB 12M (August 12, 2002)
- Commenced converting from INS to ADSL Course, a service in which SOFTBANK BB handles the conversion from an ISDN to an ADSL connection (September 2, 2002)
- Launched sales of SNOOPY! BB, a pay content service (October 18, 2002)
- Formed a business tie-up with ANA Mileage Club whereby subscribers can earn ANA mileage points for joining Yahoo! BB and for use of the service based on subscription fees (November 20, 2002)
- Initiated Commercial version of packaged cable-less LAN with Yahoo! BB 12M service (December 12, 2002)
- Began Yahoo! Mail pay virus check service (December 12, 2002)
- Began Raku Raku Yahoo! BB, a call center support service (January 30, 2003)
- Offered Yahoo! BB members free on-demand video streaming of portions of live concerts of Tsuyoshi Nagabuchi from his recently released video and DVD (March 18, 2003 to April 17, 2003)

Yahoo! Mail

- Added a free virus check service (September 6, 2002)

Yahoo! Photo

- Commenced a New Year's card printing service (November 15, 2002)

Auction Business Division

Yahoo! Auctions

- Introduced system-use fees, such as listing fee, cancellation fee, and others (April 15, 2002)
- Began offering special icons and other tags on the auction list as an additional function for a fee (April 15, 2002)
- Added a mobile phone function to our auction notification service (April 24, 2002)
- Introduced a 3% transaction fee on the proceeds of auctions (May 15, 2002)
- Became the first auction site in the world to offer a search service based on picture content (July 18, 2002)
- Announced the start of Yahoo! Delivery Service (August 13, 2002)
- Began offering Ranking de Auction Fashion Item Latest Information through a tie-up with OZmall (December 12, 2002)
- Launched Yahoo! Payment service (January 27, 2003)
- Commenced a Used Car Premium Auctions service based on an alliance with Recruit Co., Ltd. (February 6, 2003)

Listing Business Division

Yahoo! Autos
- Formed a business alliance with Car Point Co., Ltd., to offer a free used car evaluation service (April 4, 2002)

Yahoo! Real Estate
- Started a Renovation Advisory service (September 2, 2002)

Yahoo! Personals
- Commenced Yahoo! Personals service (April 25, 2002)

Yahoo! Books
- Formed a business tie-up with e-Shopping! Books and announced launch of Yahoo! Books (June 13, 2002)

Yahoo! Mobile
- Launched a ringing tone music service (August 20, 2002)
- Introduced a mobile version of Yahoo! Mail (October 21, 2002)
- Added Yahoo! Part-time Job Information service (October 24, 2002)
- Added News Flash service (November 14, 2002)
- Added mobile device information and address book (December 9, 2002)

Yahoo! Phone Book
- Commenced Yahoo! Phone Book service (October 1, 2002)

Sponsor Site
- Started Sponsor Site services in collaboration with Overture and Google (November 27, 2002)

Shopping Business Division

Yahoo! Shopping
- Launched Yahoo! Gear, a Yahoo! JAPAN original brand shopping site (July 26, 2002)
- Commenced Yahoo! Mobile Shopping service (March 17, 2003)
- Began offering a Link Settlement service to Yahoo! Shopping stores (March 17, 2003)

Media Business Division

Yahoo! Games
- Added Memories Off, a fee-based romance adventure game, to Maker Games (May 29, 2002)
- Made available Mahjong Solitaire, which allows people to play on their own (September 18, 2002)

Yahoo! Sports
- Began special feature Samurai—Japanese Players Starring Worldwide (October 1, 2002)
- Started offering fee-based Premium League Photo News (October 25, 2002)
- Launched Fantasy Soccer, officially recognized by J League (March 18, 2003)

Yahoo! Fortune Telling
- Began special seasonal service Happy Wedding Horoscope (June 10, 2002)
- Added 25 types of fee-based fortune telling services (December 27, 2002)

Yahoo! Chat
- Added a video function to enable sending and receiving images (February 19, 2003)

Yahoo! Finance
- Commenced a Fiscal Performance Announcement Calendar for the dates that companies listed on the Tokyo Stock Exchange were scheduled to announce fiscal results (May 1, 2002)
- Launched a corner offering free access to the latest analyst reports of securities firms and research organizations (August 9, 2002)
- Started MoneyLook, a bank account management service (January 28, 2003)

Yahoo! Movie
- Launched official site for the movie *Mohohan* (May 15, 2002)
- Began fee-based showing of the short film STSTER BOMBER!, starring Eiko Koike (July 18, 2002)
- Commenced fee-based showing of episodes of The Galaxy Express 999 (September 9, 2002)
- Started showing movies of Gundam on a fee basis (September 27, 2002)

Yahoo! Entertainment
- Launched Motomiya Hiroshi Special Feature as a pay service (January 31 to March 3, 2003)
- Started Astro Boy Special Feature as a pay service (March 24 to May 22, 2003)

Yahoo! Member Directory
- Commenced Yahoo! Member Directory service (March 25, 2003)

Financial Section

Key Financial Data

(Millions of yen)

For the years ended	1999/3	2000/3	2001/3	2002/3	**2003/3**
Net sales	2,088	6,271	14,278	31,497	**59,095**
Operating income	399	2,110	5,309	10,407	**24,073**
Net income	184	1,154	2,973	5,868	**12,096**
Operating margin (%)	19.1	33.7	37.2	33.0	**40.7**
Net income to net sales ratio (%)	8.8	18.4	20.8	18.6	**20.5**
Net income per share (Yen)	387	2,552	6,343	12,444	**25,155**
Shareholders' equity	3,264	8,107	18,674	20,227	**30,483**
Total assets	3,920	10,476	27,973	29,218	**47,774**
Shareholders' equity ratio (%)	83.3	77.4	66.8	69.2	**63.8**
ROE (%)	8.6	20.3	22.2	30.2	**47.7**
Number of employees (Number of persons)	82	196	339	431	**669**

Note: Effective from the fiscal year ended March 31, 2003, net income per share is calculated in accordance with "Accounting Standards for Earnings per Share"(Financial Accounting Standards No. 2) and "Implementation Guidance for Accounting Standards for Earnings per Share" (Financial Accounting Standards Implementation Guidance No. 4).
Net income per share is calculated based on the weighted average number of share issued and outstanding during each fiscal year.
Figures have been retroactively adjusted to reflect the above accounting standards (See Notes to Consolidated Financial Statements 3(9)) and the following stock splits: November 20, 2002 (2:1)/May 20, 2002 (2:1)/November 20, 2000 (2:1)/May 19, 2000 (2:1)/November 19, 1999 (2:1)/May 20,1999 (2:1)

Results of Operations

Net Sales

Net sales for the fiscal year ended March 31, 2003, climbed ¥27,598 million, or 87.6% year on year, reaching a record high of ¥59,095 million. This substantial growth in sales can mainly be attributed to the sales of the Yahoo! BB Business Division increasing to ¥22,245 million and to the sales of the Auction Business Division rising to ¥11,081 million.

Cost of Sales

Cost of sales amounted to ¥15,682 million, up ¥6,719 million, or 75.0%, year on year. The main factor behind this jump was the increase in the ISP costs of the Yahoo! BB Business Division in accordance with the growth in the number of subscribers to its service.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses totaled ¥19,340 million, rising ¥7,213 million, or 59.5%, year on year.

The major components of SG&A expenses were the following:

Personnel expenses rose ¥1,539 million, or 48.4%, to ¥4,722 million. Compared with the previous fiscal year, the number of directors and employees at year-end increased by 242, or 54.5%, to 686 people.

Advertising costs decreased ¥446 million, or 56.3%, to ¥346 million. The decline results from our emphasis on less-costly marketing methods.

Content provider fees increased ¥448 million, or 42.5%, to ¥1,502 million. Fees rose as a consequence of the launching of such new services as Yahoo! Phone Book, the upgrading of Yahoo! Finance and other content services, and the greater access provided users to directory search services.

Sales commissions expanded ¥733 million, or 48.8%, to ¥2,236 million. The increase was the result of the Company's progressive conversion to primarily placing advertising through advertising agencies and to the increase in commissions applied to some portions of advertising along with the growth in transaction volume.

Depreciation expenses advanced ¥508 million, or 40.5%, to ¥1,765 million, due to the acquisition of additional servers to handle growth in page views and upgrades to services, as well as the set up of basic facilities after the move to the new head office.

Communication charges rose ¥382 million, or 34.2%, to ¥1,496 million. These charges increased because of growth in services and expanded space at the data center to improve the access environment for users.

Royalties paid to Yahoo! Inc., of the United States, increased ¥585 million, or 94.1%, to ¥1,207 million, in accordance with the increase in net sales.

Business commissions advanced ¥1,001 million, or 123.3%, to ¥1,813 million. These commissions mainly comprised expenses for the settlement operations of Yahoo! Wallet, temporary employees, and Yahoo! BB's call center.

Sales promotion costs increased ¥808 million, or 489.3%, to ¥973 million. These expenses were mainly related to Yahoo! BB promotion campaigns to acquire subscribers.

Allowance for doubtful accounts rose ¥213 million, or 532.1%, to ¥253 million. This jump resulted from an upward revision in the historical bad debt rate due to the increase in receivables, such as system-use fees for Yahoo! Auctions.

Amortization of consolidated accounts increased ¥148 million, or 92.0%, to ¥310 million. This amortization is related to three subsidiaries, eGroups KK, e-Shopping! Books CORP., and Netrust, Ltd.

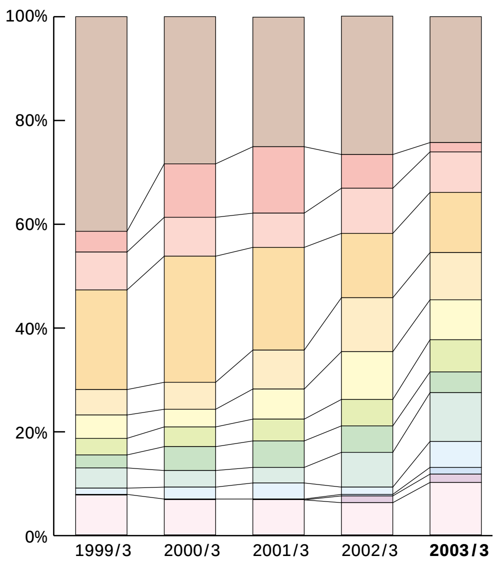
Operating Income

As a result of the above factors, operating income expanded ¥13,666 million, or 131.3%, to ¥24,073 million, compared with the previous fiscal year.

Income Taxes

Income taxes amounted to ¥10,918 million. The income tax rate for the fiscal year under review was 44.7%.

SG&A Expenses



(Millions of yen)

	1999/3	2000/3	2001/3	2002/3	**2003/3**
Personnel expenses	656 (41.5%)	1,164 (28.5%)	2,233 (25.1%)	3,182 (26.2%)	**4,722 (24.4%)**
Advertising costs	63 (4.0%)	419 (10.3%)	1,144 (12.8%)	792 (6.5%)	**346 (1.8%)**
Content provider fees	116 (7.3%)	308 (7.5%)	588 (6.6%)	1,054 (8.7%)	**1,502 (7.8%)**
Sales commissions	308 (19.4%)	994 (24.3%)	1,764 (19.8%)	1,503 (12.4%)	**2,236 (11.6%)**
Depreciation expenses	77 (4.9%)	214 (5.2%)	672 (7.5%)	1,256 (10.4%)	**1,765 (9.1%)**
Communication charges	71 (4.5%)	140 (3.4%)	520 (5.8%)	1,115 (9.2%)	**1,496 (7.7%)**
Royalties	51 (3.2%)	154 (3.8%)	373 (4.2%)	622 (5.1%)	**1,207 (6.2%)**
Lease and utility expenses	39 (2.5%)	189 (4.6%)	453 (5.1%)	614 (5.1%)	**765 (4.0%)**
Business commissions	61 (3.9%)	132 (3.2%)	267 (3.0%)	812 (6.7%)	**1,813 (9.4%)**
Sales promotion costs	18 (1.2%)	92 (2.3%)	289 (3.2%)	165 (1.4%)	**973 (5.0%)**
Allowance for doubtful accounts	1 (0.1%)	3 (0.1%)	1 (0.0%)	40 (0.3%)	**253 (1.3%)**
Amortization of consolidated accounts	—	—	—	161 (1.3%)	**310 (1.6%)**
Others	121 (7.5%)	277 (6.8%)	602 (6.9%)	811 (6.7%)	**1,952 (10.1%)**
Total	1,582 (100.0%)	4,086 (100.0%)	8,906 (100.0%)	12,127 (100.0%)	**19,340 (100.0%)**

Note: Personnel expenses include health and welfare program costs, pension costs, and others.

Minority Interest in Subsidiaries

Minority interest in subsidiaries increased ¥23 million, or 43.9%, to ¥76 million. This amount represents the losses of eGroups, e-Shopping! Books, BridalConcierge, and Netrust and reflects the losses of shareholders in those subsidiaries other than the Company.

Net Income

Net income advanced ¥6,228 million, or 106.1%, year on year, to ¥12,096 million. Net income per share amounted to ¥25,154.62, representing a 102.1% up from the prior fiscal year, if retroactively adjusted to refrect the stock splits. Fully diluted net income per share was ¥25,116.72.
Note: Based on a change in the accounting standard for net income per share, starting with the fiscal year under review, directors' bonuses are eliminated in the calculation of net income per share.

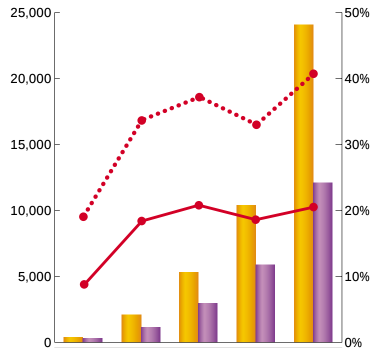
Financial Position

At March 31, 2003, total assets amounted to ¥47,774 million, up ¥18,556 million, or 63.5%, from the previous fiscal year. Total liabilities were ¥17,222 million, increasing ¥8,287 million, or 92.7%. Total shareholders' equity advanced ¥10,255 million, or 50.7%, year on year, to ¥30,483 million.

Assets

- The substantial growth in cash and cash equivalents compared with the previous fiscal year was principally due to the increase in net income.
- The large increase in accounts receivable—trade compared with the previous fiscal year was mainly related to growth in revenues from system-use fees by Yahoo! Auctions and an expansion in credit loans resulting from growth in ISP fees from Yahoo! BB's operations and in content fees.
- Marketable securities fell mainly because of the redemption of bonds on maturity.
- The increase in allowance for doubtful accounts was mainly to be attributed to the jump in receivables due to sales growth, especially the growth in receivables for credit card companies, including Yahoo! Auctions system-use fees, and others.
- The increase in property and equipment was principally due to the set up of a new office.
- The decrease in the consolidated accounts was primarily due to the lump-sum write off of the consolidated account of eGroups.

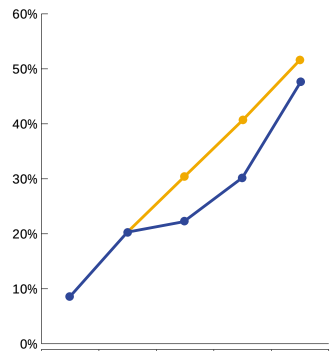
Profits and Net Sales Ratios



	1999/3	2000/3	2001/3	2002/3	**2003/3**
Operating income	399	2,110	5,309	10,407	**24,073**
Net income	184	1,154	2,973	5,868	**12,096**
Operating margin	19.1%	33.7%	37.2%	33.0%	**40.7%**
Net income to net sales ratio	8.8%	18.4%	20.8%	18.6%	**20.5%**

(Millions of yen)

Return on Equity (ROE)



	1999/3	2000/3	2001/3	2002/3	**2003/3**
ROE	8.6%	20.3%	22.2%	30.2%	**47.7%**
ROE after adjustment	—	—	30.4%	40.7%	**51.6%**

Note: The Group introduced mark-to-market accounting for the valuation of other securities from the fiscal year ended March 31, 2001. As a result, shareholders' equity (average of beginning and ending balance of the year) after the fiscal year ended March 31, 2001 contains other securities evaluation adjustment in its ending balance.
For a comparison with past trends, ROE calculated without taking such evaluation adjustment into account is also displayed as ROE after adjustment.

• The increase in other intangibles was primarily attributable to software of consolidated subsidiaries.

• The substantial decline in investment securities was mainly a result of mark-to-market revaluation.

• Deferred taxes assets were recognized mainly due to the application of depletion accounting for a certain portion of investment securities.

Liabilities

• The significant growth in accounts payable—trade compared with the previous fiscal year was primarily due to the expansion in cost of sales from Yahoo! BB's ISP services.

• The large year-on-year growth in accounts payable—other can mainly be attributed to an increase in facilities for servers and for the new head office.

• The substantial increase in accrued income taxes was mainly because of the growth in net income.

• Long-term deferred tax liabilities decreased due to the mark to market of investment securities. Because most of the deferred taxes are deferred tax assets (long term), they have been transferred to the deferred tax assets account.

Shareholders' Equity

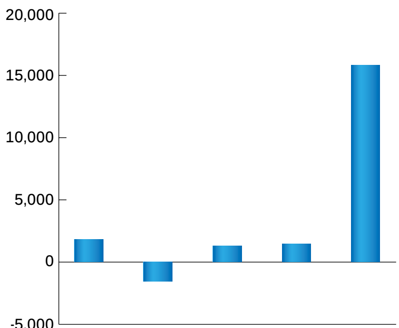
• The considerable increase in retained earnings compared with the previous fiscal year resulted principally from the increase in net income.

• The large year-on-year decrease in net unrealized gain on other securities was mainly due to the mark to market of investment securities.

Cash Flows

Net cash provided by operating activities totaled ¥19,667 million for the fiscal year. Although accounts receivable—trade expanded along with the growth in net sales, this was offset by an increase in net income. Net cash used in investing activities totaled ¥3,779 million because purchases of facilities for new servers, expenses for construction at the new office, and rental and deposits resulted in an increase in cash used in investing activities. Net cash used in financing activities amounted to ¥51 million due to expenditures for the redemption of bonds. As a result, the net change in cash and cash equivalents for the fiscal year was an increase of ¥15,837 million.

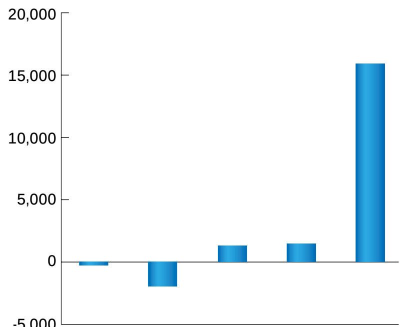
Cash Flows



1999/3	2000/3	2001/3	2002/3	**2003/3**
1,936	(1,529)	1,304	1,475	**15,837**

(Millions of yen)

Free Cash Flows



1999/3	2000/3	2001/3	2002/3	**2003/3**
(240)	(1,922)	1,289	1,464	**15,888**

(Millions of yen)

Note: Free cash flows =
Cash flows from operating activities + Cash flows from investing activities.

CONSOLIDATED BALANCE SHEETS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2003
	2002	2003	
ASSETS			
Current assets:			
Cash and cash equivalents (Note 9)	¥ 7,341	**¥23,216**	**$193,142**
Accounts receivable — trade	4,943	**11,035**	**91,802**
Accounts receivable — other	1,982	**153**	**1,275**
Marketable securities (Notes 3(3) and 7)	100	**—**	**—**
Inventories (Notes 3(4) and 6)	7	**14**	**118**
Prepaid expenses	292	**178**	**1,479**
Deferred tax assets (Note 14)	374	**1,004**	**8,355**
Other current assets	61	**177**	**1,468**
Less: Allowance for doubtful accounts (Note 3(3))	(47)	**(291)**	**(2,418)**
Total current assets	15,053	**35,486**	**295,221**
Property and equipment, net (Note 3(5)):			
Buildings and structures	458	**1,705**	**14,189**
Machinery and equipment	4,863	**7,439**	**61,889**
Less: Accumulated depreciation	(2,062)	**(3,328)**	**(27,691)**
Total property and equipment, net	3,259	**5,816**	**48,387**
Intangible assets, net:			
Goodwill (Note 3(1))	807	**100**	**830**
Software (Note 3(5))	475	**703**	**5,845**
Other intangibles	4	**9**	**77**
Total intangible assets, net	1,286	**812**	**6,752**
Investments and other assets:			
Investment securities (Notes 3(3) and 7)	8,090	**3,037**	**25,270**
Investments in and advances to non-consolidated subsidiaries and affiliates (Notes 3(3) and 8)	120	**158**	**1,317**
Guaranteed deposits	500	**1,707**	**14,203**
Other investments	910	**635**	**5,280**
Deferred tax assets (Note 14)	—	**132**	**1,100**
Less: Allowance for doubtful accounts (Note 3(3))	—	**(9)**	**(75)**
Total investments and other assets	9,620	**5,660**	**47,095**
Total assets	¥29,218	**¥47,774**	**$397,455**

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2003
	2002	2003	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	¥ 117	**¥ —**	**$ —**
Accounts payable — trade	1,111	**3,698**	**30,764**
Accounts payable — other	1,165	**3,406**	**28,333**
Income taxes payable	3,760	**8,505**	**70,761**
Accrued consumption taxes	426	**896**	**7,457**
Other current liabilities	332	**662**	**5,508**
Total current liabilities	6,911	**17,167**	**142,823**
Long-term liabilities:			
Accrued pension costs (Notes 3(7) and 10)	14	**—**	**—**
Deferred tax liabilities (Note 14)	1,871	**—**	**—**
Other long-term payable (Note 10)	139	**55**	**456**
Total long-term liabilities	2,024	**55**	**456**
Total liabilities	8,935	**17,222**	**143,279**
Minority interest in subsidiaries (Note 3(1))	56	**69**	**577**
Contingent liabilities (Note 16)			
Shareholders' equity:			
Common stock (Note 12)—			
Authorized: 467,600 shares in 2002			
940,000 shares in 2003			
Issued: 117,531.80 shares in 2002	6,033	**—**	**—**
471,059.04 shares in 2003	—	**6,073**	**50,525**
Additional paid-in capital (Note 12)	1,111	**1,154**	**9,602**
Net unrealized gains on other securities (Notes 3(3) and 7)	2,877	**971**	**8,077**
Treasury stock (Note 12)—			
3.00 shares in 2002	(15)	**—**	**—**
13.28 shares in 2003	—	**(17)**	**(145)**
Retained earnings (Notes 3(10) and 13)	10,221	**22,302**	**185,540**
Total shareholders' equity	20,227	**30,483**	**253,599**
Total liabilities and shareholders' equity	¥29,218	**¥47,774**	**$397,455**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	For the years ended March 31		For the year ended March 31, 2003
	2002	2003	
Net sales (Note 18)	¥31,497	**¥59,095**	**$491,644**
Cost of sales	8,963	**15,682**	**130,467**
Gross profit	22,534	**43,413**	**361,177**
Selling, general and administrative expenses (Note 11)	12,127	**19,340**	**160,902**
Operating income	10,407	**24,073**	**200,275**
Non-operating income (expenses):			
Interest and dividend income	28	**23**	**191**
Interest expenses	(8)	**(11)**	**(91)**
Gain (loss) on sales of investment securities (Note 7)	587	**(41)**	**(339)**
Equity in net gains under the equity method	—	**42**	**348**
Impairment charges on investment securities	(611)	**(1,383)**	**(11,506)**
Impairment charges on other investments	(72)	**(249)**	**(2,072)**
Loss on disposal of property and equipment	(54)	**(193)**	**(1,603)**
Amortization of goodwill (Notes 3(1) and 5(1))	—	**(384)**	**(3,195)**
Office moving expenses	—	**(156)**	**(1,300)**
Loss on transfer of pension plans (Notes 3(7) and 10)	—	**(1)**	**(8)**
Others, net	17	**8**	**63**
Income before income taxes and minority interest	10,294	**21,728**	**180,763**
Income taxes (Note 14):			
Current	(4,929)	**(10,918)**	**(90,836)**
Deferred	450	**1,210**	**10,072**
	(4,479)	**(9,708)**	**(80,764)**
Minority interest in subsidiaries	53	**76**	**636**
Net income	¥5,868	**¥12,096**	**$100,635**

	Yen		U.S. dollars (Note 4)
Net income per share (Note 3(9)):	2002	2003	2003
Primary	¥12,443.83	**¥25,154.62**	**$209.27**
Diluted	¥12,420.87	**¥25,116.72**	**$208.96**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

(Millions of yen)

	Number of shares issued and outstanding	Common stock	Additional paid-in capital	Net unrealized gains (losses) on other securities	Treasury stock	Retained earnings	Total
Balance at March 31, 2001	116,929.00	¥5,993	¥1,100	¥7,211	¥ (4)	¥4,369	¥18,669
Net income	—	—	—	—	—	5,868	5,868
Bonuses to directors	—	—	—	—	—	(16)	(16)
Exercise of stock options	598.80	30	—	—	—	—	30
Exercise of warrants	4.00	10	11	—	—	—	21
Decrease in net unrealized gains on other securities (Notes 3(3) and 7)	—	—	—	(4,334)	—	—	(4,334)
Acquisition of treasury stock (Note 12)	(3.00)	—	—	—	(11)	—	(11)
Balance at March 31, 2002	117,528.80	¥6,033	¥1,111	¥2,877	¥(15)	¥10,221	¥20,227
Net income	—	—	—	—	—	12,096	12,096
Bonuses to directors	—	—	—	—	—	(32)	(32)
Increase due to affiliates newly accounted for under the equity method	—	—	—	—	—	28	28
Decrease due to subsidiaries newly included in consolidation	—	—	—	—	—	(11)	(11)
Stock split (Notes 3(9) and 12)	353,061.32	—	—	—	—	—	—
Exercise of stock options	32.00	39	39	—	—	—	78
Exercise of warrants	433.92	1	4	—	—	—	5
Decrease in net unrealized gains on other securities (Notes 3(3) and 7)	—	—	—	(1,906)	—	—	(1,906)
Acquisition of treasury stock (Note 12)	(10.28)	—	—	—	(2)	—	(2)
Balance at March 31, 2003	**471,045.76**	**¥6,073**	**¥1,154**	**¥ 971**	**¥(17)**	**¥22,302**	**¥30,483**

(Thousands of U.S. dollars)

	Number of shares issued and outstanding	Common stock	Additional paid-in capital	Net unrealized gains (losses) on other securities	Treasury stock	Retained earnings	Total
Balance at March 31, 2002	117,528.80	$50,193	$9,240	$23,944	$(128)	$ 85,030	$168,279
Net income	—	—	—	—	—	100,635	100,635
Bonuses to directors	—	—	—	—	—	(266)	(266)
Increase due to affiliates newly accounted for under the equity method	—	—	—	—	—	233	233
Decrease due to subsidiaries newly included in consolidation	—	—	—	—	—	(92)	(92)
Stock split (Notes 3(9) and 12)	353,061.32	—	—	—	—	—	—
Exercise of stock options	32.00	326	326	—	—	—	652
Exercise of warrants	433.92	6	36	—	—	—	42
Decrease in net unrealized gains on other securities (Notes 3(3) and 7)	—	—	—	(15,867)	—	—	(15,867)
Acquisition of treasury stock (Note 12)	(10.28)	—	—	—	(17)	—	(17)
Balance at March 31, 2003	**471,045.76**	**$50,525**	**$9,602**	**$ 8,077**	**$(145)**	**$185,540**	**$253,599**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Years ended March 31		Year ended March 31, 2003
	2002	2003	
Cash flows from operating activities:			
Income before income taxes and minority interest	¥10,294	**¥21,728**	**$180,763**
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:			
Depreciation and amortization	1,418	**2,498**	**20,781**
Increase in allowance of doubtful accounts	40	**253**	**2,105**
Loss on disposal of property and equipment	54	**193**	**1,603**
Impairment charges on investment securities	611	**1,383**	**11,503**
(Gain) loss on sale of investment securities	(587)	**41**	**339**
Impairment charges on other investments	72	**249**	**2,072**
Increase in accounts receivable — trade	(2,435)	**(6,149)**	**(51,158)**
Increase in accounts payable — trade	968	**2,587**	**21,521**
(Increase) decrease in other receivables	(1,236)	**1,220**	**10,150**
Increase (decrease) in other payables	(54)	**1,476**	**12,278**
Increase in consumption tax payable	185	**470**	**3,912**
Other	(21)	**(108)**	**(887)**
	9,309	**25,841**	**214,982**
Income taxes paid	(3,170)	**(6,174)**	**(51,364)**
Net cash provided by operating activities	6,139	**19,667**	**163,618**
Cash flows from investing activities:			
Payments for purchases of property and equipment	(2,372)	**(2,895)**	**(24,086)**
Payments for purchases of intangibles	(170)	**(505)**	**(4,197)**
Payments for purchases of marketable and investment securities	(1,216)	**(25)**	**(204)**
Proceeds from sale of marketable and investment securities	190	**1,017**	**8,458**
Payments for acquisitions of shares of entities newly consolidated (Note 9(3))	(1,051)	**(6)**	**(51)**
Increase in other investments	(54)	**(1,400)**	**(11,650)**
Other	(2)	**35**	**291**
Net cash used for investing activities	(4,675)	**(3,779)**	**(31,439)**
Cash flows from financing activities:			
Redemption of bonds	(20)	**(118)**	**(980)**
Proceeds from issuance of shares under exercise of warrants and stock options	50	**79**	**658**
Interest paid	(8)	**(11)**	**(93)**
Other	(11)	**(1)**	**(15)**
Net cash provided by (used for) financing activities	11	**(51)**	**(430)**
Effect of exchange rate fluctuations on cash and cash equivalents	—	**0**	**3**
Net increase in cash and cash equivalents	1,475	**15,837**	**131,752**
Cash and cash equivalents at the beginning of the year	5,866	**7,341**	**61,073**
Cash and cash equivalents at the beginning of the year due to subsidiaries newly consolidated	—	**38**	**317**
Cash and cash equivalents at the end of the year (Note 9(2))	¥ 7,341	**¥23,216**	**$193,142**

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Organization and nature of business

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

- Yahoo! BB business

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

- Auction business

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

- Listing business

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

- Shopping business

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

- Media business

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

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

- ES (Enterprise Solutions) business

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

- Corporate Common business

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

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

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

2. Basis of presenting the consolidated financial statements

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

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

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

3. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

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

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

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

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

(2) Translation of foreign currency transactions and accounts

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

(3) Financial instruments

◆ Investments in debt and equity securities:

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

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income or loss. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses on these other securities are reported as a separate component of "Shareholders' equity," net of tax. Other securities for which market quotations are unavailable are stated at cost based on the moving average cost method. Declines in the value of other securities and unlisted securities that are deemed to be other than temporary are reflected in current income.

◆ Allowance for doubtful accounts:

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

(4) Inventories

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

(5) Depreciation and amortization

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

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

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

(6) Income taxes

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

(7) Retirement benefit plan

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

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

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

(8) Leases

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

(9) Net income per share

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

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

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

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

(10) Appropriation of retained earnings

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

4. U.S. dollar amounts

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

5. Mergers, acquisitions and restructuring

(1) Acquisition of Netrust, Ltd.

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

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

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

6. Inventories

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

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

7. Investments in debt and equity securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

9. Cash flow information

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

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

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

(3) Acquisition

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

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

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

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

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

10. Retirement and pension plan

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

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

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

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

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

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

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

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

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

Discount rate	2.5%
Expected return on plan assets	2.2%

11. Selling, general and administrative expenses

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

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

12. Common stock and treasury stock

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

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

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

13. Retained earnings

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

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

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

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

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

14. Income taxes

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

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

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

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

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

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

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

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

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

15. Leases

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

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

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

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

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

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

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

16. Contingent liabilities

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

17. Subsequent events

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

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

18. Segment information

(1) Business segment information

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

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

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

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

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

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

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

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

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

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

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

(2) Geographic segment information

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

(3) Sales to overseas customers

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

Report of Independent Auditors

To the Board of Directors of
Yahoo Japan Corporation

We have audited the accompanying consolidated balance sheets of Yahoo Japan Corporation and its subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yahoo Japan Corporation and its subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the two years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 2).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 20, 2003

Risk Factors

Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group"), have reported their results for the fiscal year ended March 31, 2003 in this document. However, a number of potential factors could substantially impact future performance.

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

1. Group Operations

(1) Business Content

Under a license agreement with Yahoo! Inc., of the United States (hereinafter referred to as “Yahoo! Inc.”), the Group supplies Internet users with category and key word Web site directory-search services; information services, such as listing services for employment, real estate, and others and stock quotes, up-to-the-minute news, sports updates, and weather reports, through agreements with various content providers; community services, such as e-mail, homepage creation support, bulletin board, and messenger services; and e-commerce services, such as Internet shopping and auctions. These services are provided using several Yahoo! JAPAN and other Web sites. In addition, the Group uses its brand name and customer attracting power to promote Yahoo! BB services as well as offering comprehensive broadband-related services, such as ISP services. The Group also leverages accumulated knowledge and technology gained from operating the Yahoo! JAPAN site to provide corporate-oriented services.

The principal components of the Group’s earnings are advertising revenues from advertising banners placed for customers on its sites targeting users of the previously mentioned services; business service revenues paid by corporate clients, such as acquiring customers for Yahoo! BB, providing a range of services for Yahoo! Shopping tenants, and supplying a variety of information listing services; and personal services revenues paid by users directly to the Group, such as fees for Yahoo! BB and Yahoo! Auctions services.

Segment sales performance on a business division basis for the fiscal years ended March 31, 2002 and 2003 are as follows:

(Millions of yen)

Segment (Business Division)	For the year ended March 31, 2002		For the year ended March 31, 2003	
	Sales	% Sales	Sales	% Sales
Yahoo! BB	¥14,388	45.7%	¥22,245	37.6%
Auction	1,684	5.3%	11,081	18.8%
Listing	6,700	21.3%	7,923	13.4%
Shopping	2,258	7.2%	5,035	8.5%
Media	2,563	8.1%	3,593	6.1%
ES	422	1.3%	451	0.8%
Corporate Common Business	3,482	11.1%	8,770	14.8%
Elimination or corporate	(0)	—	(3)	—
Total	¥31,497	100.0%	¥59,095	100.0%

Note: The Group began preparing consolidated statements for the fiscal year ended March 31, 2002. At that time, the segment classifications were Advertising, Yahoo! BB, Auction, and Others. Commencing with the fiscal year ended March 31, 2003, however, the Group changed its segment classification by introducing a business division system aimed at clarifying responsibility for profit and loss by preparing business plans and budgets by business and establishing an organization that optimally allocates the Group’s human, physical, and financial resources and maximizes their effectiveness. In the above chart, sales for the fiscal year ended March 31, 2002 have been prepared on the same basis as the sales for the fiscal year ended March 31, 2003. Sales of Internet advertising, which was previously the advertising segment, have been allocated among the business divisions of the new segments.

Business classification by segment and a description of business content are as stated in page 6 Segment Report by Business Division.

The following is a detailed description of business risk by business division.

(2) Yahoo! BB Business

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

Note: Yahoo! BB was previously operated in partnership with 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. (SBB is the surviving company). All of the merged companies had the same parent company, SOFTBANK CORP. Accordingly, in the text below, where not problematic, BBT's name has been replaced with SOFTBANK BB Corp. or SBB.

a. Subscriber Sign-up Promotion Business and Incentive Commission

Beginning with the fiscal year ended March 31, 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving incentive commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to sign-ups through consumer electronic wholesalers and other means including 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 SBB, 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, the Group may be prevented from making anticipated sales or required to 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 the 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 the Group's 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 Group's 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 homepages and other areas, but these efforts do not eliminate all risk regarding the relationship with SBB.

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

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

d. The Competitive Environment

As of March 31, 2003, the major providers in Japan of services similar to those the Group is to offer were as follows (in no particular order):

Site	Provider	Business description
@nifty	Nifty Corp.	ISP business and comprehensive information site
So-net	Sony Communication Network Corp.	ISP business and comprehensive information site
BIGLOBE	NEC Corp.	ISP business and comprehensive information site
OCN	NTT Communications Corp.	Long-distance telecommunication business and ISP business
FLET'S	NTT East and West Corp.	Regional telecommunication and ADSL business
eAccess	eAccess Ltd.	ADSL business
ACCA	ACCA Networks, Co., Ltd.	ADSL business

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

e. Dependence on a Certain Distributor

In Yahoo! BB business, Group revenues show a high level of dependence on SBB in terms of sales composition of the business among other Group revenues. This can be attributed to Yahoo! BB's operations still being dependent on the relatively 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.

(3) Auction Business

a. Damage Compensation

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

b. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. In November 2002, the 155th Diet Session approved a proposal to reform the law regarding the sale of used goods to prevent crimes abusing Internet auctions. In addition to imposing a registering system on Internet auction operators, the reformed law requires operators to make efforts to confirm the identity of participants and maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reformed law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, the Group does not expect that the reformed law will have a significant impact on its 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 cooperates with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and a subsequent negative impact on earnings.

The previously mentioned damage-compensation system has the Group pay compensation up to a certain amount to users who fall victims to illegal activities. 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 Group, 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 an escrow 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 C-to-C transaction.

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 currently exploring methods of reducing the amount of reimbursement funds by shortening the settlement cycle with the credit card companies' settlement banks as well as seeking methods of diversifying its source of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible the Group will not be able to raise the required funds at a reasonable cost. Moreover, the amount of the reimbursement funds could increase to a level where if interest rates rose 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 life cycle 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 March 31, 2003, the major providers of Japanese-language online mall and auction business directed to Japanese Internet users were as follows (in no particular order):

Site	Provider	Business description
bidders	DeNA Co.	Online auction site
Rakuten Ichiba	Rakuten Inc.	Online mall and auction site

With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition to impacting sales via the Group's 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.

(4) Risks Affecting Internet Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those businesses mentioned above. Therefore, the Internet advertising areas that are to be thought most important and the associated risks will be discussed below. The risks that could affect other businesses are explained 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, 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 other methods. At the same time, as elaborated on later in this document, in order to reduce the previously stated risks the Group is expanding and firming up the advertiser base by changing its advertising sales structure and building a close, cooperative relationship with advertising agencies.

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

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

The Group has entered into advertising contracts with certain advertisers or advertising agencies whereby the parties concerned have agreed to advertising with annual payments in the ¥100 million range. Sales revenue from these advertisers accounts for a comparatively large portion of the Group's net sales. To maintain contracts with these advertisers, the Group follows up advertising with evaluations of 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 the future, the Group will need to increase its sales force and strengthen its sales-management system to suit market expansion. However, these measures alone will not be sufficient to guarantee increased advertising revenues.

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

e. The Competitive Environment

As of March 31, 2003, the major providers of Japanese-language Internet navigational services or similar services directed to Japanese Internet users earning advertising income through comprehensive information sites for those services were as follows (in no particular order): (These companies are considered largely in competition with the Group services in the listing and media businesses.)

Site	Provider	Business description
goo	NTT X	Comprehensive information site
Lycos	Lycos Japan Inc.	Comprehensive information site
MSN	Microsoft Corp.	Comprehensive information site
infoseek	Infoseek Japan K.K.	Comprehensive information site
excite	Excite Japan Co., Ltd.	Comprehensive information site
ISIZE	Recruit Co., Ltd.	Comprehensive information site

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

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of March 31, 2003, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, e-commerce, e-finance, media and marketing services and an overseas fund investment service. The Company and its subsidiaries belong to the Broadband Infrastructure Segment and Internet Culture Segment of SOFTBANK Group.

(2) Alliance Contracts and Other Arrangements with SBB

The Company has signed the following contracts with SOFTBANK CORP. affiliate SOFTBANK BB Corp. (SBB) concerning Yahoo! BB business. Yahoo! BB business accounted for 37.6% of Group sales for the fiscal year ended March 31, 2003. Therefore the following contracts are considered to be especially important to the Group .

Contract name	Business alliance contract
Contract date	June 20, 2001
Term	Indefinite from June 20, 2001
Contractor	SOFTBANK BB Corp.
Main content	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 Usage charges are ¥990 per month for ADSL and ¥1,290 per month for ISP. From the ISP charge, the Company takes ¥200 in exchange for service.

Contract name	Incentive agreement
Contract date	April 1, 2002
Term	One year from April 1, 2002
Contractor	SOFTBANK BB Corp.
Main content	1) The Company makes efforts 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 continued use

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 March 31, 2003, two of the four directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK CORP. part-time director)

Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK CORP. president)

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 10 other companies in the SOFTBANK Group (excluding subsidiaries and affiliates of the Company) 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 a representative of the parent company.

(4) Business Relationships

During the fiscal years ended March 31, 2002 and 2003, the Group conducted the following business transactions with its parent company, SOFTBANK CORP., and its subsidiaries.

Fiscal year ended March 31, 2002

(Millions of yen)

Status	Company name	Location	Paid-in capital or investment	Business or function	Voting right ownership	Relationship		Nature of transaction	Transaction amount	Account	Account balance
						Joint directorships, etc.	Business relationship				
Parent	SOFTBANK CORP.	Chuo-ku, Tokyo	137,868	Holding company	50.5% (Direct)	Joint directorships (3 people)	—	Taking over bonds	—	Investment securities	400
								Purchasing goods, etc.	5,533	Accounts payable —trade	—
Subsidiary of parent	BB Technologies Corp.	Chuo-ku, Tokyo	3,000	Building, supplying, and managing ADSL infrastructure	10.0%	Joint directorships (1 person)	Yahoo! BB business agreement	Investment	300	Investment securities	300
								Sale of goods, etc.	11,417	Accounts receivable —trade	1,626
								Transfer of goods	1,173	Accounts receivable —other	1,232
								Business commission	1,735	Accounts payable —trade	919
Subsidiary of parent	SOFTBANK COMMERCE Corp.	Chuo-ku, Tokyo	3,000	Computer and software sales	—	Joint directorships (1 person)	Purchase of computer equipment	Purchase of computer equipment	1,122	Accounts payable —other	38

Transaction terms and policy determining those terms

- The price of supplies is determined by SOFTBANK CORP.'s cost of purchasing those supplies. All other transaction terms are standard.
- The price of goods was determined with reference to the Group's purchasing cost and the market retail price and by taking into consideration the use of the Yahoo! brand name and the cost of accessories and other expenses. All other transaction terms are standard.
- The transfer of goods is based on the purchase cost for the Group (book value).
- The cost of business commission is determined by the Group and BB Technologies in consideration of the business content based on the service fee charged to users, which is determined with reference to market prices.
- Computer equipment is purchased according to the same purchasing rate as for regular customers.
- The transaction amounts in the above table do not include consumption tax, etc., but the account balance does include consumption tax, etc.

Fiscal year ended March 31, 2003

(Millions of yen)

Status	Company name	Location	Paid-in capital or investment	Business or function	Voting right ownership	Relationship		Nature of transaction	Transaction amount	Account	Account balance
						Joint directorships, etc.	Business relationship				
Parent	SOFTBANK Corp.	Chuo-ku, Tokyo	137,868	Holding company	41.9% (Direct)	Joint directorships (3 people)	—	Taking over bonds	—	Investment securities	400
								Transfer of equities	300	—	—
Subsidiary of parent	SOFTBANK BB Corp	Chuo-ku, Tokyo	63,000	Providing broadband infrastructure and various services/ IT-related distribution business and services	—	Joint directorships (1 person)	Yahoo! BB business agreement/ Purchase of computer equipment	Incentives, etc.	8,026	Accounts receivable —trade	1,141
								ISP cost	12,083	Accounts payable —trade	3,256
							Purchase of computer equipment	Purchase of computer equipment	1,234	Accounts payable —other	422

Note: BB Technologies Corp. merged with three companies, including SOFTBANK COMMERCE Corp., on January 7, 2003, and changed its name to SOFTBANK BB Corp.

Transaction terms and policy determining those terms

- The transfer value of equities is determined through discussions with reference to the valuation of the equities by experts.
- Incentives are based on the same terms as for consumer electronics retailers and are determined by SOFTBANK BB after verifying the subscriber sign-up and continuation figures.
- The cost of ISP fees is determined by the Group and SOFTBANK BB in consideration of the business content based on the service fee charged to users, which is determined with reference to market prices.
- Servers are purchased according to the same purchasing rate as for regular customers.
- The transaction amounts in the above table do not include consumption tax, etc., but the account balance does include consumption tax, etc.

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 voting shares as of March 31, 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 Corporation Licensing Agreement
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party	Yahoo! Inc.
Main conditions	1. Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet directory search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! directory search services") * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of Yahoo! directory search services 2. Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3. Royalties to be paid by the Company to Yahoo! Inc. 3% of gross profit after deducting sales commissions, paid quarterly

(2) The Yahoo! Brand and Cooperation Overseas

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

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

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

(3) Other Joint Directorships

Yahoo Japan 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 the Company as well as a major business partner in the Group'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) Business Relationships

During the fiscal years ended March 31, 2002 and 2003, the Group conducted the following business transactions with Yahoo! Inc. and its subsidiaries.

Fiscal year ended March 31, 2002

(Millions of yen)

Status	Company name	Location	Paid-in capital or investment (U.S. dollars in thousands)	Business or function	Voting right ownership	Relationship		Nature of transaction	Transaction amount	Account	Account balance
						Joint directorships, etc.	Business relationship				
Other associated company	Yahoo! Inc.	California, U.S.A.	$581	Sale of Internet advertising, etc.	Direct: 33.6% Indirect: 0.1%	Joint directorships (1 person)	License agreement	Payment of royalties	622	Accounts payable —other	185
								Transfer of equities	900	Investment securities	900

Note: Yahoo! Inc.'s indirect voting right ownership figure includes equity in the Company held by Yahoo! Inc.'s subsidiary Broadcast.com Inc.

Transaction terms and policy determining those terms

- The transfer value of equities is determined through discussions with reference to the valuation of the equities by experts. Since eGroups Inc., which is a nominal subsidiary of Yahoo! Inc., was acquired and its business assimilated by Yahoo! Inc. on August 31, 2000, it does not carry out business and does not prepare financial statements on a non-consolidated basis. The transactions with eGroups is stated as the transactions with Yahoo! Inc.

Fiscal year ended March 31, 2003

(Millions of yen)

Status	Company name	Location	Paid-in capital or investment (U.S. dollars in thousands)	Business or function	Voting right ownership	Relationship		Nature of transaction	Transaction amount	Account	Account balance
						Joint directorships, etc.	Business relationship				
Other associated company	Yahoo! Inc.	California, U.S.A.	$611	Sale of Internet advertising, etc.	Direct: 33.6% Indirect: 0.1%	Joint directorships (1 person)	License agreement	Payment of royalties	1,207	Accounts payable —other	371

Note: Yahoo! Inc.'s indirect voting right ownership figure includes equity in the Company held by Yahoo! Inc.'s subsidiary Broadcast.com Inc.

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

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

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

(2) Dependence on the Environment for Internet Connection

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

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

Operations are vulnerable to impact from such phenomena as fires, power outages and damage to telephone lines. The Group has dispersed its facilities in Tokyo to offset any of these events but does not presently have multiple site capacity outside Tokyo.

Despite the implementation of network security measures, the possibility of damage by computer viruses or hackers cannot be completely ruled out, and the Group does not hold sufficient insurance to compensate for losses due to these events. In particular, there have been several cases recently of specific Web sites or networks being targeted by sending huge volumes of data over a short period for the purpose of paralyzing the Web site or network. Although the Group has introduced effective security programs and other measures and strengthened its monitoring system to deal with these attacks, there is no guarantee that all attacks can be avoided. Any of these obstructive actions could have a serious negative impact on the Group's business, operating results and financial condition.

5. Other Overall Business Risks

(1) Increased Risk from Diversification and New Business

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

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

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

(2) Keeping Up with Technology

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

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

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

Although the Group has responded to this increase by adapting its services for use with mobile terminals, 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 for other uses.

(3) Dependence on Third Parties

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

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

Moreover, among the services offered by the Group there are several cases where system development and operations essential to the service are commissioned to specific third parties and where service operations are premised on linkage with a third party’s system. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, the related sections of the Group maintain close contact with the third parties to ensure that problems affecting their services do not arise. Nevertheless, it is possible that a system development delay could occur due to a situation at a commissioned third party that the Group cannot manage, that some condition could arise that obstructed operation or that some other event could cause the system of a third party to which the Group’s service is linked 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 many of its services rely on third parties that the Group has consigned operations to or receives information or support from.

It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in 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 customers will demand compensation for damages from the Group that actually are the responsibility of the third party. This could result in additional costs to the Group or hurt its brand image, impacting negatively on performance.

(4) User Information

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

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

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

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

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

(5) Collection of Sales Credit Claims

In sales of advertising and other products, the Group carefully examines the credit 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 via sales agents. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the occurrence of defaults. With the expansion of business, the Group expects a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

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

Along with the expansion of our Yahoo! BB and Yahoo! Auctions operation and the ramping up of our e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group’s business that comprises direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to be responsible for strengthening management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that compared with our previous focus on corporate customers the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables, amount of uncollected receivables, credit card settlement problems and receivable collection costs. In particular, it is expected that the funds borrowed to allow Netrust to reimburse sellers of items on our auction site based on the previously described Yahoo! Payment service will increase to a significant amount. If the recovery of these reimbursed funds is blocked in some way, it could incur serious negative impact on the Group's business, operating results and financial condition.

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

(7) Continued Support from Senior Management, Etc.

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

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

(8) Internal Control System and Human Resources

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

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

To respond to personnel increases and business diversification, the Group must further improve its administrative control systems. Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses and other fixed costs will likely rise, resulting in lower profit margins.

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

(9) Risk Regarding Consolidated Group Operations

There are risks because our subsidiaries and affiliates are generally small scale, and accordingly, because their in-house management systems are also small scale. Since the scale of the subsidiaries and affiliates is small compared with the parent company, the in-house management organization is also small. It is the Group’s policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect the Group’s performance.

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

Several of the subsidiaries and affiliates have established and are operating joint ventures with third parties. These joint ventures depend substantially on the other partners, especially in the areas of sales, supplies, distribution, and systems. At this time, relationships with the joint venture partners are excellent, and the cooperative relationships 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) International Conflicts, Terrorist Attacks and Natural Disasters

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

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

(11) Legal Restrictions, Lawsuits and Intellectual Property Rights

a. Government Regulations

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

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

Because it operates Yahoo! BB, the Company is required to observe the Telecommunication Business Law and related ordinances issued by related government divisions. Changes in the law or ordinances could influence the Group's business.

b. Potential Litigation

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

To avoid conflict with Japanese legal restrictions, the Group established a Banner Advertisement Presentation Standard that internally regulates advertising content and the content of 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 any time it discovers content in violation of its contracts with users.

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

6. Risks Concerning Investment and Capital Investment Programs

(1) Investment

The Group has invested in 33 companies and one cooperative as stated 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 their businesses, or to form business ties for the future. The Group cannot guarantee that these investments will be recovered.

Although as of March 31, 2003, 4 of these companies had been publicly listed and the value of the Company's investment for 3 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 in accordance with general accounting standards and by applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies they could have an even greater adverse effect on the Group's fiscal profit or loss in future.

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

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and 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 invest in the expansion and upgrading of its facilities.

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

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of extraordinary losses on disposal of current facilities.

(3) Participation in Finance Scheme for Yahoo! BB

In a meeting of the board of directors held on March 3, 2003, based on the following finance scheme the Group decided to consider financing the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The board was aiming to make a decision by the end of March 2003.

● Finance Scheme Summary

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

● Scale of Finance Scheme

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

● Implementation Timing

- When to implement the scheme is at the consideration stage.

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

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

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

List of Companies Invested in by Yahoo Japan Corporation

(As of March 31, 2003)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ million) (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	The Company offered technical services at start-up	Yes
2	CyberMap Japan Corp.	–	98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Map	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	11.95	866	Internet technical-support service		Yes
4	Vector Inc.	OSE Hercules	99/03/25	10.74	962	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computer	Yes
5	Weathernews Inc.	TSE 2nd Section	99/05/28	5.07	355	Weather observation, data collection and analysis, and weather forecast and related information services	Alliance for Yahoo! Weather	
6	e-Shopping! Toys CORP.	–	99/08/31	10.00	10	eS! Toys Web site	Yahoo! Shopping tenant	Yes
7	CarPoint K.K.	–	99/10/06	6.54	39	Car-related information, quotes, and dealer introductions	Alliance for Yahoo! Autos	
8	SpeedNet. Inc.	–	99/12/10	1.67	0	Optical fiber and high-speed wireless Internet service	(See Note 3)	
9	Oricon Inc.	OSE Hercules	00/03/28	1.53	39	Construction and supply of music-related databases	Alliance for Yahoo! Music/ Music Shopping	
10	e-Shopping! Wine CORP.	–	00/05/26	7.89	3	eS! Wine Web site	Yahoo! Shopping tenant	
11	SOFTBANK ZDNet Inc.	–	00/08/28	8.33	30	Comprehensive site for IT-related information	Alliance for Yahoo! News	Yes
12	BB Factory Corp.	–	00/11/13	10.00	31	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
13	e-Net Japan Co., Ltd.	–	00/12/14	5.20	11	Sales of personal computers, audiovisual, and home equipment on the Internet	Yahoo! Shopping/ Auctions tenant	
14	J-Yado Co., Ltd.	–	00/12/22	7.98	0	J-Yado.com hotel reservation Web site		
15	DBJ Co., Ltd.	–	00/12/26	2.27	0	E-commerce and supply of motorcycle-related items		
16	Power Print Inc.	–	00/12/27	15.00	4	Online order taking, printing, and delivery of various printed materials		
17	Naturum Corp.	–	00/12/29	9.13	3	Sales of fishing and outdoor products on the Internet	Yahoo! Shopping/ Auctions tenant	
18	Archinet, Inc.	–	01/01/19	8.91	13	Consulting on real estate, and online sales of gardening equipment	Yahoo! Shopping/ Auctions tenant	
19	Golf Do Co., Ltd.	–	01/01/24	4.90	25	Online shop for used golf equipment		
20	Axiv.com, Inc.	–	01/01/30	5.44	13	MyID promotion and gift campaign Web site		
21	CafeGlobe.com	–	01/01/30	11.44	8	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet and Yahoo! Beauty	
22	eBANK Corporation	–	01/03/12	1.69	89	E-bank operations	Alliance for Yahoo! Auctions/ Research	
23	GameBox, Inc.	–	01/03/16	9.38	11	GAMEBOX game-related Web site		
24	Digipri Corporation	–	01/03/27	0.82	3	Internet storage and output services for digital imaging	Alliance for Yahoo! Photos	

(As of March 31, 2003)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ million) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
25	Bitwave Corporation	–	01/03/29	1.19	0	Operating sales system for concert and sports event tickets	(See Note 4)	
26	Net Protections, Inc.	–	01/04/10	4.43	8	Online commercial settlement service		
27	istyle Inc.	–	01/04/20	8.51	6	@cosme information site for cosmetics and beauty care	Alliance for Yahoo! Beauty	
28	Digital Check Co. Ltd.	–	01/04/24	1.19	5	EC settlements, content supply, and networking business	Alliance for Yahoo! Auctions	
29	CarHoo Inc.	–	01/04/26	13.02	0	CarHoo driver-support site	Yahoo! Auctions tenant	
30	E-NEWS Inc.	–	01/06/26	13.33	50	Internet-based broadcasting and video production		
Shares in affiliated companies								
1	Tavigator, Inc.	–	00/03/03	30.00	93	Sales of travel gear on the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	ValuMore Corporation	–	02/01/28	40.00	38	Sales of computers and related equipment on the Internet	Yahoo! Shopping tenant	Yes
3	INTAGE Interactive Inc.	–	02/09/26	49.00	27	Internet-based marketing research services	Alliance for Yahoo! Research	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1	–	00/02/21	–	601			

Notes:

1. In principle, the date of investment is the date of the first investment made by Yahoo Japan Corporation 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.
3. The Company has no holdings in SpeedNet. Inc., having sold all its shares to a third party effective April 11, 2003.
4. Because of the application for reconstruction under the Civil Reorganization Law on December 17, 2002, the Company's investment in Bitwave Corporation is shown at remainder value.

Consolidated Subsidiaries' Data (As of March 31, 2003)

GeoCities Japan Corp.
Business: Maintenance of the domain of geocities.co.jp
Founded: August 2000
Headquarters: Minato-ku, Tokyo
Amount of Investment:¥10 million
Yahoo Japan Corporation's Ownership: 100.00%

broadcast.com japan k.k.
Business: Maintenance of the domain of bcast.co.jp
Founded: August 2000
Headquarters: Chuo-ku, Tokyo
Amount of Investment: ¥10 million
Yahoo Japan Corporation's ownership: 100.00%

Y's Sports Inc.
Business: Operation of a comprehensive sports information site
Founded: December 1996
Headquarters: Minato-ku, Tokyo
Amount of Investment: ¥100 million
Yahoo Japan Corporation's Ownership: 100.00%
URL: http://sportsnavi.yahoo.co.jp

Y's Agencies Inc.
Business: Planning and sales of ad products
Founded: August 2001
Headquarters: Minato-ku, Tokyo
Amount of Investment: ¥10 million
Yahoo Japan Corporation's Ownership: 100.00%

eGroups KK
Business: Operation of groupware and sales of ad products
Founded: January 1999
Headquarters: Minato-ku, Tokyo
Amount of Investment: ¥900 million
Yahoo Japan Corporation's Ownership: 90.50%
URL: http://www.egroups.co.jp

e-Shopping! Books CORP.
Business: Sales of books and provision of services on the Internet
Founded: August 1999
Headquarters: Chuo-ku, Tokyo
Amount of Investment: ¥300 million
Yahoo Japan Corporation's Ownership: 51.28%
URL: http://www.esbooks.co.jp

BridalConcierge Corp.
Business: Provision of useful information for weddings and new marriage
Founded: October 2000
Headquarters: Minato-ku, Tokyo
Amount of Investment: ¥9 million
Yahoo Japan Corporation's ownership: 80.00%

UniCept, Inc.
Business: Consultation for Internet business, and planning, development, and operation of various services
Founded: August 2002
Headquarters: Minato-ku, Tokyo
Amount of Investment: ¥50 million
Yahoo Japan Corporation's Ownership: 100.00%

Netrust, Ltd
Business: Provision of online settlement services
Founded: September 2000
Headquarters: Chiyoda-ku, Tokyo
Amount of Investment: ¥120 million
Yahoo Japan Corporation's Ownership: 59.97%
URL: http://payment.yahoo.co.jp

Corporate Data

(As of April 1, 2003)

Company Name
Yahoo Japan Corporation

Founded
January 31, 1996

Capital
¥6,073 million

Businesses
Advertising on the Internet
Broadband-Related Business
Auction Business
Other Businesses

Number of Employees
641

Headquarters
Roppongi Hills Mori Tower,
6-10-1 Roppongi, Minato-ku,
Tokyo 106-6182, Japan

Home Page URL
http://www.yahoo.co.jp/

IR Page in English URL
http://docs.yahoo.co.jp/info/investor/en/

Directors and Statutory Auditors

(As of June 20, 2003)

President and CEO
Masahiro Inoue

Chairman of the Board of Directors
Masayoshi Son

Director
Jerry Yang

Director and CFO
Akira Kajikawa

Director
Hiroaki Kitano

Statutory Auditor (Full Time)
Sumio Sue

Statutory Auditor
Toshihiro Kiribuchi

Statutory Auditor
Mitsuo Sano

Statutory Auditor
Yukio Todoroki

Yahoo Japan Corporation
Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6182, Japan

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