

Yahoo Japan Corporation

Results for the Fiscal Year and the Three Months Ended March 31, 2004

Fiscal Year Highlights

Yahoo Japan Corporation and its consolidated subsidiaries and affiliates achieved substantial growth in sales and profits compared with the previous fiscal year. Year on year, net sales rose 62.3%, to ¥75.7 billion; operating income increased 71.2%, to ¥41.2 billion; ordinary income climbed 75.6%, to ¥41.3 billion; and net income advanced 105.2%, to ¥24.8 billion. The operating margin was 54.4% for the fiscal year ended March 2004.

Note: Beginning with the first quarter of fiscal year ended March 31, 2004 (fiscal 2003), the method of recognizing ISP fees related to sales was changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas Yahoo! BB previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, the business division now nets the amounts and only books net sales of ¥200. In addition, the method of accounting for sales during free service campaigns was changed to not recording any sales during the period. To allow comparison with prior performances, figures from previous fiscal years have been adjusted accordingly.

Amid signs of recovery in the overall advertising market, our advertising business aggressively sold its major advertising products, such as Brand Panels for top pages and others to National Clients and won advertising from them. Sponsor Site (pay listing services) related sales were also favorable, and advertising sales for the fiscal year amounted to ¥22.2 billion (up 63.6% year on year), posting a new record high.

During the fiscal year under review, the Auction Business Division introduced a new system to boost its server capacity and other infrastructure, reorganizing to enable it to handle more than ten million item listings. Moreover, monthly system-use fees for stores were lowered in order to increase the auction stores (merchant stores) as well as the introduction of a package discount for stores that also open stores on Yahoo! Shopping. As a result, annual transaction volume increased to ¥488.8 billion, and sales jumped 88.4%, to ¥20.8 billion. The Auction Business Division's contribution to overall net sales rose substantially, to 27.5%.

In addition to a variety of campaigns aimed at attracting new subscribers, Yahoo! BB improved and expanded its services for existing subscribers, such as exclusive broadcasts of live shows by popular music artists. The total number of

Yahoo! BB subscribers rose 69.5%, to 4.0 million at the end of March 2004 (approx.35.8% accumulated share).

The Shopping Business Division worked to achieving a large increase in the number of items available for sale through the solicitation of more “Stores” which were first introduced in July 2003. As a result, the transaction volume of fiscal 2003 jumped 56.4% to ¥54.1 billion and the number of participating stores at the end of March 2004 reached 1,624 stores, up 1,397 stores, or 615.4% year on year.

Monthly page views topped 20.0 billion for the first time in March 2004.

Fourth Quarter Highlights

The financial results of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates continued to be robust. Fourth quarter net sales amounted to ¥22.5 billion, rising 56.9% year on year and 12.4% compared with the previous quarter. Operating income was ¥12.4 billion, increasing 59.8% year on year and 12.0% compared with the previous quarter. The operating margin was 55.1% in the fourth quarter.

There were signs of recovery in the overall advertising market boosted by fiscal year end demand and others. In addition to an increase in the advertising sales per National Client, overall sales to National Clients rose substantially and Sponsor Site related sales grew. Sales for the fourth quarter amounted to ¥7.1 billion (up 75.2% year on year and 22.1% from the previous quarter), posting a new record high.

In our Auction Business Division, monthly transaction volume improved, rising to a record ¥46.7 billion in March. However, sales made little progress, hampered by monthly transaction volume dropping in January because of the New Year holidays, March transaction volume not posting significant gains because of seasonal factors, a decline in transaction volume related to greater enforcement of our policy against the listing of certain improper items, and a revision in the fee schedule for our used car auctions. In addition, as a result of a reorganization of our compensation system to speed up payments, there was a temporary increase in those payments, pushing down profitability.

The impact of the leak in Yahoo! BB subscriber data by SOFTBANK BB Corporation resulted in temporal declines in the number of applications by new subscribers from the end of February into March. Nevertheless, there are signs of a recovery in confidence based on a beefing up of the personal information management system. Thanks to this recovery in confidence and active subscriber

campaigns, new subscriber application began to rebound in the latter part of March.

During the period under review, the Shopping Business Division continued its emphasis on achieving a large increase in the number of items available for sale through the solicitation of more “Stores”. As a result, the number of participating stores at the end of March reached 1,624 stores, up 422 stores, or 35.1% from the previous quarter.

(Consolidated Information)

(Introduction)

According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of Internet users at the end of 2003 amounted to 77.3 million, and, at 60.6%, exceeded 60% of the population for the first time. The number of broadband users also increased: according to the same survey, the number of DSL subscribers at the end of February 2004 had risen to approximately 10.9 million, up 65.5% from a year ago. Including CATV and FTTH services, the number of broadband subscribers has expanded to approximately 14.5 million.

Not only does this spread of broadband services boost the value of the Internet as a media, it also has a substantially impact on people’s lives. Because broadband allows people to access the Internet continuously at low, fixed rates, the Internet is penetrating individual homes, and being used by a wide range of people regardless of gender or age. And the amount of time being spent on the Internet is also rising. According to a February 2004 survey by NetRatings, the average time spent on the Internet per person during a month exceeds 15 hours. Moreover, the uses of the Internet have diversified beyond e-mail and searches to include purchasing or booking a wide range of goods or services; participating in auctions; practical consumer activities, such as paying bills; and communication tools, such as IP phones. Today the Internet is being used in virtually all aspects of our daily lives. As it becomes a familiar and indispensable tool for our daily lives, its influence is expected to grow in leaps and bounds.

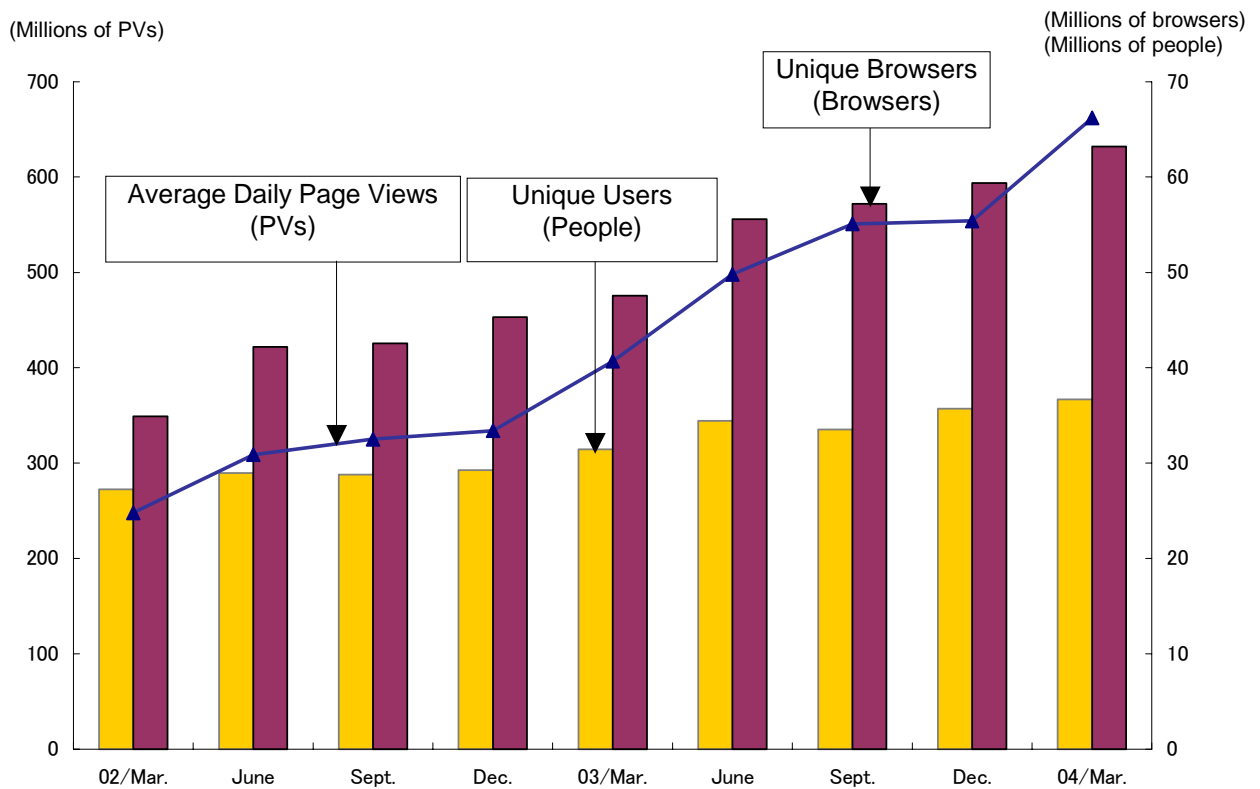
Against this backdrop, the Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Group) achieved the following results for the fiscal year and the fourth quarter of fiscal 2003.

(Page Views and Yahoo! JAPAN Users)

Daily page view of Yahoo! JAPAN topped 700 million for the first time during the fourth quarter. The Group monthly page views for March 2004 reached 20,523.96 million, representing an increase of 3,324.29 million page views, or 19.3%, compared with December 2003, the last month of the previous quarter, and an increase of 7,914.34 million page views, or 62.8%, compared with the same month a year earlier.

The number of unique browsers*(previously termed unique users) that accessed our services during the quarter was approximately 63.19 million browsers, up approximately 3.81 million browsers, or 6.4% from the previous quarter-end.

The number of unique users** according to NetRatings Japan, Inc. at the end of the quarter was approximately 36.68 million users, up approximately 0.96 million people, or 2.7% from the previous quarter-end.



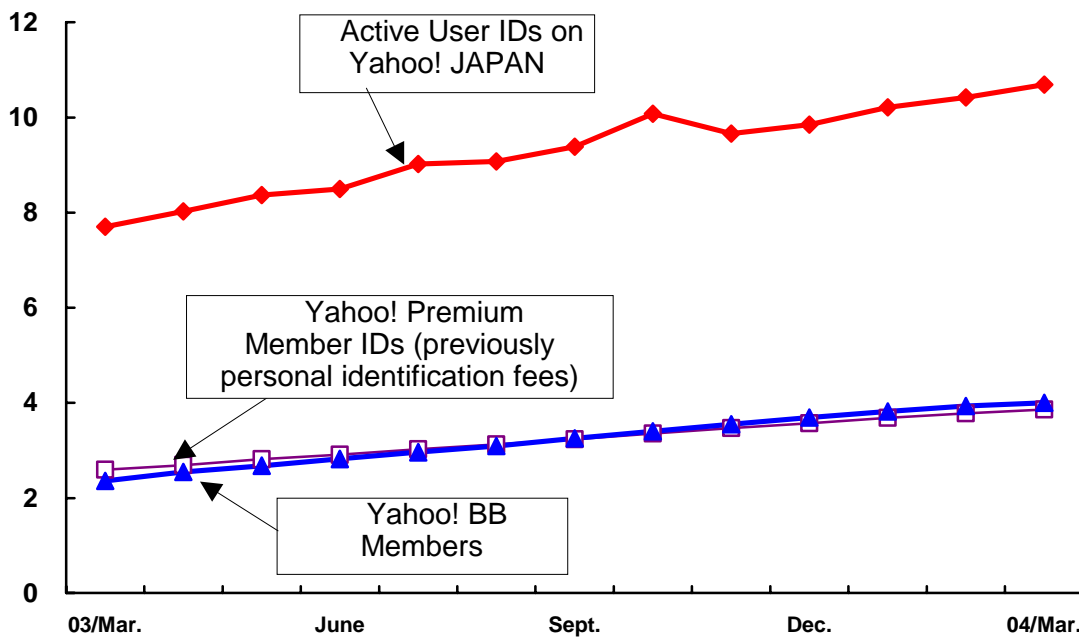
(Source:NetRatings Japan, Inc./ Company data)

Notes: * Formerly termed the number of unique users (unit: browsers), this term has been changed to the number of unique browsers. This figure is a compilation of the number of browsers viewing our services and does not distinguish when a single individual accesses our sites from multiple locations, such as work and home, using different browsers, or when multiple people use the same browser on a single computer to access our sites. Therefore, it does not necessary equate to the number of different individuals accessing our sites.

** The unique number of users (unit: persons) is compiled using the duplication rate of access by people from home and work from the Internet Survey of NetRatings Japan, Inc. based on the data of Nielsen/Net Ratings (NetView AMS JP) regarding access by individuals from home and work.

At the end of the quarter under review, the number of active user IDs (Number of Yahoo! JAPAN IDs which logged in each month) on Yahoo! JAPAN was approximately 10.69 million, up 830 thousand, or 8.5% compared with the previous quarter-end. The number of Premium Member IDs, or users of pay services, amounted to approximately 3.86 million, an increase of 290 thousand, or 8.3% compared with the previous quarter-end.

(Millions of IDs and lines)



(Source: Company data)

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

< Consolidated Statements of Income >

(Notes)

- 1. Starting with the first quarter of fiscal 2003, the method of recognizing ISP fees related to sales has been changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas we previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, we are now netting the amounts and only booking net sales of ¥200.**

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

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

- 2. Commencing with the first quarter of fiscal 2003, the management responsibility for services among the business divisions has been revised, with the responsibility for some services being changed. Specifically, platforms and personal information administration services have been collected into Corporate Common Businesses. In Listing Business Division, services that do not fit into the categories of information listing, regional information, and directory searches have been transferred to other appropriate business divisions. No retroactive adjustment has been made to sales allocations to reflect these changes.**
- 3. At the end of the fourth quarter, all thirteen subsidiaries are included in the scope of consolidation as are all two affiliated companies, which are accounted for by the equity method.**
- 4. Figures used in this document have been rounded off, while percentages have been rounded up.**

Consolidated Statements of Income (Jan. 1, 2004-Mar. 31, 2004)

(Yen in Millions)

	Amount	% share	Comparison with the previous quarter		Comparison with the same period of the last fiscal year	
			Increase/decrease	Change	Increase/decrease	Change
Net sales	22,580	100.0%	2,499	12.4%	8,185	56.9%
Cost of sales	1,508	6.7%	184	13.9%	347	29.9%
Gross profit	21,072	93.3%	2,314	12.3%	7,838	59.2%
SG&A expenses	8,628	38.2%	977	12.8%	3,183	58.5%
Personnel expenses	1,915	8.5%	56	3.0%	658	52.4%
Advertising costs	70	0.3%	-11	-13.7%	32	85.4%
Content provider fees	444	2.0%	20	4.9%	63	16.7%
Sales commissions	928	4.1%	148	19.0%	249	36.8%
Depreciation expenses	923	4.1%	107	13.2%	359	63.6%
Communication charges	805	3.6%	71	9.7%	335	71.4%
Royalties	583	2.6%	59	11.3%	212	57.1%
Lease and utility expenses	348	1.5%	-12	-3.5%	140	67.7%
Business commissions	992	4.4%	134	15.7%	394	65.9%
Sales promotion costs	276	1.2%	-78	-22.1%	109	65.5%
Allowance for doubtful debt accounts	197	0.9%	55	39.2%	120	156.5%
Amortization of consolidated accounts	49	0.2%	19	63.3%	-30	-38.2%
Others	1,090	4.8%	405	59.2%	537	97.3%
Operating income	12,443	55.1%	1,337	12.0%	4,655	59.8%
Non-operating income (Expenses)	115	0.5%	14	14.8%	521	-
Ordinary income	12,559	55.6%	1,352	12.1%	5,176	70.1%
Extraordinary gains (Losses)	-37	-0.1%	-147	-	634	-
Income before income taxes	12,522	55.5%	1,205	10.6%	5,810	86.6%
Income taxes, inhabitants' taxes and enterprise taxes	5,835	25.9%	1,262	27.6%	1,819	45.3%
Adjustment to income taxes	-1,069	-4.7%	-1,141	-	-218	25.6%
Minority interests in gain of consolidated subsidiaries	-30	-0.1%	-6	26.0%	-47	-
Net income	7,726	34.2%	1,077	16.2%	4,161	116.8%

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

(Yen in millions)

	Sales	Contribution
Auction (including Netrust, Ltd)	5,841	25.9%
Listing (including BridalNet, Inc.)	4,456	19.7%
Yahoo! BB	3,746	16.6%
Media (including eGroups KK and Y's Sports Inc.)	2,058	9.1%
Shopping (including e-Shopping! Books CORP.)	1,904	8.4%
BS	309	1.4%
Corporate Common Business (including UniCept, Inc., VACS Corporation)	4,277	18.9%
Elimination or Corporate	-15	
Total	22,580	100.0%

Note: Eliminations or Corporate include the consolidation eliminations between business divisions.

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

(Yen in millions)

	Operating Income	Contribution
Auction (including Netrust, Ltd)	4,039	32.5%
Listing (including BridalNet, Inc.)	3,325	26.7%
Yahoo! BB	2,481	19.9%
Media (including eGroups KK and Y's Sports Inc.)	698	5.6%
Shopping (including e-Shopping! Books CORP.)	301	2.4%
BS	-15	-0.1%
Corporate Common Business (including UniCept, Inc., VACS Corporation)	3,180	13.0%
Elimination or Corporate	-1,568	
Total	12,443	100.0%

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

Consolidated Statements of Income (Apr. 1, 2003-Mar. 31, 2004)

(Yen in Millions)

	Amount	% share	Comparison with the previous fiscal year	
			Increase/ decrease	Change
Net sales	75,776	100.0%	29,082	62.3%
Cost of sales	5,292	7.0%	1,693	47.0%
Gross profit	70,483	93.0%	27,389	63.6%
SG&A expenses	29,272	38.6%	10,251	53.9%
Personnel expenses	6,781	8.9%	2,060	43.6%
Advertising costs	309	0.4%	-36	-10.6%
Content provider fees	1,724	2.3%	222	14.8%
Sales commissions	3,038	4.0%	801	35.9%
Depreciation expenses	3,003	4.0%	1,238	70.2%
Communication charges	2,860	3.8%	1,364	91.2%
Royalties	1,963	2.6%	756	62.6%
Lease and utility expenses	1,284	1.7%	519	68.0%
Business commissions	3,366	4.4%	1,553	85.7%
Sales promotion costs	1,237	1.6%	584	89.4%
Allowance for doubtful debt accounts	421	0.6%	168	66.6%
Amortization of consolidated accounts	113	0.2%	-196	-63.3%
Others	3,166	4.1%	1,214	62.2%
Operating income	41,211	54.4%	17,138	71.2%
Non-operating income (Expenses)	97	0.1%	646	-
Ordinary income	41,308	54.5%	17,784	75.6%
Extraordinary gains (Losses)	-259	-0.3%	1,536	-
Income before income taxes	41,048	54.2%	19,321	88.9%
Income taxes, inhabitants' taxes and enterprise taxes	17,032	22.4%	6,114	56.0%
Adjustment to income taxes	-861	-1.1%	349	-28.8%
Minority interests in gain of consolidated subsidiaries	-50	-0.1%	-127	-
Net income	24,826	32.8%	12,730	105.2%

Composition of Consolidated Net Sales by Business Division (Fiscal Year)

(Yen in millions)

	Sales	Contribution
Auction (including Netrust, Ltd)	20,838	27.5%
Listing (including BridalNet, Inc.)	13,615	18.0%
Yahoo! BB	12,760	16.8%
Shopping (including e-Shopping! Books CORP.)	6,589	8.7%
Media (including eGroups KK and Y's Sports Inc.)	6,411	8.5%
BS	1,096	1.4%
Corporate Common Business (including UniCept, Inc., VACS Corporation)	14,535	19.1%
Elimination or Corporate	-70	
Total	75,776	100.0%

Note: Eliminations or Corporate include the consolidation eliminations between business divisions.

Composition of Consolidated Operating Income by Business Division (Fiscal Year)

(Yen in millions)

	Operating Income	Contribution
Auction (including Netrust, Ltd)	15,480	37.6%
Listing (including BridalNet, Inc.)	9,797	23.8%
Yahoo! BB	7,965	19.3%
Media (including eGroups KK and Y's Sports Inc.)	1,777	4.3%
Shopping (including e-Shopping! Books CORP.)	870	2.1%
BS	56	0.1%
Corporate Common Business (including UniCept, Inc., VACS Corporation)	11,192	12.8%
Elimination or Corporate	-5,929	
Total	41,211	100.0%

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

Main Points Regarding Statements of Income

Net Sales

The large increase in quarterly and fiscal sales is principally the result of the growth in the personal service revenues of the Auction, Corporate Common Business, and Yahoo! BB business divisions. In addition, advertising sales of the Listing and Media Business Division increased. Sales of consolidated subsidiaries, on a gross total basis, were ¥2,208 million for the fourth quarter and ¥7,526 million for the fiscal year under review.

Cost of Sales

The main factors behind the growth in the cost of sales in the fourth quarter and the fiscal year in comparison with the same period in the previous fiscal year were increases in the procurement costs of e-Shopping! Books CORP. in line with increased sales.

Selling, General and Administrative Expenses

- Personnel expenses

At the end of the fourth quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 1,016, up 330, or 48.1%, from the end of the same quarter in the previous fiscal year.

- Depreciation expenses

The primary cause of the increase in depreciation expenses for the fourth quarter and the fiscal year compared with the same periods in the previous fiscal year was the increase in servers and other equipment and additional equipment related to expanded office floor space.

- Communication charges

Communications charges for fourth quarter and the fiscal year rose compared with the same periods in the previous fiscal year primarily because of expansion of the space of data center to expand and strengthen computer systems.

- Lease and utility expenses

The growth in lease and utility expenses for the fiscal year compared with the same periods in the previous fiscal year can be attributed to office relocation and expansion due to increased personnel. The decline in lease and utility expenses for the fourth quarter compared with the third quarter is related to the revision in the way to use the lighting and heating of offices.

- Business commissions

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

- Allowance for Doubtful debt accounts

The main reason for the increase in the provision to allowance for doubtful debt accounts for the fourth quarter and the fiscal year compared with the same periods in the previous fiscal year was the increase in accounts receivable-trade for individual customers.

- Amortization of consolidated accounts

Amortization of consolidated accounts for the fourth quarter consisted of, among others, the consolidated accounts for e-Shopping! Books CORP., BridalNet Inc., and VACS Corporation.

- Others

The major components of others were payment commissions for Yahoo! Payment, compensations for victims of Auction frauds, system maintenance costs, cleaning costs for the head office, the packaging and transport expenses of e-Shopping! Books, and purchase of fixtures and fittings.

Non-Operating Income (Expenses)

The main component of non-operating income for the fourth quarter and the fiscal year was interest earned from loan based on finance scheme on Yahoo! BB business. The main components of non-operating expenses were loss on disposal of fixed assets and the relocation costs for the head office.

Extraordinary Gains (Losses)

The major extraordinary gain posted during the fourth quarter and the fiscal year was gain on sale of investment securities, while the main extraordinary loss was loss on reevaluation of investment securities.

Income Taxes, etc.

The effective income tax rate for the fiscal year was 39.4% due to application of IT investment promotion tax system.

Minority Interests in Loss of Consolidated Subsidiaries (Profit)

Minority interest losses for the quarter and the fiscal year under review reflect the losses of shareholders other than the Company in the net income and losses of eGroups KK, e-Shopping! Books Corp. Netrust, Ltd., Y's Insurance Inc., and Indival, Inc.

The overall income of consolidated subsidiaries, including the above five subsidiaries, increased compared with the previous quarter.

Net Income

Net income per share for the fiscal year amounted to ¥12,892.72.

<Consolidated Balance Sheets>

As of March 31, 2004, the end of the fourth quarter, total assets amounted to ¥82,410 million, up ¥16,423 million or 24.9% from the previous quarter-end. Total liabilities were ¥22,335 million, increasing ¥7,541 million or 51.0%. Minority interests in consolidated subsidiaries rose ¥129 million or 94.4%, to ¥267 million. Total shareholders' equity advanced ¥8,752 million or 17.1%, to ¥59,806 million from the previous quarter-end.

Consolidated Balance Sheets (As of March 31, 2004)

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comparison with the same period of the last fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Assets					
Current assets					
Cash	39,643	11,203	39.4%	16,427	70.8%
Accounts receivable—trade	12,847	1,725	15.5%	1,813	16.4%
Inventory	48	-22	-32.3%	33	238.2%
Deferred tax assets	1,850	1,027	124.8%	846	84.3%
Accounts receivable—other	249	59	31.0%	96	62.7%
Other current assets	1,820	430	30.9%	1,466	413.9%
Allowance for doubtful accounts	-733	-218	42.3%	-442	152.4%
Total current assets	55,726	14,204	34.2%	20,240	57.0%
Fixed assets					
Tangible fixed assets	8,075	670	9.0%	2,259	38.8%
Intangible fixed assets					
Consolidated accounts	352	-46	-11.8%	252	252.8%
Other intangible fixed assets	1,293	178	16.0%	582	81.8%
Total intangible fixed assets	1,646	131	8.7%	834	102.8%
Investment and others					
Investment securities	9,194	1,239	15.6%	5,998	187.7%
Long-term loans	5,915	-25	-0.4%	5,915	-
Long-term deferred tax assets	-	-	-	-132	-
Others	1,905	203	12.0%	-436	-18.6%
Allowance for doubtful accounts	-53	-0	0.9%	-44	493.5%
Total investments and others	16,962	1,417	9.1%	11,301	199.6%
Total fixed assets	26,683	2,219	9.1%	14,395	117.1%
Total assets	82,410	16,423	24.9%	34,635	72.5%

(Yen in Millions)

	Amount	Comparison with the previous quarter		Comparison with the same period of the last fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Liabilities					
Current liabilities					
Accounts payable—trade	636	78	14.1%	-3,060	-82.8%
Accounts payable—other	4,181	536	14.7%	775	22.8%
Accrued income taxes	11,688	5,829	99.5%	3,183	37.4%
Other current liabilities	3,055	625	25.7%	1,497	96.1%
Total current liabilities	19,563	7,069	56.6%	2,395	14.0%
Long-term liabilities					
Long-term deferred taxes	2,534	477	23.2%	2,534	-
Other long-term liabilities	237	-6	-2.5%	183	333.8%
Total long-term liabilities	2,772	471	20.5%	2,717	-
Total liabilities	22,335	7,541	51.0%	5,113	29.7%
Minority interests in consolidated subsidiaries					
Minority interests in consolidated subsidiaries	267	129	94.4%	198	285.7%
Shareholders' equity					
Common stock	6,399	134	2.1%	326	5.4%
Additional paid-in capital	1,480	134	10.0%	326	28.3%
Retained earnings	47,066	7,726	19.6%	24,764	111.0%
Other securities evaluation	4,880	758	18.4%	3,909	402.7%
Treasury stock	-21	-0	2.9%	-3	21.8%
Total shareholders' equity	59,806	8,752	17.1%	29,324	96.2%
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	82,410	16,423	24.9%	34,635	72.5%

Main Points Regarding Consolidated Balance Sheets

Assets

- The increase in cash compared with the previous quarter and fiscal year was principally due to earnings growth based on sales activities.
- The expansion in accounts receivable—trade for previous quarter and the fiscal year was primarily due to growth in sales
- The rise in other current assets compared with the previous quarter and fiscal year was chiefly due to growth in reserves related to Yahoo! Payment.

- The growth in the allowance for doubtful accounts compared with the previous quarter and fiscal year can be attributed to the increase in sales receivables mainly for individual customers.
- Increase in tangible fixed assets compared with the previous quarter and fiscal year was mainly due to additional installations, such as servers, etc.
- The rise in the consolidated accounts compared with the previous fiscal year was the result of the consolidation of new subsidiaries.
- The growth in investment securities compared with the previous quarter and fiscal year was mainly due to mark-to-market revaluation of marketable securities.
- Long-term loans comprise loans made based on a finance scheme for Yahoo! BB's business.

Liabilities

- The significant growth in accounts payable—trade compared with the previous fiscal year resulted primarily from the change in the booking of ISP fees for Yahoo! BB.
- The substantial increase in accrued income taxes compared with the previous quarter and fiscal year was mainly due to the growth in net income.
- The rise in long-term deferred taxes compared with the previous quarter and fiscal year was chiefly due to the mark-to-market of investment securities.

Shareholders' Equity

- The increase in common stock and additional paid-in capital compared with the previous quarter and fiscal year was due to the exercise of stock options.
- The substantial growth in retained earnings compared with the previous quarter and fiscal year can be attributed to the increase in net income.
- The expansion in the other securities evaluation adjustment compared with the previous quarter and fiscal year was chiefly due to the mark-to-market of investment securities.

<Consolidated Statements of Cash Flows>

The net increase in cash and cash equivalents was ¥10,603 million for the quarter and ¥16,427 million for the fiscal year. The consolidated statement of cash flows for the fourth quarter and the fiscal year follows.

The Consolidated Statements of Cash Flows

(Yen in Millions)

	Three months ended Mar. 31, 2004	Fiscal year ended Mar. 31, 2004	Comments
Cash flows from operating activities:	11,739	26,147	
Income before income taxes	12,522	41,048	<ul style="list-style-type: none"> • In cash flows from operating activities, cash increased despite greater expenditures due to an increase in accounts receivable—trade thanks to the rise in income before income taxes and other positive changes. • The decrease in accounts payable—trade during the fiscal year was mainly attributable to the change in the method of booking the sales portion of the ISP fees for Yahoo! BB's business. • The increase in accounts receivable—other was mainly due to expansion in the volume being handled by Yahoo! Payment and a change in the payment site.
Depreciation and amortization	931	3,040	
Amortization of consolidated accounts	49	113	
Increase in allowance for doubtful accounts	218	486	
Increase in reserve for retirement allowances	0	0	
Loss on disposal of fixed assets	66	403	
Gain/ Loss on sale of fixed assets	1	1	
Loss on evaluation of investment securities	34	174	
Gain/ Loss on sale of investment securities	-0	-140	
Loss on evaluation of equity funds	-7	16	
Exchange gains	0	1	
Equity in gains under the equity method	-19	-74	
Gains from change in equity ratio	-0	-0	
Proceeds from interest and dividend	-175	-479	
Interest expense	1	2	
Increase/decrease in inventory	22	-8	
Increase in accounts receivable—trade	-1,701	-1,698	
Increase in accounts payable—trade	78	-3,063	
Increase in accounts receivable—other	-1,067	-1,475	
Increase in accounts payable—other	437	1,328	
Increase in consumption tax payable	334	305	
Payment of bonuses to directors	-	-62	
Other cash flows from operating activities	15	75	
Payment of income taxes and other taxes	-6	-13,849	

(Millions of yen)

	Three months ended Mar. 31, 2004	Fiscal year ended Mar. 31, 2004	Comments
Cash flows from investing activities:	-1,701	-10,913	
Expenditures on tangible fixed assets	-1,205	-5,505	<ul style="list-style-type: none"> • In cash flows from investment activities, cash decreased due to the purchase of servers, etc. and the acquisition of shares of subsidiaries. • Expenditures on loans during the fiscal year were loans under a financial scheme for Yahoo! BB's business.
Expenditures on intangible fixed assets	-347	-746	
Expenditures on investment securities	-18	-18	
Proceeds from sale of investment securities	0	201	
Proceeds from redemption of bonds of associated companies	-	400	
Expenditures on acquisition of stocks of subsidiaries	-	-241	
Expenditures on loans	-	-5,700	
Proceeds from recovery of lending	23	61	
Expenditures on increase in guarantee deposit assets	-294	-306	
Proceeds from decrease in guarantee deposit assets	1	544	
Proceeds from interest and dividends	141	400	
Other cash flows from investing activities	-2	-2	
Cash Flows from financing activities:	566	1,194	
Proceeds from short-term loan	400	700	<ul style="list-style-type: none"> • In cash flow from financing activities, cash increased due to an increase in short-term loans and the exercise of stock options.
Redemption of short-term loan	-200	-300	
Proceeds from issuance of shares	220	653	
Proceeds from payments by minority interests	147	147	
Expenditures on treasury shares	-0	-3	
Interest expenses	-1	-2	
Effect of exchange rate changes on cash and cash equivalents	-0	-1	
Net change in cash and cash equivalents	10,603	16,427	
Cash and cash equivalents at the beginning of term	29,039	23,215	
Cash and cash equivalents at the end of term	39,643	39,643	

Operating Review by Business Division

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

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

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

Net Sales by Business Division (Fourth Quarter)

(Yen in Millions)

	Advertising	Business Service	Personal Service	Other	Total
Auction	213	501	5,127	-	5,841
Listing	3,635	777	43	-	4,456
Yahoo! BB	270	1,531	1,943	-	3,746
Media	1,780	162	116	-	2,058
Shopping	109	536	-	1,258	1,904
BS	9	300	0	-	309
Corporate Common Business	1,099	71	3,107	-	4,277
Elimination or Corporate	-	-15	-	-	-15
Total	7,118	3,865	10,338	1,258	22,580

Net Sales by Business Division (Fiscal Year)

(Yen in Millions)

	Advertising	Business Service	Personal Service	Other	Total
Auction	773	1,894	18,170	-	20,838
Listing	10,907	2,629	78	-	13,615
Yahoo! BB	747	5,812	6,200	-	12,760
Shopping	450	1,646	-	4,492	6,589
Media	5,724	415	272	-	6,411
BS	68	1,027	0	-	1,096
Corporate Common Business	3,610	182	10,741	-	14,535
Elimination or Corporate	-6	-63	-	-0	-70
Total	22,276	13,544	35,463	4,492	75,776

(1) Auction Business Division

1) Major Business

Based on its Yahoo! Auctions services, this business provides a place where individuals can buy and sell items and companies can sell their goods by auction. In addition, it supports companies to have stores on Yahoo! Auctions.

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

2) Activities in the fourth quarter

During the fourth quarter, we worked to improve our services on Yahoo! Auctions and encourage even more people to use them. We made available a video showing how to get started using Yahoo! Auctions, conducted a New Users Support Campaign offering such prizes as digital cameras, and ran a Free Item Listing Day,

a Fiscal Year End Auction Store Big Sale, and other campaigns. We also improved our services, taking such steps as introducing a REGILA Purchase Guarantee Car Inspection Service, offered by REGILA Co., Ltd, to eliminate user uneasiness with car actions. Moreover, we also formed an agreement with the Association of Copyright for Computer Software (ACCS) to cooperate with them in preventing the sale of pirated software and other software that violates intellectual property rights. Together, we are also running a campaign to make auction users aware of the issue of protecting intellectual property rights.

As a result, the number of unique browsers of Yahoo! Auctions at the end of March totaled approximately 15.43 million browsers, an increase of 8.6% or 1.22 million browsers from the end of December 2003. The number of merchants at the end of March also increased, rising 389 stores, or 19.2%, to 2,411 stores from three months earlier. For March, the number of items listed for Yahoo! Auctions rose to about 6.07 million items while the monthly transaction volume increased to ¥46.7 billion—both record highs. However, sales made little progress, hampered by monthly transaction volume dropping in January because of the New Year holidays, March transaction volume not posting significant gains because of seasonal factors, a decline in transaction volume related to greater enforcement of our policy against the listing of certain improper items, and a revision in the fee schedule for our used car auctions.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Jan. 15	<ul style="list-style-type: none"> Announced agreement with ACCS to cooperate in preventing the sale of pirated software and other software that violates intellectual property rights.
Jan. 16	<ul style="list-style-type: none"> Introduced REGILA Purchase Guarantee Car Inspection Services, offered by REGILA Co., Ltd.
Feb. 17- Mar.15	<ul style="list-style-type: none"> Held INDY JAPAN Lap Award auction.
Mar. 8-May.2	<ul style="list-style-type: none"> Holding charity auction of Blythe dolls popular with women and collectors.
Mar. 25- Mar.29	<ul style="list-style-type: none"> Held Fiscal Year End Auction Store Big Sale.

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

Monthly page views in Mar.	6,058.10 million page views (+13.6 %)	29.5% of total page views
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Yahoo! Auctions number of total listed items and transaction rate, etc.

	Jan. 2004	Feb. 2004	Mar. 2004
Number of auction unique browsers	Approx. 15.10 million browsers	Approx. 14.94 million browsers	Approx. 15.43 million browsers
Number of total listed items (Monthly average)	Approx. 5.15 million items	Approx. 5.91 million items	Approx. 6.07 million items
Monthly total number of new listings	Approx. 15.09 million items	Approx. 15.03 million items	Approx. 15.96 million items
Monthly volume of transactions	Approx. ¥43.4 billion	Approx. ¥44.8 billion	Approx. ¥ 46.7 billion
Average closing price per item	¥5,993	¥5,836	¥5,796
Transaction rate	36-53%	33-54%	34-50%
Number of stores (As of the end of each month)	2,180 stores	2,269 stores	2,411 stores

- Notes: 1. The previously used term auction unique user (unit: browsers) has been changed to auction unique browsers.
2. Monthly volume of transactions figures does not include cancellations or adjustments.

3) Income statements for the fourth quarter and fiscal year

(Yen in Millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> • Main components of Business Services sales are registration fees, tenant fees and transaction fees of stores (merchant stores). • Sales included in Personal Services are system-use fees of Yahoo! Auctions and others. • Main items in SG&A are communication, business commissions, personnel expenses, and depreciation expenses. • As of result of reorganizing the compensation system to pay victims of frauds more quickly, operating income declined because of the temporary increase in compensation payments.
Advertising	213	14	7.2%	773	
Business service	501	-51	-9.3%	1,894	
Personal service	5,127	83	1.7%	18,170	
Other	—	—	—	—	
Total	5,841	46	0.8%	20,838	
Cost of sales	4	1	36.0%	19	
Gross profit	5,837	45	0.8%	20,819	
SG&A expenses	1,797	375	26.4%	5,339	
Operating income	4,039	-330	-7.6%	15,480	
Operating margin	69.2%	—	—	74.3%	

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

(2) Listing Business Division

Note: Commencing with the first quarter of fiscal 2003, the services of the Listing Business Division have been grouped into three specialized fields: information listing, regional information, and directory searches. Services that do not fit into these categories, such as Yahoo! Mobile, Yahoo! Personals, and Yahoo! Beauty, have been transferred to other appropriate business divisions.

1) Major business

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

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

2) Activities in the fourth quarter

During the quarter under review, we expanded the functions of our directory search services. We added the function to show the cache, together with the highlighted display of words of the search results that match keywords used to make it easier to search for information visually. For Yahoo! Phone Book, we introduced a free coupon system whereby users can receive discounts and a variety of special benefits from the companies and stores listed on the service. Nationwide, there are more than 7,000 establishments issuing coupons that offer special benefits at eating and drinking establishments and for the purchase of apparel, accessories, and car rental services. During the fourth quarter, we founded Indival, Inc., a joint venture with RECRUIT Co., Ltd., which has commenced marketing an Internet personnel and job search support service based on the registration of temporary job seekers. In other areas, advertising sales from Sponsor Site sales also grew favorably during the quarter under review.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Jan. 15	• Began free coupon system allowing users to receive discounts and special benefits at over 7,000 establishments throughout Japan.
Feb. 26	• Announced founding of Indival, Inc., a joint venture with RECRUIT Co., Ltd., and start of marketing an Internet personnel and job search support service based on the registration of temporary job seekers.

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

Monthly page views in Mar.	2,891.07 million page views (+ 18.1 %)	14.1 % of total page views
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Note: Includes page views of BridalNet, Inc.

Business Express Orders

Jan. 2004	Feb. 2004	Mar. 2004
1,472 contracts	1,497 contracts	1,912 contracts

3) Income statements for the fourth quarter and fiscal year

(Yen in Millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> • Main components of Business Services sales are Business Express and information listing fees for recruiting, used car, real estate, and other information. • The main component of Personal Service sales is the sales of BridalNet, Inc. • Main items in SG&A are sales commissions, personnel, content provider fees, and royalty expenses.
Advertising	3,635	712	24.4%	10,907	
Business service	777	94	13.8%	2,629	
Personal service	43	7	21.9%	78	
Other	—	—	—	—	
Total	4,456	814	22.4%	13,615	
Cost of sales	17	10	130.8%	41	
Gross profit	4,438	804	22.1%	13,574	
SG&A expenses	1,113	139	14.3%	3,776	
Operating income	3,325	665	25.0%	9,797	
Operating margin	74.6%	—	—	72.0%	

(3) Yahoo! BB Business Division

1) Major business

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

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

2) Activities in the fourth quarter

During the quarter under review, we continued to conduct various campaigns to acquire new subscribers as well as improving and expanding our services for members. Specifically, the division conducted a Yahoo! BB 8M 10,000 yen Cash Back Campaign, whereby new subscribers to our ADSL 8M (no BB Phone service), which makes it easy to enjoy ADSL services because of its low cost, can receive 10,000 yen back if they continue to use the service for one year. For existing subscribers, we ran a BRIDGESTONE INDY JAPAN 300 mile prize campaign during April, the month in which the race was held. We also offered a streaming broadcast of the movie Lord of the Rings—The Return of the King. In ISP services, we announced an e-mail address addition function on Yahoo! Mail for subscribers to Yahoo! BB and added a video function on Yahoo! GeoCities to enable users to simply make video streaming broadcasts.

The impact of the leak in Yahoo! BB subscriber data by SOFTBANK BB Corporation resulted in temporal declines in the number of applications by new subscribers from the end of February into March. Nevertheless, there are signs of a recovery in confidence based on a beefing up of the personal information management system. Thanks to this recovery in confidence and active subscriber campaigns, new subscriber application began to rebound in the latter part of March. As a result, the number of Yahoo! BB subscribers amounted to approximately 4.00 million at the end of March, rising about 300 thousand subscribers, or 8.4%, from the end of December 2003. The cumulative DSL share was approximately 35.8%.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Jan. 19	•Announced that we would become a sponsor of the 2004 INDY JAPAN 300 mile race.
Mar. 1	•Announced an e-mail address addition function for subscribers that allows them to add up to 10 more e-mail addresses.
Mar. 15	•Commenced a Yahoo! BB 8M 10,000 yen Cash Back Campaign, whereby new subscribers to our ADSL 8M (no BB Phone service) can receive 10,000 yen back if they continue to use the service for one year..

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

Monthly page views in Mar.	2,408.17 million page views (+19.4 %)	11.7 % of total page views
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Total Subscriber Lines for Yahoo! BB Services

End of Jan. 2004	Approximately 3,817 thousand lines (including approximately 1,097 thousand lines marketed by Yahoo! JAPAN)
End of Feb. 2004	Approximately 3,931 thousand lines (including approximately 1,108 thousand lines marketed by Yahoo! JAPAN)
End of Mar. 2004	Approximately 4,004 thousand lines (including approximately 1,113 thousand lines marketed by Yahoo! JAPAN)

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

3) Income statements for the fourth quarter and fiscal year

(Yen in Millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net sales					<ul style="list-style-type: none"> • Main components of Business Services sales are the customer acquisition incentive fees of Yahoo! BB. • Main components of Personal Services sales are the ISP fees for Yahoo! BB. • Main items in SG&A expenses are business commissions, personnel, communication, and sales promotion expenses.
Advertising	270	82	43.5%	747	
Business service	1,531	118	8.4%	5,812	
Personal service	1,943	239	14.0%	6,200	
Other	—	—	—	—	
Total	3,746	440	13.3%	12,760	
Cost of sales	202	9	4.9%	748	
Gross profits	3,543	430	13.8%	12,011	
SG&A expenses	1,061	53	5.3%	4,046	
Operating income	2,481	377	17.9%	7,965	
Operating margin	66.2%	—	—	62.4%	

Note: Beginning with the first quarter of fiscal 2003, the method of recognizing ISP fees related to sales was changed to more accurately reflect the business of the Yahoo! BB Business Division in the financial statements. Whereas Yahoo! BB previously booked the ¥1,290 monthly ISP fee per user per month as sales and the ISP cost of ¥1,090 as cost of sales, the business division now nets the amounts and only books net sales of ¥200. In addition, the method of accounting for ISP sales to new subscribers during free service campaigns was changed to not recording any ISP sales during that period.

(4) Media Business Division

1) Major Business

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

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

2) Activities in the fourth quarter

During the quarter under review, we continued to develop, expand and improve pay and free content to attract users. Specifically, we took steps to expand advertising sales by developing content in the fields of music, movies, games, and sports and packaging them with advertising specials. In response to the rapid growth in broadband users, we introduced improved and expanded services to enable users to make better use of their longer access time. Through a tie-up with TV Asahi Corporation, we started a free service for viewing ANN's video streaming news on Streaming News on Yahoo! News, making it possible to view news from the four major TV networks in Japan at one location. We also launched Yahoo! ChakuMelo (ringing tone melody), which has more than 70,000 ringing tone melodies for mobile phones that can be searched and sampled using a personal computer. And we announced Yahoo! Groups, a new group support service that provides more convenient functions for group activities, such as chatting and sharing photo albums. In preparation to commence offering online insurance agency services for a range of life and casualty insurance, we established Y's Insurance Inc., a joint venture with AON Risk Services Japan Ltd., a group company of the major U.S. insurer AON Corporation.

Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! Messenger	Jan. 22	•Added a function that allows users to write or draw on a whiteboard from two different computers simultaneously.
Yahoo! News	Jan. 26	•Launched a free service for ANN's streaming news through a tie-up with TV Asahi Corporation.
Yahoo! Avatar	Feb. 9	•Expanded service to enable mobile phone users to view the avatars they have created or those of their friends.
Yahoo! Group	Feb. 9	•Announced Yahoo! Groups, a new group support service that provides more convenient functions for group activities, such as chatting and sharing photo albums.
Yahoo! Music	Feb. 23 - Mar. 31 Mar. 1	•Cooperatively with Space Shower Network, which operates the CS music channel Space Shower TV, chose music artists in Japan breaking into the music scene and introduced them on the special Web site Yahoo! Music AIWA Presents New Quality Music. •Launched Yahoo! ChakuMelo, which allows users to search and sample over 70,000 ringing tone melodies on their personal computers.

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

Monthly page views in Mar.	6,026.32 million page views (+ 27.2 %)	29.4 % of total page views
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Note: Includes the page views of eGroups and Y's Sports.

3) Income statements for the fourth quarter and fiscal year

(Yen in millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main component of Business Services sales is Car Insurance Package Estimate Request Service sales. • Main component of Personal Services is sales of fee-based content. • Main items in SG&A are sales commissions, personnel, content provider, and communication expenses.
Advertising	1,780	375	26.7%	5,724	
Business service	162	71	79.7%	415	
Personal service	116	35	44.5%	272	
Other	—	—	—	—	
Total	2,058	482	30.6%	6,411	
Cost of sales	67	11	20.7%	204	
Gross profit	1,991	471	31.0%	6,207	
SG&A expenses	1,292	155	13.7%	4,430	
Operating income	698	315	82.5%	1,777	
Operating margin	33.9%	—	—	27.7%	

Note: The Premium member fees required for use of pay services of Yahoo! Personals, Yahoo! Streaming, and Yahoo! Avatar are included in the sales of Corporate Common Business.

(5) Shopping Business Division

1) Major business

This business division operates a two-tier online shopping site, comprising “Selected Stores,” which have high brand name recognition and offer high quality services, and “Stores,” which offer a wide assortment of highly individualistic and appealing goods. It also supplies items related to travel, such as domestic and overseas accommodation and airline tickets, and information on travel preparation.

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

2) Activities in the fourth quarter

During the period under review, we continued to focus on the drive to recruit new stores for our site, striving to expand the scope of goods offered and to boost customer satisfaction. To promote store sales, we implemented a variety of sales promotions, including Valentine’s Day and White Day. As a result, at the end of March, we had a total of 1,624 stores, up 422 stores, or 35.1%, from the previous quarter.

We reached an agreement with PIA Corporation on the sale of a variety of attraction and concert tickets on the Internet, and are proceeding with preparations to launch Yahoo! Ticket, which will allow users to search for and purchase a wide range of tickets in different genres.

Yahoo! Travel has formed tie-ups with the nationwide hotel chains of 100 companies, and has more than 3,500 hotels registered with its service. During the quarter, we further expanded services. We launched Yahoo! Business Travel, an optimum online reservation service for business travel in Japan, and started a new online reservation service for overseas tours.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Feb. 18	• Announced an agreement with PIA Corporation on selling attraction and concert tickets on the Internet.
Mar. 4	• Launched Yahoo! Business Travel, an optimum online reservation service for business travel in Japan.
Mar. 31	• Conducted a major renewal of the Ranking Corner on Yahoo! Books to be able to post the latest data as quickly as possible.

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

Monthly page views in Mar.	401.84 million page views (+15.4 %)	2.0 % of total page views
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Note: Includes the page views of e-Shopping! Books.

Shopping Business Transaction Volume

Jan. 2004	Feb. 2004	Mar. 2004
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¥4,776 million	¥4,767 million	¥5,587 million
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Note: The figures include the transaction volume of Yahoo! Shopping, Yahoo! Travel, and e-Shopping! Books.

3) Income statements for the fourth quarter and fiscal year

(Yen in Millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales are tenant fees and sales commissions of Yahoo! Shopping and Tavigator, Inc. sales commissions. • Main component of Others is sales of e-Shopping! Books. • Main item in Cost of Sales is purchasing costs of e-Shopping! Books. • Main items in SG&A are personnel, packing and delivery, and business commission expenses.
Advertising	109	-25	-19.0%	450	
Business service	536	92	20.9%	1,646	
Personal service	—	—	—	—	
Other	1,258	153	13.9%	4,492	
Total	1,904	220	13.1%	6,589	
Cost of Sales	976	102	11.7%	3,544	
Gross Profit	927	118	14.6%	3,044	
SG&A expenses	625	33	5.7%	2,173	
Operating income	301	84	38.9%	870	
Operating margin	15.9%	—	—	13.2%	

(6) Business Solution (BS) Business Division

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

1) Major business

This business division utilizes the know-how and technology developed by the Group to offer business solutions to companies and government bodies, including sole proprietors. Specifically, it provides such services as licenses for Enterprise Information Portal (EIP) solutions, portal site development support for B-to-C businesses (Sales End-users) or B-to-B businesses (Sales outlets), Web design consulting, the Internet survey service Yahoo! Research, and domain and hosting services, etc.

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

2) Activities in the fourth quarter

During the period under review, we continued to aggressively make sales proposals for optimum navigation portals to companies and government bodies. In portal development support services, we received orders for in-house corporate portal sites from Ishikawajima –Harima Heavy Industries, Co., Ltd., and VANTECH Co., Ltd., and for a portal site for end users by Leoplace21 Corporation. In other areas, Yahoo! Research actively pursued activities to acquire business, announcing that it would begin marketing Yahoo! Research Compact, which offers research results

within 48 hours of the start of research, and Yahoo! Research Mobile, which conducts research using mobile phones. In addition, the Yahoo! Business Center was opened with the purpose of improving corporate services.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Jan. 30	<ul style="list-style-type: none"> • Yahoo! Research announced results of survey on displaying the amount of consumption tax.
Mar. 10	<ul style="list-style-type: none"> • Announced the April 1 start of Yahoo! Research Mobile, a mobile phone based research service that is on the new Yahoo! Research menu.

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

Monthly page views in Mar.	1.81 million page views (+ 44.8 %)	0.009 % of total page views
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3) Income statements for the fourth quarter and fiscal year

(Yen in millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net Sales					<ul style="list-style-type: none"> • Main components of Business Services sales were sales of Yahoo! Research and Yahoo! Portal Solutions. • Primary components of Cost of Sales were costs for Yahoo! Portal Solutions. • Main items in SG&A were personnel, business commissions, and communications expenses.
Advertising	9	-4	-29.8%	68	
Business service	300	45	17.8%	1,027	
Personal service	0	0	—	0	
Other	—	—	—	—	
Total	309	41	15.4%	1,096	
Cost of sales	188	31	20.1%	628	
Gross profit	121	9	8.8%	467	
SG&A expenses	137	15	12.8%	410	
Operating income	-15	-5	—	56	
Operating margin	-5.1%	—	—	5.2%	

(7) Corporate Common Business-Elimination or Corporate

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

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

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

Number of Premium member IDs

Jan. 2004	Feb. 2004	Mar. 2004
3.68 million IDs	3.78 million IDs	3.86 million IDs

Income statement for the fourth quarter and fiscal year

(Yen in millions)

	Fourth quarter	Comparison with the previous quarter		Fiscal year	Comments
		Increase/decrease	Change		
Net Sales					(Net Sales)
Advertising	1,099	132	13.8%	3,603	• Main components of Corporate Common Business sales are advertising sales on top pages, etc. and Yahoo! Premium fees. • Consolidation elimination figures are removed as sales of headquarters.
Business service	56	38	224.7%	119	
Personal service	3,107	281	10.0%	10,741	
Other	—	—	—	-0	
Total	4,262	453	11.9%	14,464	
Cost of sales	49	17	56.0%	105	
Gross profit	4,212	435	11.5%	14,359	
SG&A expenses	2,601	204	8.5%	9,095	(SG&A Expenses)
Operating income	1,611	230	16.7%	5,263	

Operating margin	37.8%	—	—	36.4%	<ul style="list-style-type: none"> • Main components of Corporate Common Business SG&A are personnel, sales commissions expenses and business commissions expenses. • Main items in Headquarters SG&A are personnel, depreciation, and maintenance expenses.
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(Advertising Related Sales)

The following is an outline of our advertising business in the quarter and fiscal year under review based on combining the advertising sales of each business division. (The description on advertising related sales is on unconsolidated base.)

Activities in the fourth quarter

Supported by fiscal year end demand, positive signs finally emerged in the advertising industry during the fourth quarter. In particular, along with the increase in the number of people using the Internet and the step up in the spread of broadband, the number of advertisers recognizing the Internet as being on a par with television and other media are steadily increasing. To take advantage of this situation, the Group strengthened its cooperative sales organization with advertising agencies, targeting winning advertising from National Clients. In particular, the Group aggressively marketed high impact products, such as Brand Panels for top pages, Super Banners in the topics areas of Yahoo! News and Yahoo! Sports, which have a high number of unique browsers and page views, and Yahoo! Billboard for National Clients. And we actively made proposals for Visual Banner, a service that can send large volumes of highly visually-effective banners. The Group also aggressively pursued joint planning advertising with National Clients implementing major promotions and strengthened its sales proposals to recruiting and real estate advertisers for related advertising special features within the Property section of Yahoo! JAPAN. Sales of Sponsor Sites also recorded solid performance, supported by continued growth in awareness of this product.

Based on our sales efforts, quarterly advertising business sales rose to ¥7.1 billion, posting another record high. The fourth quarter and the fiscal year advertising related sales were as follows.

(Fourth Quarter)

	Amount	Comparison with the previous quarter		(Yen in Millions) Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
		Advertising related sales (Consolidated basis)	7,118	1,287	22.1%

(Fiscal Year)

	Amount	(Yen in Millions) Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change
		Advertising related sales (Consolidated basis)	22,276

Advertising Products

During the fourth quarter, sales of high impact products were especially strong. In addition to Brand Panel for top pages achieving record sales, sales of such large advertising space products as Super Banners, Large West Module, and Large Square that are placed on the top pages of each property or category performed well as did Yahoo! Billboard, which has a strong reputation as a broad reach product. Moreover, Yahoo! Delivery posted significant sales growth thanks to increased use by loan and real estate related advertisers.

One of the features of the fourth quarter was the substantial number of cooperative advertising planning efforts to boost branding on the Internet that required collaboration between Yahoo! JAPAN and National Clients implementing relatively major promotions. Specifically, tie-ups between Yahoo! Music and Sony Corporation and Asahi Breweries, Ltd., and between Yahoo Auctions and McDonald's Co. (Japan).

For the fourth quarter, rates for high-volume branding-type banner ads ranged from ¥0.25 to ¥1.00 per page view, rates for targeting-type banner ads varied from ¥1.20 to ¥20.00 per page view, and rates for the large-sized Super Banners varied from ¥0.80 to ¥4.00 per page view. Rates for the group-specific e-mail advertising Yahoo! Deliver were ¥4.00 to ¥10.00 per mailing. Rates for Yahoo! Billboard for National Clients varied from ¥5.00 million to ¥9.00 million, depending on the number of browsers targeted to be reached and the length of the advertising period.

(Reference)

1. Environmental Protection Activities

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

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

2. Charity Activities

As part of our social contribution efforts, we regularly host charity auctions through Yahoo! Auctions and donate all the funds raised. Among our charity auctions of goods donated by celebrities in the fourth quarter, we auctioned a BPJ (BALLPLAYER.JP) baseball cap signed by Hideo Nomo, a pitcher for the Los Angeles Dodgers, and a certificate for song to be sung personally to the auction winner by Rag Fair, a famous vocal group. In total, we held 188 charity auctions (457 items in total) during the fourth quarter, raising a total of approximately ¥12.47 million. Our charity auctions raised about ¥52.40 million during fiscal 2003. All of the funds raised for such charities are being donated to the following charities (not listed in any special order).

- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.
- Japan Spinal Cord Foundation, an NPO that supports treatment and rehabilitation of people with damaged spinal cords.
- d-net, an NPO that carries out a variety of activities to improve the environment including the "Green Funds" environmental conservation movement.
- NPO GUC·PIACHERE, an NPO that addresses environmental issues.
- The Sasagawa Memorial Health Foundation, which supports the Global Leprosy Elimination Campaign.

3. Personal Privacy Protection Trustmark TRUSTe

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

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

4. Volunteer Activities

In commemoration of the seventh anniversary of the start of Yahoo! JAPAN services, we launched Yahoo! Volunteer on April 1, 2003. Part of our social contribution activities, Yahoo! Volunteer provides a Volunteer Group Information site where various volunteer groups can register and users can search volunteer group information and a community support service where people wanting to volunteer and groups looking for volunteers can link up.

Risk Factors

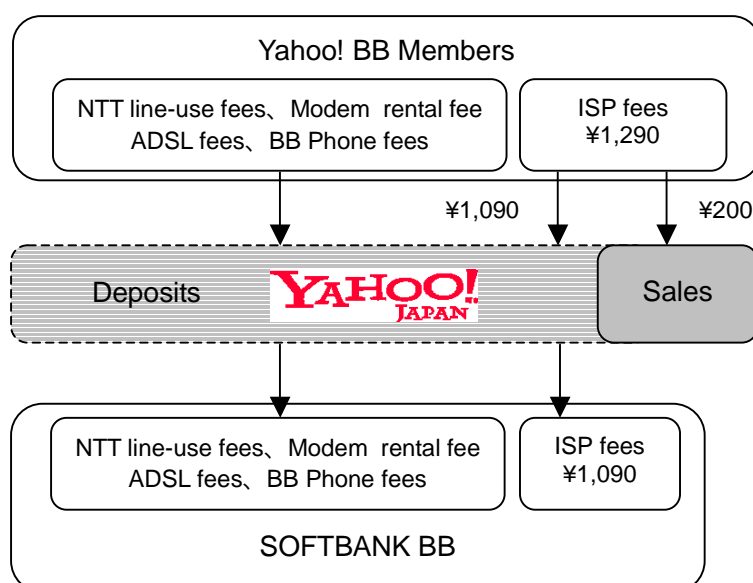
Yahoo Japan Corporation (hereinafter referred to as “the Company”) and its consolidated subsidiaries and affiliated companies (hereinafter referred to as “the Group”) have reported their results for the third quarter ended March 31, 2004, in the document *Results for the Fiscal Year and the Three Months Ended March 31, 2004*. A number of potential factors could substantially impact future performance.

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

1. Group Business Risk

(1) Yahoo! BB Business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, Internet connection (ISP) services, a broadband portal site and content-provision services, and other services. The Company’s role in this joint business includes promoting the service and signing up users, providing customer service, operating a broadband portal site, and providing a fee-collection platform. SBB’s responsibilities lie in supplying and maintaining an ADSL infrastructure and connections to the Internet, developing technology and providing technical support. The allocation of revenues based on the above separation of roles is as follows.



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

a. Subscriber Sign-up Promotion Business and Incentive Commission

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

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

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

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

b. ADSL Infrastructure and Internet Access Service

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

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

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

c. Broadband Portal Service

The Group offers and plans to offer subscribers broadband content, such as films and

music, in cooperation with companies offering various content. It is possible, however, that expected sales will not be made due to insufficient assemblage of content or content costing far more than expected. This may impact sales and profit.

The Group acts as the platform for consigned billing and settlements for said pay content provision and access services to effect collections. For that reason, the Group intends to improve its operating efficiency by hiring specialists and technically skilled staff and by undertaking business cooperation with other companies with a proven record in the business.

There is the possibility of failure in making the intended sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than intended. Focusing investment on the development of these services may negatively affect the development and operations of other services of the Group. In addition, technical and operating problems related to consigned billings and settlements could result in demand for compensation from subscribers.

d. The Competitive Environment

As of March 31, 2004, the major providers in Japan of services similar to those the Group offers were as follows (in no particular order):

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

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

e. Dependence on a Certain Distributor

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

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

sales. Nevertheless, for the short term this dependence will remain high.

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

(2) Auction Business

a. Damage Compensation

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

b. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold using the Group's Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. Effective September 2003, a revision of the law regarding the sale of used goods to prevent crimes that abuse Internet auctions was enforced. In addition to imposing a registering system on Internet auction operators, the reformed law requires operators to make efforts to confirm the identity of participants and to maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reform law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, we do not expect that the reformed law will have a significant impact on our auction business. Nevertheless, if a law regulating actual auction transactions on the Internet was to be adopted in the future, depending on its content when passed, it could influence the Group's auction business.

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

The Group has instituted a damage-compensation system, which pays a limited amount to users that have suffered damages due to illegal acts or accidents. This could increase expenses by the Group.

Note: The escrow service consists of a company acting as an intermediate between the sell and buy sides of the transaction to ensure the smooth transfer of the item and payment. Because this service is provided by third parties and not the Company, the service varies according to the company used. However, in general, the escrow company receives payment from the purchaser and transfers it to the seller upon confirming the delivery of the correct item in good condition. This service simplifies the transfer of the auctioned item to the purchaser and eliminates the concern that items will not be

delivered or payments not made.

c. Yahoo! Payment Service

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

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

In providing this service, the Group has taken all possible precautions to protect itself from such problems as the fraudulent use of credit cards and the leakage of personal information of individuals online. However, there is no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in the Group being sued for compensation of losses, preventing the recovery of the funds reimbursed and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on Yahoo! Auctions and other Group services.

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

d. The Competitive Environment

As of March 31, 2004, 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., Ltd.	Online auction site
Rakuten ICHIBA	Rakuten, Inc.	Online mall and auction site

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

costs, which would have a negative impact on the Group's operating results.

(3) Risks Affecting Internet Advertising Business

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

a. Use of the Internet as an Advertising Medium

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

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

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

b. Characteristics of Internet Advertising

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

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

In addition, although advertising contract periods and page views ("hits") are

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

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

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

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

d. Advertising Sales Structure

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

e. The Competitive Environment

As of March 31, 2004, the major providers to Japanese Internet users of Japanese-language Internet navigational services or similar services earning advertising income through comprehensive information sites for those services were as follows (in no particular order). (These companies are considered largely in competition with Group services in the listings and media businesses.)

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

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

f. Growth in Advertising Sales from Sponsor Sites

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

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of March 31, 2004, SOFTBANK CORP. was the parent company of Yahoo Japan Corporation, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and regions but that are concentrated mainly on Internet business. Their businesses include broadband infrastructure, e-commerce, e-finance, media and marketing services, and an overseas fund investment service. The Group belongs to the Internet Culture segment and Internet Infrastructure segment of the SOFTBANK Group.

(2) Alliance Contracts and Other Arrangements with SBB

The Company has signed the following contracts with SOFTBANK CORP. affiliate SOFTBANK BB Corp. (SBB) concerning the Yahoo! BB business. Yahoo! BB accounted for 16.6% of Group sales in the fourth quarter of the fiscal year ended March 31, 2004. We therefore consider the following contracts important to Group operations:

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

Contract name: Incentive agreement
Contract date: April 1, 2002
Term: One year from April 1, 2002 (automatically renewed annually)
Contractor: SBB
<p>Main content:</p> <p>1) The Company attempts to obtain subscribers of one million lines during the contract period.</p> <p>2) Incentive fees</p> <p>* Lump-sum incentive fees (80% at application, remainder after six months)</p> <p>BB Phone services: approximately ¥7,000 per application</p> <p>Yahoo! BB services: approximately ¥11,000 per application</p> <p>* Bonus incentive fees</p> <p>In addition to the lump-sum fees above, a bonus incentive is awarded per 100 thousand line applications (cumulative total)</p> <p>* Continual incentive fees</p> <p>BB Phone services: approximately ¥100 per month per continuing subscriber</p> <p>Yahoo! BB services: approximately ¥150 per month per continuing subscriber</p>

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, 2004, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

SOFTBANK CORP. part-time director, Masahiro Inoue

SOFTBANK CORP. president, Masayoshi Son

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

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

3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

The Group's operations are based on a licensing agreement with Yahoo! Inc., the founder of the Company and owner of 33.6% of the Company's voting shares as of March 31, 2004. The Yahoo! trademark, software, and tools (hereinafter referred to as "the trademark") used in the operation of the Group's Internet directory search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

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

(2) The Yahoo! Brand and Cooperation Overseas

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

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Group is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to

effectively establish and proliferate the Yahoo! brand could impact the Group in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are valid. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations, and presence, there is the possibility that Yahoo! Inc. has not registered trademarks necessary to the Group's business in Japan.

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

(3) Other Joint Directorships

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

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

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

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

(2) Dependence on the Environment for Internet Connectivity

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

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

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

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

5. Other Overall Business Risks

(1) Increased Risk from Diversification and New Business

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

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

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

(2) Keeping Up with Technology

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

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

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

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

(3) Dependence on Third Parties

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

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

impair its operations.

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

The Group not only relies on the previously mentioned Internet providers but also many of its services rely on third parties that the Group has consigned operations to or that it receives information or support from. It is possible that the operations of the Group could be hindered because of worsening business conditions for these third parties, resulting in a negative impact on performance.

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

(4) User Information

In July 1998 the Group added a service enabling users to customize Yahoo! Japan categories to match their individual tastes, including personalizing a variety of information sources by inputting individual information. In addition, the Group's acquisition of GeoCities in March 2000 enabled the Group to begin services providing space for registered subscribers to create their own Web sites.

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

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

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

Nevertheless, the Group cannot completely eliminate the possibility that this information will be leaked outside the Group deliberately or through negligence by persons related to the Group, to companies with which business alliances have been concluded, or to companies to which the Group outsources work, etc. There is also a possibility that third parties may use passwords, etc. to fraudulently access the

Group's system or pretend to be someone else or some other method whereby they illicitly obtain personal information of users resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, our brand image could be tarnished, and we could be involved in legal disputes.

Regardless of whether the Group is legally responsible or not, it is our policy to take measures to strengthen the management and monitoring of the security systems of companies with which we have business alliances.

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

Moreover, in consideration of fundamental laws, discussion has begun on revision of the Ministry of Public Management, Home Affairs and Posts and Telecommunications' "Guidelines on the Protection of Personal Data in Telecommunications Business," with a view to clarifying the procedures that should be undertaken by companies in telecommunications to protect personal data.

(5) Collection of Sales Credit Claims

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

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

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

of these reimbursed funds is blocked in some way, it could incur serious negative impact on the Group's business, operating results, and financial condition.

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

(7) Continued Support from Senior Management, Etc.

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

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

(8) Internal Control System and Human Resources

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

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

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

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

(9) Risk Regarding Consolidated Group Operations

The risk exists that because our subsidiaries and affiliates are generally small scale, their in-house management systems are also small scale. It is the Group's policy to acquire necessary additional staff and to strengthen organizations as businesses expand, but if these measures are not implemented with the appropriate timing it could

negatively affect the Group's performance.

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

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

(10) Share Distribution

At March 31, 2004, the major shareholders of Yahoo Japan Corporation held a very high stake in the Company, with over 75% of its equity owned by SOFTBANK CORP. and Yahoo Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares, but at present it is difficult to imagine any significant change in the short term. As a result, it is highly likely that the proportion of fixed shares will remain high for the time being. In future, if the two above companies were to further increase the proportion of fixed shares by purchasing shares from certain other major shareholders, it is possible in the worst case scenario that the Company would violate the listing standards of the stock exchange its shares are listed on and be forced to delist its shares.

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

(11) International Conflicts, Terrorist Attacks, and Natural Disasters

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

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

service providers, were hit with the same conditions, it is possible that the Group could become unable to continue operations.

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

a. Government Regulations

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

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

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

b. Potential Litigation

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

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

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

suspension of services.

Similar to the situation mentioned previously with Yahoo! Auctions, the Group publishes a disclaimer on its Yahoo! Shopping site stating that the Group assumes no responsibility for the activities, products, services, or Web site content of the many retailers using these services. Nor does the Group guarantee that users of these services will purchase goods or services listed by these retailers. In addition, the Group does not accept responsibility for damage, loss, or difficulty in the delivery of said items. However, the possibility exists that users of these services or other related parties may take legal action against the Group for claims or compensation related to the content of its services. Furthermore, if the current proposed treaty regarding the jurisdiction of international courts is approved as is, it is possible that the Group may be involved in legal disputes with users of these services outside Japan.

c. Patents for Internet Technology and Business Plans

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

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

(13) Change in Accounting Standards

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

(14) Revision of Business Forecasts

The pace of change in technology and the market in the Internet sector in which the Group is categorized is rapid, and the advertising business is highly susceptible to overall economic trends.

The Group determines its forecasts for sales and costs based on the assumption of a certain usage rate of each of its services, etc. However, the business environment surrounding the Group can change drastically and actual business results may differ considerably from the announced forecast.

When such difference is recognized, the Group will announce a revision of the forecast on a timely basis.

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

(1) Investment

As of March 31, 2004, the Group has invested in 28 companies and one cooperative as stated below in the List of Companies Invested in by Yahoo Japan Corporation. These investments have been made to form ties with the companies invested in and with their businesses for present or future purposes. The Group cannot guarantee that these investments will be recovered.

Although as of March 31, 2004, four of these companies had been publicly listed and the value of the Company's investment in all of these companies had increased, this value could decline in the future.

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

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

(2) Capital Investment Programs and Investment Plans

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

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

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized

by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of extraordinary losses on disposal of current facilities.

(3) Participation in Finance Scheme for Yahoo! BB

In a meeting of the Board of Directors held on July 17, 2003, based on the following Finance Scheme Yahoo Japan Corporation decided to make a mezzanine loan to finance the Japan branch of a special-purpose company (SPC) being established to increase the liquidity of the assets of SOFTBANK BB Corp. (SBB). The SPC is BB Modem Rental PLC and is registered in the Cayman Islands. On July 31, 2003, the Company made a loan of ¥5.7 billion that will mature in 42 months.

Finance Scheme Summary

- The SPC will raise a total of ¥19.14 billion from several lenders as loans and as investments in a *Tokumei Kumiai* (TK), an anonymous partnership. This amount will be structured as senior and mezzanine loans and a TK investment.
- The SPC acquires modems and a modem rental agreement from SBB and pays SBB for them using the funds raised.
- The SPC operates a modem rental business and pays principal and interest to lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fees revenues).
- In the case that modem rental fees are not paid using the underlying assets, SBB will provide credit compensation under the terms outlined in the guarantee agreement.

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

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

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

List of Companies Invested by Yahoo Japan Corporation

(As of March 31, 2004)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Investment securities								
1	Yahoo! KOREA Inc.		97/10/06	4.12	4	Comprehensive Internet information-portal business in Korea	Yahoo! JAPAN offered technical services at startup	Yes
2	CyberMap Japan Corp.		98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
3	Internet Research Institute, Inc.	TSE Mothers	98/08/01	10.49	5,637	Internet technical-support service		
4	Vector Inc.	OSE Hercules	99/03/25	10.73	2,294	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computers	Yes
5	Weathernews Inc.	TSE 1st Section	99/05/28	5.07	729	Weather observation, data collection/analysis, weather forecast and related information services		
6	e-Shopping! Toys CORP.		99/08/31	10.00	0	eS! Toys Website	Yahoo! Shopping tenant	Yes
7	Carview Corp.		99/10/06	6.54	38	Offering car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos	
8	Oricon Inc.	OSE Hercules	00/03/28	1.53	95	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
9	e-Shopping! Wine CORP.		00/05/26	7.89	0	eS! Wine Website	Yahoo! Shopping tenant	
10	SOFTBANK IT media Inc.		00/08/28	8.33	0	Comprehensive site for IT-related information	Alliance for Yahoo! News	
11	BB Factory Corp.		00/11/13	10.00	31	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
12	e-Net Japan Co., Ltd.		00/12/14	5.20	11	Sales of personal computers, audio/visual and home equipment via the Internet	Yahoo! Shopping/Auctions tenant	
13	J-Yado Co., Ltd.		00/12/22	7.98	0	J-Yado.com hotel reservation website		
14	DBJ Co., Ltd.		00/12/26	2.27	0	E-commerce and supply of contents related to motorcycles		
15	Power Print Inc.		00/12/27	15.00	0	Online order-taking, printing and delivery of various printed materials		
16	Naturum Corp.		00/12/29	9.13	0	Sales of fishing and outdoor products via the Internet	Yahoo! Shopping/Auctions tenant	
17	Archinet, Inc.		01/01/19	8.91	12	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
18	Golf Do Co., Ltd.		01/01/24	4.90	0	An online shop for used golf equipment		
19	CafeGlobe.com		01/01/30	11.18	7	Cafeglobe.com information site for women	Alliance for Yahoo! Gourmet and Yahoo! Beauty	
20	eBANK Corporation		01/03/12	1.08	56	e-bank operations	Alliance for Yahoo! BB/ Yahoo! Auctions/ Yahoo! Research	
21	GameBox, Inc.		01/03/16	9.38	4	GAMEBOX game-related Website		
22	Digipri Corporation		01/03/27	0.42	0	Internet storage and output services for digital imaging	Alliance for Yahoo! Photos	
23	Net Protections, Inc.		01/04/10	1.86	0	Online commercial settlement service		
24	istyle Inc.		01/04/20	5.67	5	@cosme information site for cosmetics and beauty care	Alliance for Yahoo! Beauty	

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ MM) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
25	CarHoo Inc.		01/04/26	11.26	0	Car Hoo driver-support site	Yahoo! Auctions tenant	
26	NETGENE Co., Ltd.		04/03/24	17.54 (See Note 3)	18	Development of application for mobile phones	Technical support for Yahoo! Mobile	
Shares in affiliated companies								
1	Tavigator, Inc.		00/03/03	30.00	130	Sales of travel gear via the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
2	INTAGE Interactive Inc.		02/09/26	49.00	55	Internet-based marketing research services	Alliance for Yahoo! Research	Yes
Investment								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		639			

Notes:

- In principle, the date of acquisition is the date of the first investment made by Yahoo! Japan in the company.
- B/S accounting amounts are shown on a consolidated basis. Because the amounts are shown in millions of yen, figures less than one million yen are shown as "0". Because subsidiaries' investment portions are subject to elimination under consolidation, main subsidiaries' B/S accounting amounts are shown below on a non-consolidated basis with the consolidated accounts amount indicated for reference.

Company	B/S accounting amount (¥ MM)	Consolidated accounts (¥MM)	Line of business
Y's Sports Inc.	0	-	Collecting sports information and producing article and content
Y's Agencies Inc.	10	-	Planning and sales of ad products
e-Shopping! Books CORP.	350	33	Sales of books and provision of services on the Internet
UniCept, Inc.	50	-	Consulting for Internet business and a range of planning, development, and operation services
Netrust, Ltd	120	-	On-line settlement services
BridalNet, Inc.	299	139	Web-based marriage matchmaking service
Y's Insurance Inc.	30	-	Life/Non-life insurance agency business
VACS Corporation	240	179	Development and sales of PC software and hardware
Indival Inc.	120	-	Web-based recruiting services.
GeoCities Japan Corp.	10	-	Maintaining domain
broadcast.com japan k.k.	10	-	Maintaining domain
eGroups KK	-	-	Dissolved effective March 31, 2004, and is now in the process of liquidation
BridalConcierge Corp.	0	-	Effective April 30, 2003, services were terminated

- The Company's stake in NETGENE Co., Ltd. is slated to increase to 48% after a third-party allotment capital increase scheduled for April 19, 2004. Following the capital increase, the Company plans to place some of its directors or employees, as directors of NETGENE Co., Ltd. and it will become a consolidated subsidiary.