

Results for the Three Months Ended June 30, 2004 (FY2004-1Q) (Consolidated Basis)

2004.7.21

Company name **Yahoo Japan Corporation** (code number: 4689 TSE 1st Section)

(URL: <http://www.yahoo.co.jp>)

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1. Significant matters concerning the preparation of quarterly financial information

- (1) Use of simplifications in accounting methods: No
- (2) Change in accounting methods since the current fiscal year began: No
- (3) Change in scope of consolidation and application of equity method: Yes
Two newly added consolidated subsidiaries

2. Results for FY2004-1Q (Apr.1, 2004-June 30, 2004)

(1) Consolidated financial results (Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Net income
	Millions of yen (%)			
FY2004-1Q	24,495 (57.4)	13,470 (59.7)	13,516 (63.7)	8,311 (83.1)
FY2003-1Q	15,564 (54.2)	8,433 (106.0)	8,257 (101.0)	4,539 (108.6)
FY2003(for reference)	75,776	41,211	41,308	24,826

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-1Q	2,203.30	2,195.22
FY2003-1Q	4,818.55	4,807.83
FY2003(for reference)	12,892.72	12,851.03

Notes: 1. Average outstanding shares during the quarter (Consolidated Basis)

FY2004-1Q: 3,772,171 shares

FY2003-1Q: 942,091 shares, FY 2003: 1,915,795 shares

2. Percentage change figures for quarterly net sales, operating income, ordinary income, and net income represent percentage changes from the corresponding period in the previous fiscal year.

3. There was a change in accounting methods in the fiscal year ending March 2004 (FY2003).

For detailed information regarding consolidated management performance, please see Pages 4, 10 and 11 of the Attached Materials.

(2) Consolidated financial position (Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2004-1Q	86,333	69,013	79.9	18,294.60
FY2003-1Q	44,266	35,346	79.8	37,519.07
FY2003(for reference)	82,410	59,806	72.6	31,643.23

Note: Number of shares issued and outstanding at the end of each quarter(Consolidated Basis)

FY2004-1Q 3,772,361 shares

FY2003-1Q 942,099 shares FY2003: 1,886,016 shares

* For detailed information regarding changes in financial status, please see Pages 7, 8, and 13 of the Attached Materials.

(3) Consolidated cash flows (Amounts less than one million yen are omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the quarter
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2004-1Q	2,387	-1,245	65	40,851
FY2003-1Q	-413	-1,598	6	21,210
FY2003 (for reference)	26,147	-10,913	1,194	39,643

3. Business Outlook for FY2004-2Q (July 1, 2004-Sept.30, 2004)

	Net sales	Ordinary income	Quarterly net income
	Millions of yen	Millions of yen	Millions of yen
FY2004-2Q	25,000~27,000	13,200~14,700	7,950~8,850

Estimated consolidated net income per share for quarter: ¥ 2,107.54 ~ ¥ 2,346.13

(For reference) Non-Consolidated Business Outlook for FY2004-2Q (July 1, 2004-Sept.30, 2004)

	Net sales	Ordinary income	Quarterly net income
	Millions of yen	Millions of yen	Millions of yen
FY2004-2Q	23,200~25,200	13,200~14,700	7,950~8,850

Estimated non-consolidated net income per share for quarter: ¥ 2,107.54 ~ ¥ 2,346.13

Forward-Looking Information Used in Performance Estimates

Performance estimates have been made based on the information available to the Company and the Group at the current point in time. Consequently, changes in the underlying factors could cause actual results to differ significantly. For details regarding the previously mentioned performance estimates, please see Page 5 of the Attached Materials.

Net income per share estimates have been calculated using the average outstanding shares for the first quarter of the fiscal year ending March 2005 (FY2004).

【For reference】 Non-Consolidated Results for FY2004-1Q (Apr.1, 2004-June 30, 2004)

(1) Non-consolidated financial results

(Amounts less than one million yen are omitted)

	Net sales	Operating income	Ordinary income	Quarterly net income
	Millions of yen (%)			
FY2004-1Q	22,807 (58.3)	13,429 (58.5)	13,495 (62.4)	8,384 (82.6)
FY2003-1Q	14,405 (54.0)	8,473 (99.8)	8,310 (95.1)	4,591 (98.8)
FY2003(for reference)	70,308	40,939	41,104	24,322

	Net income per share-primary	Net income per share-diluted
	Yen	Yen
FY2004-1Q	2,222.78	2,214.64
FY2003-1Q	4,873.24	4,862.41
FY2003(for reference)	12,629.69	12,588.85

Notes: 1. Average outstanding shares during the quarter

FY2004-1Q: 3,772,171 shares

FY2003-1Q: 942,091 shares, FY 2003: 1,915,795 shares

2. Percentage change figures for quarterly net sales, operating income, ordinary income, and net income are percentage changes compared with the same quarter in the previous fiscal year.
3. There was a change in accounting methods in the fiscal year ending March 2004.

(2) Non-consolidated financial position

(Amounts less than one million yen are omitted)

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
FY2004-1Q	84,584	69,221	81.8	18,349.63
FY2003-1Q	44,268	36,036	81.4	38,250.97
FY2003(for reference)	80,905	59,940	74.1	31,714.32

Note: Number of shares issued and outstanding at the end of each quarter

FY2004-1Q: 3,772,361 shares

FY2003-1Q: 942,099 shares, FY2003: 1,886,016 shares

Attached Materials

First Quarter Highlights for the fiscal year ending March 2005

- Yahoo Japan Corporation and its consolidated subsidiaries and affiliates continued to record strong performance in the first quarter. Net sales increased 8.5% from the previous quarter and 57.4% year on year, to ¥24,495 million; operating income amounted to ¥13,470 million, rising 8.3% from the previous quarter and 59.7% from a year earlier. The operating margin was 55.0% in the first quarter.
- Business service revenues of our Listing Business Division climbed substantially during the quarter, supported by growth in sales of the Yahoo! Rikunavi site, a recruiting information site formed through a tie-up with RECRUIT Co., Ltd. Moreover, advertising sales, including Sponsor Site sales, were strong. As a result, the operating income of the Listing Business Division rose to ¥4,304 million, accounting for 32.0% of overall operating income for the quarter.
- Although sales of advertising aimed at raising brand name awareness suffered under the influence of the traditionally weak sales for mass media advertising in the first quarter, among advertising products, Brand Panels and Super Banners performed well. Sponsor Site related sales also were favorable, too. Since June 2004, we have narrowed down our search result business tie-ups to only Overture to target sales growth by further strengthening the link up between Yahoo! JAPAN's services and our Sponsor Site services.
- In the Auction Business Division, we introduced a verification system for users listing auction items on our site that uses postal services to check their address. We took this step as part of our focus on safety measures for our services from the point of view of achieving market growth in the medium-to-long term. The numbers of users and items listed grew steadily during the quarter. Business service revenues expanded along with the growth in the number of merchant stores, however, overall transaction volume was flat compared with the previous quarter because of the greater enforcement of our policy against the listing of certain improper items.
- Due to a change in the timing and method of booking incentive fees for acquiring subscribers in the quarter under review, Yahoo! BB's business service sales declined. During the first quarter, we carried out a campaign offering new subscribers a telephone line subscription right as part of the sales package. Despite these efforts, the number of Yahoo! BB subscribers only increased slightly as the leak of personal information of subscribers by SOFTBANK BB Corporation continued to affect subscription sales. Advertising sales and ISP revenue increased, and the business division's sales were about the same as in the previous quarter.
- The Shopping Business Division continued its emphasis on achieving a large increase in the number of items available for sale by soliciting more stores to list on its site. As a result, the number of participating stores at the end of June 2004 reached 2,039 stores, up 415 stores, or 25.6% from the end of the previous fiscal year. Transaction volume for the first quarter rose to ¥16,379 million from ¥15,132 million in the fourth quarter of the previous fiscal year.

Performance Outlook

The business climate surrounding the Company and its Group can fluctuate widely over a short interval. Consequently, it is extremely difficult to make performance estimates for a full fiscal year with a high degree of reliability.

The Company and its Group view the services used by its customers are an important factor in their business development. Specifically, we place great significance on the numbers of page views, which indicate overall access and access per service; unique browsers; and active user IDs, which signify the number of users with Yahoo! JAPAN IDs that log on monthly. In addition, the numbers of Yahoo! Premium IDs, indicating pay service users, and Yahoo! BB subscribers and the commercial transaction volumes of Yahoo! Auctions and Yahoo! Shopping are also considered to be important indicators.

Our estimations of income and expenses are based on the trends in these indicators, but in the rapidly changing environment of the Internet, it is difficult to establish a specific rate of growth or change in these indicators. Accordingly, we limit our performance estimates announced with each quarter report to estimates of performance for the next quarter.

However, changes in conditions could result in the possibility of actual performance varying significantly from announced estimates. In such cases, we are committed to quickly announcing revisions in our estimates.

Consolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 2005 (FY2004-2Q):

Net sales	¥25,000	~	¥27,000 Million
Ordinary income	¥13,200	~	¥14,700 Million
Quarterly net income	¥7,950	~	¥8,850 Million

Nonconsolidated Performance Estimates for the Second Quarter of the Fiscal Year Ending March 2005 (FY2004-2Q):

Net sales	¥23,200	~	¥25,200 Million
Ordinary income	¥13,200	~	¥14,700 Million
Quarterly net income	¥7,950	~	¥8,850 Million

1. Consolidated Balance Sheets

(Millions of yen)

	Three months ended June 30, 2004	Three months ended March 31, 2004	Comparison with the previous quarter		Three months ended June 30, 2003
	Amount	Amount	Increase/decrease	Change	Amount
Assets					
Current assets					
Cash and cash equivalents (*1)	40,251	39,643	607	1.5%	21,210
Accounts receivable—trade (*2)	14,127	12,847	1,280	10.0%	8,586
Inventory	44	48	-4	-8.3%	9
Accounts receivable—other	188	249	-60	-24.3%	155
Deferred tax assets (*3)	1,151	1,850	-699	-37.8%	1,004
Other current assets	1,844	1,820	23	1.3%	518
Allowance for doubtful accounts (*4)	-811	-733	-77	10.6%	-266
Total current assets	56,796	55,726	1,070	1.9%	31,217
Fixed assets					
Tangible fixed assets (*5)					
Building and structures	1,333	1,328	4	0.3%	1,214
Machinery and equipment	7,569	6,746	823	12.2%	5,151
Land	0	0	-	-	-
Total tangible fixed assets	8,903	8,075	827	10.3%	6,365
Intangible fixed assets					
Consolidated accounts (*6)	428	352	76	21.8%	83
Other intangible fixed assets	1,774	1,293	480	37.1%	731
Total intangible fixed assets	2,203	1,646	557	33.8%	814
Investment and others					
Investment securities (*7)	10,689	9,194	1,495	16.3%	3,740
Long-term loans (*8)	5,889	5,915	-26	-0.4%	-
Others	1,935	1,905	29	1.6%	2,137
Allowance for doubtful accounts	-83	-53	-30	57.2%	-8
Total investments and others	18,430	16,962	1,468	8.7%	5,868
Total fixed assets	29,537	26,683	2,853	10.7%	13,048
Total assets	86,333	82,410	3,923	4.8%	44,266

(Millions of yen)

	Three months ended June 30, 2004	Three months ended March 31, 2004	Comparison with the previous quarter		Three months ended June 30, 2003
	Amount	Amount	Increase/decrease	Change	Amount
Liabilities					
Current liabilities					
Accounts payable—trade	604	636	-32	-5.2%	542
Short-term loans	436	400	36	9.2%	-
Accounts payable—other (*9)	5,236	4,181	1,055	25.2%	3,348
Accrued income taxes (*10)	4,948	11,688	-6,739	-57.7%	3,511
Other current liabilities	2,296	2,655	-359	-13.5%	1,281
Total current liabilities	13,523	19,563	-6,039	-30.9%	8,684
Long-term liabilities					
Long-term accrued payables	68	73	-4	-6.6%	44
Long-term deferred taxes (*11)	3,173	2,534	638	25.2%	128
Reserve for retirement allowances	12	12	0	4.0%	-
Other long-term liabilities	231	152	79	52.0%	-
Total long-term liabilities	3,486	2,772	713	25.7%	172
Total liabilities	17,009	22,335	-5,326	-23.8%	8,856
Minority interests in consolidated subsidiaries					
Minority interests in consolidated subsidiaries	310	267	42	16.0%	63
Shareholders' equity					
Common stock (*12)	6,438	6,399	38	0.6%	6,076
Additional paid-in capital	1,519	1,480	38	2.6%	1,157
Retained earnings (*13)	55,250	47,066	8,184	17.4%	26,779
Other securities evaluation (*14)	5,827	4,880	947	19.4%	1,350
Treasury stock	-22	-21	-0	3.9%	-17
Total shareholders' equity	69,013	59,806	9,207	15.4%	35,346
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	86,333	82,410	3,923	4.8%	44,266

Main Points Regarding Consolidated Balance Sheets

Assets

*1 The increase in cash and cash equivalents compared with the previous quarter and year on year was principally due to earnings growth based on sales activities.

*2 The expansion in accounts receivable—trade from previous quarter and year on year was primarily due to growth in sales.

*3 The decline in deferred tax assets compared with the previous quarter was chiefly due to the payment of enterprise taxes.

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

Liabilities

- *9 The significant growth in accounts payable—other compared with the previous quarter resulted primarily from the increase in operating expenses.
- *10 The substantial decrease in accrued income taxes compared with the previous quarter was mainly due to the payment of taxes.
- *11 The rise in long-term deferred taxes compared with the previous quarter and year on year was chiefly due to the mark-to-market of investment securities.

Shareholders' Equity

- *12 The increase in common stock compared with the previous quarter and year on year was due to the exercise of stock options.
- *13 The growth in retained earnings compared with the previous quarter and year on year can be attributed to the increase in net income.
- *14 The expansion in the other securities evaluation adjustment compared with the previous quarter and year on year was chiefly due to the mark-to-market of investment securities.

2. Consolidated Statements of Income

(Millions of yen)

	Three months ended June 30, 2004		Three months ended March 31, 2004	Comparison with the previous quarter		Three months ended June 30, 2003
	Amount	% share	Amount	Increase/ decrease	Change	Amount
Net sales	24,495	100.0%	22,580	1,915	8.5%	15,564
Cost of sales	1,556	6.4%	1,508	48	3.2%	1,202
Gross profit	22,938	93.6%	21,072	1,866	8.9%	14,362
SG&A expenses	9,468	38.6%	8,628	840	9.7%	5,928
Personnel expenses (*1)	2,070	8.5%	1,915	155	8.1%	1,379
Business commissions (*2)	1,269	5.2%	992	276	27.9%	676
Sales commissions	953	3.9%	928	25	2.7%	665
Communication charges (*3)	840	3.4%	805	34	4.3%	640
Depreciation expenses (*4)	820	3.3%	923	-103	-11.2%	578
Royalties	638	2.6%	583	54	9.4%	399
Content provider fees (*5)	526	2.1%	444	81	18.4%	405
Lease and utility expenses (*6)	480	2.0%	348	131	37.6%	259
Sales promotion costs (*7)	436	1.8%	276	159	57.8%	242
Payment commissions (*8)	245	1.0%	206	39	19.1%	105
Advertising costs (*9)	162	0.7%	70	91	129.6%	82
Administrative and maintenance expenses	155	0.6%	141	13	9.9%	70
Packing and transport expenses	129	0.5%	132	-3	-2.5%	111
Compensation payment	123	0.5%	145	-21	-15.1%	80
Tax and public dues	114	0.5%	73	41	56.5%	2
Allowance for doubtful debt accounts (*10)	104	0.4%	197	-93	-47.0%	-
Others (*11)	396	1.6%	440	-44	-10.1%	226
Operating income	13,470	55.0%	12,443	1,026	8.3%	8,433
Non-operating income (expenses)	46	0.2%	115	-68	-59.8%	-176
Ordinary income	13,516	55.2%	12,559	957	7.6%	8,257
Extraordinary gains (losses)	270	1.1%	-37	307	-	-301
Quarterly income before income taxes	13,786	56.3%	12,522	1,264	10.1%	7,955
Income taxes, inhabitants' taxes and enterprise taxes	4,789	19.6%	5,835	-1,046	-17.9%	3,422
Adjustment to income taxes	687	2.8%	-1,069	1,757	-	-
Minority interests in gain (loss) of consolidated subsidiaries	-1	-0.0%	30	-31	-	-6
Quarterly net income	8,311	33.9%	7,726	585	7.6%	4,539

Main Points Regarding Statements of Income

Net Sales

The increase in net sales from the previous quarter and year on year is principally the result of the growth in the business service and advertising sales of the Listing Business Division and the personal service sales of Corporate Common Business. Sales of consolidated subsidiaries, on a gross total basis, were ¥2,216 million for the first quarter.

Selling, General and Administrative Expenses

*1 Personnel expenses

At the end of the first quarter, after eliminating overlap, the total number of directors and employees of the Group amounted to 1,163, up 388, or 50.1%, from the end of the same quarter in the previous fiscal year.

*2 Business commissions

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

*3 Communication charges

Communications charges for first quarter rose compared with the previous quarter and year on year primarily because of expansion of the data center to increase and strengthen computer systems.

*4 Depreciation expenses

Although there was an increase in servers and other equipment and additional equipment related to expanded office floor space and office relocation, depreciation expenses for the first quarter dropped compared with the previous quarter due to a reevaluation of assets at the beginning of the fiscal year.

*5 Content provider fees

The expansion in content provider fees in the first quarter compared with the previous quarter and year on year was principally due to an increase in directory search services.

*6 Lease and utility expenses

The growth in lease and utility expenses in the first quarter compared with the previous quarter and year on year can be attributed to office expansion due to increased personnel.

***7 Sales promotion costs**

Sales promotion costs for the quarter increased compared with the previous quarter and year on year mainly because of campaigns to acquire new Yahoo! BB subscribers.

***8 Payment commissions**

The primary reason for the rise in payment commissions in the first quarter compared with the previous quarter and year on year was the increase in Yahoo! Payment payment commissions in line with the growth in the transaction volume on Yahoo! Auctions.

***9 Advertising costs**

First quarter advertising costs rose compared with the previous quarter and year on year chiefly because of an increase in co-sponsorship of a variety of events and advertising.

***10 Allowance for doubtful debt accounts**

The main reason for the decrease in the provision to allowance for doubtful debt accounts for the first quarter compared with the previous quarter and year on year was a downward revision in the historical rate of default for receivables.

***11 Others**

The increase in others in the first quarter compared with the previous quarter and year on year can be primarily attributed to personnel hiring expenses, purchase of fixtures and fittings, and consolidated accounts amortization expenses.

Non-Operating Income (Expenses)

The main component of non-operating income for the first quarter was interest earned from loan based on finance scheme on Yahoo! BB business. The main component of non-operating expenses was loss on disposal of fixed assets.

Extraordinary Gains (Losses)

The major extraordinary gain posted during the first quarter was gain on sale of investment securities.

Income Taxes, etc.

The effective income tax rate for the first quarter was 39.7% after application of the IT investment promotion tax system.

Minority Interests in Loss of Consolidated Subsidiaries (Profit)

Minority interest losses for the quarter reflect the losses of shareholders other than the Company in the net income and losses of six subsidiaries.

Net Income

Net income per share for the first quarter amounted to ¥2,203.30.

3. The Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2004	Three months ended March 31, 2004	Three months ended June 30, 2003
Cash flows from operating activities:			
Income before income taxes	13,786	12,522	7,955
Depreciation and amortization	833	931	589
Amortization of consolidated accounts	51	49	16
Increase/decrease in allowance for doubtful accounts	107	218	-24
Increase in reserve for retirement allowances	0	0	-
Loss on disposal of fixed assets	94	66	224
Gain/ Loss on sale of fixed assets	-	1	-
Loss on evaluation of investment securities	0	34	103
Gain/ loss on sale of investment securities (*1)	-270	-0	-
Loss on evaluation of equity funds	-	-7	-
Exchange gains/ losses	-0	0	-0
Equity in gains under the equity method	-3	-19	-7
Gains from change in equity ratio	-	-0	-0
Proceeds from interest and dividends (*2)	-182	-175	-5
Interest expense	2	1	0
Decrease in inventory	4	22	4
Increase/decrease in accounts receivable—trade (*3)	-1,208	-1,701	2,496
Increase/decrease in accounts payable—trade (*4)	-42	78	-3,155
Increase/decrease in accounts receivable—other	631	-1,067	-201
Increase in accounts payable—other	681	437	428
Increase/decrease in consumption tax payable	-452	334	-450
Other cash flows	-45	15	26
Payment of income taxes and other taxes (*5)	-11,602	-6	-8,416
Cash flows from operating activities	2,387	11,739	-413
Cash flows from investing activities:			
Expenditures on tangible fixed assets (*6)	-1,514	-1,205	-1,712
Expenditures on intangible fixed assets (*7)	-270	-347	-94
Expenditures on investment securities	-	-18	-0
Proceeds from sale of investment securities	351	0	0
Expenditures on equity funds	-12	-	-
Proceeds from acquisition of stocks of subsidiaries	12	-	-
Proceeds from recovery of lending	24	23	0
Expenditures on increase in guarantee deposit assets	-9	-294	-
Proceeds from decrease in guarantee deposit assets	24	1	207
Proceeds from interest and dividends	148	141	0
Other cash flows	0	-2	-
Cash flows from investing activities	-1,245	-1,701	-1,598

(Millions of yen)

	Three months ended June 30, 2004	Three months ended March 31, 2004	Three months ended June 30, 2003
Cash Flows from financing activities:			
Proceeds from short-term loan	400	400	-
Redemption of short-term loan	-400	-200	-
Proceeds from issuance of shares (*8)	76	220	7
Proceeds from payments by minority interests	-	147	-
Expenditures on treasury shares	-0	-0	-0
Interest expenses	-2	-1	-0
Other cash flows	-7	-	-
Cash Flows from financing activities	65	566	6
Effect of exchange rate changes on cash and cash equivalents	0	-0	0
Net change in cash and cash equivalents	1,207	10,603	-2,005
Cash and cash equivalents at the beginning of term	39,643	29,039	23,215
Cash and cash equivalents at the end of term	40,851	39,643	21,210

Note: Cash and cash equivalents at the end of term include ¥600 million in cash trust funds from Other current assets in addition to the amount of cash and cash equivalents on the balance sheet.

Cash flows from operating activities

***1 Loss on sale of investment securities**

The loss can be attributed to the sale of securities.

***2 Proceeds from interest and dividend**

Proceeds mainly comprise interest earned from a loan based on finance scheme for Yahoo! BB business.

***3 Accounts receivable—trade**

The large decrease compared with the same period in the previous fiscal year was mainly attributable to a change in accounting method made in the previous fiscal year.

***4 Accounts payable—trade**

The large decrease compared with the same period in the previous fiscal year was mainly attributable to a change in accounting method made in the previous fiscal year.

***5 Payment of income taxes and other taxes**

Payment increased due to the payment made on submitting tax return.

Cash flows from investing activities

***6 Expenditures on tangible fixed assets**

Expenditures were a result of purchase of servers and other equipment and fixtures.

*7 Expenditures on intangible fixed assets
Expenditures were chiefly for the purchase of software.

Cash Flows from financing activities

*8 Proceeds from issuance of shares
Proceeds were from the exercise of stock options.

4. Segment Information

FY2004-1Q (Apr. 1, 2004-June 30, 2004)

(Millions of yen)

	Auction	Listing	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	6,085 (24.8%)	5,637 (23.0%)	3,809 (15.6%)	2,053 (8.4%)	1,994 (8.2%)	351 (1.4%)	4,590 (18.7%)	24,521 —	-26 (-0.1%)	24,495 (100.0%)
Operating expenses	1,852	1,332	1,488	1,450	1,716	374	1,244	9,461	1,563	11,025
Operating income (Contribution)	4,232 (31.4%)	4,304 (32.0%)	2,320 (17.2%)	602 (4.5%)	277 (2.1%)	-23 (-0.2%)	3,346 (24.8%)	15,060 —	-1,590 (-11.8%)	13,470 (100.0%)

FY2003-4Q (Jan.1, 2004-Mar. 31, 2004)

(Millions of yen)

	Auction	Listing	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	5,841 (25.9%)	4,456 (19.7%)	3,746 (16.6%)	2,058 (9.1%)	1,904 (8.4%)	309 (1.4%)	4,277 (18.9%)	22,595 —	-15 (-0.0%)	22,580 (100.0%)
Operating expenses	1,801	1,131	1,264	1,360	1,602	325	1,097	8,583	1,553	10,136
Operating income (Contribution)	4,039 (32.5%)	3,325 (26.7%)	2,481 (19.9%)	698 (5.6%)	301 (2.4%)	-15 (-0.1%)	3,180 (25.6%)	14,012 —	-1,568 (-12.6%)	12,443 (100.0%)

FY2003-1Q (Apr. 1, 2003-June 30, 2003)

(Millions of yen)

	Auction	Listing	Yahoo! BB	Media	Shopping	BS	Corporate Common Business	Total	Elimination or Corporate	Consolidated
Net sales (Contribution)	4,349 (27.9%)	2,455 (15.8%)	2,588 (16.6%)	1,350 (8.7%)	1,463 (9.4%)	248 (1.6%)	3,110 (20.0%)	15,567 —	-2 (-0.0%)	15,564 (100.0%)
Operating expenses	971	806	1,035	993	1,297	203	653	5,961	1,169	7,131
Operating income (Contribution)	3,378 (40.1%)	1,649 (19.6%)	1,552 (18.4%)	356 (4.2%)	166 (2.0%)	44 (0.5%)	2,456 (29.1%)	9,605 —	-1,171 (-13.9%)	8,433 (100.0%)

Segment	Business Division	Main Services and Associated Subsidiaries
Auction Business	Auction Business Div.	Operates the auction site. • Netrust, Ltd.
Listing Business	Listing Business Div.	Provides information listing services, such as Yahoo! Autos and Yahoo! Real Estate; regional information services, such as Yahoo! Maps, and Yahoo! Phone Book; and directory search services, such as Category Search. • BridalNet, Inc., others
Yahoo! BB Business	Yahoo! BB Business Div.	Offers comprehensive broadband-related services.
Media Business	Media Business Div.	Supplies information providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies; and community services, such as Yahoo! Message Boards. • Y's Sports Inc., others
Shopping Business	Shopping Business Div.	Operates online shopping site. • e-Shopping! Books CORP.
Business Solutions(BS) Business	Business Solutions(BS) Business Div.	Provides portal site development and Yahoo! Research. • UniCept, Inc.
Corporate Common Business	(Common sales that cannot be categorized into the business divisions)	Advertising sales for the top page of Yahoo! JAPAN and Yahoo! Premium revenues. • VACS Corporation • NETGENE Co., Ltd., others

5. Operating Review by Business Division

Beginning with January 2002, the Group 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 first quarter. For the statement of income by business division, the net sales have been classified into the following four 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. • Paid search 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! Autos, Yahoo! Real Estate, Yahoo! Rikunavi, 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	• Sales of e-Shopping! Books CORP.

Net Sales by Business Division (First Quarter)

(Millions of yen)

	Advertising	Business Service	Personal Service	Other	Total
Auction	231	619	5,234	-	6,085
Listing	3,869	1,714	53	-	5,637
Yahoo! BB	327	1,361	2,119	-	3,809
Media	1,761	129	162	-	2,053
Shopping	154	597	-	1,242	1,994
BS	5	344	0	-	351
Corporate Common Business	1,164	74	3,350	-	4,590
Elimination or Corporate	-	-26	-	-	-26
Total	7,516	4,815	10,921	1,242	24,495

(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

2) Activities in the first quarter

During the first quarter, we took further steps to make our services safer and more secure for people to use. Among specific measures to prevent problems, we introduced a postal service verification system for users newly listing or with a relatively short history of listing items on our auction site. We also carried out a joint campaign with the Japan Association of Music Enterprises (JAME) aimed at quickly eliminating listed items which infringe on copyright laws for pictures from our site and taking preventative measures to reduce the black market for these items. We conducted various campaign to increase the number of users of our auction service, including a Free Item Listing Day and a campaign targeting Yahoo! BB subscribers that offered up to four months of free Yahoo! Premium membership. During the first quarter, we began setting up Japan's first public auction system for assets confiscated or received by the Tokyo Metropolitan Government Bureau of Taxation.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
April 16	<ul style="list-style-type: none">Announced start of development of Japan's first public auction system on Internet with the Tokyo Metropolitan Government Bureau of Taxation.
June 1	<ul style="list-style-type: none">Decided to introduce postal services verification system as part of measures to prevent problems.
June 14	<ul style="list-style-type: none">Start joint campaign with the Japan Association of Music Enterprises (JAME) to eliminate black market for illegal copies of pictures on Yahoo! Auctions.

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

Monthly page views in June	5,926.65 million page views (-2.2 %)	26.4% of total page views
Daily Average page views in June	197.55 million page views (+1.1 %)	

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

	Apr. 2004	May 2004	June 2004
Number of auction unique browsers	Approx. 15.69 million browsers	Approx. 17.22 million browsers	Approx. 17.67 million browsers
Number of total listed items (Monthly average)	Approx. 6.03 million items	Approx. 6.33 million items	Approx. 6.60 million items
Monthly total number of new listings	Approx. 15.41 million items	Approx. 16.72 million items	Approx. 16.04 million items
Daily average number of new listings	Approx. 510 thousand items	Approx. 530 thousand items	Approx. 530 thousand items
Monthly volume of transactions	Approx. ¥44.7 billion	Approx. ¥46.0 billion	Approx. ¥ 45.2 billion
Daily average transaction volume	Approx. ¥1,493 million	Approx. ¥1,484 million	Approx. ¥ 1,509 million
Average closing price per item	¥5,857	¥5,628	¥5,798
Transaction rate	37-50%	36-50%	34-49%
Number of stores (As of the end of each month)	2,591 stores	2,477 stores	2,619 stores

- Notes: 1. The previously used term auction unique users (unit: browser) has been changed to auction unique browsers.
 2. Monthly volume of transactions figures and Daily average transaction volume do not include cancellations or adjustments.

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main components of Business Service sales are registration fees, tenant fees and transaction fees of stores (merchant stores). • Sales included in Personal Service are system-use fees of Yahoo! Auctions and others. • Main items in SG&A are communication, business commissions, personnel, and payment commissions expenses.
Advertising	231	18	8.8%	
Business service	619	118	23.6%	
Personal service	5,234	106	2.1%	
Other	-	-	-	
Total	6,085	243	4.2%	
Cost of sales	5	1	22.3%	
Gross profit	6,079	242	4.1%	
SG&A expenses	1,846	49	2.7%	
Operating income	4,232	192	4.8%	
Operating margin	69.6%	-	-	

(2) Listing Business Division

1) Major business

This business division provides information listing services, such as Yahoo! Autos, Yahoo! Real Estate, and Yahoo! Rikunavi; 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 and is developing a paid search business based on Sponsor Site services.

Main Services: Yahoo! Autos, Yahoo! Real Estate, Yahoo! Rikunavi, Yahoo! Education, Yahoo! Wedding, Yahoo! Healthcare, Yahoo! Present, Yahoo! Maps, Yahoo! Transit, Yahoo! Gourmet, Yahoo! Get Local, Yahoo! Phone Book, Category search, Yahoo! Dictionary, Yahoo! Knowledge, Business Express.

2) Activities in the first quarter

In addition to launching Yahoo! Rikunavi, a recruiting information site on Yahoo! JAPAN that is based on the recruiting site operated by RECRUIT, we reviewed our information listing agreement for our services with other companies during the first quarter. As a result, business service sales surged substantially. We also introduced new functions and improved services. We added the ability to search Yahoo! JAPAN's top pages by image, moving picture, and sound and introduced Yahoo! Search Technology, a proprietary technology of Yahoo! Inc. We launched Yahoo! Knowledge, which enables many users to exchange knowledge or information through a Q&A format. And we carried out a major renewal of Yahoo! Dictionary. Since June 2004, we have narrowed down our search result business tie-ups to only Overture to target sales growth by further strengthening the link up between Yahoo! JAPAN's services and our Sponsor Site services.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Apr. 1	• Launched Yahoo! Rikunavi, a recruiting information site on Yahoo! Japan that is based on the recruiting site operated by RECRUIT.
Apr. 7	• Launched Yahoo! Knowledge, a knowledge search service.
Apr. 12	• Conducted a major renewal of Yahoo! Dictionary, renewing the Japanese, English-Japanese and Japanese-English data bases, and improving the search function.
Apr. 22	• Added image, moving picture, and sound search functions for Yahoo! Japan's top pages.
May 31	• Began new directory search service by introducing Yahoo! Inc.'s proprietary technology Yahoo! Search Technology.
June 1	• Reached agreement on exclusive display of Sponsored Search ®, key word linked advertisements of our Sponsor Site Service, by Overture.

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

Monthly page views in June	3,351.78 million page views (+15.9 %)	15.0 % of total page views
Daily Average page views in June	111.72 million page views (+19.8 %)	

Business Express Orders

Apr. 2004	May 2004	June 2004
1,916 contracts	1,859 contracts	2,350 contracts

*The above figure includes page views of BridalNet, Inc.

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/ decrease	Change	
Net sales				<ul style="list-style-type: none"> Main components of Business Service sales are Business Express and information listing fees for Yahoo! Rikunavi, Yahoo! Autos, and Yahoo! Real Estate. The main component of Personal Service sales is the sales of BridalNet, Inc., an Internet matchmaking service. Main items in SG&A are personnel, sales commissions, content provider fees, and royalty expenses.
Advertising	3,869	233	6.4%	
Business service	1,714	937	120.6%	
Personal service	53	10	23.1%	
Other	-	-	-	
Total	5,637	1,180	26.5%	
Cost of sales	11	-6	-38.5%	
Gross profit	5,626	1,187	26.8%	
SG&A expenses	1,321	208	18.7%	
Operating income	4,304	979	29.5%	
Operating margin	76.4%	-	-	

(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 first quarter

During the quarter under review, we continued to focus on acquiring new subscribers over the Web. In addition, we improved and expanded our services for members. We also ran a Triple 0 Yen Campaign, a sales campaign that offered new subscribers a package including a telephone line purchase right, free set up, and up to two months of free service and at home support. Direct acquisition of new subscribers through Yahoo! JAPAN rose only slightly, however, partially because of the lingering impact of the leak in Yahoo! BB subscriber data by SOFTBANK BB Corporation. As a result, the number of Yahoo! BB subscribers amounted to approximately 4.28 million at the end of June, rising about 280 thousand subscribers, or 7.0%, from the end of March 2004. The cumulative DSL share was approximately 35.5%. During the quarter, we held a sales campaign offering Yahoo! BB subscribers exclusively up to four months of free Yahoo! Premium membership, aiming to increase their level of satisfaction with our services while mutually boosting Yahoo! BB and Yahoo! Premium subscribers. In ISP services, we began offering a My Name Address service, a pay service that allows users to change the personal part of their email addresses to whatever they please. At the same time, we launched a cash back campaign offering users of the My Name Address service a ¥1,000 reimbursement if Yahoo! BB members use the service for one year.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
May 11 – July 20	• Offered new subscribers a package including a telephone line subscription right, free set up, and up to two months of free service and at home support.
May 11	• Launched My Name Address service, a pay service that allows users to change the personal part of their email addresses to whatever they please.
June 1 – Sept. 30	• Held a sales campaign offering Yahoo! BB subscribers up to four months of free Yahoo! Premium membership.
June 24	• Announced that Yahoo! Mail's mailbox size would be increased to 2GB this fall.
June 30	• Concluded roaming services agreements with six operators in Japan and overseas, kicking off roaming services for Yahoo! Mobile.

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

Monthly page views in June	2,386.28 million page views (-0.9 %)	10.6 % of total page views
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Daily Average page views in June	79.54 million page views (+2.4 %)	
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Total Subscriber Lines for Yahoo! BB Services

End of Apr. 2004	Approximately 4,076 thousand lines (including approximately 1,115 thousand lines marketed by Yahoo! JAPAN)
End of May 2004	Approximately 4,188 thousand lines (including approximately 1,126 thousand lines marketed by Yahoo! JAPAN)
End of June 2004	Approximately 4,282 thousand lines (including approximately 1,136 thousand lines marketed by Yahoo! JAPAN)

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

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net sales				<ul style="list-style-type: none"> • Main components of Business Service sales are the customer acquisition incentive fees of Yahoo! BB. • Main components of Personal Service sales are the ISP fees for Yahoo! BB. • Main items in SG&A expenses are business commissions, sales promotion, personnel, and communication expenses.
Advertising	327	57	21.1%	
Business service	1,361	-169	-11.1%	
Personal service	2,119	175	9.0%	
Other	-	-	-	
Total	3,809	63	1.7%	
Cost of sales	196	-5	-2.9%	
Gross profits	3,612	69	2.0%	
SG&A expenses	1,292	230	21.7%	
Operating income	2,320	-161	-6.5%	
Operating margin	60.9%	-	-	

(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 Boards, Yahoo! Chat, Yahoo! Messenger, Yahoo! Avatar, Yahoo! Personals, Yahoo! Greetings, Yahoo! Groups, Yahoo! Deliver.

2) Activities in the first quarter

During the quarter under review, we continued to develop, expand and improve pay and free content to attract users. In May, we reached a basic understanding with the Japanese Olympic Committee (JOC) on being an official partner, and launched a special site Athens Olympics Special Feature that takes advantage of the special features of Internet services. Through the Web site, we are developing support for Japan's Olympic athletes. Among our services improvements for the quarter, we commenced a Nippon Broadcasting Live service that enables users to listen to live broadcasts of professional baseball games on their personal computers. Though an agreement with the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC), we launched Yahoo! Music Lyrics Viewing Service, which provides the lyrics for songs by popular music artists. We carried out a major renewal of Yahoo! Weather, upgrading the disaster alert function. Among pay services, the pay fortune telling services of Yahoo! Fortune Telling were popular during the quarter. We also introduced Mobile Professional Baseball, a pay service for mobile phones that provides pitch-by-pitch coverage of professional baseball games.

Major New Services and Service Upgrades

Service	Date	New Services and Service Upgrades
Yahoo! Deliver	Apr. 8	•Through a tie-up with Sevenset Inc., began sales of Yahoo! Deliver Information, a service targeting advertisers that primarily use advertising flyers for sales promotion.
Yahoo! Music	Apr. 27	• Though an agreement with JASRAC, launched Yahoo! Music Lyrics Viewing Service, which provides the lyrics for songs by popular music artists.
Yahoo! Sports	May 13 June 21	•Reached a basic understanding with the JOC and Japan Paralympic Committee to become an official partner of the JOC and the 2005 Special Olympics World Winter Games. • Launched Athens Olympics Special Feature.
Yahoo! Chat	June 17	•Improved services by added a transmission filter

		function to automatically eliminate offensive messages, a spam blocking function, and others.
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Page Views (Figure in parentheses is change from previous quarter)

Monthly page views in June	7,358.76 million page views (+22.1 %)	32.8 % of total page views
Daily Average page views in June	245.29 million page views (+26.2 %)	

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				<ul style="list-style-type: none"> • Main component of Business Service sales is Car Insurance Package Estimate Request Service sales. • Main component of Personal Service is sales of fee-based content. • Main items in SG&A are personnel, sales commissions, content provider, and communication expenses.
Advertising	1,761	-18	-1.0%	
Business service	129	-33	-20.4%	
Personal service	162	45	39.5%	
Other	-	-	-	
Total	2,053	-5	-0.3%	
Cost of sales	68	0	1.1%	
Gross profit	1,984	-6	-0.3%	
SG&A expenses	1,382	90	7.0%	
Operating income	602	-96	-13.8%	
Operating margin	29.3%	-	-	

(5) Shopping Business Division

1) Major business

This business division operates with variety of goods, consisted with stores with high brand names and boutiques with 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, Yahoo! Business Travel, eS! Books.

2) Activities in the first 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 seasonal sales promotions, including Mother's Day, Father's Day, Summer Bonus, and Summer Gift Giving. We also added content on popular ranking of goods given on these occasions as well as holding seminars for stores on how to increase sales and bolstered our support organization for listed stores by substantially expanding our consulting team staff. As a result, at the end of June, we had a total of 2,039 stores, up 415 stores, or 25.6%, from the previous quarter.

In preparation for the summer vacation season, Yahoo! Travel planned such special features as Japan's Famous Inns and Let's Go To Hawaii! In addition, we improved this service by making its easier to search for accommodation reservations on the site.

Major New Services and Service Upgrades

Date	New Services and Service Upgrades
Apr. 27	• Decided to introduce this fall a Yahoo! Point system for our services, which will allow users to purchase items on Yahoo! Shopping using accumulated points.
June 1 – June 30	• Held Fourth Anniversary Thank You Campaign, offering special tours to Okinawa and other locations in celebration of the fourth anniversary of the start of Yahoo! Travel domestic travel accommodation services.
June 22	• Launched special T Shirt Festival, which provided an "at a glance" introduction of fashion items and t-shirts, a must item for summer fashions.

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

Monthly page views in June	407.83 million page views (+1.5 %)	1.8 % of total page views
Daily Average page views in June	13.59 million page views (+4.9 %)	

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

Shopping Business Transaction Volume

Apr. 2004	May 2004	June 2004
¥5,682 million	¥5,214 million	¥5,482 million

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

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				<ul style="list-style-type: none"> • Main components of Business Service 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, business commissions, and sales promotion expenses.
Advertising	154	45	41.7%	
Business service	597	61	11.4%	
Personal service	-	-	-	
Other	1,242	-16	-1.3%	
Total	1,994	90	4.8%	
Cost of Sales	966	-10	-1.0%	
Gross Profit	1,027	100	10.9%	
SG&A expenses	749	124	20.0%	
Operating income	277	-24	-8.0%	
Operating margin	13.9%	-	-	

(6) Business Solution (BS) Business Division

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 or B-to-B businesses, 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.

2) Activities in the first quarter

During the period under review, we continued to aggressively make sales proposals for optimum navigation portals to companies and government bodies. In portal development support services, we launched a portal site for end users of Leoplace21 Corporation and the homepage of Ichikawa City in Chiba Prefecture. In addition, we concluded an agreement with Cybozu, Inc., to jointly develop a system to display Yahoo! JAPAN's information services on Cybozu Garoon corporate portal-style groupware. In other areas, Yahoo! Research began sales of 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. Yahoo! Research also increased its salesperson staff, and aggressively worked to win new orders. It also took steps to expand its research monitor system, and at the end of June there were 270 thousand monitors registered, including mobile monitors.

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

Monthly page views in June	2.58 million page views (+42.6 %)	0.01 % of total page views
Daily Average page views in June	80 thousand page views (+47.4 %)	

3) Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				<ul style="list-style-type: none"> • Main components of Business Service sales were sales of Yahoo! Research and Yahoo! Portal Solutions. • Primary components of Cost of Sales were costs for Yahoo! Research. • Main items in SG&A were personnel, communications, and business commissions expenses.
Advertising	5	-3	-37.3%	
Business service	344	43	14.6%	
Personal service	0	0	-	
Other	-	-	-	
Total	351	41	13.3%	
Cost of sales	258	69	36.8%	
Gross profit	92	-28	-23.4%	
SG&A expenses	116	-20	-14.9%	
Operating income	-23	-7	-	
Operating margin	-	-	-	

(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.

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! Internet Certification, Yahoo! Wallet, Yahoo! Premium.

Activities in the first quarter

In the first quarter, Corporate Common Business launched a pay service Yahoo! Internet Certification, which allows users to have their Internet knowledge and skills certified. Through this service, we aim to enable people to use the Internet more effectively. In addition, we carried out various member benefits campaigns to expand the membership of Yahoo! Premium. Exclusively for Yahoo! Premium members campaigns included a Yahoo! Shopping bargain sale exclusively for members and discount ticket coupons based on a tie-up with distributors of the Japanese movie “Sekai-no-chusin-de-Ai-wo-sakebu”.

Number of Premium member IDs

Apr. 2004	May 2004	June 2004
3.94 million IDs	4.05 million IDs	4.18 million IDs

Income statements for the first quarter

(Millions of yen)

	First quarter	Comparison with the previous quarter		Comments
		Increase/decrease	Change	
Net Sales				(Net Sales)
Advertising	1,164	65	6.0%	<ul style="list-style-type: none"> • Main components of Corporate Common Business sales are advertising sales on top pages, etc. and Yahoo! Premium fees. • Consolidation elimination figures are removed as sales of headquarters.
Business service	48	-7	-13.1%	
Personal service	3,350	243	7.8%	
Other	-	-	-	
Total	4,564	301	7.1%	
Cost of sales	49	0	0.1%	
Gross profit	4,514	301	7.2%	
SG&A expenses	2,758	157	6.0%	
Operating income	1,755	144	9.0%	
Operating margin	38.5%	-	-	
				<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 business commission expenses.

Advertising

(Advertising Related Sales)

The following is an outline of our advertising business in the quarter under review based on combining as advertising sales the banner, email, and other advertising sales of each business division, and related advertising. A summary of the sales activities for the quarter under review follows.

Activities in the first quarter

The recovery in the advertising market in Japan continued during the first quarter. While this trend was in part in reaction of the rise in demand in the previous quarter due to the fiscal year end, overall the market was positive. In particular, along with the increase in the number of people using the Internet and the step up in the spread of broadband, advertising by national clients began to steadily grow and the scope of advertisers broadened to include cosmetics, beverages, and other product manufacturers that have not advertised over the Internet extensively in the past. 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 products with broad reach and high impact, such as Brand Panels for top pages, Yahoo! Billboard, Super Banners in the topics areas of Yahoo! News, and Large Rectangle for Yahoo! Mail. During the quarter, we also actively made proposals for Entertainment Billboard, an entertainment property-related advertising service that is not limited to one property, such as Yahoo! Movie or Yahoo! Music, but develops a package of multiple property advertising package for the client. 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 ¥7.5 billion, posting another record high. The first quarter advertising related sales were as follows.

(First Quarter)

(Millions of yen)

	Amount	Comparison with the previous quarter		Comparison with the same quarter in previous fiscal year	
		Increase/decrease	Change	Increase/decrease	Change
Advertising related sales (Consolidated basis)	7,516	398	5.6%	3,085	69.6%

Advertising Products

During the first quarter, sales of high impact products continued to be strong. In addition to Brand Panel for top pages achieving record sales, sales of Yahoo! Billboard jumped 51.7% from the previous quarter and soared 166.5% year on year.

One of the features of the first quarter was the running of an advertising special feature targeting active senior citizens and housewives and others to whom it had been difficult to approach in the past. As a result, we received orders from new advertising customers for such products and services as music classes for senior citizens, women's wigs, kitchen renovation, and disposable diapers. Among other special features were advertisements from political parties during the Upper House election and the increase in advertisements related to the Athens Olympics.

For the first quarter, rates for high-volume branding-type banner ads ranged from ¥0.15 to ¥1.00 per page view, rates for targeting-type banner ads varied from ¥1.20 to ¥12.00 per page view, and rates for the large-sized Super Banners varied from ¥0.60 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 first quarter, we auctioned a Bythe doll modeled on the musician Tommy February 6, a baseball bat signed by Hideki Matsui of the New York Yankees, and a framed wedding picture used in the Japanese movie “*Sekai-no-chushin-de-Ai-wo-sakebu*”. In total, we held 204 charity auctions during the first quarter, raising a total of approximately ¥11.6 million. All of the funds raised for such charities are being donated to the following charities (not listed in any special order).

- Green Cross Japan, the Japan chapter of the global environmental protection body Green Cross International.
- Make a Wish of Japan, a volunteer organization that makes the dreams of children with serious illnesses come true.
- Special Olympics, an international sports organization that supports the participation of people with intellectual disabilities in society through sports activities.
- The Sasagawa Memorial Health Foundation, which supports the Global Leprosy Elimination Campaign.
- Asian Children Orphaned by Traffic Accidents Support Association, an NGO that supports Asian children who have lost their parents in traffic accidents.

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 in April 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. During the quarter under review, we set up an Earth Day Special Feature 2004 site to provide a variety of information on the Earth Day global movement to protect the Earth's environment. We also launched a How Volunteers and NPOs Can Use the Internet site that introduces convenient Yahoo! JAPAN services that volunteers and NPOs can use to support their activities.

Risk Factors

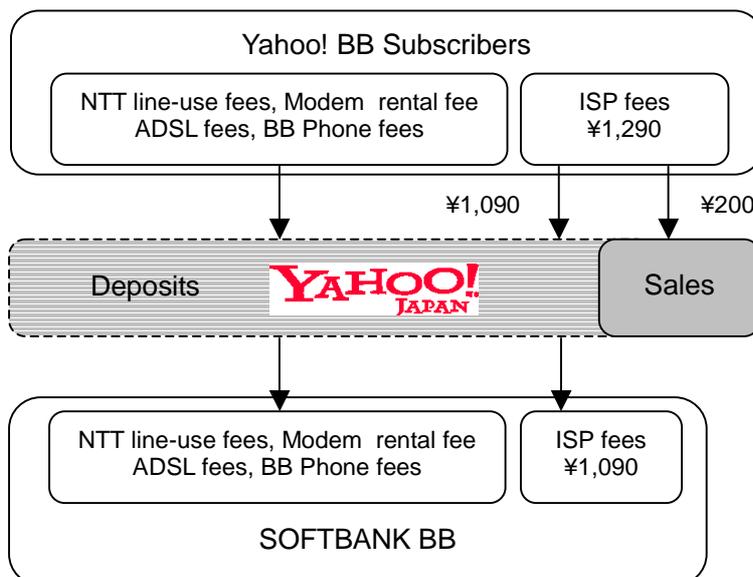
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the “Group”), have reported their results for the first quarter ended March 31, 2005, in the document *Results for the Three Months Ended June 30, 2004*. A number of potential factors could substantially impact future performance.

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 the share of Yahoo Japan Corporation (the “Company”).

1. Group Operations

(1) Yahoo! BB Business

Yahoo! BB is an integrated broadband service provided jointly with SOFTBANK BB Corp. (SBB). The service includes ADSL services, ISP services, a broadband portal site and content-provision services, and other services. The Group’s role in this joint business includes promoting the service and signing up subscribers, providing customer service, operating a broadband portal site, and providing a fee-collection platform. SBB’s responsibilities lie in supplying and maintaining an ADSL infrastructure and connections to the Internet, technological development and providing technical support. 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 Subscribers, the Group 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 31, 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving incentive commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to sign-up through consumer electronic wholesalers and other means including the Internet route and because it has become necessary to actively develop subscriptions from corporations as a result of the start-up of BB Phone service, a broadband telephone service offered by SBB, in April 2002.

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

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

Since the Group has stopped selling the Yahoo! BB Starter Kit, it is assumed that, in principle, the Group will be able to avoid the risk associated with sales of the kits. However, the Group 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 subscribers, and it is possible that the development and operating costs of these services could exceed original estimates.

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

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

c. Broadband Portal Service

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

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

d. The Competitive Environment

As of June 30, 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 in terms of sales composition of the business among other Group revenues. This can be attributed to Yahoo! BB's operations still being dependent on the relatively high volume of incentive revenues made from gathering new subscribers.

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

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

(2) Auction Business

a. Damage Compensation

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

b. Illegal Acts

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services. If this were to come under the scrutiny of regulators, operations could become difficult. Effective September 2003, a revision of the law regarding the sale of used goods to prevent crimes abusing 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 maintain records of auctions. The law also requires that when an operator is ordered to remove an item from auction by an investigative body based on suspicion of fraud, the operator must do so. However, the scope of the reformed law has been limited to items that the Group is already complying with. Furthermore, since no regulations have been set directly on auction participants, the Group does not expect that the reformed law will have a significant impact on its auction business. Nevertheless, if a law regulating actual auction transactions on the Internet was to be adopted in the future, depending on its content when passed, it could influence the Group's auction business. Specifically, the Intellectual Property Promotion Plan announced on May 27, 2004 by the government's Intellectual Property Strategy Headquarters (Chairman: Junichiro Koizumi, Prime Minister) includes measures for dealing with improper items listed on Internet auctions. Therefore, there is a possibility that new legal regulations will be determined during the period through 2005.

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 cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and a subsequent negative impact on earnings.

The Group institutes a damage-compensation system, which pays a certain amount to users that have suffered damages due to illegal activities. This could increase expenses by the Group.

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

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

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

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

d. The Competitive Environment

As of June 30, 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, competition could lower commission income by cutting

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

(3) Risks Affecting Internet Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those businesses mentioned above. Therefore, the Internet advertising area that are to be thought most important and the associated risks will be discussed below. The risks that could affect other businesses are explained in section 5, "Other Overall Business Risks."

a. Use of the Internet as an Advertising Medium

The Internet advertising business in Japan emerged almost simultaneously with establishment of the Group and is therefore still in its infancy. As its history is still short, its value as an advertising medium has not been established among advertisers, consumers, and advertising agencies. Up to this point, with limited experience in Internet advertising, most advertisers still consider it a trial medium, and many advertisers allocate only small portions of their advertising budgets to Internet advertising. Considering the Group's major advertisers by industry, National Clients that usually advertise more than other companies and on a national basis, such as food products, cosmetics, toiletries, beverages, drugs and health care goods 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 other methods. At the same time, as elaborated on later in this document, in order to reduce the previously stated risks the Group is expanding and firming up the advertiser base by changing its advertising sales structure and building a close, cooperative relationship with advertising agencies.

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

b. Characteristics of Internet Advertising

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

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

In addition, although advertising contract periods and page views (“hits”) are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or 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

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

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

d. Advertising Sales Structure

In the future, the Group will need to increase its sales force and 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 June 30, 2004, the major providers of Japanese-language Internet navigational services or similar services directed to Japanese Internet users earning advertising income through comprehensive information sites for those services were as follows (in no particular order): These companies are considered largely in competition with the Group services in the listings and media businesses.

Site	Provider	Business description
goo	NTT-Resonant Inc.	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 Group formed business tie-ups with Overture. Since Sponsor Sites involve a link up between the Company'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 Group 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 June 30, 2004, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of fields and regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, e-commerce, e-finance, media and marketing services and an overseas fund investment service. The Group belongs to the Internet Culture segment and Broadband 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 Yahoo! BB business. Yahoo! BB business accounted for 15.6% of Group sales in the first quarter of the fiscal year ended March 31, 2005. Therefore the following contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: June 20, 2001
Contract term: Indefinite from June 20, 2001~(Perpetual contract)
Contracted party: SOFTBANK BB Corp.
1) The Company and SBB jointly provide Internet access services using DSL technology.
2) The Company's main responsibilities <ul style="list-style-type: none">* Promoting Yahoo! BB services* Recruiting subscribers 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 <ul style="list-style-type: none">* Providing ADSL service between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks* Handling subscriber inquiries and providing technical support
Usage charges are ¥990 per month for ADSL and ¥1,290 per month for ISP. From the ISP charge, the Company takes ¥200 in exchange for service.

Contract name: Incentive agreement
Contract date: April 1, 2002
Contract term: One year from April 1, 2002
Contracted party: SOFTBANK BB Corp.
<p>1) The Company makes efforts 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 June 30, 2004, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

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

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

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

Yahoo Japan Corporation chairman Masayoshi Son was the president and CEO of the Company at its founding and acts in the capacity of offering valuable overall advice from his perspective as a founder of the Company and 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 voting shares as of June 30, 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 Corporation 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.
<p>1) Licensing rights granted by Yahoo! Inc. to the Company:</p> <ul style="list-style-type: none"> * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.’s Internet directory search and other services customized and localized for the Japanese market (hereinafter referred to as “the Japanese version of the Yahoo! directory search services”) * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services <p>2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company</p> <p>3) Royalties to be paid by the Company to Yahoo! Inc. (see Note)</p> <p><i>Note:</i> 3% of gross profit after deducting sales commissions, paid quarterly</p>

(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 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 harass the Group. These actions could affect the Group's brand strategy and damage its brand image.

(3) Other Joint Directorships

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

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

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

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

(2) Dependence on the Environment for Internet Connection

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

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

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

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

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, it is possible for an incident to occur for reasons unforeseen or for some other reason after which it would be difficult to carry on normal operations or recover fully. Such an incident could impact negatively on the business, performance, and brand image of the Group.

5. Other Overall Business Risks

(1) Increased Risk from Diversification and New Business

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

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

In addition, there is no guarantee that these businesses will develop exactly as the Group has planned. It is possible that the Group will not recover its investment expenses and that this will significantly impact 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. With this, the Group is constantly developing new technology to improve its services. The failure of Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group will also bear an increasing load from original development, including a rising level of expenditures for localizing operation of the services.

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

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

(3) Dependence on Third Parties

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

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

companies could damage the Group's relationship with users, hurt its brand image or impair its operations.

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

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

To prevent its 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, it takes measures to ensure their understanding and agreement through user rules or clauses posted on the Group's sites. Despite these efforts, there is the possibility that these measures will fail and customers will demand compensation for damages from the Group that actually are the responsibility of the third party. This could result in additional costs to the Group or hurt its brand image, impacting negatively on performance.

(4) User Information

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

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

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

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

Nevertheless, the Group cannot completely eliminate the possibility that this information will be 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, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible or not, it is its policy to take measures to strengthen the management and monitoring of the security systems of companies with which it has 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 sales of advertising and other products, the Group carefully examines the credit standing of sellers, following a set of internal rules. It also undertakes sufficient precautions so the collection of sales credit claims will not be delayed in cases of credit card settlements via sales agents. Nevertheless, economic fluctuation and deterioration of customer business could increase delays in collections and the occurrence of defaults. With the expansion of business, the Group expects a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

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

Along with the expansion of its Yahoo! BB and Yahoo! Auctions operations and the ramping up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's business that comprises direct income from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team to be responsible for strengthening management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, it is possible that compared with 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 and uncollected receivables, 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 its auction site based on the

previously described Yahoo! Payment service will increase to a significant amount. If the recovery of these reimbursed funds is blocked in some way, it could incur serious negative impact on the Group's business, operating results and financial condition.

It is also possible that the nature and quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of its services. But they 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. In order to properly respond to inquiries from these customers, the Group is in the process of increasing staff, strengthening and expanding its management organization and improving efficiency by standardizing businesses and computerizing them. It is possible that the costs of these measures and improvements could negatively affect the Group's profits. In addition, it does not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

(7) Continued Support from Senior Management, Etc.

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

In addition, some senior managers participate in one of the Group'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 Group.

(8) Internal Control System and Human Resources

In addition to the enhancement of personnel and organization for greater advertising sales and technology development, the Group must increase staff to support the large number of new Web sites created by the recent surge in Internet use, to carry out operation and management of its community 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 problems 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 so that such problems do not occur due to improper conduct by internal staff. Nevertheless, there remains the possibility of similar problems occurring in the future in terms of business management and control.

(9) Risk Regarding Consolidated Group Operations

There are risks because its subsidiaries and affiliates are generally small scale, and accordingly, because their in-house management systems are also small scale. It is

the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented with the appropriate timing it could negatively affect the Group's performance.

Tie-ups with the Company's services or network or personnel support are essential to the operations of any of the services of its subsidiaries and affiliates. The related sections of the Company work closely with the individual subsidiaries and affiliates to provide that support. However, it is possible that it will become difficult to adequately provide this cooperation or support due to the expansion of the businesses of the Company, 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 partners, especially in the areas of sales, supplies, distribution, and systems. At this time, relationships with the joint venture partners are excellent, and the cooperative relationships with these partners contribute 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 June 30, 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 the Group's business would also be substantially affected.

Specifically, under the impact of such an event the Group's advertising revenues could decline or the Group could incur extraordinary costs. This might occur because of a temporary limitation in the operation of the Group site, causing a disruption in planned advertising business. Or, for its own reasons, the advertising company might stop, reduce or postpone advertising. The access infrastructure for Yahoo! BB might also be interrupted. In addition, there is the risk that operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries or regions that would impede the support structure that Yahoo! Inc. provides for the Group and 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 under review by the Japanese government. Although no regulations governing the advertising operations of the Group exist, a number of other countries are now considering regulating Internet use and publicizing legal opinions on the subject.

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

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

b. Potential Litigation

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

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

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

contributed to community message boards and trading on its auction business. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

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

c. Patents, Copyrights, and other Intellectual Assets of Third Parties

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.

The Group has implemented internal regulations and training programs to prevent infringement on the intellectual assets, such as copyrights or other rights, of third parties in the services the Group offers or the software used in its businesses. In the final analysis, however, it is impossible to say that such a problem could not occur. In such a case, the Group may be sued for compensation, required to pay substantial royalty fees or have to cease providing certain services.

(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 June 30, 2004 the Group has invested in 28 companies and cooperatives including the main companies stated in the List of Companies Invested in by Yahoo Japan Corporation. These investments have been made to form ties with the companies invested in and their businesses or to form business ties for the future. The Group cannot guarantee that these investments will be recovered.

Although as of June 30, 2004, 4 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 in accordance with general accounting standards and by applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies they could have an even greater adverse effect on the Group's fiscal profit or loss in the future.

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

(2) Capital Investment Programs and Investment Plans

To support expected business expansion and to continue introducing such new services as streaming video and audio, the Group has a capital investment program of comparatively large scale considering its current operations. To keep up with the further growth of the Internet user base and the progressive spread of broadband and ubiquitous computing, the Group will have to add and improve network-related facilities one after the other to adequately cope with higher peaks in access volume and larger volumes of data transmission over a short period. Consequently, the Group anticipates a growing necessity for even larger capital investments than in the past in a timely manner to build systems and networks to smoothly control large volumes of communications traffic, strengthen security systems to protect settlement services and the personal information of 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 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 the Group 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 Group made a loan of ¥5.7 billion that will mature in 42 months.

Finance Scheme Summary

- The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments in a *Tokumei Kumiai* (TK), an anonymous partnership. This amount is 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 fee revenues).
- In the case that modem rental fees are not paid using the underlying assets, SBB will provide credit compensation under the terms outlined in the guarantee agreement.

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.

Main Companies Invested by Yahoo Japan Corporation

(As of June 30, 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	Internet Research Institute, Inc.	TSE Mothers	98/08/01	10.20	7,497	Internet technical-support service		
2	Vector Inc.	OSE Hercules	99/03/25	10.73	2,168	Sales of download licenses for personal-computer software	Alliance for Yahoo! Computers	Yes
3	Weathernews Inc.	TSE 1st Section	99/05/28	3.80	528	Weather observation, data collection/analysis, weather forecast and related information services		
4	Oricon Inc.	OSE Hercules	00/03/28	1.53	82	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music Shopping	
5	eBANK Corporation		01/03/12	1.02	56	e-bank operations	Alliance for Yahoo! BB/ Yahoo! Auctions/ Yahoo! Research	
6	CyberMap Japan Corp.		98/04/01	8.33	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
7	Carview Corp.		99/10/06	6.54	38	Offering car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos	
8	BB Factory Corp.		00/11/13	10.00	31	Consigned satellite broadcasting, program production and sales, and commercial production	Alliance for Yahoo! BB	Yes
9	Archinet, Inc.		01/01/19	8.91	12	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping/Auctions tenant	
10	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	
11	Total of 14 other companies				18			
Shares in affiliated companies								
1	Tavigator, Inc.		00/03/03	30.00	118	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	65	Internet-based marketing research services	Alliance for Yahoo! Research	Yes

Investments								
1	SOFTBANK Internet Technology Fund No. 1		00/02/21		639			
2	Other investments				12			

- Notes:
1. In principle, the date of acquisition is the date of the first investment made by Yahoo! Japan in the company.
 2. B/S accounting amounts are shown on a consolidated basis. The amounts are shown in millions of yen. And main subsidiaries' B/S accounting amounts are shown on a non-consolidated basis as follows.

Company	B/S accounting amount (¥ MM)	Line of business
e-Shopping! Books CORP.	350	Sales of books and provision of services on the Internet
VACS Corporation	240	Development and sales of PC software
BridalNet, Inc.	229	Web-based marriage matchmaking service
NETGENE Co., Ltd.	168	Development of applications for mobile devices
Netrust, Ltd	120	On-line settlement services
Indival Inc.	120	Web-based recruiting services.
UniCept, Inc.	50	Consulting for Internet business and a range of planning, development, and operation services
Y's Insurance Inc.	30	Life/Non-life insurance agency business
GeoCities Japan Corp.	10	Maintaining domain
broadcast.com japan k.k.	10	Maintaining domain
Y's Agencies Inc.	10	Planning and sales of ad products
Y's Sports Inc.	0	Collecting sports information and producing article and content
BridalConcierge Corp.	0	Effective April 30, 2003, services were terminated
egg-i.inc.		Wholly owned subsidiary of NETGENE Co., Ltd. Manufactures and sells personal computer software.