Financial Section

Key Financial Data

(Millions of yen)

For the years ended	2001/3	2002/3	2003/3	2004/3	2005/3
Net sales	14,278	29,759	46,693	75,776	117,779
Operating income	5,309	10,407	24,073	41,212	60,187
Net income	2,973	5,868	12,096	24,827	36,521
Operating margin (%)	37.2%	35.0%	51.6%	54.4%	51.1%
Net income to net sales ratio (%)	20.8%	19.7%	25.9%	32.8%	31.0%
Net income per share (Yen)	396	778	1,598	3,276	4,766
Shareholders' equity	18,674	20,227	30,483	59,807	96,060
Total assets	27,973	29,218	47,774	82,410	130,244
Shareholders' equity ratio (%)	66.8%	69.2%	63.8%	72.6%	73.8%
ROE (%)	22.2%	30.2%	47.7%	55.0%	46.9%
Number of employees	339	431	669	990	1,713

Notes:

Effective from the fiscal year ended March 31, 2003, net income per share is calculated in accordance with "Accounting Standards for Earnings per Share" (Financial Accounting Standards No. 2) and "Implementation Guidance for Accounting Standards for Earnings per Share" (Financial Accounting Standards Implementation Guidance No. 4).

Net income per share is calculated based on the weighted average number of shares issued and outstanding during each fiscal year.

Figures have been retroactively adjusted to reflect the above accounting standards (See Notes to Consolidated Financial Statements 3 (11)) and the following stock splits: November 19, 2004 (2:1); May 20, 2004 (2:1); November 20, 2003 (2:1); May 20, 2003 (2:1); November 20, 2002 (2:1); May 20, 2002 (2:1); November 20, 2000 (2:1); and May 19, 2000 (2:1).

Management's Discussion and Analysis

Results of Operations

Net Sales

Net sales for the fiscal year ended March 31, 2005, soared ¥42,003 million, or 55.4%, to ¥117,779 million. This substantial growth can be attributed principally to increases in the advertising sales of the Listing and Media businesses, the business services sales of the Listing business, and the personal services sales of the Auction business and the Corporate Common business.

Cost of Sales

Cost of sales amounted to ¥8,932 million, up ¥3,640 million, or 68.8%. The two main factors behind this rise were higher merchandise inventories at Seven and Y Corp. in line with sales growth and the inclusion of newly consolidated subsidiaries during the fiscal year.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses totaled ¥48,660 million, rising ¥19,388 million, or 66.2%. The major components of SG&A expenses were as follows:

Personnel expenses jumped ¥2,755 million, or 40.6%, to ¥9,537 million. Compared with the figure one year earlier, the number of directors and employees at the fiscal year-end expanded by 739, or 72.7%, to 1,755.

Business commissions rose ¥3,116 million, or 92.6%, to ¥6,482 million. These commissions comprised mainly expenses associated with temporary staff, Yahoo! BB's call center, and settlement operations for personal services sales.

Sales commissions advanced ¥1,740 million, or 57.3%, to ¥4,778 million. This rise reflected increased commissions paid to advertising agencies in line with growth in advertising sales during the year.

Depreciation and amortization climbed ¥1,459 million, or 48.6%, to ¥4,462 million. Higher depreciation was due principally to additional equipment installations, such as of servers, to handle service upgrades and growth in page views.

Communications charges climbed ¥1,277 million, or 44.6%, to ¥4,138 million. This increase stemmed from expanded space at the data center to improve services and the Internet access environment for users.

Royalty charge paid to Yahoo! Inc., of the United States, increased ¥1,416 million, or 72.1%, to ¥3,379 million, in accordance with the expansion in net sales and a revision to the calculation method.

Lease and utility expenses rose ¥1,276 million, or 99.3%, to ¥2,561 million. This increase reflected costs associated with office floor-space expansion in line with the increase in personnel.

Content provider fees were up ¥633 million, or 36.7%, to ¥2,358 million. Higher fees were related principally to the expansion of services.

Sales promotion costs rose ¥897 million, or 72.5%, to ¥2,135 million. This increase was the result mainly of Yahoo! BB's campaigns to attract new subscribers as well as of the inauguration of Yahoo! Points during the fiscal year under review.

Payment commissions climbed ¥838 million, or 138.3%, to ¥1,444 million. These were chiefly commissions paid by Netrust, Ltd., to credit card companies and banks.

Advertising costs surged ¥680 million, or 219.8%, to ¥989 million. This sharp rise was due to our co-sponsorship of the Athens 2004 Olympic Games.

Compensation payments jumped ¥507 million, or 143.6%, to ¥860 million. These consisted primarily of compensation expenses incurred by Yahoo! Auctions.

In addition to those listed above, notable expenses were as follows: (1) an increase in the allowance for doubtful accounts in line with higher accounts receivable—trade, (2) higher server maintenance and office cleaning expenses, and (3) growth in packaging and transport expenses at Seven and Y Corp.

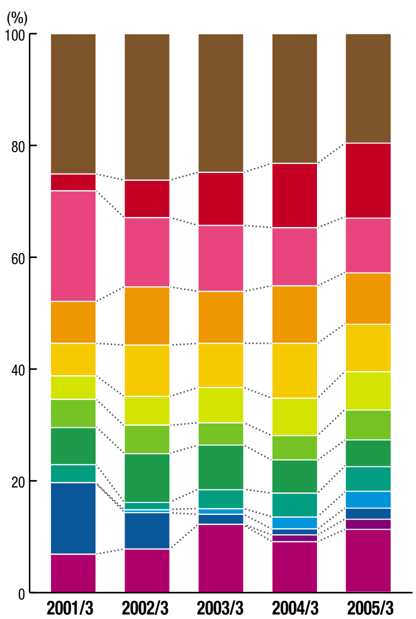
Operating Income

Operating income advanced ¥18,975 million, or 46.0%, to ¥60,187 million.

Income Taxes, including Adjustments

Income taxes amounted to ¥24,239 million. On a consolidated basis, the income tax rate for the fiscal year under review was 39.9%.

SG&A Expenses



(Millions of yen)

For the years ended	2001/3	2002/3	2003/3	2004/3	2005/3
Personnel expenses	2,233 (25.1%)	3,182 (26.2%)	4,722 (24.8%)	6,782 (23.2%)	**9,537** (19.6%)
Business commissions	267 (3.0%)	812 (6.7%)	1,813 (9.5%)	3,366 (11.5%)	**6,482** (13.3%)
Sales commissions	1,764 (19.8%)	1,503 (12.4%)	2,236 (11.8%)	3,038 (10.4%)	**4,778** (9.8%)
Depreciation and amortization	672 (7.5%)	1,256 (10.4%)	1,765 (9.3%)	3,003 (10.3%)	**4,462** (9.2%)
Communications charges	520 (5.8%)	1,115 (9.2%)	1,496 (7.9%)	2,861 (9.8%)	**4,138** (8.5%)
Royalty charge	373 (4.2%)	622 (5.1%)	1,207 (6.3%)	1,963 (6.7%)	**3,379** (6.9%)
Lease and utility expenses	453 (5.1%)	614 (5.1%)	765 (4.0%)	1,285 (4.4%)	**2,561** (5.3%)
Content provider fees	588 (6.6%)	1,054 (8.7%)	1,502 (7.9%)	1,725 (5.9%)	**2,358** (4.8%)
Sales promotion costs	289 (3.2%)	162 (1.3%)	653 (3.4%)	1,238 (4.2%)	**2,135** (4.4%)
Payment commissions	3 (0.0%)	64 (0.5%)	190 (1.0%)	606 (2.1%)	**1,444** (3.0%)
Advertising costs	1,144 (12.8%)	792 (6.5%)	346 (1.8%)	309 (1.1%)	**989** (2.0%)
Compensation payments	– (–%)	– (–%)	– (–%)	353 (1.2%)	**860** (1.8%)
Others	600 (6.9%)	948 (7.9%)	2,326 (12.3%)	2,743 (9.2%)	**5,537** (11.4%)
Total	8,906 (100.0%)	12,124 (100.0%)	19,021 (100.0%)	29,272 (100.0%)	**48,660** (100.0%)

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

Financial Section

Minority Interest in Subsidiaries

Minority interest in subsidiaries amounted to ¥29 million. This represents the sum of the net income and losses of Netrust, Ltd., Indival, Inc., Seven and Y Corp., and four other companies. Minority interest reflects the profits or losses of shareholders other than the Company in those subsidiaries.

Net Income

Net income increased ¥11,694 million, or 47.1%, to ¥36,521 million. Primary net income per share amounted to ¥4,766.03. Taking into consideration the two-for-one stock splits that we implemented during the fiscal year, net income per share rose 45.5%. Fully diluted net income per share was ¥4,750.62.

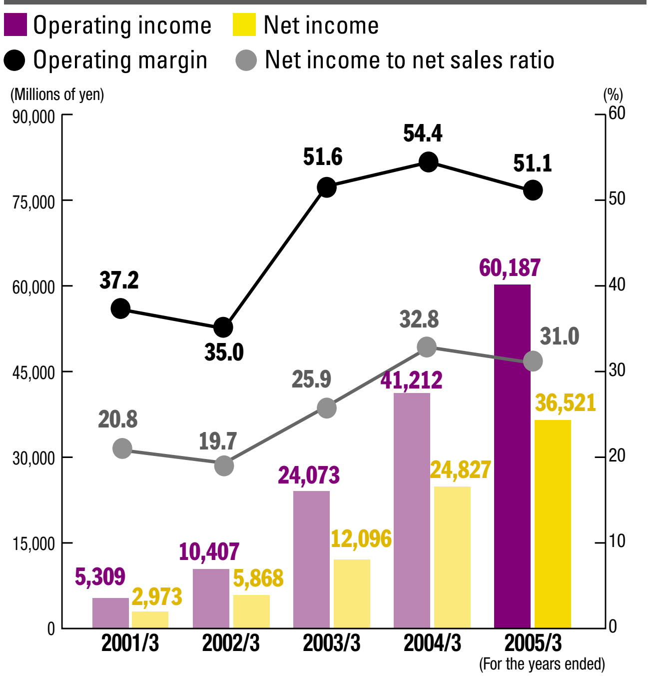
Financial Position

At March 31, 2005, total assets amounted to ¥130,244 million, a rise of ¥47,834 million, or 58.0%, from the figure at the previous fiscal year-end. Total liabilities were ¥33,723 million, expanding ¥11,387 million, or 51.0%. Total shareholders' equity climbed ¥36,253 million, or 60.6%, to ¥96,060 million.

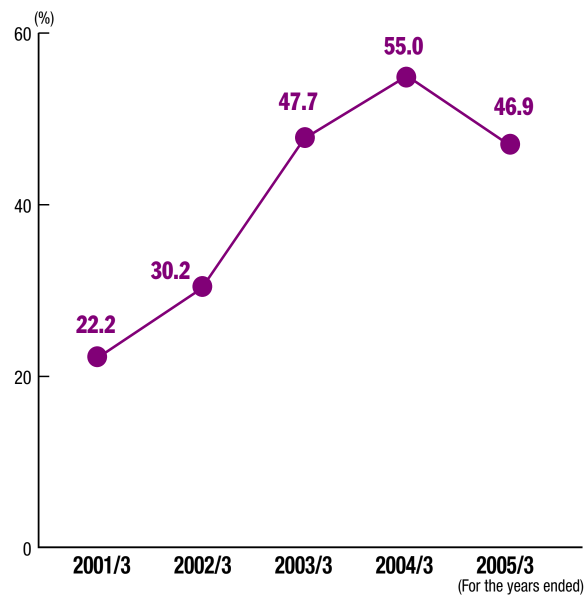
Assets

- The substantial growth in cash and cash equivalents was due principally to earnings growth based on sales activities.
- The expansion in accounts receivable—trade was related mainly to growth in sales to corporations and individuals.
- The primary factor behind the rise in other current assets was the reclassification of long-term loans made under a finance scheme related to Yahoo! BB's business as current maturities of long-term debt, said reclassification being due to the anticipated collection of those loans within one year.
- The increase in the allowance for doubtful accounts can be attributed mainly to the greater provision for accounts receivable—trade, chiefly from individuals.

Profits and Net Sales Ratios



Return on Equity (ROE)



- The increase in property and equipment was due principally to additional equipment installations, such as of servers, to handle service upgrades and growth in page views.
- The increase in goodwill was due mostly to the consolidation of new subsidiaries.
- The increase in other intangibles can be attributed largely to additional capitalized software.
- The substantial increase in investment securities was due mainly to the acquisition of shares of affiliates.
- The decrease in long-term loans reflects primarily the reclassification of long-term loans made under a finance scheme related to Yahoo! BB's business as current maturities of long-term debt, said reclassification being due to the anticipated collection of those loans within one year.

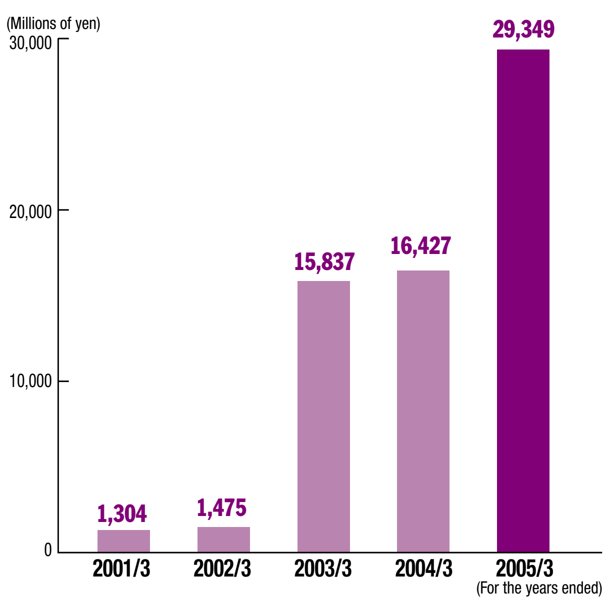
Liabilities

- The significant growth in accounts payable—other compared with the previous fiscal year resulted primarily from increased operating expenses and higher purchases of software.
- The provision for Yahoo! Points comprises the amount of points expected to be used of the total points granted under Yahoo! Points, introduced during the fiscal year under review.
- The substantial increase in income taxes payable was due mainly to the growth in net income.
- The rise in long-term deferred tax liabilities was due chiefly to unrealized gains from the mark-to-market revaluation of investment securities.
- Other current liabilities rose significantly owing primarily to an increase in advances resulting from the inclusion of Firstserver, Inc., as a consolidated subsidiary, and to an increase in the deposits of Netrust, Ltd., resulting from growth in the transaction volume of Yahoo! ezPay.

Shareholders' Equity

- Increases in common stock compared with the previous fiscal year were due to the exercise of stock options.
- The substantial growth in retained earnings can be attributed to the increase in net income.

Net Cash Flows



Cash Flows

Net cash provided by operating activities totaled ¥46,084 million for the fiscal year. The increase in income taxes paid was more than offset by the rise in net income.

Net cash used for investing activities totaled ¥17,119 million. Payments for purchases of servers and other equipment and software, as well as the acquisition of shares of affiliates, resulted in an overall cash outflow.

Net cash provided by financing activities amounted to ¥384 million, mainly because of proceeds from the issue of new shares in Yahoo Japan Corporation on exercise of stock options.

As a result, the net change in cash and cash equivalents for the fiscal year was an increase of ¥29,349 million. Cash and cash equivalents at the end of the fiscal year amounted to ¥68,992 million, up 74.0% from the figure at the previous fiscal year-end.

CONSOLIDATED BALANCE SHEETS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
ASSETS	2004	2005	2005
Current assets:			
Cash and cash equivalents (Note 13)	¥ 39,643	¥ 68,992	$ 642,443
Accounts receivable–trade	12,848	18,294	170,351
Accounts receivable–other	249	616	5,736
Inventories (Notes 3 (3) and 6)	48	181	1,685
Prepaid expenses	314	537	5,001
Short-term loans	99	2,263	21,073
Deferred tax assets (Note 11)	1,851	2,234	20,803
Other current assets	1,408	658	6,127
Less: Allowance for doubtful accounts (Note 3 (4))	(734)	(1,365)	(12,711)
Total current assets	55,726	92,410	860,508
Property and equipment, net (Notes 3 (5) and 3 (6)):			
Buildings and structures	1,624	2,225	20,719
Machinery and equipment	11,806	18,288	170,295
Construction in progress	–	182	1,695
Less: Accumulated depreciation	(5,354)	(8,819)	(82,121)
Total property and equipment, net	8,076	11,876	110,588
Intangible assets, net:			
Goodwill (Note 3 (1))	352	1,808	16,836
Software (Note 3 (6))	1,282	3,734	34,770
Other intangibles	12	22	205
Total intangible assets, net	1,646	5,564	51,811
Investments and other assets:			
Investment securities (Notes 3 (7), 3 (15) and 7)	9,008	8,877	82,661
Investments in affiliates (Notes 3 (1) and 8)	186	5,070	47,211
Long-term loans	5,916	3,657	34,054
Guaranteed deposits	1,195	2,764	25,738
Other investments (Note 3 (15))	710	61	568
Deferred tax assets (Note 11)	–	16	149
Less: Allowance for doubtful accounts (Note 3 (4))	(53)	(51)	(475)
Total investments and other assets	16,962	20,394	189,906
Total assets	¥ 82,410	¥ 130,244	$ 1,212,813

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen March 31 2004	Millions of yen March 31 2005	Thousands of U.S. dollars (Note 4) March 31, 2005
Current liabilities:			
Short-term borrowings	¥ 400	¥ 320	$ 2,980
Accounts payable–trade	637	1,228	11,435
Accounts payable–other	4,181	7,619	70,947
Income taxes payable (Note 3 (10))	11,689	16,676	155,284
Accrued consumption taxes	1,204	1,674	15,588
Provision for Yahoo! Points (Note 3 (8))	–	478	4,451
Other current liabilities	1,452	3,569	33,234
Total current liabilities	19,563	31,564	293,919
Long-term liabilities:			
Deferred tax liabilities (Note 11)	2,535	1,947	18,130
Other long-term liabilities (Note 3 (9))	238	212	1,974
Total long-term liabilities	2,773	2,159	20,104
Total liabilities	22,336	33,723	314,023
Minority interest in subsidiaries (Note 3 (1))	267	461	4,293
Contingent liabilities (Note 15)			
Shareholders' equity:			
Common stock (Note 9) –			
Authorized: 3,760,000.00 shares at March 31, 2004			
15,080,000.00 shares at March 31, 2005			
Issued: 1,886,073.16 shares at March 31, 2004	6,400	–	–
7,550,123.64 shares at March 31, 2005	–	6,692	62,315
Additional paid-in capital	1,481	1,773	16,510
Retained earnings (Notes 3 (12) and 10)	47,067	83,461	777,177
Net unrealized gains on other securities (Notes 3 (7) and 7)	4,880	4,162	38,756
Treasury stock (Note 9) –			
56.92 shares at March 31, 2004	(21)	–	–
240.40 shares at March 31, 2005	–	(28)	(261)
Total shareholders' equity	59,807	96,060	894,497
Total liabilities and shareholders' equity	¥82,410	¥ 130,244	$ 1,212,813

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

CONSOLIDATED STATEMENTS OF INCOME

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	For the years ended March 31		For the year ended March 31,
	2004	2005	2005
Net sales (Notes 3 (14) and 16)	¥ 75,776	¥ 117,779	$ 1,096,741
Cost of sales (Note 3 (14))	5,292	8,932	83,173
Gross profit	70,484	108,847	1,013,568
Selling, general and administrative expenses (Notes 3 (8), 3 (9), 3 (14), 3 (16) and 12)	29,272	48,660	453,115
Operating income	41,212	60,187	560,453
Non-operating income (expenses):			
Interest and dividend income	480	708	6,593
Interest expenses	(3)	(8)	(75)
Gain on sale of investment securities, net (Note 7)	140	567	5,280
Equity in net earnings (losses) under the equity method	75	(427)	(3,976)
Impairment charges on investment securities	(175)	(0)	(0)
Impairment charges on other investments	(17)	–	–
Loss on disposal of property and equipment	(404)	(326)	(3,036)
Office moving expenses	(166)	–	–
Others, net	(93)	30	279
Income before income taxes and minority interest	41,049	60,731	565,518
Income taxes (Note 11):			
Current	(17,033)	(24,707)	(230,068)
Deferred	862	468	4,358
	(16,171)	(24,239)	(225,710)
Minority interest in subsidiaries	(51)	29	270
Net income	¥ 24,827	¥ 36,521	$ 340,078

Net income per share (Note 3 (11)):	Yen		U.S. dollars (Note 4)
	For the years ended March 31		For the year ended March 31,
	2004	2005	2005
Primary	¥ 3,276.05	¥ 4,766.03	$ 44.38
Diluted	¥ 3,265.28	¥ 4,750.62	$ 44.24

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

(Millions of yen)

	Number of shares issued and outstanding	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains (losses) on other securities	Treasury stock	Total
Balance at March 31, 2003	471,054.76	¥ 6,073	¥ 1,154	¥ 22,302	¥ 971	¥ (17)	¥ 30,483
Net income	–	–	–	24,827	–	–	24,827
Bonuses to directors	–	–	–	(62)	–	–	(62)
Stock split (Notes 3 (11) and 9)	1,413,469.12	–	–	–	–	–	–
Exercise of stock options	1,545.00	327	327	–	–	–	654
Increase in net unrealized gains on other securities (Notes 3 (7) and 7)	–	–	–	–	3,909	–	3,909
Acquisition of treasury stock (Note 9)	(43.64)	–	–	–	–	(4)	(4)
Balance at March 31, 2004	1,886,016.24	¥ 6,400	¥ 1,481	¥ 47,067	¥ 4,880	¥ (21)	¥ 59,807
Net income	–	–	–	36,521	–	–	36,521
Bonuses to directors	–	–	–	(127)	–	–	(127)
Stock split (Notes 3 (11) and 9)	5,659,265.48	–	–	–	–	–	–
Exercise of stock options	4,785.00	292	292	–	–	–	584
Decrease in net unrealized gains on other securities (Notes 3 (7) and 7)	–	–	–	–	(718)	–	(718)
Acquisition of treasury stock (Note 9)	(183.48)	–	–	–	–	(7)	(7)
Balance at March 31, 2005	**7,549,883.24**	**¥ 6,692**	**¥ 1,773**	**¥ 83,461**	**¥ 4,162**	**¥ (28)**	**¥ 96,060**

(Thousands of U.S. dollars)

	Number of shares issued and outstanding	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains (losses) on other securities	Treasury stock	Total
Balance at March 31, 2004	1,886,016.24	$ 59,596	$ 13,791	$ 438,281	$ 45,442	$ (196)	$ 556,914
Net income	–	–	–	340,078	–	–	340,078
Bonuses to directors	–	–	–	(1,182)	–	–	(1,182)
Stock split (Notes 3 (11) and 9)	5,659,265.48	–	–	–	–	–	–
Exercise of stock options	4,785.00	2,719	2,719	–	–	–	5,438
Decrease in net unrealized gains on other securities (Notes 3 (7) and 7)	–	–	–	–	(6,686)	–	(6,686)
Acquisition of treasury stock (Note 9)	(183.48)	–	–	–	–	(65)	(65)
Balance at March 31, 2005	**7,549,883.24**	**$ 62,315**	**$ 16,510**	**$ 777,177**	**$ 38,756**	**$ (261)**	**$ 894,497**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 4)
	For the years ended March 31		For the year ended March 31,
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 41,049	¥ 60,731	$ 565,518
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:			
Depreciation and amortization	3,040	4,532	42,201
Goodwill amortization	114	330	3,073
Increase in allowance for doubtful accounts	487	627	5,839
Loss on disposal of property and equipment	404	326	3,036
Impairment charges on investment securities and other investments	192	0	0
Gain on sale of investment securities, net	(140)	(567)	(5,280)
Interest and dividends received	(480)	(707)	(6,583)
Increase in accounts receivable–trade	(1,698)	(5,034)	(46,876)
(Decrease) increase in accounts payable–trade	(3,064)	538	5,010
(Increase) decrease in other receivables	(1,476)	254	2,365
Increase in other payables	1,329	3,920	36,502
Increase in consumption tax payable	305	434	4,041
Others, net	(66)	790	7,356
	39,996	66,174	616,202
Income taxes paid	(13,849)	(20,090)	(187,075)
Net cash provided by operating activities	26,147	46,084	429,127
Cash flows from investing activities:			
Purchase of property and equipment	(5,506)	(7,651)	(71,245)
Purchase of intangibles	(747)	(2,278)	(21,212)
Purchase of marketable and investment securities	(18)	(5,816)	(54,158)
Proceeds from sale of marketable and investment securities	201	738	6,872
Proceeds from redemption of investment in bonds issued by affiliates	400	–	–
Acquisition of shares of entities newly consolidated (Note 13 (3))	(241)	(1,061)	(9,880)
Increase in loan receivables	(5,700)	–	–
Increase in other investments	(306)	(1,399)	(13,027)
Others, net	1,004	348	3,240
Net cash used for investing activities	(10,913)	(17,119)	(159,410)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	400	(132)	(1,229)
Proceeds from issuance of shares under exercise of warrants and stock options	654	584	5,438
Proceeds from issuance of shares to minority shareholders	147	–	–
Interest paid	(3)	(8)	(74)
Others, net	(4)	(60)	(559)
Net cash provided by financing activities	1,194	384	3,576
Effect of exchange rate fluctuations on cash and cash equivalents	(1)	0	0
Net increase in cash and cash equivalents	16,427	29,349	273,293
Cash and cash equivalents at the beginning of the year	23,216	39,643	369,150
Cash and cash equivalents at the end of the year (Note 13 (2))	¥ 39,643	¥ 68,992	$ 642,443

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Organization and nature of business

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

• Listing business

The Listing business publishes various providers' information for users through the Company's Web site. It provides directory and search services, information listing services, and regional information services on the Web site. It also offers a paid search service, Sponsor Site, in cooperation with Overture K.K.

• Auction business

The Auction business provides a fee-based Internet platform on which a number of individuals can freely sell or buy through an auction process. It also provides fee-based support services to corporate shops called Auction Stores.

• Yahoo! BB business

The Yahoo! BB business revolves around the Company's comprehensive broadband services, branded Yahoo! BB, which the Company offers jointly with SOFTBANK BB Corp. (SBB), a wholly owned subsidiary of SOFTBANK CORP. The business acquires subscribers over the Web and then receives commissions from SBB. It also provides an Internet service provider (ISP) service to individual subscribers that the Company has acquired through its Web site and that SBB has gained through electronic wholesalers and by other means. The ISP service includes e-mail, home page creation, and other services.

• Media business

The Media business provides various content and services, both paid and free, to users to stimulate the number of page views and to increase the volume of advertising sales. The business comprises the following services: information services, such as Yahoo! News, Yahoo! Finance, Yahoo! Sports, etc.; entertainment services, such as Yahoo! Games, Yahoo! Music, etc.; and community services, such as Yahoo! Message Boards and Yahoo! Avatar, etc.

• Shopping business

The Shopping business operates the Yahoo! Shopping site, a high-quality shopping venue whose stores offer a variety of products. The site's offerings include goods and services relating to travel, such as domestic or overseas accommodation, airline tickets, and the like, and provides various travel information for travel arrangements or preparation. Also included in this business is Seven and Y Corp., an online book retailer and subsidiary of the Company.

• Business Solutions (BS) business

The BS business provides the Company's know-how and technologies related to business solutions to corporations and government bodies. It includes support services relating to Internet-based inquiry services known as Yahoo! Research, and domain and Web-hosting services, among other offerings.

• Corporate Common business

The Corporate Common business represents the sales of advertisements on Yahoo! JAPAN top pages, and the membership fees of Yahoo! Premium. These revenues are characterized as Corporate Common business because they contribute to building the overall corporate brand of the Group and therefore are not allocated to any of the individual businesses named above. This business also includes revenues and expenses relating to the Company's headquarters.

The Company and its subsidiaries operate in Japan. The Company established two subsidiaries during the fiscal year ended March 31, 2005. It also acquired a majority shareholding in NETGENE Co., Ltd., Surfmonkey Asia Inc., Firstserver, Inc., CURIOCITY CORP. and another company. eGroups KK, a subsidiary of the Company as at March 31, 2004, was excluded from the scope of consolidation as at March 31, 2005 due to its

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liquidation. The income statement of eGroups KK for the period through the liquidation completion date was included in the consolidated statements of income.

At March 31, 2004 and 2005, the Company had consolidated thirteen and nineteen subsidiaries, respectively.

2. Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

3. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

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

All significant inter-company transactions and accounts, and unrealized inter-company profits are eliminated in consolidation, and the portion thereof attributable to minority shareholders is credited or charged to "Minority interest." All the assets and liabilities of subsidiaries are recorded at fair value as of the acquisition of control. All consolidated subsidiaries have a fiscal year ending on March 31 except for ALPS MAPPING K.K., who changed its fiscal year-end date to December 31 effective December 31, 2004. The provisional financial statements of ALPS MAPPING K.K. as at March 31, 2005 were utilized in the preparation of the consolidated financial statements.

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

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

(2) Translation of foreign currency transactions and accounts

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

(3) Inventories

Inventories are stated at cost, where costs of merchandise, work-in-process and supplies are determined using the specific identification method and cost of finished goods is determined using the first-in first-out method.

(4) Allowance for doubtful accounts

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

(5) Accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount, which is measured as the higher of net selling price and fair value in use.

The standard is effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company did not adopt the accounting standard for impairment of fixed assets for the fiscal year ended March 31, 2005 in accordance with the accounting standard as described in the previous paragraphs.

(6) Depreciation and amortization

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

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

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

(7) Investments in debt and equity securities

Investments in debt and equity securities are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities, which are substantially similar to available-for-sale securities, as defined in Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in the United States of America. These categories are treated differently for the purposes of measuring and accounting for changes in the fair value of the securities.

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

Regarding the investments in limited partnerships and similar investments, which are accounted for as "investment securities" in the consolidated balance sheets effective the fiscal year ended March 31, 2005, under Article 2-2 of Securities and Exchange Law, an amount equivalent to the Company's partnership investment gain or loss under the equity method of accounting, with such gain or loss based on the latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated financial statements for the fiscal year ended March 31, 2005.

(8) Provision for Yahoo! Points

For sales promotion purposes, beginning in the fiscal year ended March 31, 2005, the Company introduced the Yahoo! Points system, under which certain points are awarded to the

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users of Yahoo! JAPAN's services that the holder can redeem for a discount on purchases from Yahoo! Shopping. Accordingly, the Company established a provision for the future use of points by the entitled point holders as at March 31, 2005.

(9) Retirement benefit plan

The Company and some of its subsidiaries primarily participate in defined contribution pension plans, after the transfer of the previous defined benefit pension plans in July 2000 following the enactment of the Act for Defined Contribution Pension. To supplement the defined contribution pension plans, the Company and its domestic consolidated subsidiaries participate in a multi-employer contributory defined benefit welfare pension plan (the "welfare pension plan") covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law and includes a portion relating to the governmental welfare pension program and another portion into which contributions are made by the respective companies and their employees.

Contributions made by the Company and its domestic consolidated subsidiaries into the welfare pension plan are expensed when paid since the pooled fund assets and the entire pension obligation for the welfare pension plan cannot be reasonably determined by each of the participants. The pooled fund assets of the Company and most of its domestic subsidiaries at fair value at March 31, 2005 amounted to ¥99,153 million ($923,298 thousand), and the participation ratio of the Company and the relevant subsidiaries was 2.0% based on employee numbers.

The total contributions which the Company and its domestic consolidated subsidiaries paid for the defined contribution pension plans and the welfare pension plan were ¥180 million and ¥262 million ($2,440 thousand), and were charged to the consolidated statements of income for the fiscal years ended March 31, 2004 and 2005.

Some domestic consolidated subsidiaries still maintain a defined benefit pension plan at March 31, 2005. The funded status of retirement benefit obligations at March 31, 2004 and 2005 was immaterial to the consolidated financial statements.

(10) Income taxes

Provision for income taxes is computed based on income before income taxes and minority interest in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

A valuation allowance is established against deferred tax assets to the extent that it is more likely than not that the deferred tax assets will not be realized within the foreseeable future.

(11) Net income per share

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

The Group issued dilutive potential common stock equivalents, such as stock options or warrants, etc., during the relevant periods. Dilutive net income per share for the years ended March 31, 2004 and 2005, computed in accordance with the standards described below, has been disclosed in the accompanying consolidated statements of income.

Under Japanese accounting standards, "bonuses to directors," which are determined through appropriation of retained earnings by resolution of a general shareholders' meeting subsequent to the fiscal year-end and not reflected in the statements of income of the current fiscal year, should be reflected in the calculation of net income per share as if "bonuses to directors" were charged to income in the current fiscal year.

On May 20 and November 19, 2004, the Company effected two-for-one stock splits which increased the number of shares issued by 5,659,265.48 in total. Earnings per share data for the years ended March 31, 2004 and 2005 has therefore been restated to give retroactive effect to these stock splits.

(12) Appropriation of retained earnings

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

(13) Leases

Under Japanese accounting standards, capital leases, as defined therein, other than those whereby ownership of the assets is transferred to the lessee at the end of the lease term, are allowed to be accounted for as operating leases with footnote disclosure of the acquisition cost equivalent, the accumulated depreciation equivalent and future lease payments or receipts (see Note 14).

(14) Accounting change relating to revenue recognition on Yahoo! BB services

The Company is engaged in Yahoo! BB business, the comprehensive broadband services branded as "Yahoo! BB" jointly with SBB. Prior to April 1, 2003, the Company had booked the ¥1,290 monthly ISP fee per user as sales and the corresponding ISP cost of ¥1,090 as cost of sales at the time of service delivery. The Company had also recorded the net amount of ¥200 per user between ISP fee and ISP cost as sales and promotion expense in "selling, general and administrative expenses" during the free of charge campaign period of Yahoo! BB services.

Effective the fiscal year beginning April 1, 2003, the Company has changed its method of recognizing ISP fee and cost to a monthly ¥200 net revenue basis after the free campaign period from the gross revenue basis as described in the preceding paragraph in order to reflect the business of the Yahoo! BB business more accurately. Yahoo! BB services during the free campaign period are no longer accounted for, accordingly. As a result of this change, net sales, cost of sales and selling, general and administrative expenses for the fiscal year ended March 31, 2004 decreased by ¥38,289 million, ¥37,418 million and ¥871 million, respectively, compared with the amounts which would have been reported if the previous method had been applied consistently.

(15) Change in the presentation of investment in partnerships

In accordance with the application of a partial revision to the Japanese securities and exchange laws, which was released on June 9, 2004 and effective since December 1, 2004, and the revised practical guidelines for financial instruments accounting released on February 15, 2005, investments in limited partnerships and similar investments are reclassified as "investment securities" beginning in the fiscal year ended March 31, 2005. The amount of applicable investments in partnerships which are included in "investment securities" in the consolidated balance sheets as at March 31, 2005 was ¥1,119 million ($10,420 thousand). The amount of investment in partnerships accounted for as "other investments" as at March 31, 2004 was ¥639 million.

(16) Classification of enterprise tax components attributed to added value and capital

Effective from April 1, 2004, the enterprise tax components attributed to added value and capital were recorded as selling, general and administrative expenses in accordance with "Practical guidelines for disclosure of enterprise tax components attributed to added value and capital" released by the Japan Financial Accounting Standard Committee on February 13, 2004, based on the law of "a partial revision to the local tax law" promulgated on March 31, 2003.

As a result, selling, general and administrative expenses for the fiscal year ended March 31, 2005 increased by ¥367 million ($3,417 thousand). Operating income and income before income taxes and minority interest decreased by the same amount.

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4. U.S. dollar amounts

The Company and its domestic subsidiaries maintain their accounting records in Japanese yen, and the translated U.S. dollar amounts presented in the accompanying consolidated financial statements and notes thereto are included solely for the convenience of readers. These translations should therefore not be construed as representation that the original yen amounts have been or could be readily converted into U.S. dollars at the rate used (¥107.39 = US$1, the effective rate of exchange at March 31, 2005).

5. Mergers, acquisitions and restructuring

(1) Acquisition of NETGENE Co., Ltd., Surfmonkey Asia Inc., Firstserver, Inc., and CURIOCITY CORP.

The Company acquired shares of NETGENE Co., Ltd. ("NETGENE") in April 2004, Surfmonkey Asia Inc. ("Surfmonkey Asia") in October 2004, Firstserver, Inc. ("Firstserver") in November 2004, and CURIOCITY CORP. ("CURIOCITY") in March 2005 for ¥168 million ($1,565 thousand), ¥84 million ($782 thousand), ¥1,731 million ($16,119 thousand) and ¥123 million ($1,145 thousand), respectively, and consolidated the entities in the consolidated financial statements for the fiscal year ended March 31, 2005.

(2) Acquisition of BridalNet, Inc. and VACS Corporation

In October and December 2003, the Company acquired shares of BridalNet, Inc. ("BridalNet") and VACS Corporation ("VACS") for ¥230 million and ¥240 million, respectively, and consolidated the entities in the consolidated financial statements for the fiscal year ended March 31, 2004.

6. Inventories

Inventories at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
Raw material	¥ 3	¥ 5	$ 47
Work-in-process	1	42	391
Merchandise	13	33	307
Finished goods	9	56	521
Supplies	22	45	419
Total	¥ 48	¥ 181	$ 1,685

7. Investments in debt and equity securities

Investments in debt and equity securities at March 31, 2004 and 2005 consisted of "Marketable securities" and "Investment securities," most of which were classified as other securities as described in Note 3 (7).

(1) The aggregate cost and market value of other securities with a market quotation at March 31, 2004 and 2005 were as follows:

	Millions of yen			
	March 31, 2005			
	Cost	Gross unrealized Gains	Gross unrealized (Losses)	Market value
Other securities–				
Equity securities	¥ 525	¥ 6,627	¥ –	¥ 7,152
Others	10	–	–	10
Total	¥ 535	¥ 6,627	¥ –	¥ 7,162

	Thousands of U.S. dollars			
	March 31, 2005			
	Cost	Gross unrealized Gains	Gross unrealized (Losses)	Market value
Other securities–				
Equity securities	$ 4,889	$ 61,709	$ –	$ 66,598
Others	93	–	–	93
Total	$ 4,982	$ 61,709	$ –	$ 66,691

	Millions of yen			
	March 31, 2004			
	Cost	Gross unrealized Gains	Gross unrealized (Losses)	Market value
Other securities–				
Equity securities	¥ 584	¥ 8,172	¥ –	¥ 8,756
Others	10	–	–	10
Total	¥ 594	¥ 8,172	¥ –	¥ 8,766

(2) Details of other securities sold during the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		
	For the year ended March 31, 2005		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	¥ 738	¥ 571	¥ 4

	Thousands of U.S. dollars		
	For the year ended March 31, 2005		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	$ 6,872	$ 5,317	$ 37

	Millions of yen		
	For the year ended March 31, 2004		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	¥ 159	¥ 140	¥ –

(3) Unlisted investment securities at March 31, 2004 and 2005 had the following carrying amounts:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
Unlisted equity securities (a)	¥ 242	¥ 153	$ 1,425
Investments in limited partnerships and similar investments (b)	–	1,119	10,420
	¥ 242	¥ 1,272	$ 11,845

Notes:

(a) The Company's investments in unlisted equity securities were written off by ¥175 million and ¥0 million ($0 thousand) during the fiscal years ended March 31, 2004 and March 31, 2005, respectively, for impairment. The Company's policy is that for investments in unlisted equity securities held for more than one year, if declines in the net assets per share are more than 50% of acquisition cost and are deemed to be other than temporary, an impairment of the investment should be reflected in the current income.

(b) As mentioned in Note 3 (15), investments in limited partnerships and similar investments were reclassified as "investment securities" since the fiscal year ended March 31, 2005. The amount of investment in partnerships and similar investments of ¥639 million was accounted for as "other investments" as at March 31, 2004.

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8. Investments in affiliates

Investments in affiliates at March 31, 2004 and 2005 consisted of the following:

	March 31, 2005		Millions of yen		Thousands of U.S. dollars
	Ownership percentage (%)	% of voting shares held	March 31 2004	March 31 2005	March 31, 2005
Affiliates					
Tavigator, Inc.	30	30	¥ 131	¥ 142	$ 1,322
INTAGE Interactive Inc.	49	49	55	107	996
All About, Inc.	41	41	–	2,095	19,508
YUME NO MACHI SOUZOUIINKAI CO., LTD.	30	30	–	377	3,511
CREO. CO., LTD.	37	38	–	1,399	13,028
AccessPort Inc.	33	33	–	950	8,846
Total			¥ 186	¥ 5,070	$ 47,211

9. Common stock and treasury stock

On February 17 and August 24, 2004, the board of directors of the Company resolved two-for-one stock splits of common stock, which were effected on May 20 and November 19, 2004 for shareholders on the register at March 31 and September 30, 2004, and issued 1,886,073.16 and 3,773,192.32 shares, respectively. There was no increase in the common stock account since the new shares were distributed from the portion of previously issued shares in accordance with the Commercial Code of Japan.

On February 16, 2005, the board of directors of the Company resolved the revision of the articles of incorporation to increase the number of authorized common stock by 15,080,000 shares to a total number of 30,160,000 shares. On June 17, 2005, the general shareholders' meeting also resolved a revision of the articles of incorporation to increase the number of authorized common stock by 30,240,000 shares to a total number of 60,400,000 shares.

The Commercial Code of Japan allows companies to acquire their own shares, called treasury stock, to the extent that the aggregate acquisition cost of the treasury stock falls within the maximum amount available for dividends. Upon resolution at the general shareholders' meeting held on June 17, 2005, the Company revised its articles of incorporation to allow approval of treasury stock by the board of directors within the maximum amount regulated under the Commercial Code of Japan.

At March 31, 2005, the number of shares of treasury stock held by the Company was 240.40 shares.

10. Retained earnings

Bonuses to directors of ¥160 million ($1,490 thousand) in the proposed appropriation of "Retained earnings" of the Company for the year ended March 31, 2005 were approved at the general shareholders' meeting on June 17, 2005.

The Company paid no cash dividends during the fiscal year ended March 31, 2005 because the Company's policy was to accumulate retained earnings for reinvestment in the business. The Company decided that, while continuing to accumulate internal reserves for future business development, it would begin to flexibly pay dividends in accordance with performance while posting steady profits annually. Accordingly, a dividend of ¥484 ($5) per share, aiming at a 10% dividend payout ratio, for the fiscal year ended March 31, 2005 was approved at the general shareholders' meeting held on June 17, 2005.

11. Income taxes

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in aggregate, resulted in a statutory income tax rate in Japan of approximately 42.05% and 40.69% for the fiscal years ended March 31, 2004 and 2005, respectively.

(1) The significant components of deferred tax assets and liabilities at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
Deferred tax assets:			
Enterprise tax payable	¥ 1,090	¥ 1,164	$ 10,839
Impairment charges on investment securities	1,007	503	4,684
Loss carryforwards	477	571	5,317
Allowance for doubtful accounts	315	572	5,326
Amortization of long-term prepaid expenses	74	329	3,064
Accounts payable	42	64	596
Business office tax payable	11	15	140
Provision for use of Yahoo! Points	–	194	1,806
Others	168	357	3,324
Gross deferred tax assets	3,184	3,769	35,096
Less: valuation allowance	(477)	(571)	(5,317)
Total deferred tax assets	2,707	3,198	29,779
Deferred tax liabilities:			
Valuation gain on investment securities	(3,348)	(2,866)	(26,688)
Reserve for special depreciation	(43)	(29)	(270)
Total deferred tax liabilities	(3,391)	(2,895)	(26,958)
Net amount of deferred tax (liabilities) assets	¥ (684)	¥ 303	$ 2,821

The valuation allowance was provided primarily against the deferred tax assets relating to operating tax loss carryforwards of certain consolidated subsidiaries, as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in the total valuation allowance for the year ended March 31, 2005 was an increase of ¥94 million ($875 thousand).

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

	For the year ended March 31, 2004	For the year ended March 31, 2005
Statutory income tax rate	42.05%	40.69%
Reconciliation–		
Goodwill amortization	0.12	0.22
Change in valuation allowance	0.05	0.36
Change in statutory tax rate	0.13	0.00
Tax credits	(1.89)	(1.57)
Tax benefit on expected liquidation loss of subsidiary	(0.91)	–
Other	(0.16)	0.21
Income tax rate per statements of income	39.39%	39.91%

The enterprise tax rate, which is a component of the statutory income tax rate, has been lowered from 10.08% to 7.56% effective from the year commencing on April 1, 2004 upon approval of the national Diet in March 2003. Accordingly, the statutory income tax rate changed from 42.05% to 40.69% since the fiscal year ended March 31, 2005.

12. Selling, general and administrative expenses

The main components of “Selling, general and administrative expenses” for the two years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31,
	2004	2005	2005
Payroll and bonuses	¥ 5,825	¥ 8,085	$ 75,286
Business commissions	3,366	6,482	60,359
Sales commissions	3,038	4,778	44,492
Depreciation and amortization	3,003	4,462	41,549
Communications charges	2,861	4,138	38,532
Royalty charge	1,963	3,379	31,464
Content provider fees	1,725	2,358	21,957
Allowance for doubtful accounts	421	847	7,887
Pension costs	180	262	2,440

13. Cash flow information

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

(2) “Cash and cash equivalents” at March 31, 2004 and 2005 represented cash on hand and bank deposits of ¥39,643 million and ¥68,992 million ($642,443 thousand), respectively.

(3) Acquisitions

As described in Note 5, the Company acquired shares of NETGENE, Surfmonkey Asia, Firstserver and CURIOCITY during the fiscal year ended March 31, 2005. Upon consolidation, total net cash outflow of ¥1,061 million ($9,880 thousand) was included in “Acquisitions of shares of entities newly consolidated” in the consolidated statements of cash flows for the year ended March 31, 2005.

The cash flows related to these acquisitions were as follows:

	Millions of yen	Thousands of U.S. dollars
NETGENE–		
Current assets	¥ 233	$ 2,170
Non-current assets	34	317
Goodwill	123	1,145
Current liabilities	(94)	(875)
Non-current liabilities	(79)	(736)
Minority interest	(49)	(456)
Cash paid for consideration	168	1,565
Less:		
Cash paid for consideration in prior year	18	168
Cash and cash equivalents held by NETGENE at acquisition	162	1,509
Net cash inflow	¥ 12	$ 112
Surfmonkey Asia–		
Current assets	¥ 16	$ 149
Non-current assets	8	74
Goodwill	96	894
Current liabilities	(23)	(214)
Non-current liabilities	(13)	(121)
Cash paid for consideration	84	782
Less:		
Cash and cash equivalents held by Surfmonkey Asia at acquisition	8	74
Net cash outflow	¥ 76	$ 708
Firstserver–		
Current assets	¥ 747	$ 6,956
Non-current assets	615	5,727
Goodwill	1,502	13,986
Current liabilities	(966)	(8,995)
Minority interest	(167)	(1,555)
Cash paid for consideration	1,731	16,119
Less:		
Cash and cash equivalents held by Firstserver at acquisition	678	6,314
Net cash outflow	¥ 1,053	$ 9,805
CURIOCITY–		
Current assets	¥ 79	$ 735
Non-current assets	16	149
Goodwill	64	596
Current liabilities	(30)	(279)
Minority interest	(6)	(56)
Consideration for acquisition	123	1,145
Less:		
Accounts payable–other	123	1,145
Cash and cash equivalents held by CURIOCITY at acquisition	56	521
Net cash inflow	¥ 56	$ 521
Total net cash outflow	¥ 1,061	$ 9,880

As described in Note 5, the Company acquired shares of BridalNet and VACS during the fiscal year ended March 31, 2004. Upon consolidation, total net cash outflow of ¥241 million, consisting of ¥190 million for BridalNet and ¥51 million for VACS, was disclosed as "Acquisitions of shares of entities newly consolidated" in the consolidated statements of cash flows for the year ended March 31, 2004.

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The net cash outflow for BridalNet and VACS was composed of the following:

	Millions of yen
BridalNet–	
Current assets	¥ 64
Non-current assets	10
Current liabilities	(11)
Goodwill	167
Cash paid for consideration	230
Less:	
Cash and cash equivalents held by BridalNet at acquisition	40
Net cash outflow	¥ 190
VACS–	
Current assets	¥ 124
Non-current assets	89
Current liabilities	(5)
Non-current liabilities	(164)
Goodwill	196
Consideration for acquisition	240
Less:	
Accounts payable–other	109
Cash and cash equivalents held by VACS at acquisition	80
Net cash outflow	¥ 51
Total net cash outflow	¥ 241

(4) Business transfer

On January 18, 2005, broadcast.com japan k.k., one of the Company's subsidiaries, received the business transferred from ALPS MAPPING K.K. and changed its name to ALPS MAPPING K.K. ("ALPS MAPPING").

Assets and liabilities increased upon the transfer of business from ALPS MAPPING as follows:

	Millions of yen	Thousands of U.S. dollars
ALPS MAPPING–		
Current assets	¥ 216	$ 2,011
Non-current assets	300	2,794
Total Assets	¥ 516	$ 4,805
Current liabilities	¥ 207	$ 1,928
Total Liabilities	¥ 207	$ 1,928

14. Leases

As described in Note 3 (13), the Group, as a lessee, charges periodic capital lease payments to expenses when paid. Such payments for the years ended March 31, 2004 and 2005 amounted to ¥2.4 million and ¥7.3 million ($68 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term had been capitalized, capital lease assets at March 31, 2004 and 2005 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Capital lease assets	2004	2005	2005
Equivalent to acquisition cost:			
Property and equipment	¥ 9	¥ 88	$ 820
Software	–	30	279
Less: accumulated depreciation	(8)	(53)	(494)
Net book value	¥ 1	¥ 65	$ 605

The depreciation and amortization expense for these leased assets for the years ended March 31, 2004 and 2005 would have been ¥2.2 million and ¥6.9 million ($64 thousand), respectively, if it had been computed using the straight-line method over the period of the leases, assuming no residual value except in cases where the residual value is guaranteed in the lease contract.

The interest expense on lease payments under these capital leases for the years ended March 31, 2004 and 2005 would have been ¥0.1 million and ¥0.3 million ($3 thousand), respectively.

The future lease payments for capital leases at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
Due within one year	¥ 1	¥ 23	$ 214
Due after one year	0	45	419
Total	¥ 1	¥ 68	$ 633

15. Contingent liabilities

There were no material contingent liabilities at March 31, 2005.

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YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

16. Segment information

(1) Business segment information

The Company categorizes its operations into seven businesses, as described in the following table, based on the nature of business operations and the type of services provided, for the purpose of disclosing business segment information.

The operations of the Company include the following businesses:

Business	Main service
Listing	Provides directory and search services on the Web site, information listing services, and regional information services
Auction	Provides platform for sales of goods between individuals and for auctions by enterprises
Yahoo! BB	Acquires customers of Yahoo! BB, provides ISP service, and offers Yahoo! Mail, etc.
Media	Provides various content and services with or without charges
Shopping	Provides shopping mall with quality stores
Business Solutions (BS)	Provides services to enterprises based on the technology and experience of Yahoo! JAPAN
Corporate Common	Sells advertisements on Yahoo! JAPAN top pages and charges membership fees of Yahoo! Premium

As described in Note 3 (14), the Company changed its accounting method for recognizing revenues and related cost of sales on Yahoo! BB services since the fiscal year ended March 31, 2004. As a result of this change, net sales and operating expenses of the Yahoo! BB business for the fiscal year ended March 31, 2004 decreased by ¥38,289 million compared with the amount which would have been reported if the previous method had been applied consistently.

The following tables summarize business segment information of the Company for the years ended March 31, 2004 and 2005:

	Millions of yen									
	For the year ended March 31, 2005									
	Business									
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total	Elimination or corporate	Consolidated
Net sales–										
External customers	¥ 29,359	¥ 27,304	¥ 16,800	¥ 10,716	¥ 10,588	¥ 2,370	¥ 20,642	¥ 117,779	¥ –	¥ 117,779
Inter-segment	–	34	0	24	6	11	106	181	(181)	–
Total	29,359	27,338	16,800	10,740	10,594	2,381	20,748	117,960	(181)	117,779
Operating expenses (a)	6,909	9,546	6,791	6,876	10,198	2,536	6,286	49,142	8,450	57,592
Operating income (loss)	¥ 22,450	¥ 17,792	¥ 10,009	¥ 3,864	¥ 396	¥ (155)	¥ 14,462	¥ 68,818	¥ (8,631)	¥ 60,187
Assets (b)	¥ 32,224	¥ 32,937	¥ 22,075	¥ 5,599	¥ 4,626	¥ 3,840	¥ 26,390	¥ 127,691	¥ 2,553	¥ 130,244
Depreciation and amortization	207	818	665	240	208	96	225	2,459	2,073	4,532
Capital expenditures	682	1,883	2,173	562	752	485	1,004	7,541	3,696	11,237

	Thousands of U.S. dollars									
	For the year ended March 31, 2005									
	Business									
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total	Elimination or corporate	Consolidated
Net sales–										
External customers	$ 273,387	$ 254,250	$ 156,439	$ 99,786	$ 98,594	$ 22,069	$ 192,216	$1,096,741	$ –	$ 1,096,741
Inter-segment	–	317	0	223	56	102	987	1,685	(1,685)	–
Total	273,387	254,567	156,439	100,009	98,650	22,171	193,203	1,098,426	(1,685)	1,096,741
Operating expenses (a)	64,336	88,891	63,236	64,028	94,962	23,615	58,535	457,603	78,685	536,288
Operating income (loss)	$ 209,051	$ 165,676	$ 93,203	$ 35,981	$ 3,688	$ (1,444)	$ 134,668	$ 640,823	$ (80,370)	$ 560,453
Assets (b)	$ 300,065	$ 306,705	$ 205,559	$ 52,137	$ 43,077	$ 35,757	$ 245,740	$1,189,040	$ 23,773	$ 1,212,813
Depreciation and amortization	1,928	7,617	6,192	2,235	1,937	894	2,095	22,898	19,303	42,201
Capital expenditures	6,351	17,534	20,235	5,233	7,002	4,516	9,349	70,220	34,417	104,637

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

	Millions of yen									
	For the year ended March 31, 2004									
	Business									
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total	Elimination or corporate	Consolidated
Net sales–										
External customers	¥ 13,615	¥ 20,828	¥ 12,760	¥ 6,408	¥ 6,585	¥ 1,093	¥ 14,487	¥ 75,776	¥ –	¥ 75,776
Inter-segment	–	11	0	4	4	3	48	70	(70)	–
Total	13,615	20,839	12,760	6,412	6,589	1,096	14,535	75,846	(70)	75,776
Operating expenses (a)	3,817	5,359	4,795	4,635	5,718	1,039	3,342	28,705	5,859	34,564
Operating income (loss)	¥ 9,798	¥ 15,480	¥ 7,965	¥ 1,777	¥ 871	¥ 57	¥ 11,193	¥ 47,141	¥ (5,929)	¥ 41,212
Assets (b)	¥ 14,244	¥ 16,699	¥ 14,568	¥ 2,465	¥ 6,268	¥ 432	¥ 16,998	¥ 71,674	¥ 10,736	¥ 82,410
Depreciation and amortization	132	505	419	189	129	62	74	1,510	1,530	3,040
Capital expenditures	205	1,443	432	275	188	82	232	2,857	2,942	5,799

(a) The unallocated operating expenses in the column "Elimination or corporate" mainly represent the expenses of the human resources and accounting divisions of the Company.
(b) The corporate assets included in the column "Elimination or corporate" are mainly investment securities of the Company, guaranteed deposits of the headquarters' building and common assets of the Company.

(2) Geographic segment information

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

(3) Sales to overseas customers

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

17. Subsequent events

(1) Stock split

On February 16, 2005, the board of directors of the Company resolved a two-for-one stock split of common stock, which was effected at May 20, 2005 for shareholders on the register at March 31, 2005, and issued 7,550,123.64 shares. Giving effect to the stock split, net income per share for the two fiscal years ended March 31, 2004 and 2005 would be retroactively restated as follows:

	Yen		U.S. dollars
	For the years ended March 31		For the year ended March 31,
	2004	2005	2005
Net income per share:			
Primary	¥ 1,638.02	¥ 2,409.14	$ 22.43
Diluted	¥ 1,632.64	¥ 2,401.27	$ 22.36

(2) Takeover bid for the shares of ValueCommerce Co., Ltd. ("ValueCommerce")

For the purpose of increasing the users of Yahoo! Auctions and Yahoo! Shopping services via affiliate marketing programs, and in order to improve user satisfaction and to achieve synergies among Yahoo! JAPAN services, the Company announced a takeover bid for the shares of ValueCommerce on February 28, 2005. The takeover bid was completed on April 11, 2005 and resulted in the acquisition of 41,971 shares of ValueCommerce for ¥10,936 million ($101,834 thousand). As at April 12, 2005, the Company held 49.7% of the shares of ValueCommerce in terms of percentage of voting shares held.

Report of Independent Auditors

To the Board of Directors of
Yahoo Japan Corporation

We have audited the accompanying consolidated balance sheets of Yahoo Japan Corporation and its subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen, included on pages 24 to 45. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yahoo Japan Corporation and its subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and cash flows for each of the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3 (14), the Company had booked the gross amount of its monthly Internet service provider (ISP) fee as sales and the ISP cost as cost of sales in the financial statements for fiscal years prior to April 1, 2003. However, in order to reflect the business of the Yahoo! BB business more accurately, the Company has changed its ISP revenue and cost recognition method to record the net amount of ISP fee and ISP cost as sales in the financial statements effective with the fiscal year beginning April 1, 2003.

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 17, 2005