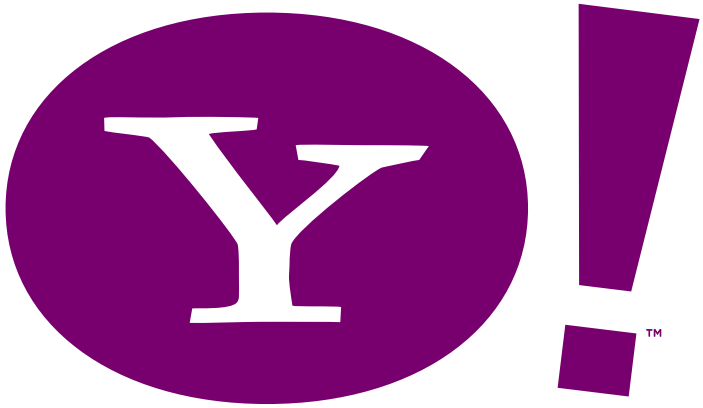


LIFE ENGINE™

YAHOO! JAPAN®

ANNUAL REPORT 2006

Year ended March 31, 2006

Contents

Important Considerations Regarding This Annual Report

1. Beginning with the fiscal year ended March 31, 2004 (fiscal 2003), Yahoo Japan Corporation (the Company) altered its method of booking sales. Figures in this annual report for fiscal years preceding fiscal 2003 have been revised to reflect this change in accounting method.
2. Commencing with fiscal 2001, the Company has been reporting on a consolidated basis. Readers are advised that figures for fiscal 2000 are on a nonconsolidated basis. However, because the Company had no consolidated subsidiaries during the period up to and including fiscal 2000, there is no difference between consolidated and nonconsolidated figures for that period.
3. This annual report contains forward-looking statements. Readers are cautioned that a number of important factors could cause actual results to differ materially from those predicted.
4. For a detailed account of the factors that could affect performance, please see the section entitled Risk Factors. Readers should be aware that performance-affecting factors include, but are not limited to, those mentioned in the Risk Factors section.

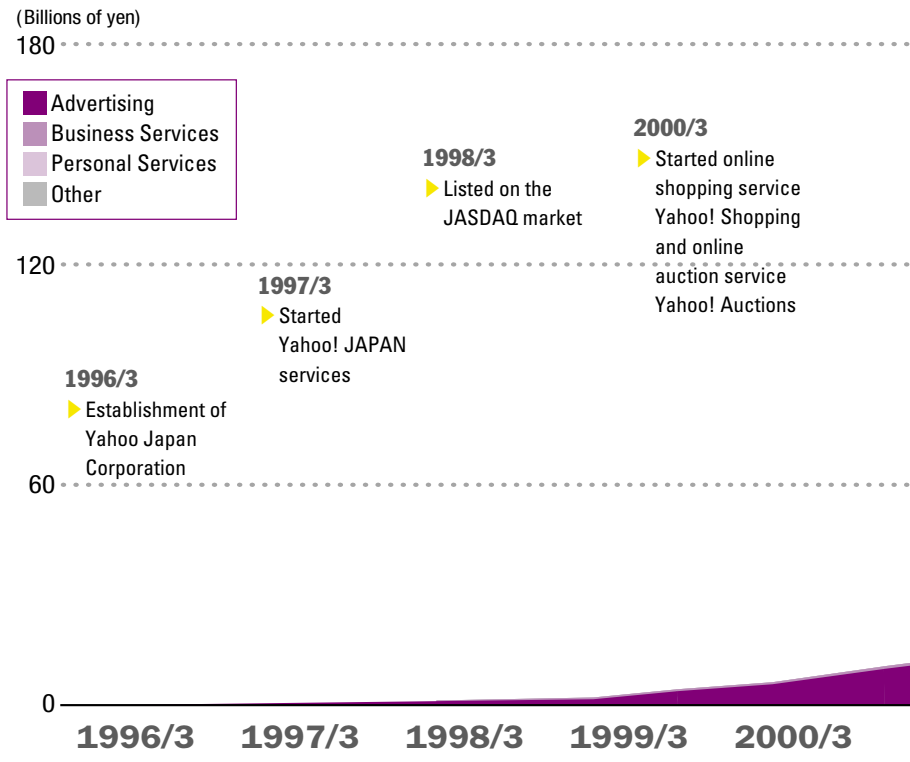
Profile and History

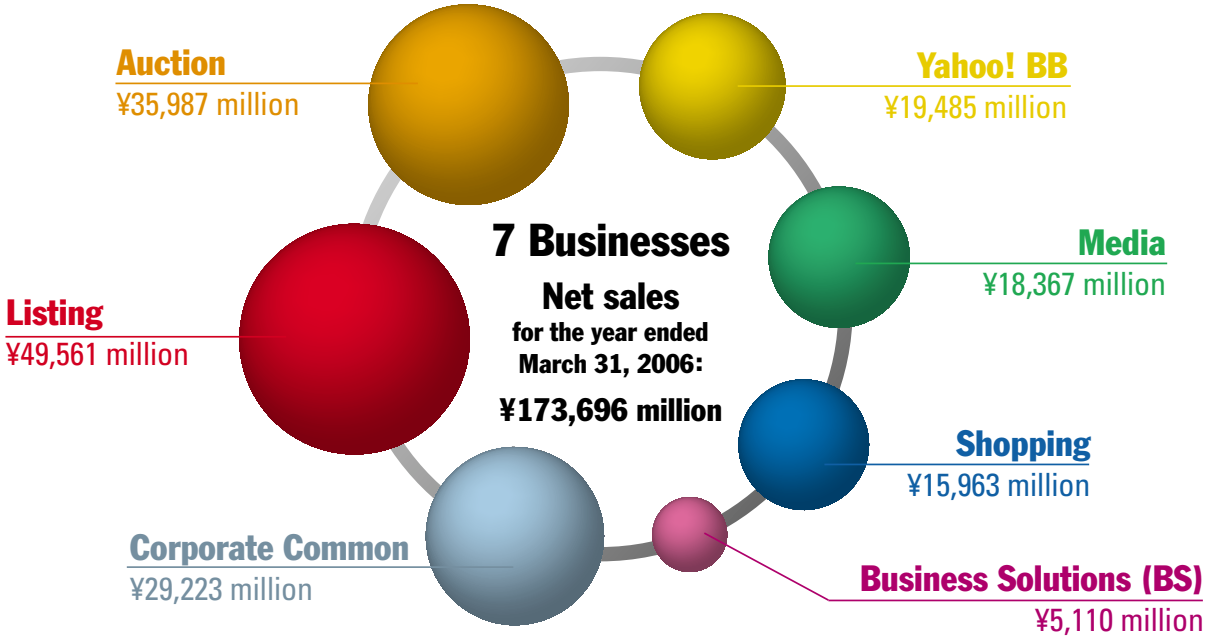
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have been a key driving force behind the rapid growth of Japan's Internet market. Offering Internet users a wide range of services, including search, information listing, community, and e-commerce, our site is the overwhelming leader in Japan in the number of users and page views.

We are constantly improving our "life engine" services designed to enrich the content and enhance the convenience of daily life. While continuing to focus on Internet advertising, member services, and e-commerce businesses, the Group's core revenue sources, we are also diversifying our earnings by incorporating user-generated content and developing our streaming content and mobile Internet businesses.

The Group's results are divided into seven businesses, as shown in the diagram at right. The net sales of each business are classified according to revenue source into four sales services categories, namely, advertising, business services, personal services, and other. In April 2006, we implemented organizational revisions to subdivide our rapidly expanding business operations into segments of a size suited to accelerating decision-making and optimizing resource allocation.

Net Sales Breakdown, by Sales Services Category





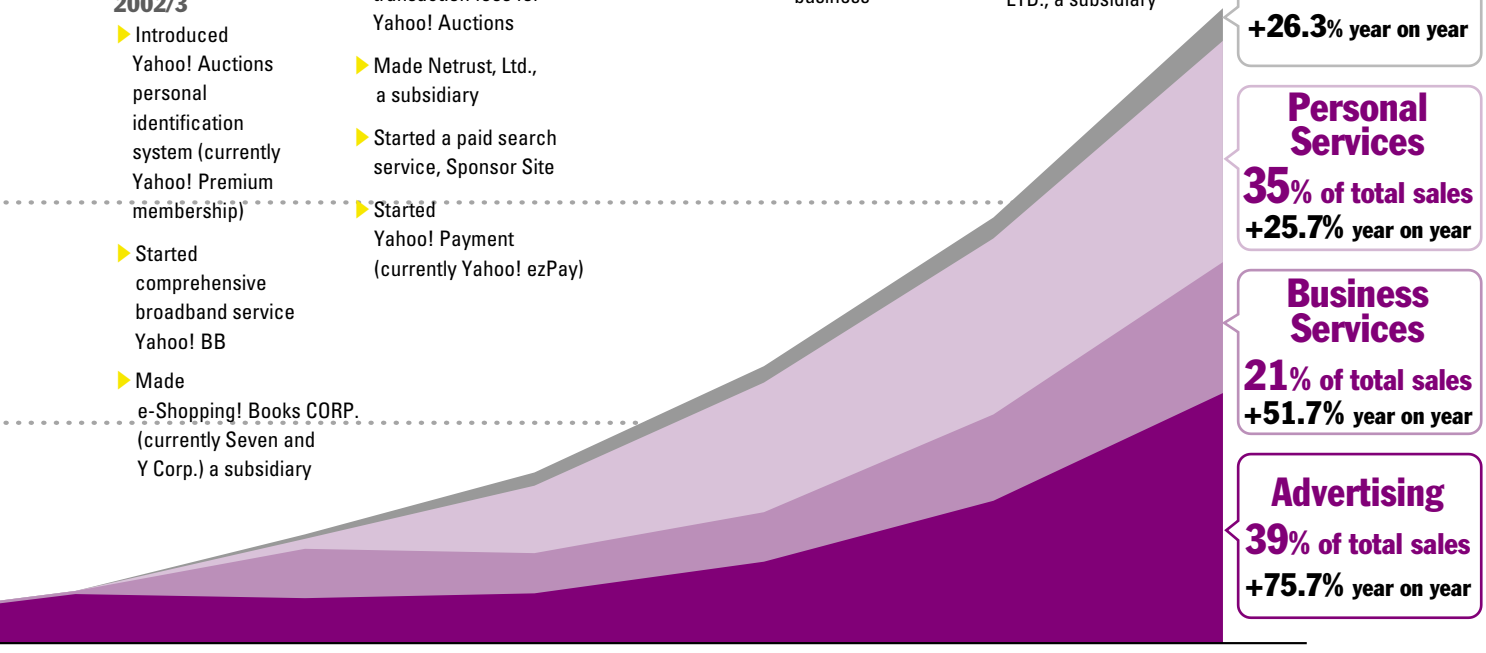
2002/3
- Introduced Yahoo! Auctions personal identification system (currently Yahoo! Premium membership)
- Started comprehensive broadband service Yahoo! BB
- Made e-Shopping! Books CORP. (currently Seven and Y Corp.) a subsidiary

2003/3
- Introduced listing fees and transaction fees for Yahoo! Auctions
- Made Netrust, Ltd., a subsidiary
- Started a paid search service, Sponsor Site
- Started Yahoo! Payment (currently Yahoo! ezPay)

2004/3
- Listed on the First Section of the Tokyo Stock Exchange

2005/3
- Started Yahoo! Rikunabi
- Made Firstserver, Inc., a subsidiary
- Took over ALPS MAPPING K.K. business

2006/3
- Established business alliance with SOFTBANK CORP. for mobile communications business
- Made Seven and Y Corp., a former subsidiary, an affiliate accounted for by the equity method
- Made INFO PLANT CO., LTD., a subsidiary

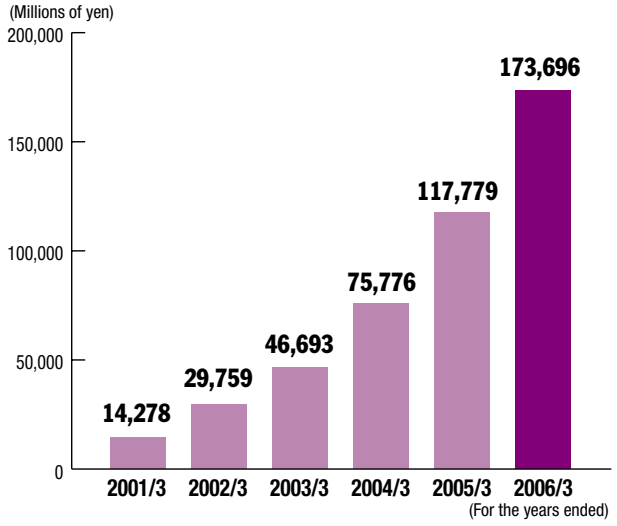


2001/3 2002/3 2003/3 2004/3 2005/3 2006/3
(For the years ended)

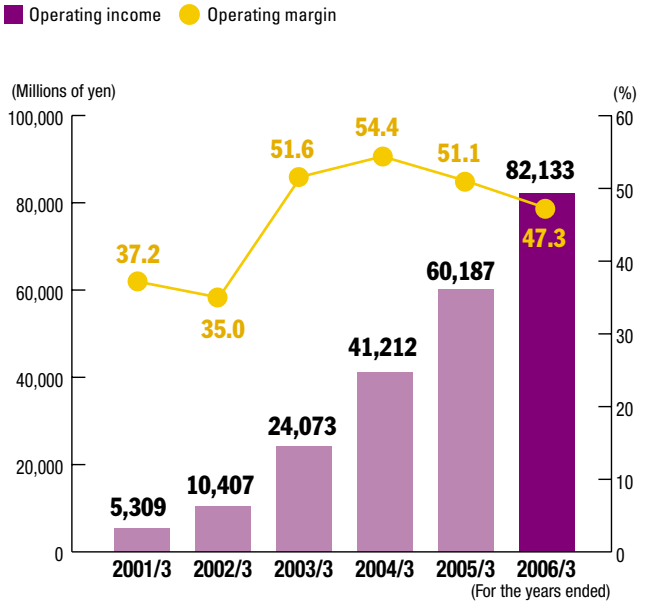
Financial Highlights

	Millions of yen			Thousands of U.S. dollars
	For the years ended			For the year ended
	2004/3	2005/3	2006/3	2006/3
For the fiscal year:				
Net sales	¥ 75,776	¥ 117,779	¥ 173,696	$ 1,478,639
Operating income	41,212	60,187	82,133	699,183
Net income	24,827	36,521	47,091	400,877
Net income per share (Yen and U.S. dollars)	819	1,205	1,536	13.08
EBITDA	44,329	64,980	89,787	764,343
At the fiscal year-end:				
Total assets	82,410	130,244	190,975	1,625,733
Shareholders' equity	59,807	96,060	142,455	1,212,694
Number of employees	990	1,713	2,534	
Dividends (Yen and U.S. dollars)	–	484	156	1.33
Cash flows	16,428	29,349	29,043	247,239
Cash flows from operating activities	26,147	46,084	59,604	507,401
Cash flows from investing activities	(10,913)	(17,119)	(27,533)	(234,382)
Cash flows from financing activities	1,194	384	(3,028)	(25,780)
Ratios:				
Operating margin (%)	54.4	51.1	47.3	
Net income to net sales ratio (%)	32.8	31.0	27.1	
ROA (%)	38.1	34.3	29.3	
ROE (%)	55.0	46.9	39.5	
Shareholders' equity ratio (%)	72.6	73.8	74.6	

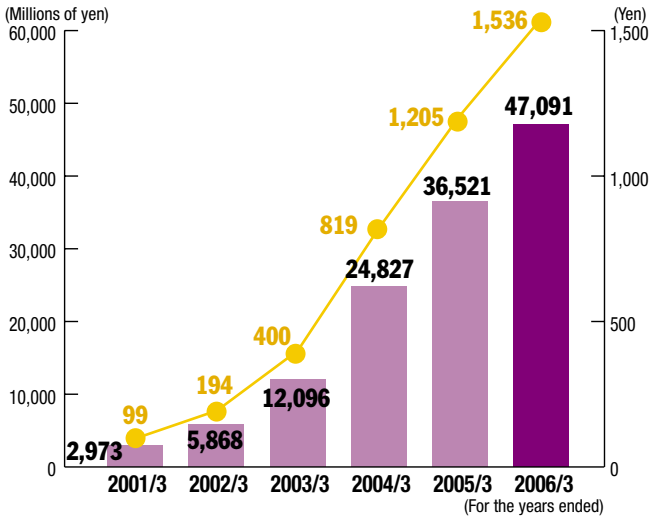
Net Sales



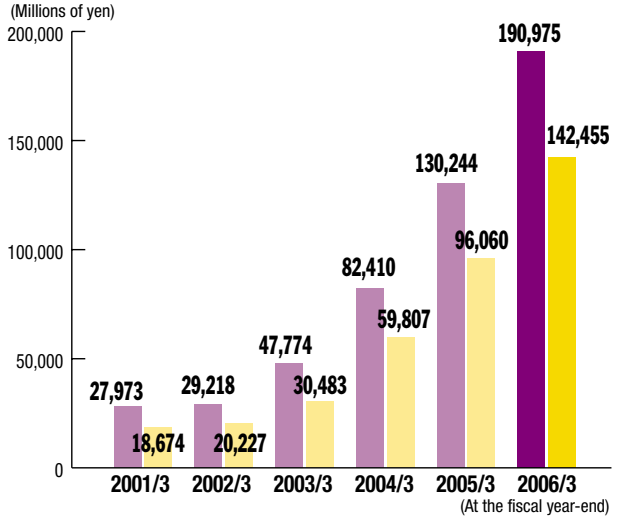
Operating Income / Operating Margin



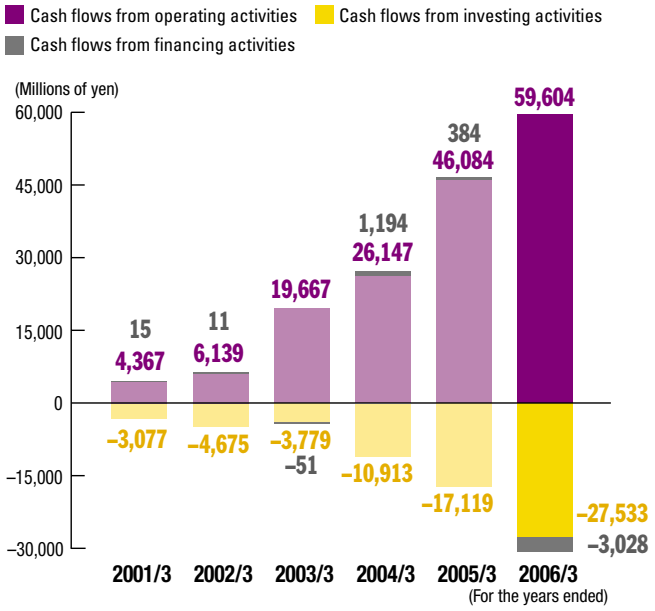
Net Income / Net Income per Share



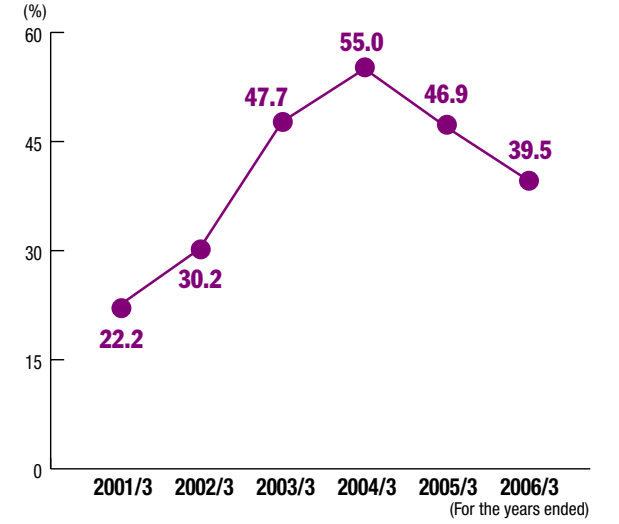
Total Assets / Shareholders' Equity



Cash Flows



ROE



Notes:

- Yen amounts for fiscal 2005, the year ended March 31, 2006, have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥117.47 = U.S.$1, the effective rate of exchange at March 31, 2006.
- Net income per share figures for fiscal years preceding fiscal 2005 have been retroactively adjusted to reflect stock splits.

To Our Shareholders

Masahiro Inoue
President and CEO
Yahoo Japan Corporation

Since commencing business operations in 1996, Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have been a key driving force behind the rapid growth of Japan's Internet market. Surveys by the Ministry of Internal Affairs and Communications indicate that the Internet penetration rate has soared from 9.2% of all individuals in Japan at the end of calendar year 1997 to 66.8% at the end of calendar year 2005. Today, the Internet plays an essential media role in our lives. With the Group's introduction of Yahoo! BB services in June 2001, the full-scale proliferation of broadband infrastructure in Japan was inaugurated and has since proceeded at a rapid pace. Japan now boasts the fastest, most economical broadband services in the world, with 65.0% of Internet-enabled Japanese households enjoying the benefits of broadband connectivity.

With the quantitative expansion of the Internet market in terms of subscriber numbers nearing completion and the infrastructure for supporting easy access to convenient services and rich content either already in place or currently being installed, the position of the Internet in people's lives is changing. Offering a wide range of services that can be customized to suit the preferences and needs of each individual user, the Internet is now an integral part of daily life for most people in Japan. No longer simply passive recipients of information, Internet users can now interactively provide information and participate in information exchange within Internet-based communities.

Against this backdrop of changing Internet usage, the Group celebrated its 10th year of operations in April 2006. During our first 10 years, we successfully expanded our businesses by providing a growing volume of customers with an ever-widening variety of services and content, thereby firmly establishing the Group as the undisputed leader in Japan's Internet services market. Looking forward, we will continue to respond to changing market and customer needs, aiming to remain as always a familiar and trustworthy media source that users will turn to with increasing frequency. To that end, we will focus on making qualitative improvements to an ever-expanding range of "life engine" services designed to enrich the content and enhance the convenience of daily life.

Performance

In fiscal 2005, the year ended March 31, 2006, the Group achieved record-high sales and profits for the ninth consecutive year. Consolidated net sales rose 47.5%, to ¥173.7 billion, and operating income climbed 36.5%, to ¥82.1 billion. The operating margin declined 3.8 percentage points, to 47.3%.

Breaking down net sales by sales services category, advertising sales were up 75.7%, to ¥68.4 billion, accounting for approximately 39% of total Group revenues. Against the backdrop of a briskly expanding Internet advertising market, sales of branding advertisements, such as banners, were strong, particularly to National Clients, defined as major companies that advertise actively in various media. In addition, Sponsor Site, our paid search service that links advertisements to search results, enjoyed favorable sales growth.

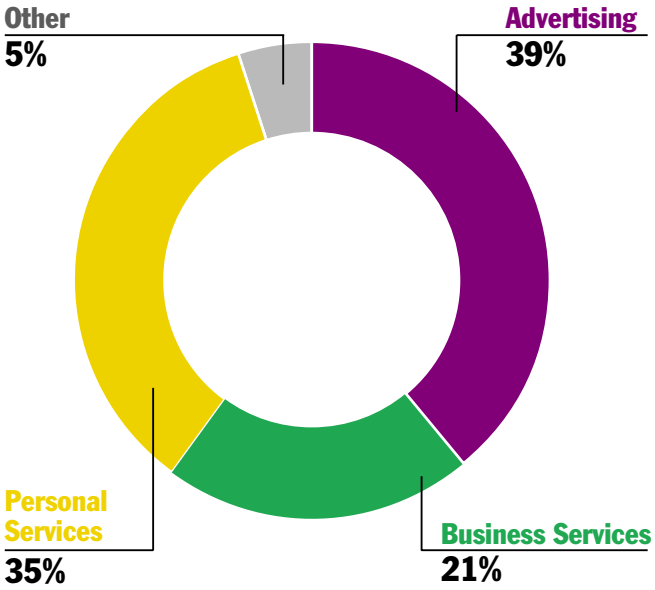
Business services sales other than advertising advanced 51.7%, to ¥35.8 billion, representing approximately 21% of total Group revenues. Higher information listing revenues from recruiting information service Yahoo! Rikunabi, which benefited from the general recovery of the Japanese economy, and a strong performance by Yahoo! Real Estate contributed to the solid improvement in business services sales.

Personal services sales increased 25.7%, to ¥60.5 billion, accounting for approximately 35% of total Group revenues. Although Yahoo! Auctions system-use revenues weakened in the first half owing to the implementation of initiatives aimed at improving site security, system-use revenues for the full fiscal year increased thanks to a higher transaction volume of winter fashion items in the second half. In addition, the number of Yahoo! Premium member IDs at the end of the fiscal year under review was up 21.2% from the figure one year earlier, to 6.15 million, thereby considerably boosting revenues from Yahoo! Premium membership fees.

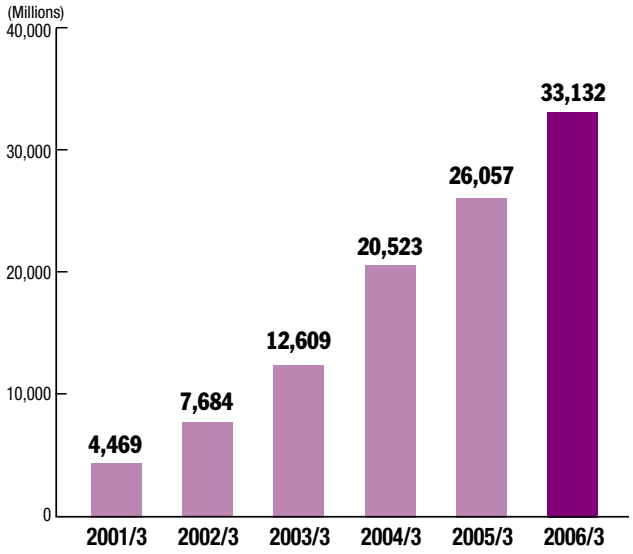
Other sales increased 26.3%, to ¥8.9 billion, representing approximately 5% of total Group revenues. Seven and Y Corp., the sales of which were previously included in the other sales category, was removed from consolidation in the fourth quarter of fiscal 2005, becoming an affiliate accounted for by the equity method.

In line with our business expansion during the period, selling, general and administrative (SG&A) expenses jumped 61.8%, to ¥78.7 billion. Personnel expenses rose 54.5%, to ¥14.7 billion, reflecting a net increase of 821 employees during the fiscal year under review. Business commissions climbed 68.2%, to ¥10.9 billion, owing largely to additional temporary

Net Sales Breakdown, by Sales Services Category (Fiscal 2005)



Monthly Page Views



To Our Shareholders

and contract employees as well as to higher settlement operations costs related to personal services sales. Sales commissions also soared, up 75.3%, to ¥8.4 billion.

Net income increased 28.9%, to ¥47.1 billion. Because we undertook a two-for-one stock split in both May and November of 2005, the average number of shares outstanding during the fiscal year was 30,541,230, approximately four times the corresponding fiscal 2004 figure of 7,629,257 shares. Adjusted net income per share stood at ¥1,536.40, up 27.5% from the previous fiscal year's ¥1,204.57. Fully diluted net income per share was ¥1,532.38.

Among other highlights during the period, the Group's total monthly page views in March 2006 increased 27.2% over the corresponding figure in March 2005, to 33.13 billion. Daily page views, meanwhile, surpassed the 1.2 billion mark for the first time on January 18, 2006.

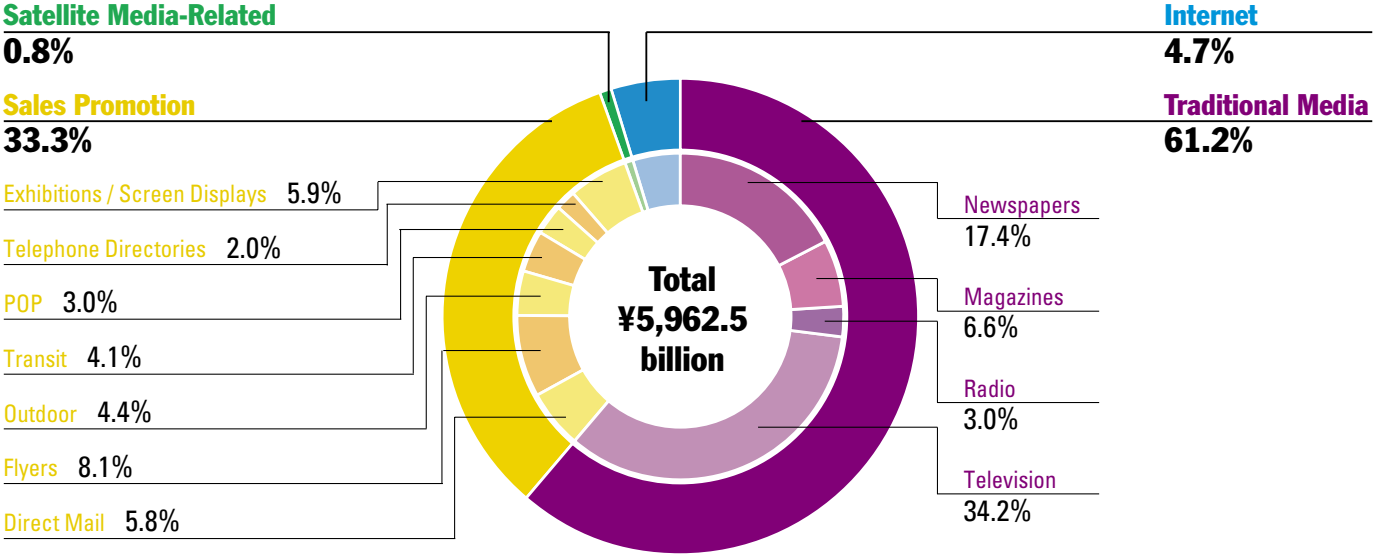
Positioning in Growth Markets and Recent Activities

Internet advertising market growth expected to continue

According to a recent report by DENTSU INC., the Internet advertising market in Japan expanded 54.8% in calendar year 2005, to ¥280.8 billion, accounting for 4.7% of the total ¥5,962.5 billion advertising market. In line with an expected recovery in the total advertising market based on a turnaround in corporate performance in Japan, Dentsu Communication Institute Inc. predicts that Internet advertising sales will maintain a growth rate of about 20% for some time to come. Moreover, expansion in the Internet advertising market is expected to drive growth in the total advertising market.

The Group enjoys a position of unrivaled leadership in the Internet advertising market. According to a survey conducted by NetRatings Japan, Inc., the reach of our Web site in March 2006 was 86.4%, far ahead of competitor sites. Taking advantage of this competitive edge, we aggressively marketed such core advertising products as our Brand Panels for top pages to National Clients. These high-profile advertising products effectively enable our clients to boost product brand

Advertising Expenditures Breakdown, by Medium (Calendar Year 2005)



Source: *2005 Advertising Expenditures in Japan*, DENTSU INC.

name and corporate name recognition among consumers. In collaboration with Overture K.K., we also strongly promoted our Sponsor Site paid search service, which links users' searches with advertisements.

In April 2005, we took an investment stake in ValueCommerce Co., Ltd., with an eye to upgrading our capacity in affiliate marketing, a form of results-based advertising that has increased recently in line with the growing popularity of blogs and other user-generated content. Moreover, in April 2006 we established a joint venture with CLARIA CORPORATION with the goal of offering user-specific content and advertising based on an analysis of each user's past Internet behavior.

Fully leveraging the specific strengths of Internet advertising, such as sales promotion benefits and user-specific targeting capabilities, as well as the capability to raise brand name recognition of advertisers, we plan to develop advertising products that are beneficial not only to advertisers but also to Internet users.

Expanding e-commerce business

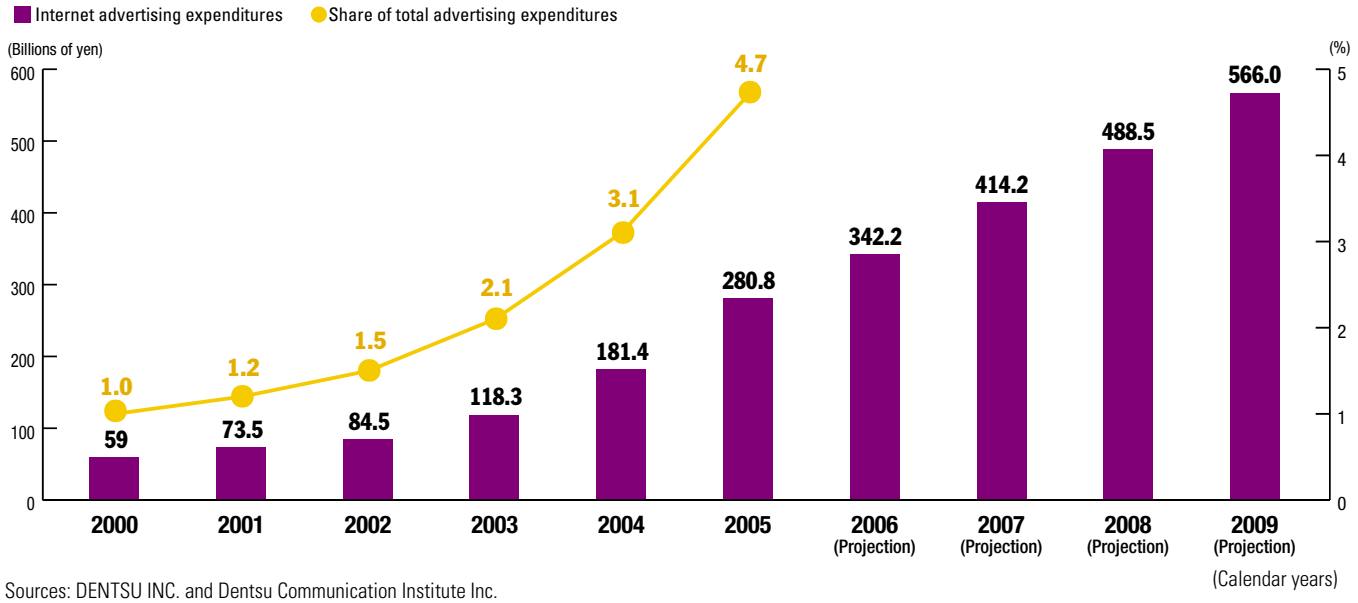
A recent Japanese government survey estimates that domestic BtoC e-commerce transactions accounted for 1.2%, or ¥3.5 trillion*, of the total consumption by Japanese households in calendar year 2005. In view of the expected pace of expansion in the Internet advertising market and the likelihood of increasing Internet access times by consumers, including those using Internet-enabled mobile devices, the growth potential of the e-commerce market is clearly immense.

The Group commenced its online Auction and Shopping businesses in September 1999. For the fiscal year under review, the total e-commerce transaction volume recorded by these two businesses amounted to approximately ¥780 billion, with a total of 16,323 stores registered at the end of the fiscal year under review. These figures clearly demonstrate the Group's leading presence in the Japanese e-commerce market.

Yahoo! Auctions is particularly noteworthy. During the fourth quarter of the fiscal year ended March 31, 2006, our Auction business achieved an average daily transaction volume of ¥1.91 billion. At March 31, 2006, a total of 6,878 Auction Stores were registered on the site. As the unrivaled market leader among online auction sites in Japan, Yahoo! Auctions enjoys a self-perpetuating virtuous cycle: an ever-expanding volume of participants guarantees an increasingly

* This figure excludes transactions that were initiated online but executed offline, such as requests for cost estimates of automobiles and real estate.

Internet Advertising Expenditures and Share of Total Advertising Expenditures



Sources: DENTSU INC. and Dentsu Communication Institute Inc.

To Our Shareholders

rich assortment of items for sale, which entices users to spend more and more time cruising the site, which in turn results in larger transaction volumes.

Since commencing services on our auction Web site, there have been occasional incidents of fraud victimization and other abuses of the system. To ensure that all users can participate in our auctions with ease and confidence, we have implemented various security measures, including the introduction of a fraud-detection model in the auction system, and have worked to develop security enhancement technologies in collaboration with administrative authorities.

In addition to security measures, we have stepped up promotional activities aimed at increasing the number of auction participants. For example, in February 2006 we lowered the minimum age requirement for participation in Yahoo! Auctions from 20 to 18 years in recognition of younger people's growing desire to participate in online auctions. During the fiscal year currently under way, we plan to implement several measures to attract occasional Internet users. In addition to running traditional mass-media advertising and promotional campaigns, we also plan to carry out a campaign effectively waiving the requirement for participants to have a Premium member ID and granting the right of participation to users possessing only a Yahoo! JAPAN ID. In order to fund the above measures, in May 2006 we increased system-use fees from 3% to 5% of auction closing prices. Auction Stores and certain item categories, such as automotive bodies, are exempt from this increase.

Our Shopping business also turned in an exceptional performance. Average daily transaction volume during the fourth quarter of the fiscal year under review was approximately ¥400 million, and the number of stores at March 31, 2006, totaled 9,445. The Shopping business is expanding at annual growth rates of over 60% in transaction volume and about 2.8 times in store numbers.

In March 2006, the Company decided to tie up with Sumitomo Mitsui Banking Corporation and the Japan Net Bank, Limited, to develop online settlement and other financial services. By the end of calendar year 2006, we plan to launch a service that will enable Yahoo! Auctions participants to make online settlements simply by exchanging their Yahoo! JAPAN IDs. With the inauguration of this service, Yahoo! Auctions settlements, most of which have been executed outside the Group's system to date, will be handled increasingly within the Group. By enhancing the security and convenience of our auction services, this service is expected to further stimulate our e-commerce business, which will in turn eventually spur further expansion in the entire Japanese e-commerce market.

Strategies for the Next 10 Years

In April 2006, the Group implemented organizational revisions. These revisions sought to subdivide our organization, which has grown substantially in size over the past few years, into segments of a size suited to accelerating decision-making and optimizing resource allocation. In addition, we added three new businesses—Social Net, Mobile, and Regional Services. Finally, to further strengthen our legal compliance and corporate governance and to maximize the security and sustainability of our businesses, we established an Internal Control Office.

Under this new organizational structure, the Group plans to address the following issues over the next 10 years.

Converting to Web 2.0

In contrast to the mass-media-style use of the Internet, where a specific information provider publishes information (head content) on the Internet that is viewed by users, users can now interactively utilize the Internet as a communication tool to provide a variety of information (tail content). This new type of Internet use is termed Web 2.0. In line with this trend, the Group has already introduced such services as Yahoo! Blogs and Yahoo! 360° (beta version)*. Our new Social Net business will take the lead in expanding and improving user-generated content. By effectively linking tail content to our rich selection of head content, we aim to become the No. 1 social media company in Japan.

* The Yahoo! 360° service was renamed Yahoo! Days in July 2006.

Strengthening the streaming content business

In December 2005, the Group established TV Bank Corporation, a joint venture with our parent company, SOFTBANK CORP., to further strengthen the streaming content services of Yahoo! Streaming. In line with the rapid proliferation of broadband infrastructure, traditional text-based information is being supplemented by strong growth in the video and audio components of Internet content. Yahoo! Streaming already has a library of approximately 100,000 searchable content items, including its own paid and free content. In the future, we plan to establish a revenue-sharing business model for streaming content services that will enable us to provide superior free content based on revenues received from advertisers.

Toward genuine mobile Internet services

Following SOFTBANK's March 2006 announcement of its acquisition of Vodafone K.K.*, Japan's third largest mobile phone service provider, the Company invested ¥120 billion in the form of preferred shares in SOFTBANK's mobile communications business and agreed to provide a portal site for users of SOFTBANK's mobile terminals by the end of the fiscal year currently under way.

Today's mobile Internet market resembles the personal computer Internet market of 10 years ago. Each carrier has its own official Web site through which it provides services to its subscribers in a closed environment that can hardly be called the Internet. As a result, most mobile phone subscribers use the mobile Internet service only for sending and receiving e-mail. While providing enhanced services to SOFTBANK's subscribers in our role as a portal site, we also intend to continue to offer our services to carriers other than SOFTBANK. By providing a platform that enables SOFTBANK's mobile users to easily access a diverse range of services over the Internet, we plan to achieve genuine mobile Internet services that are not limited to the designated services of individual carriers.

The Group's mobile site, Yahoo! Mobile, has achieved steady growth in monthly page views of approximately 20% each quarter and accounted for 4.4% of the Group's total page views in March 2006, or approximately 1,449 million page views. More concretely, e-commerce transactions on our mobile version of Yahoo! Auctions and other sites generated nearly 10% of the Group's total e-commerce transaction volume in the fourth quarter of the fiscal year under review. Under the leadership of our new Mobile business, we will pursue expanded and enhanced mobile services and content, increased use of e-commerce services over mobile, and the development of mobile-oriented advertising products. Through these efforts, we will seek to provide all mobile users with a seamless PC and mobile Internet environment.

* From October 1, 2006, Vodafone will change its name to SOFTBANK MOBILE Corp. and market its mobile phone services under the SOFTBANK brand name.

In Conclusion

The Group plans to draw upon internal resources to fund the aforementioned business development activities, thereby strengthening our corporate structure. Recognizing the importance of returning profits to shareholders, management will continue to focus on its goal of producing a profit each year while at the same time flexibly paying dividends based on the Group's performance. For the fiscal year under review, we achieved our target of a 10% payout ratio of consolidated net income, declaring a cash dividend of ¥156 per share.

We believe that a spotless corporate reputation will be a key factor in the Group's future success. Retaining the trust not only of the users of our services but also of our business partners, service vendors, shareholders, and society as a whole is essential to the achievement of sustainable growth. To that end, we will focus keenly over the next 10 years on strengthening the quality of our services and enhancing our reputation as an influential media source. In all of our efforts to further enhance the Group's presence and reputation in the Internet market, we look forward to the continued support of our shareholders.

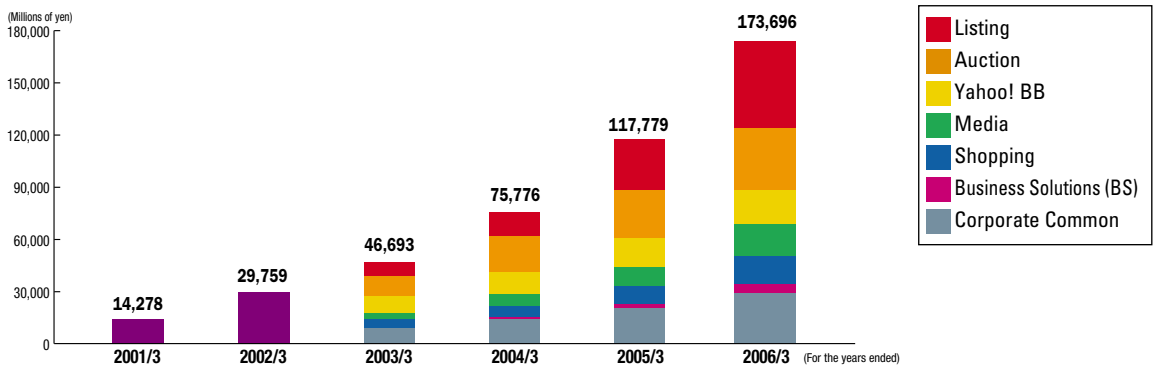
Masahiro Inoue
President and CEO
Yahoo Japan Corporation

Business Review

Yahoo Japan Corporation (the Company) was incorporated in January 1996 in Japan. Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) comprise seven businesses, as described below.

Business	Main Services
Listing	The Listing business publishes various providers' information on the Company's Web site. It provides search and directory 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.
Auction	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	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) and BB TECHNOLOGY Corp. (BBT), wholly owned subsidiaries of SOFTBANK. The business acquires subscribers over the Web and then receives incentives from BBT. It also provides an Internet services provider (ISP) service to individual subscribers that the Company has acquired through its Web site and that SBB and BBT have gained through electronic wholesalers and by other means. The ISP service includes e-mail, home-page creation, and other services.
Media	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, and Yahoo! Sports; entertainment services, such as Yahoo! Games and Yahoo! Music; and community services, such as Yahoo! Message Boards and Yahoo! Avatar.
Shopping	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 and overseas accommodation, airline tickets, and the like, and provides various travel information for travel arrangements and preparation. Seven and Y, an online book retailer and former consolidated subsidiary, has been accounted for by the equity method from the fourth quarter of the fiscal year ended March 31, 2006.
Business Solutions (BS)	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	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.
	Total

Net Sales, by Business



(Millions of yen)

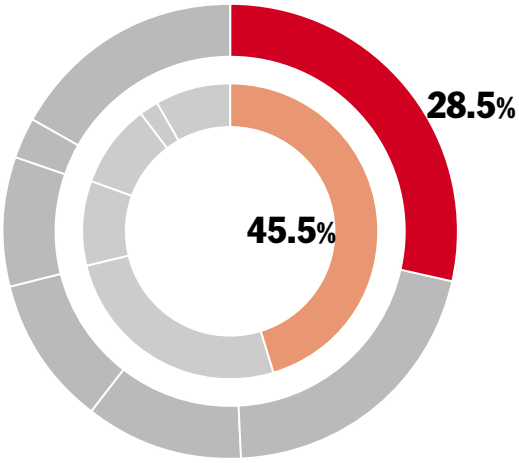
Advertising Sales	Business Services Sales	Personal Services Sales	Other Sales	Net Sales	Cost of Sales	Gross Profit	SG&A Expenses	Operating Income (Loss)	Operating Margin
34,212	14,779	570	–	49,561	1,139	48,422	11,086	37,336	75.3%
2,707	5,062	28,218	–	35,987	40	35,947	14,479	21,468	59.7%
2,783	5,708	10,994	–	19,485	1,062	18,423	10,746	7,677	39.4%
15,893	770	1,704	–	18,367	538	17,829	10,249	7,580	41.3%
2,661	4,375	–	8,927	15,963	7,379	8,584	6,839	1,745	10.9%
187	4,888	35	–	5,110	2,089	3,021	3,503	(482)	(9.4%)
9,962	241	19,021	(1)	29,223	596	28,627	21,818	6,809	23.3%
68,405	35,823	60,542	8,926	173,696	12,843	160,853	78,720	82,133	47.3%

Business Review

Listing

Main Services

Yahoo! Search | Yahoo! Maps | Yahoo! Category | Yahoo! Rikunabi | Yahoo! Autos | Yahoo! Knowledge | Yahoo! Real Estate | Yahoo! Gourmet | Yahoo! Phone Book | Yahoo! Get Local | Yahoo! Education | Business Express



The Listing business provides search services, such as Yahoo! Search and Yahoo! Category; information listing services, such as Yahoo! Rikunabi, Yahoo! Real Estate, and Yahoo! Autos; and regional information services, such as Yahoo! Maps, Yahoo! Phone Book, and Yahoo! Gourmet. This business derives revenues primarily from advertising sales, including sales of our Sponsor Site paid search service, and from information listing fees paid by information providers.

Performance

Sponsor Site sales, the largest component of advertising sales for the Listing business in fiscal 2005, rose firmly in line with increases in the unit price for searches and in the number of page views. Sales of branding advertisements, particularly to National Clients, were also strong. As a result, advertising sales for fiscal 2005 leapt 70.3%, to ¥34,212 million. In business services other than advertising, higher revenues from information listing services, such as Yahoo! Rikunabi, pushed up sales 63.6%, to ¥14,779 million. Total net sales of the Listing business, therefore, surged 68.8%, to ¥49,561 million, or 28.5% of consolidated net sales for fiscal 2005. Operating income expanded 66.3%, to ¥37,336 million, resulting in an operating margin of 75.3%.

Market Position and Operational Review

In our search services, in October 2005 we reformatted the search results page of Yahoo! Search, which now prominently displays the results of a robot-driven search based on Yahoo! Search Technology, whereas previously the results of a directory search developed in-house were displayed. As part of our ongoing efforts to meet diversifying user needs, we upgraded functions for picture, voice, and product searches, thereby improving overall search functions.

In our information listing services, we responded to user needs by adding career change, part-time work, temporary staffing, and other Yahoo! Rikunabi categories to Yahoo!

Listing Business Income Statement

(Millions of yen)

For the year ended	2006/3	
Net sales:		
Advertising	34,212	Advertising sales (including Sponsor Site)
Business services	14,779	Information listings, Business Express, ALPS MAPPING
Personal services	570	
Other	–	
Total	49,561	
Cost of sales	1,139	
Gross profit	48,422	
SG&A expenses	11,086	Personnel expenses, Content provider fees, Business commissions
Operating income	37,336	
Operating margin	75.3%	

JAPAN's top page. In addition, we finalized a business tie-up agreement with CLASSIFIED Corporation in a move to boost Yahoo! Real Estate's sales of listing services for newly built houses. Moreover, we revamped the Yahoo! Real Estate site, adding an expanded selection of photographs and large-sized floor plans for easier viewing.

Also in fiscal 2005, we made much progress in expanding and improving our regional information services. With regard to Yahoo! Maps, we added a scrolling function capable of handling aerial maps and introduced a mobile version that allows users registered on our PC site to download maps suited to the specifications of various mobile carriers from our PC site free of charge. Among services launched during the fiscal year was Yahoo! Area Search (beta version), which enables users to make area-specific searches for retail stores and other facilities throughout Japan. We also newly introduced Yahoo! My Town (beta version), an interactive service that facilitates the exchange of personal opinion and information among users living in close geographic proximity.

Strategy

As part of the Group's reorganization in April 2006, the former Listing business was divided into two new businesses: (1) the Search business, responsible for our search services; and (2) the Regional Services business, comprising information listing and regional information services.

The Search business will focus on upgrading the functions and comprehensiveness of our search services, including product, knowledge, blog, and video clip searches, in an effort both to attract a growing number of users and to boost the usage frequency of our search services. We are also responding to emerging user needs by enhancing the convenience of search functions for user-generated tail content. Meanwhile, in cooperation with Overture we are targeting expanded sales of our Sponsor Site service to advertisers while also working to improve service quality, chiefly by tightening the correlation between users' search parameters and Sponsor Site results. In addition, we are developing a mobile version of Sponsor Site with the goal of expanding advertising revenues from this service.

The Regional Services business will aim to more comprehensively address user needs by increasing information listing volume and by enhancing service convenience. As a result, we expect to increase the number of users and of page views. By strengthening and expanding interactive services that facilitate the exchange of personal opinion and information among users, and linking such services to other Yahoo! JAPAN services, the Regional Services business aims to improve the overall quality and functionality of its regional information services. At the same time, the business will focus more keenly on developing a mobile version of its services.

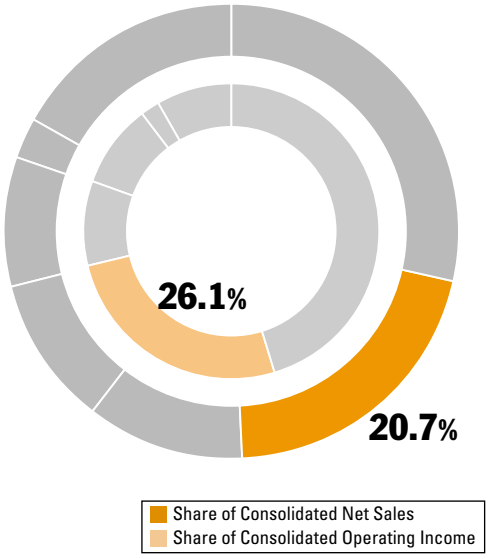
Main Consolidated Subsidiaries
ALPS MAPPING K.K.; BridalNet, Inc.; Indival, Inc.

Business Review

Auction

Main Services

Yahoo! Auctions | Yahoo! ezPay | Yahoo! Delivery



The Auction business provides an Internet platform that enables private individuals and merchants (Auction Stores) to buy and sell items via an auction process. To promote a steady increase in transaction volume, this business makes ongoing efforts to strengthen site security, attract a growing number of participants, and increase the number of Auction Stores listed on the site.

Performance

Net sales of the Auction business in fiscal 2005 rose 31.6%, to ¥35,987 million, accounting for 20.7% of consolidated net sales. Primary sources of sales were system-use fees paid by individuals, tenant fees and royalties paid by Auction Stores, and revenues from Yahoo! ezPay, operated by consolidated subsidiary Netrust, Ltd. Operating income increased 20.7%, to ¥21,468 million, resulting in an operating margin of 59.7%, down 5.4 percentage points from the previous year's figure. This decrease was the direct result of increased spending during the year on vigorous activities to strengthen site security and on other measures aimed at buttressing the Auction business' operational base.

Market Position and Operational Review

Yahoo! Auctions is the undisputed leader among Internet auction sites in Japan. To maintain this position and to ensure the sound development of the overall Internet auction market, the Group remained keenly focused on improving site security during the fiscal year. To prevent fraudulent activity and the listing of illegal or inappropriate items as well as to promote greater awareness of intellectual property rights, we collaborated with other Internet auction operators to produce Internet Auction Services Guidelines. We also introduced an Internet auction fraud-detection model that employs data-mining technologies developed for investigating criminal cases. Moreover, we strengthened and expanded our staff team charged with seeking out and removing auction listings in violation of Japanese law or Group policy. Through these and other actions, we worked to provide a more secure environment in which all participants can use our services with confidence and ease.

Also during fiscal 2005, we implemented various measures to stimulate transaction volume and increase participation in our

Auction Business Income Statement

(Millions of yen)

For the year ended	2006/3
Net sales:	
Advertising	2,707
Business services	5,062
Personal services	28,218
Other	–
Total	35,987
Cost of sales	40
Gross profit	35,947
SG&A expenses	14,479
Operating income	21,468
Operating margin	59.7%

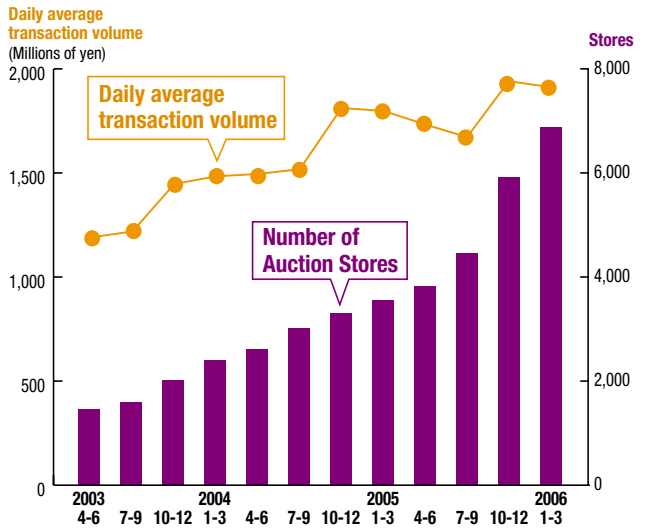
- Advertising sales
- Revenue from Auction Stores
- System-use fees for Yahoo! Auctions, Yahoo! ezPay commissions
- Business commissions, Payment commissions, Communications charges

auctions. For example, we ran seasonal promotion campaigns, held bargain sales on Auction Stores, hosted auctions in conjunction with popular TV programs, and launched a site-based Yahoo! Auctions Trial Version that enables newcomers to familiarize themselves with the bidding process. In addition, we continued to cultivate expanded usage of Internet public-sale auctions. During the fiscal year, our auction site hosted Internet real estate auctions for 24 regional and municipal governments in Japan. We also hosted the Ministry of Finance's first Internet auction of modern gold coins minted in Japan.

In addition to promoting CtoC transactions, we made efforts to expand the number of Auction Stores listed on our auction site with an eye to stimulating BtoC transactions. The Business Sales Division provided enhanced support services to Auction Stores during the fiscal year under review, which helped to increase the number of Auction Stores by 3,322, or 93.4%, to 6,878 stores at March 31, 2006. As a result, BtoC transaction volume represented more than 10% of total Auction business transaction volume in fiscal 2005. Thanks to these measures, total transaction volume on Yahoo! Auctions in fiscal 2005 climbed 9.6%, to ¥662.2 billion.

The number of transactions settled via Yahoo! ezPay also rose during the fiscal year owing to Netrust's successful efforts to enroll the participation of a greater number of financial institutions and to the introduction of a mobile version of Yahoo! ezPay.

Yahoo! Auctions Daily Average Transaction Volume and Number of Auction Stores



Strategy

The Auction business will continue to undertake various activities aimed at stimulating further growth. In addition to recent measures taken to increase the number of auction participants, including a reduction in the minimum age requirement and the relaxation of other requirements for auction participation, we will implement further plans to encourage steadily expanding participation looking forward. These include online promotional campaigns employing Overture's search-linked advertising, as well as advertising campaigns carried out via television and other traditional media. At the same time, we will continue to focus on strengthening the security and convenience of our auction system with the aim of boosting users' confidence in and enjoyment of our services. Planned security measures include introducing an advisory service, enhancing our security, strengthening our patrolling, utilizing a model to detect inappropriate use of our services, and upgrading our personal identification program. In May 2006, we increased system-use fees from 3% to 5% of auction closing prices. Additional revenues derived from this increase will be used to fund the implementation of the above measures, including the installation of servers and related equipment. Looking forward, we remain fully committed not only to developing Japan's Internet auction market but also to maintaining our pre-eminent position in this promising business area.

Main Consolidated Subsidiary

Netrust, Ltd.

Yahoo! Auctions Data

• Number of unique browsers (for March 2006)	24.89 million
• Average number of listings at any given time (for March 2006)	9.42 million
• Daily average number of new listings (for fiscal 2005-4Q)	72.2 million
• Average closing price (for fiscal 2005-4Q)	¥5,809
• Average ratio of successful auctions (for fiscal 2005-4Q)	34%
• Number of Auction Stores at March 31, 2006	6,878
• Daily average transaction volume (for fiscal 2005-4Q)	¥1,912 million

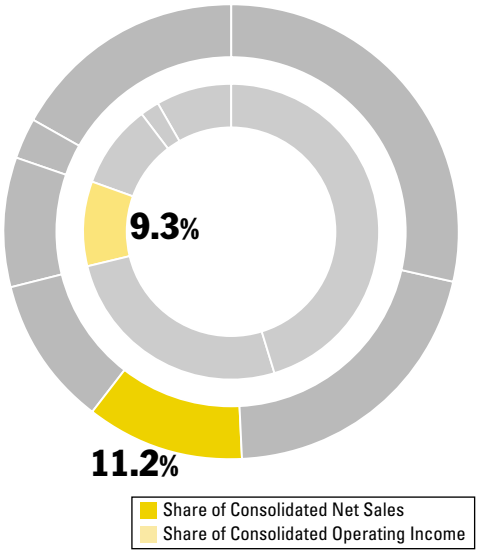
Business Review

Yahoo! BB

Main Services

Yahoo! BB | Yahoo! Mail | Yahoo! GeoCities

The Yahoo! BB business focuses on attracting new subscribers and retaining existing subscribers to its comprehensive Yahoo! BB broadband services mainly through Internet promotions. It also offers Yahoo! Mail and Yahoo! GeoCities, a home-page creation service, to individual subscribers.



Performance

Net sales of the Yahoo! BB business in fiscal 2005 advanced 16.0%, to ¥19,485 million, accounting for 11.2% of consolidated net sales. This business' revenue sources included Internet services provider (ISP) fees from subscribers and subscriber acquisition and continuation incentives from business partner BB TECHNOLOGY Corp. (BBT) Operating income fell 23.3%, to ¥7,677 million, resulting in an operating margin of 39.4%, down 20.2 percentage points from the previous year's figure. This decrease reflected an increase in SG&A expenses during the year resulting from the fact that we began paying a part of Yahoo! BB subscriber acquisition costs to BBT beginning from the fiscal year under review.

Market Position and Operational Review

In fiscal 2001, when the Group joined forces with BBT to begin offering broadband services in what was still largely a narrowband Japanese market, the rapid shift to broadband services began. Today, Japan boasts the fastest, most economical broadband services in the world, with 65.0% of Internet-enabled Japanese households enjoying the benefits of broadband connectivity.

In line with decelerating broadband proliferation in the Japanese market, the pace of new-subscriber growth for broadband services slackened in fiscal 2005. In this challenging environment, we carried out promotional activities including various campaigns to attract new subscribers for our Yahoo! BB and Yahoo! BB Hikari services. We also sought to enhance the value of our services through exclusive offers for members, including live concert broadcasts of popular musical artists, movie-release press conferences, online movie previews, and members-only bargain campaigns on Yahoo!

Yahoo! BB Business Income Statement

(Millions of yen)

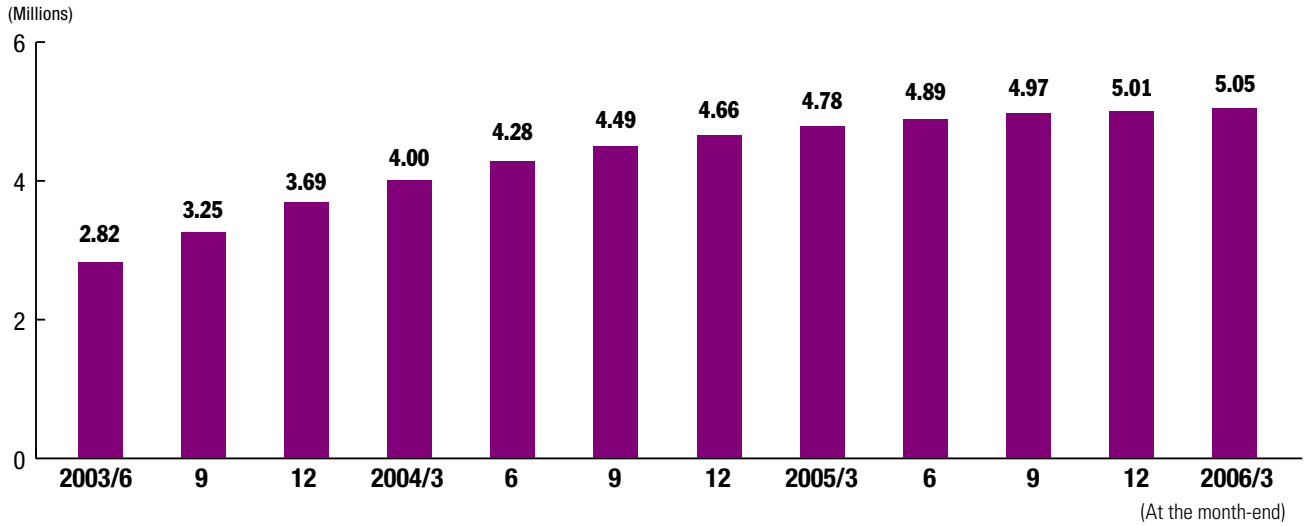
For the year ended	2006/3	
Net sales:		
Advertising	2,783	Advertising sales
Business services	5,708	Yahoo! BB subscriber acquisition and continuation incentives
Personal services	10,994	ISP fees, Paid services
Other	–	
Total	19,485	
Cost of sales	1,062	
Gross profit	18,423	
SG&A expenses	10,746	Sales promotion costs, Business commissions, Depreciation and amortization
Operating income	7,677	
Operating margin	39.4%	

Shopping and Yahoo! Auctions. In our Yahoo! Mail service, we bolstered security by implementing improved technologies for detecting viruses and blocking junk mail. We also expanded the functions available to Yahoo! Mail users accessing the service via mobile phones. As a result of these and other efforts, the number of Yahoo! BB subscribers as of March 31, 2006, stood at 5,049 thousand, 5.7% higher than the figure at the previous fiscal year-end.

Strategy

As part of the Group's reorganization in April 2006, we established the Members Services business, charged with the task of providing Yahoo! BB and Yahoo! Premium members with royal treatment, thereby increasing the value of these memberships. In addition to conducting campaigns to attract new members, the Members Services business will offer new exclusive services to existing members in an effort to boost their satisfaction with and continuing patronage of our services, which in turn is likely to increase average revenue per user (ARPU).

Yahoo! BB Subscribers

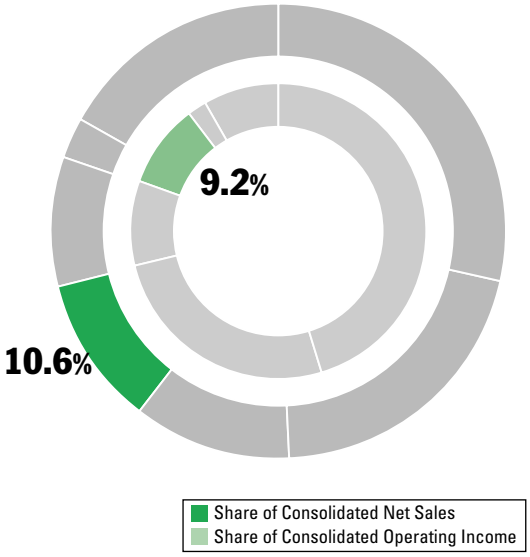


Business Review

Media

Main Services

Yahoo! News | Yahoo! Finance | Yahoo! Message Boards | Yahoo! Sports | Yahoo! Weather | Yahoo! Music | Yahoo! Movies | Yahoo! Avatar | Yahoo! Streaming | Yahoo! 360° | Yahoo! Insurance



The Media business provides users with a variety of desirable content and services in an effort to stimulate page views and thus increase advertising sales. The business earns revenues also by providing fee-based content and services. Media business services include information-providing services, such as Yahoo! News and Yahoo! Finance; entertainment services, such as Yahoo! Movies, Yahoo! Music, and Yahoo! Streaming; and community services, such as Yahoo! Message Boards and Yahoo! Avatar.

Performance

A recent DENTSU report indicates that Japan's Internet advertising market expanded 54.8% in calendar year 2005, to ¥280.8 billion. Against this backdrop of market growth, increased page views in line with our expanded service offerings and the growing eagerness of advertisers to utilize Internet advertising resulted in a strong performance by the Media business in fiscal 2005. Advertising sales jumped 71.7%, to ¥15,893 million. Paid content also performed well, reflecting our efforts to further reinforce the content of Yahoo! Fortune Telling and Yahoo! Comics. Consequently, net sales of the Media business jumped 71.0%, to ¥18,367 million, accounting for 10.6% of consolidated net sales. Operating income soared 96.2%, to ¥7,580 million, resulting in an operating margin of 41.3%.

Market Position and Operational Review

As the unrivaled leader in Japan's Internet market, the Group provides a wide variety of paid and free content. During the fiscal year under review, the Media business maintained a sharp focus on developing content and providing services with

Media Business Income Statement

(Millions of yen)

For the year ended	2006/3	
Net sales:		
Advertising	15,893	Advertising sales
Business services	770	Information listings
Personal services	1,704	Paid content
Other	–	
Total	18,367	
Cost of sales	538	
Gross profit	17,829	
SG&A expenses	10,249	Sales commissions, Personnel expenses, Content provider fees
Operating income	7,580	
Operating margin	41.3%	

broad user appeal.

In December 2005, the Group commenced operations of TV Bank, a joint venture with our parent company, SOFTBANK, with the goal of strengthening our streaming content business. In conjunction with this move, we renewed our Yahoo! Streaming site with an emphasis on creating a streaming content portal site in preparation for expanded service offerings. Also during the fiscal year, we stepped up our involvement in cooperative projects with prominent organizations in other media, setting up a special site for an NHK TV drama series and collaborating with Toho Co., Ltd., to create an official site for one of that film distributor's new movies. Elsewhere, we garnered much favorable market attention with our launch of Yahoo! Music Sound Station, Japan's first free on-demand music listening service for uncut songs. Finally, we sharpened our response to the growing phenomenon of user-generated tail content with our introduction of a beta version of Yahoo! 360°*, a free social network service.

*The Yahoo! 360° service was renamed Yahoo! Days in July 2006.

Strategy

Until recently, Internet-based information consisted chiefly of head content supplied by media companies. Today, utilizing the interactive capabilities of the Internet, individual users can contribute tail content under the rubric of all head content information. This new interactive functionality is facilitating a significant expansion in the breadth and depth of information available on the Internet. In response, the Media business plans to incorporate huge volumes of tail content generated by the approximately 40 million users of the Group's services with an eye to broadening the variety of information we provide. At the same time, we will continue to develop cutting-edge information search and display functions to ensure that users can efficiently find what they are searching for in a massively expanding volume of information.

Main Consolidated Subsidiaries
Y's Insurance Inc., Y's Sports Inc.

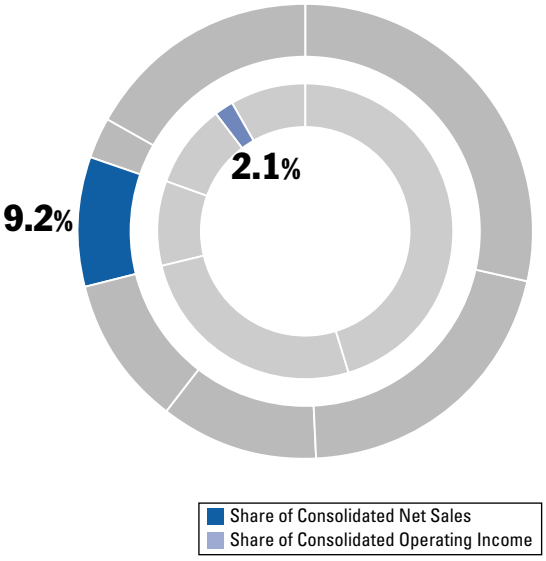
Yahoo! Streaming

Business Review

Shopping

Main Services

Yahoo! Shopping | Yahoo! Travel | Yahoo! Books | Yahoo! Tickets | Yahoo! GroupBuy



The Shopping business operates Yahoo! Shopping, a site featuring a broad selection of high-quality items from established brand-name retailers and distinctive boutiques. This business also provides a range of travel-related products and services, including domestic and overseas airline tickets and accommodation, a variety of travel-related information, and an online ticket service.

Performance

Net sales of the Shopping business in fiscal 2005 increased 50.7%, to ¥15,963 million, accounting for 9.2% of consolidated net sales. Sales principally came from Seven and Y transactions and Yahoo! Shopping tenant fees and sales commissions. Operating income jumped 341.1%, to ¥1,745 million, resulting in an operating margin of 10.9%. A particularly notable event during the year was the Company's sale of a portion of its stake in Seven and Y in February 2006. Accordingly, this former consolidated subsidiary became an affiliate accounted for by the equity method in the fourth quarter of fiscal 2005.

Market Position and Operational Review

When the Group commenced the shopping mall services of Yahoo! Shopping in September 1999, only large-scale, brand-name retailers were allowed to register on the site, a policy that effectively limited the number of stores to around 200. In August 2003, we changed our strategy and began soliciting site registration from small and medium-sized stores.

In fiscal 2005, the Shopping business continued to focus on recruiting new stores to its site in order to broaden the range of goods and services offered and thereby boost customer satisfaction. We also continued to strengthen our cooperative relationship with sales agents to attract new stores and to offer existing stores various consulting services, including efficiency-enhancing proposals for store structures. As a result, a total of 9,445 stores were registered on the site at March 31, 2006, a gain of 186.4%, or 6,147 stores, from the figure at the previous fiscal year-end. As part of our ongoing

Shopping Business Income Statement

(Millions of yen)

For the year ended	2006/3	
Net sales:		
Advertising	2,661	Advertising sales
Business services	4,375	Revenue from stores, Commissions from Tavigator, Inc.
Personal services	–	
Other	8,927	Seven and Y
Total	15,963	
Cost of sales	7,379	Seven and Y
Gross profit	8,584	
SG&A expenses	6,839	Personnel expenses, Business commissions, Packing and transport expenses
Operating income	1,745	
Operating margin	10.9%	

efforts to expand site sales, we conducted several seasonal sales promotions during the year, including special offerings on Mother's Day, Father's Day, Ochugen (mid-year gift giving), and Oseibo (year-end gift giving). We also ran various campaigns focusing on our Yahoo! Points rebate system. Furthermore, in fiscal 2005 we introduced a mobile version of Yahoo! Shopping that allows users to purchase items from Internet-enabled mobile terminals.

During the fiscal year under review, Yahoo! Travel began to collaborate with RECRUIT CO., LTD., to jointly provide online travel services. In addition, as part of a comprehensive business alliance agreement with the JAL Group signed during the year, Yahoo! Travel started offering ticketing services for the JAL Group's domestic flights.

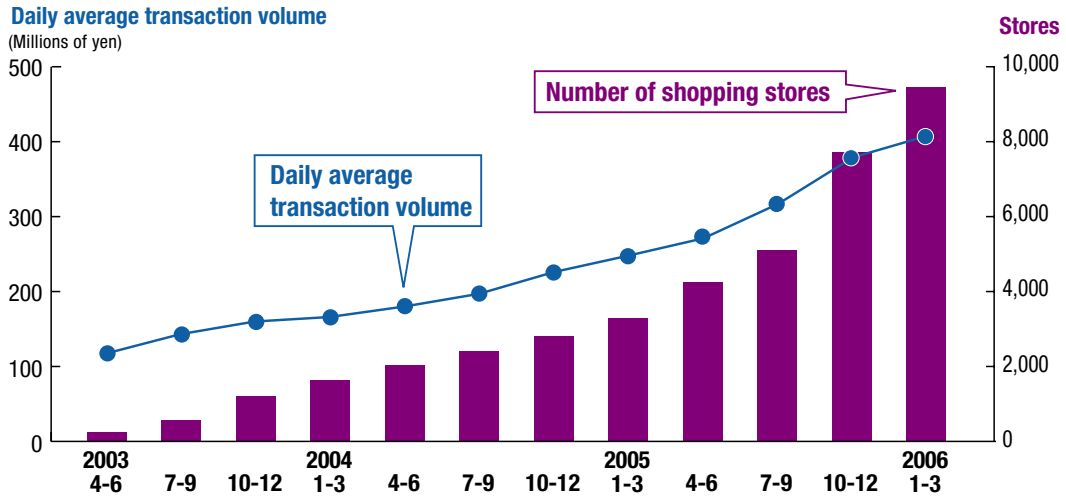
As a result of these and other activities, the Shopping business' transaction volume surged 61.6% in fiscal 2005, to ¥125.3 billion.

Strategy

The Shopping business will leverage the diversified service strengths of the Group with the aim of maximizing user satisfaction. For example, by adding and improving search functions we will make it easier for shoppers to find exactly what they want from among a constantly increasing number of items offered by a growing number of stores registered on our site. Moreover, we will promote interactive communications among Yahoo! JAPAN users relating to product information, thereby enabling shoppers to make more informed purchase decisions. Finally, to expand transaction volume we will upgrade our Yahoo! Shopping mobile services.

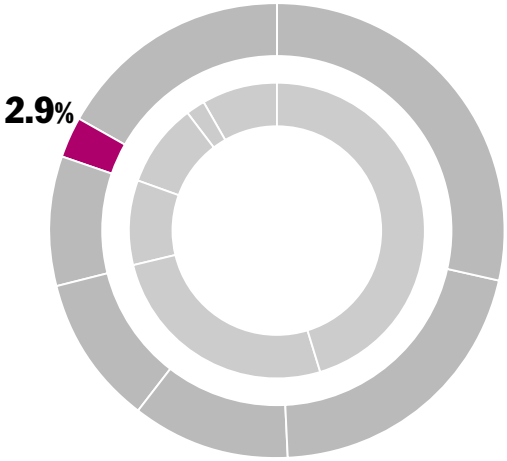
Main Consolidated Subsidiary
Tricle Inc.

Daily Average Transaction Volume and Number of Yahoo! Shopping Stores



Note:
Beginning from the third quarter of fiscal 2005, new stores have been added to the total number of stores upon making the initial tenant fee payment. For prior periods, new stores were added to the total number of stores at the time of opening on the site.

Business Solutions (BS)



Share of Consolidated Net Sales

Main Services

Yahoo! Research | Yahoo! Domain | Yahoo! WebHosting | Yahoo! Portal Solutions

The BS business draws upon the Group's accumulated know-how and technologies to offer business solutions to a broad range of clients, including corporations, governmental entities, and small office/home office (SOHO) proprietors. Main services offered by this business are Yahoo! Research Internet surveys, domain and hosting services, licensing for enterprise information portal (EIP) solutions, and portal site development support for both BtoC (retail) and BtoB (wholesale) businesses.

Performance

The consolidation of INFO PLANT CO., LTD., from the third quarter of the fiscal year under review and the full-year consolidation of the sales of Web-hosting specialist Firstserver, Inc., consolidated in the third quarter of fiscal 2004, contributed to a big leap in business services sales, which accounted for a large part of this business' sales in fiscal 2005. As a result, net sales of the BS business rose 114.6%, to ¥5,110 million. The operating loss for the year was ¥482 million, compared with a ¥155 million loss the previous year, reflecting increased personnel expenses and higher goodwill amortization due to the consolidation of INFO PLANT and Firstserver.

Market Position and Operational Review

In anticipation of expanding Internet research business, we made Internet research company INFO PLANT a consolidated subsidiary during the year. With the goal of increasing sales of Yahoo! Research services, we concentrated on strengthening our sales capabilities. To buttress our response capacity to higher demand for large-scale monitoring, we began accepting monitors for our new Research Monitor Lite service during the fiscal year. At March 31, 2006, we had a total of approximately 1.07 million registered monitors, comprising Research, Mobile,

BS Business Income Statement

(Millions of yen)

For the year ended	2006/3	
Net sales:		
Advertising	187	Advertising sales
Business services	4,888	Firstserver, INFO PLANT, Yahoo! Research
Personal services	35	
Other	–	
Total	5,110	
Cost of sales	2,089	Firstserver, INFO PLANT
Gross profit	3,021	
SG&A expenses	3,503	Personnel expenses, Amortization of goodwill, Business commissions
Operating loss	(482)	
Operating margin	(9.4%)	

and Research Lite monitors, an increase of 650 thousand monitors, or 154.8%, from the 420 thousand monitors at the previous fiscal year-end. Targeting growth in our domain/hosting services, we leveraged the capabilities of consolidated subsidiary Firstserver.

Strategy

As part of the Group's April 2006 reorganization, we transferred the services of the BS business to the New Business Office, within which we newly established the Research Business and Business Preparation units. Under this new organization, we will aim to make our Internet research and Web-hosting businesses the top operations in their respective fields in Japan. In our Yahoo! Research services, we will fully leverage the synergies between INFO PLANT and affiliate INTAGE Interactive Inc. with an eye to expanding our lineup of research products and to achieving collaborative sales efficiency. In our Yahoo! Domain and Yahoo! WebHosting services, we are focusing on enhancing the convenience of our services, in addition to developing a new business model.

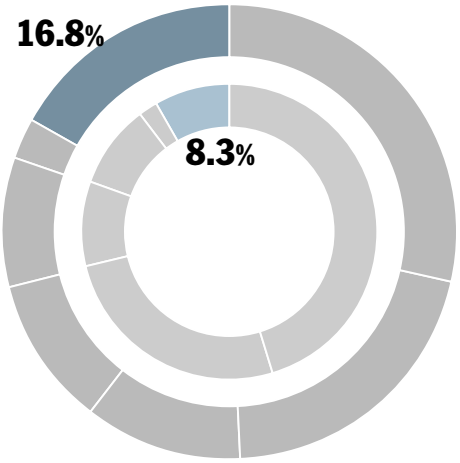
Main Consolidated Subsidiaries
Firstserver, Inc.; INFO PLANT CO., LTD.; UniCept, Inc.

Yahoo! Research

Yahoo! Research

Business Review

Corporate Common
–Elimination or Corporate



Share of Consolidated Net Sales
Share of Consolidated Operating Income

Main Services

Yahoo! JAPAN Top Page | Yahoo! Mobile | Yahoo! Blogs | My Yahoo! | Yahoo! Kids | Yahoo! Live Talk | Yahoo! Premium | Yahoo! Points | Yahoo! Volunteer | Yahoo! Trading | Yahoo! Disaster Information

Revenues and expenses related to banner advertisements on Yahoo! JAPAN top pages and to Yahoo! Premium membership services, offered exclusively to members in exchange for monthly membership fees, are not reflected in the results of the Group's six businesses. Because these revenues and expenses are related to activities geared to developing the Group's corporate brand, they are accounted for as the results of the Corporate Common business. Revenues and expenses related to the Company's headquarters also are included in the results of the Corporate Common business.

Performance

In the fiscal year under review, net sales of the Corporate Common business advanced 42.1%, to ¥29,223 million, representing 16.8% of consolidated net sales. Sales of advertising, primarily on Yahoo! JAPAN top pages, surged 72.0%, to ¥9,962 million. Personal services sales, mainly consisting of Yahoo! Premium membership fees, rose 31.2%, to ¥19,021 million. Operating income advanced 16.8%, to ¥6,809 million, resulting in an operating margin of 23.3%.

Market Position and Operational Review

As the undisputed leader of the Internet market in Japan, the Group boasts an unrivaled number of users and page views. In fiscal 2005, we experimented with various measures to expand the number of Yahoo! Premium members and enhance membership value. For example, we ran an exclusive limited-duration campaign offering free Yahoo! Premium memberships to Yahoo! BB subscribers. We also carried out an exclusive Yahoo! Points campaign targeted specifically at Yahoo! Premium members. In addition, we aggressively used affiliate marketing and Sponsor Site services to acquire new Yahoo!

Corporate Common Business Income Statement

(Millions of yen)

For the year ended	2006/3	
Net sales:		
Advertising	9,962	Advertising sales
Business services	241	
Personal services	19,021	Yahoo! Premium membership fees
Other	(1)	
Total	29,223	
Cost of sales	596	
Gross profit	28,627	
SG&A expenses	21,818	Personnel expenses, Depreciation and amortization, Business commissions
Operating income	6,809	
Operating margin	23.3%	

Premium members. Among our activities aimed at increasing the value of Yahoo! Premium membership in an effort to retain existing members, we offered exclusive services and content, free trials of popular PC software, and increased storage space on Yahoo! Photo and Yahoo! Briefcase. As a result, Yahoo! Premium member IDs numbered 6.15 million at March 31, 2006, an increase of 1.07 million IDs, or 21.2%, compared with the figure at March 31, 2005.

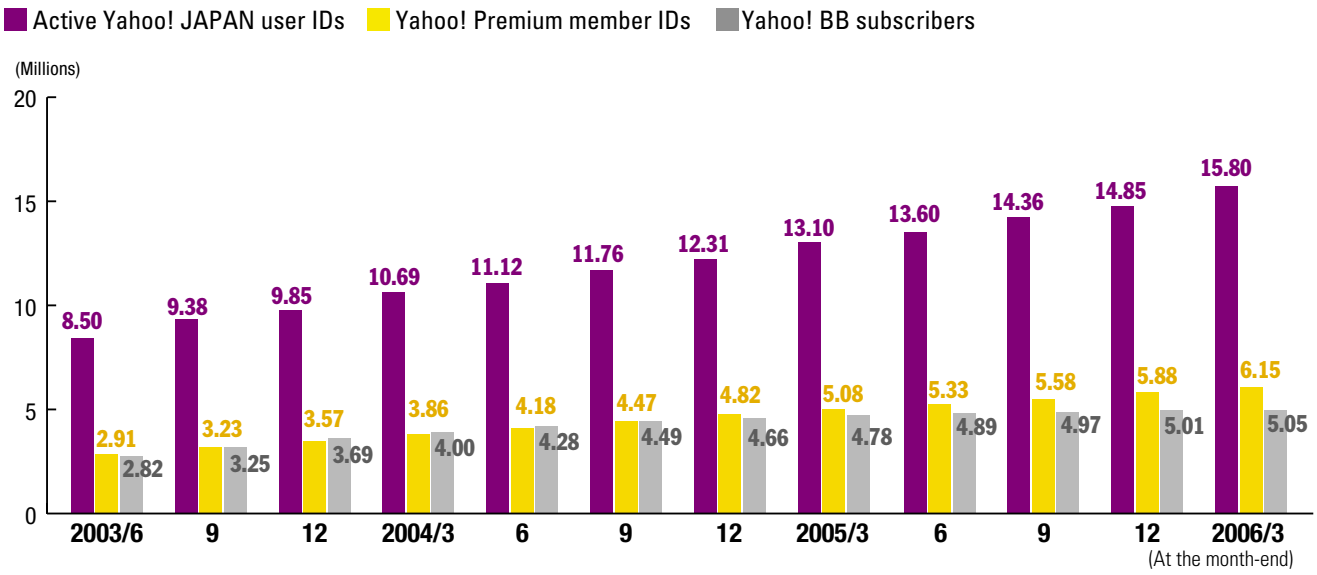
Other measures taken during the fiscal year to enhance our value as an advertising media included a complete renewal of Yahoo! JAPAN's top pages. We also actively marketed Brand Panels for top pages, especially to National Clients. Consequently, sales of top page advertising rose favorably, which supported a substantial increase in total advertising sales registered by the Corporate Common business in fiscal 2005.

Strategy

As part of the Group's reorganization in April 2006, we established the Members Services business, charged with the task of providing Yahoo! BB and Yahoo! Premium members with royal treatment, thereby increasing the value of these memberships. In addition to conducting campaigns to attract new members, the Members Services business will offer new exclusive services to existing members in an effort to boost their satisfaction with and continuing patronage of our services, which in turn is likely to increase ARPU. To expand its channels for acquiring new Yahoo! Premium members, the business will employ search engine marketing and affiliate marketing.

Main Consolidated Subsidiary
NETGENE Co., Ltd.

Yahoo! JAPAN Users



Special Feature

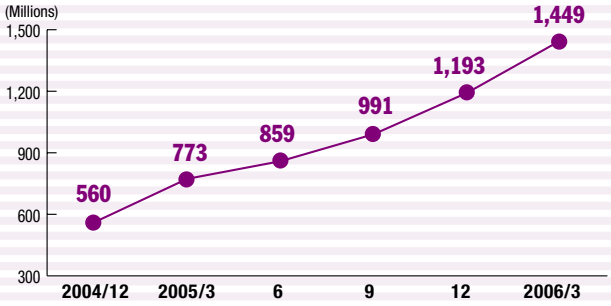
Toward the Achievement of Integrated Mobile Internet Services

Yahoo! Mobile Strong in Japan's Mobile Internet Market

Yahoo! Mobile now offers some 60 services for Internet-enabled mobile phones. With monthly page views expanding at a clip of approximately 20% each quarter, Yahoo! Mobile registered 1.45 billion page views in March 2006, accounting for 4.4% of the Group's total page views during that month. According to Impress Holdings, Inc.'s "Report on Japan's Mobile Phone Market 2006," Yahoo! Mobile boasted the highest bookmark frequency of all portal sites in Japan's mobile Internet market in calendar year 2005, at 22%, while each of the other mobile portals had only a single-digit bookmark frequency. Clearly, Yahoo! Mobile is the overwhelmingly dominant market player in terms of brand recognition.

The mobile Internet environment is still very disintegrated, however, resembling the PC Internet environment of 10 years ago. Consequently, page views are relatively low and income flows from text advertising, Sponsor Site advertising, and e-commerce transactions, rapidly expanding though they may be, remain limited.

Yahoo! Mobile Monthly Page Views



SOFTBANK Business Alliance Paving the Way

In March 2006, our parent company, SOFTBANK, announced its entry into the mobile communications business with the acquisition of Vodafone. At March 31, 2006, Vodafone ranked No. 3 among Japanese mobile carriers, with 15.2 million subscribers, or 16.6% of the total subscriber base. Succeeding to this well-established business platform, SOFTBANK has decided to change Vodafone's name to SOFTBANK MOBILE Corp. from October 1, 2006, re-brand the mobile phone services as SOFTBANK, and dedicate its full energies to expanding and strengthening the mobile communications business.

Following quickly in suit, the Company in April 2006 made a ¥120 billion investment in SOFTBANK's mobile communications business in the form of preferred shares purchased from BB Mobile Corp. At the same time, we agreed to provide a portal site for users of SOFTBANK's mobile terminals by the end of the fiscal year currently under way. Through this business alliance with SOFTBANK, the Group is responsible for providing PC and mobile phone users with a seamless Internet environment. We view this as an excellent opportunity to realize innovative mobile services.

Investment in Preferred Shares

- Issuer: BB Mobile (SOFTBANK's wholly owned subsidiary that acquired Vodafone's outstanding common shares)
- Number of preferred shares to be issued: 600,000
- Issue price: ¥200,000 per share (¥120 billion in total)
- Dividend: ¥0 through the fiscal year ending March 31, 2013, and a 12% annual dividend thereafter
- Redemption: redeemable at any time with issuer's advance notice

Share Acquisition Rights (SARs) (given under condition of obligation to invest in the preferred shares)

- Issuer: BB Mobile
- Number of SARs to be issued: 98, amounting to 98,000 shares in total (4% of outstanding common shares)
- Exercise price: ¥95,098 (equivalent to issuer's acquisition price of Vodafone's outstanding common shares)*

  *assuming an unchanged number of outstanding common shares
- Condition for exercise of rights: Issuer's accumulated EBITDA from April 1, 2006, to March 31, 2013, exceeds ¥3.35 trillion

Targeting Integrated Mobile Internet Services

According to a recent report by the Ministry of Internal Affairs and Communications, 71.9% of all persons living in Japan used mobile phones as of the end of December 2005. The correlate figure for PCs was 56.7%, making the mobile phone the most widely used communication device in Japan today. Furthermore, the rate of Internet access via mobile phones is increasing rapidly. The same Ministry of Internal Affairs and Communications report states that of a total 85.29 million people accessing the Internet in Japan during calendar year 2005, 77.4%, or 66.01 million, used PCs, while 81.2%, or 69.23 million, used mobile phones. In addition, 57.0%, or 48.62 million, used both PCs and mobile phones to access Internet services.

Despite high Internet access statistics for mobile phones, we do not believe that the current mobile environment, which is extremely disintegrated and underdeveloped, can be accurately described as an Internet environment. A typical mobile phone subscriber today accesses the Internet primarily to use the e-mail services offered by his or her mobile carrier, as well as to view the content also provided by the carrier. Because the flat monthly service rate charged by a typical mobile carrier covers access only to that carrier's official Web site, a typical subscriber is required to pay extra for accessing Web sites other than his or her carrier's official site. Moreover, changing to a new mobile carrier necessitates a change in mobile e-mail address, in addition to registering again for content services. In brief, current mobile Internet services are inconvenient and provide only limited Internet access to mobile phone subscribers.

The current mobile Internet environment is similar to the PC Internet environment of 10 years ago, when a typical PC user's Internet access was limited to his or her carrier's official services. The PC Internet market was revolutionized by carriers that introduced reasonable flat rates plus the improved convenience of unlimited Internet access, thereby transforming the PC Internet into the integrated environment of today.

Working in partnership with SOFTBANK, the Group intends to carry out a similar revolution in the mobile Internet environment. To that end, we will begin by offering dedicated portal services to SOFTBANK mobile users, including a function enabling them to connect directly to the integrated Internet environment. In other words, we will offer SOFTBANK mobile users easy access to a greatly expanded Internet environment. At the same time, we intend to provide our integrated services to subscribers of other carriers, as well. Ultimately, we would like to see our integrated mobile Internet environment become the standard service in the market, provided not only by SOFTBANK MOBILE but also by competing carriers.

If the mobile Internet, which far outstrips the PC Internet in terms of user numbers, becomes an integrated environment, it could potentially grow to be at least as large a market as the PC Internet. An expansion in page views of Yahoo! Mobile resulting from a mobile Internet revolution could substantially increase Group profits deriving from advertising sales and e-commerce transactions. Our new business alliance with SOFTBANK is a first step in this direction.

Special Feature

Toward the Achievement of Integrated Mobile Internet Services

The Group's Mobile Services

The Group already has developed mobile versions of many of its PC Internet services, which can be accessed by all mobile phone users, regardless of carrier. During the fiscal year ended March 31, 2006, we introduced mobile versions of Yahoo! Games and Yahoo! Area Search (beta version), among others. In addition, we currently offer mobile versions of all of the services listed below.

Mobile phones and e-commerce have a high affinity, as demonstrated by the popularity of the mobile versions of both Yahoo! Auctions and Yahoo! Shopping. In our mobile version of Yahoo! Auctions, participants tend to list or search for items via personal computer and then monitor bidding activity using mobile phones. In the fiscal year under review, about 10% of the Group's total fourth quarter e-commerce transaction volume—amounting to approximately ¥20 billion—was generated by users accessing the Internet via mobile phone.

Furthermore, in view of the potential applications of global positioning systems (GPS), currently scheduled for obligatory inclusion in all mobile phones from April 2007, we anticipate many interesting developments in regional information services, such as restaurant information and traffic information services automatically calibrated to the real-time location of each mobile phone user.

By exploiting the unique aspects of the mobile phone, the Group is committed to developing innovative mobile services and content in sync with the specific needs of mobile Internet users.

Yahoo! JAPAN

http://mobile.yahoo.co.jp/

Yahoo! Mobile Services

Site Search

Buy
Auctions, shopping, Kaicom! (purchasing communities), content stores, accommodation reservations, ezPay, Premium, wallet

Information
Finance, news, sports, weather

Entertainment
Fortune telling, ring melodies, call-waiting screen searches, application download searches, TV, movies, prize competition

Information Search
Knowledge search, traffic information, area search, maps, regional information, transit information, telephone books, translation, mobile phone information

Living
Gourmet, restaurant information, gourmet recipes, Rikunabi-from A navi, Rikunabi-Shotworks, Rikunabi-Temporary Jobs, hospital and medical clinic search, beauty, disaster information, coupons, education, Internet test

Communication
Message boards, 360°, groups, GeoCities, greetings, profile, messengers, avatars, photos

Personal Tools
E-mail, calendars, address books

My Yahoo!

More Yahoo!
Newsletter, points, research, café, Yahoo! BB, wallet, voting

Corporate Social Responsibility and Corporate Governance

In recognition of our prominent position in the Japanese Internet market, Yahoo Japan Corporation is dedicated to developing a sound, secure Internet environment in harmony with the expectations and needs of society. By fulfilling our corporate social responsibility (CSR) and incorporating appropriate corporate governance throughout our business operations, we aim to achieve sustained corporate growth and increased corporate value for the benefit not only of our stakeholders but also of society at large.

Corporate Social Responsibility

Promoting sound Internet market development and a secure Internet user environment

• We recommend measures for removing illegal and harmful content from the Internet in our role as a private-sector member of both the National Police Agency's Comprehensive Security Countermeasures Council and the Ministry of Internal Affairs and Communications' Working Group for Measures Against Illegal and Harmful Information on the Internet. We also participate in working groups organized by public-interest corporations.

• We have implemented various measures to protect information security and to prevent phishing and other types of Internet fraud. In addition, we maintain help pages and e-mail support as well as carry out 24-hour patrolling of our Web site.

• Our Yahoo! Security Center provides users with effective methods of protection against various Internet-based threats, including computer viruses, Internet stalkers, and the leakage or abuse of personal information.

• In addition to our Yahoo! Kids site, a safe Internet environment for children, we offer Yahoo! Safe Net, a filtering service that prevents children from viewing Web sites targeting mature users.

Strengthening security on Yahoo! Auctions

• Our auction system incorporates a fraud-detection model based on the behavioral patterns of known abusers of online auction services.

• We concluded an agreement with the National Institute of Advanced Industrial Science and Technology (AIST) to jointly develop Internet security technology.

• Through our Yahoo! Auctions Intellectual Property Protection Program, we remove offending auction listings immediately upon notification by the rightful owner of the intellectual property in question. During the fiscal year under review, we created and implemented Internet Auction Services Guidelines in collaboration with other Internet auction providers. In addition, together with major intellectual property owners and groups we jointly established the Council to Prevent the Distribution of Items in Violation of Intellectual Property Rights through the Internet.

• For people listing items on our auction site for the first time, we plan to introduce stricter identification procedures than those used in our current personal identification system.

• We regularly provide auction users with helpful information on avoiding fraud victimization and other auction abuses, and we have established a compensation system for victims of fraud.

Corporate Social Responsibility and Corporate Governance

Protecting personal information

• We request of users only the minimum amount of personal information necessary to provide them with services. Moreover, users' personal information is separated physically from other types of information and constantly monitored, with only a minimum number of people authorized to access the personal information database.

• With the aim of strengthening information security in the medium to long term, we established the Information Security Office in fiscal 2005. To promote greater public understanding of the security measures that we are implementing, we participated in the Ministry of Economy, Trade and Industry's Information Security Governance Symposium, held in December 2005, with the President of the Company presenting a lecture entitled "Targeting the Creation of a Safe and Secure Business."

Improving customer support and incorporating user feedback

• We constantly work to improve the quality of our customer support services offered through Yahoo! JAPAN Help Center and help pages.

• We periodically upgrade our overall services by incorporating users' opinions and comments garnered via our customer support services and regular surveys.

• The Customer Support Office's Customer Center Commerce Team was named "Best Contact Center of the Year" in the Superior IT User Support Awards, sponsored by the Japan Institute of Information Technology.

Fulfilling our lifeline mission

• To ensure the fulfillment of our mission as a lifeline that people can count on in times of emergency, we maintain independently operating data centers in various locations designed to withstand disasters and blackouts.

• We provide a news flash service that prominently displays disaster information in the spaces normally used for advertising banners on the pages of all of our services, including Yahoo! Mobile. In September 2005, we introduced our Yahoo! Disaster Information site as a regular service.

Leveraging our influence as a media source for the betterment of society

• Through our Yahoo! Volunteer site, we have raised money to aid victims of major natural disasters, including the Niigata Chuetsu earthquake in Japan in October 2004, the earthquake in Pakistan in October 2005, and Typhoon No. 14 in Japan in September 2005.

• We have held charity auctions on our Yahoo! Auctions site since September 1999. In fiscal 2005, these auctions raised a total of ¥158.55 million for various charities.

• Since September 2003, we have supported the Pink Ribbon campaign promoting early detection and treatment of breast cancer.

• We have participated in the Japanese government's Global Warming Prevention Headquarters' national project, Team Minus 6%, since May 2005. In addition to setting air-conditioning temperatures in our offices a little higher during the summer, we maintain a Team Minus 6% site providing information about the global warming prevention drive.

Corporate Governance

Yahoo Japan Corporation considers appropriate corporate governance, including legal compliance, to be essential to achieving increased corporate value over the medium to long term. By clarifying the roles and responsibilities of directors, corporate auditors, and employees under the corporate governance system and heightening awareness of relevant laws and regulations, social norms, and ethics, in addition to ensuring effective internal monitoring, the Company aims to conduct appropriate and effective business operations.

In January 2002, the Company introduced a business division system designed to promote swifter, more strategic business management with the goal of improving competitiveness. At the same time, the Company clarified the separate roles of day-to-day business execution by business managers and decision-making and operational oversight by the Board of Directors. Currently, the Board of Directors comprises five members, including one outside director.

Internal auditing activities are overseen by the Board of Auditors. Based on an audit plan drawn up by the Board of Auditors, the corporate auditors conduct audits of the Company's entire business operations, including assessments of the appropriateness of policy, planning, and procedures as well as the effectiveness and legal and regulatory compliance of business activities. In addition, the corporate auditors attend meetings of the Board of Directors and of the Management Committee, view important documentation, and conduct surveys of subsidiaries, reporting their findings to the Board of Auditors. The Board of Auditors also receives information from the accounting auditors on the methods used in and results of accounting audits. Similarly, the Board of Auditors receives information from the business auditors on the methods used in and results of internal audits. Based on these reports, the Board of Auditors makes regular reports to full-time directors, the members of the Board of Directors.

Since April 2002, the business auditors, who are under the direct supervision of the President, have faithfully carried out internal inspections of all business operations, with particular responsibility for internal audits of the risk-prevention system. Based on these inspections, the business auditors make specific recommendations for improving business operations.

In the event either that a serious issue arises regarding our business operations or that we start a new service requiring investigation, the Company convenes as necessary an Advisory Board comprising lawyers, university professors, and other prominent persons from the legal, academic, and financial communities, thereby ensuring that the views and opinions of a broad cross-section of society play a guiding role in the Company's business operations.

In May 2006, the Company clearly defined its code of conduct in a publicly released Business Practices Charter. To implement the Charter, it is essential that the Company have in place a system designed to ensure adherence to appropriate corporate governance, effective and efficient business activities, accurate financial reporting, and legal compliance. To this end, the Internal Control Office was established in April 2006 to set up and implement an internal control system throughout the operations of the Company and its subsidiaries. In addition to its job of assessing the appropriateness and effectiveness of business execution, the Internal Control Office is in charge of documenting internal business procedures stipulated in the internal control system.

Organizational changes

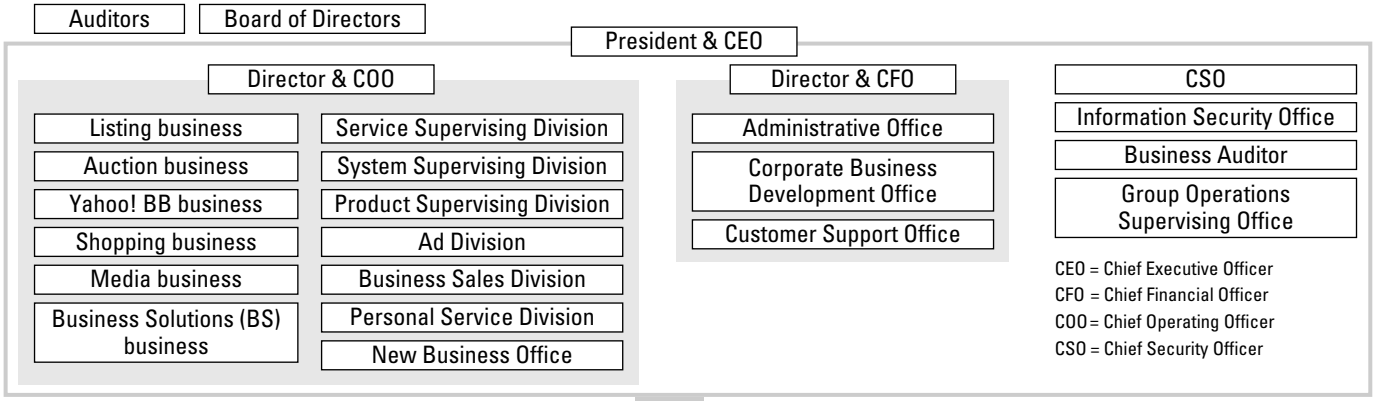
In April 2006, the Group implemented organizational changes in line with the following goals:

- Segment our organization to facilitate faster decision-making
- Establish independent business operations in strategically important fields and reallocate resources accordingly to maximize the effectiveness of our overall business activities

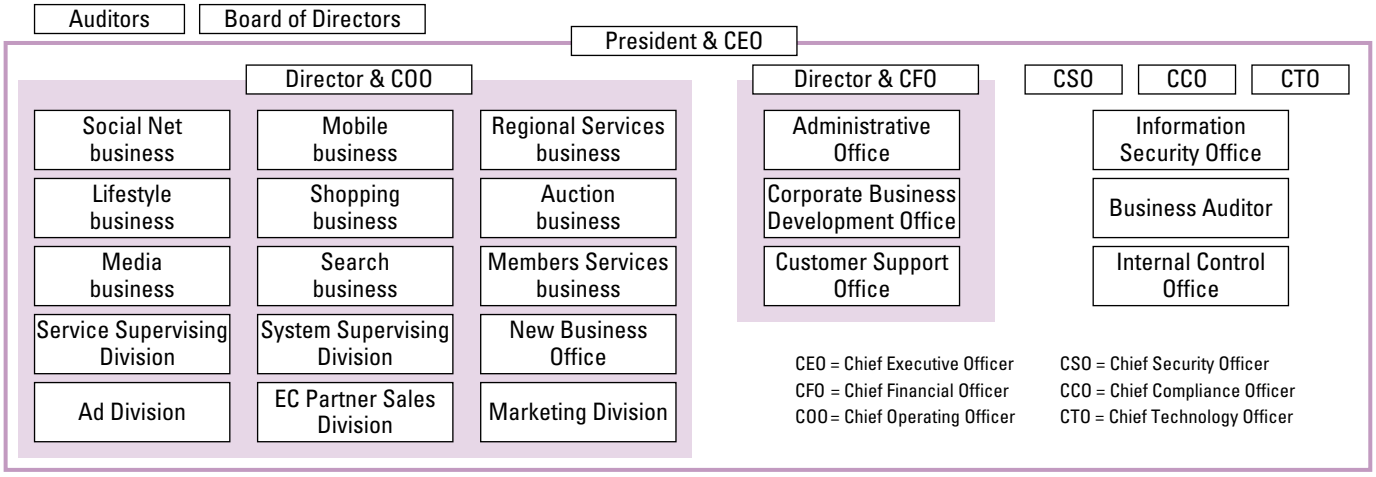
In addition to establishing the Internal Control Office, as discussed above, we added Social Net, Mobile, and Regional Services business units to our organization in recognition of the strategic importance of these fields looking forward.

Corporate Social Responsibility and Corporate Governance

Old Organization



New Organization (As of April 2006)



Major Services of the New Organization

Aiming to be the No. 1 social media company in Japan by responding to Web 2.0 and reinforcing tail content

▶ **Social Net business**
Provide tools for information transmission by users and communications among users
>Yahoo! 360°, Yahoo! Blogs, Yahoo! Mail, Yahoo! GeoCities, Yahoo! Message Boards

▶ **Mobile business**
Provide services for mobile phones
>Yahoo! Mobile, Yahoo! Content Store

▶ **Regional Services business**
Provide useful information closely related to regional lives
>Yahoo! Get Local, Yahoo! Maps, Yahoo! Real Estate, Yahoo! Rikunabi, Yahoo! Gourmet

▶ **Lifestyle business**
Provide specialized information suited to individual tastes and lifestyles
>Yahoo! Movies, Yahoo! Music, Yahoo! Games, Yahoo! Fortune Telling, Yahoo! Autos, Yahoo! Beauty

▶ **Shopping business**
Provide an online shopping site
>Yahoo! Shopping, Yahoo! GroupBuy, Yahoo! Prize Competition

▶ **Auction business**
Provide a selling and buying site for consumer to consumer (CtoC) and a sales site for business to consumer (BtoC)
>Yahoo! Auctions

▶ **Media business**
Provide not only paid and free head content but also aggregate tail content
>Yahoo! Streaming, Yahoo! News, Yahoo! Finance, Yahoo! Sports, Yahoo! Weather

▶ **Search business**
Offer search and information services
>Yahoo! Search, Yahoo! Knowledge, Yahoo! Dictionary, Yahoo! Translation

▶ **Members Services business**
Offer specialized services to members
>Yahoo! Premium, Yahoo! BB, Yahoo! Delivers

▶ **New Business Office**
Develop and promote new businesses
>Yahoo! ezPay, Yahoo! Research, Yahoo! WebHosting, Yahoo! Travel

Directors and Statutory Auditors

Name (Date of Birth)	Title and Function	Brief Summary of Professional History	
Masahiro Inoue	President	Jun. 1992	Joined SOFTBANK CORP.
(2.12.1957)	and CEO	Jan. 1996	Establishment of the Company. Assumption of office as Director of the Company
		Jul. 1996	Assumption of office as President and CEO of the Company (current office)
		Jun. 1998	Assumption of office as Director of SOFTBANK CORP.
		Jun. 1999	Resignation as Director of SOFTBANK CORP.
		Jun. 2001	Resumption of office as Director of SOFTBANK CORP. (current office)
Masayoshi Son	Chairman of	Feb. 1986	Assumption of office as President and Representative Director of SOFTBANK CORP. (current office)
(8.11.1957)	the Board of	Jan. 1996	Establishment of the Company. Assumption of office as President and Representative Director of the Company
	Directors	Jul. 1996	Assumption of office as Chairman of the Board of Directors of the Company (current office)
		Jun. 2001	Assumption of office as Representative Director of BB TECHNOLOGY Corp. (current office)
Jerry Yang	Director	Mar. 1995	Assumption of office as Director of Yahoo! Corporation (Currently Yahoo! Inc.) (current office)
(11.6.1968)		Jan. 1996	Assumption of office as Director of the Company (current office)
Akira Kajikawa	Director	Apr. 1983	Joined Nomura Securities Co., Ltd.
(5.17.1959)		Nov. 1996	Joined SOFTBANK CORP. Assumption of office as Deputy General Manager, Financial Dept.
		Jun. 1997	Assumption of office as Director and Chief Financial Officer of the Company
		Jul. 1999	Assumption of office as Director of SBI Holdings, Inc.
		Jun. 2000	Resignation as Director of the Company
		Jun. 2000	Assumption of office as Advisor of the Company
		Jun. 2002	Assumption of office as Director, Chief Financial Officer, and Administrative Office General Manager of the Company (current office)
		Jan. 2004	Appointment as Head of Personal Service Division
		Apr. 2005	Appointment as Head of Management Planning Office and Customer Support Office (current office)
Hiroaki Kitano	Director	Apr. 1988	Joined Kairinsha Ltd.
(11.27.1962)		May 1988	Temporarily transferred to Kairinsha Int'l (NY), Inc.
		Apr. 1993	Appointment as Vice President of Kairinsha Int'l (NY), Inc.
		Feb. 1997	Joined the Company. Appointment as General Manager of Operation Office
		Oct. 1998	Appointment as General Manager of Business Planning Division of President's Office of the Company
		Jun. 2003	Assumption of office as Director and Head of President's Office
		Jan. 2004	Appointment as General Manager of Yahoo! BB business
		Apr. 2005	Assumption of office as Director, Chief Operating Officer (current office), and Head of Corporate Business Development Office
		Apr. 2006	Appointment as General Manager of Shopping business (current office)
Sumio Sue	Full-time	Apr. 1966	Joined Nissan Motor Co., Ltd.
(11.6.1943)	Statutory	Nov. 1999	Appointment as Deputy General Manager, Business Alliance Dept., BT Japan KK
	Auditor	Jun. 2000	Assumption of office as Director in Charge of TU-KA Cellular Tokyo Inc., TU-KA Cellular Tokai Inc., and TU-KA Phone Kansai Inc.
		Jun. 2001	Assumption of office as Statutory Auditor of the Company (current office)
Toshihiro Kiribuchi	Statutory	Apr. 1956	Joined Ministry of Finance (MOF)
(2.19.1931)	Auditor	Jun. 1983	Councilor of the Minister's Secretariat (MOF)
		May 1986	Deputy Commissioner of the Director-General's Secretariat, National Tax Bureau
		Oct. 1988	Joined Tateishi Electric Manufacturing Co. (Currently Omron Corporation)
		Dec. 1988	Assumption of office as Director of People Co., Ltd.
		Jun. 1989	Assumption of office as Managing Director of Omron Corporation
		Jul. 1995	Assumption of office as Special Advisor of Omron Corporation
		Jun. 1997	Assumption of office as Statutory Auditor of the Company (current office)
Mitsuo Sano	Statutory	Mar. 1986	Registered as Certified Public Accountant
(12.25.1956)	Auditor	Dec. 1995	Appointment as Accounting Manager of Finance and Accounting Division of SOFTBANK CORP.
		Dec. 1996	Assumption of office as Statutory Auditor of the Company (current office)
		Jun. 1999	Assumption of Director of E*TRADE Securities
		Jun. 2000	Assumption of office as full-time Statutory Auditor of SOFTBANK CORP. (current office)
Shiho Konno	Statutory	Apr. 1991	Admitted to the bar
(6.28.1963)	Auditor	Dec. 1996	Established Yaesu Law Firm in partnership (to present)
		Apr. 1997	Assumption of office as assistant instructor at the Supreme Legal Research and Training Institute (until March 2000)
		Apr. 2004	Assumption of office as visiting associate professor at the School of Law at Meiji University (to present)
			Assumption of office as visiting researcher in intellectual property at the School of Law at Hokkaido University (to present)
		Jun. 2005	Assumption of office as Statutory Auditor of the Company (current office)

Notes:
- The four statutory auditors are Outside Auditors, as set out in Article 2-16 of the "Company Law."
- Jerry Yang, a Director of the Company, is an Outside Director, as set out in Article 2-15 of the "Company Law."

Financial Section

Key Financial Data

For the years ended	2001/3	2002/3	2003/3	2004/3	2005/3	2006/3	2006/3
	(Millions of yen)						(Thousands of U.S. dollars)
Net sales	¥ 14,278	¥ 29,759	¥ 46,693	¥ 75,776	¥117,779	¥173,696	$1,478,639
Listing	–	–	7,923	13,615	29,359	49,561	421,909
Auction	–	–	11,062	20,839	27,338	35,987	306,349
Yahoo! BB	–	–	9,862	12,760	16,800	19,485	165,870
Media	–	–	3,593	6,412	10,740	18,367	156,353
Shopping	–	–	5,035	6,589	10,594	15,963	135,887
Business Solutions (BS)	–	–	452	1,096	2,381	5,110	43,498
Corporate Common	–	–	8,766	14,465	20,567	29,223	248,773
Cost of sales	63	7,228	3,599	5,292	8,932	12,843	109,332
Listing	–	–	7	40	277	1,139	9,698
Auction	–	–	1	19	28	40	340
Yahoo! BB	–	–	409	749	901	1,062	9,043
Media	–	–	115	204	337	538	4,582
Shopping	–	–	2,833	3,545	5,618	7,379	62,810
Business Solutions (BS)	–	–	166	629	1,457	2,089	17,781
Corporate Common	–	–	68	106	314	596	5,078
SG&A expenses	8,906	12,124	19,021	29,272	48,660	78,720	670,124
Listing	–	–	3,531	3,777	6,632	11,086	94,375
Auction	–	–	2,710	5,340	9,518	14,479	123,253
Yahoo! BB	–	–	2,599	4,046	5,890	10,746	91,478
Media	–	–	3,120	4,431	6,539	10,249	87,244
Shopping	–	–	1,527	2,173	4,580	6,839	58,219
Business Solutions (BS)	–	–	234	410	1,079	3,503	29,824
Corporate Common	–	–	5,300	9,095	14,422	21,818	185,731
Operating income (loss)	5,309	10,407	24,073	41,212	60,187	82,133	699,183
Listing	–	–	4,385	9,798	22,450	37,336	317,836
Auction	–	–	8,351	15,480	17,792	21,468	182,756
Yahoo! BB	–	–	6,854	7,965	10,009	7,677	65,349
Media	–	–	358	1,777	3,864	7,580	64,527
Shopping	–	–	675	871	396	1,745	14,858
Business Solutions (BS)	–	–	52	57	(155)	(482)	(4,107)
Corporate Common	–	–	3,398	5,264	5,831	6,809	57,964
Net income	2,973	5,868	12,096	24,827	36,521	47,091	400,877
Net income per share (Yen and U.S. dollars)	99	194	400	819	1,205	1,536	13.08
EBITDA	5,981	11,824	26,147	44,329	64,980	89,787	764,343
At the fiscal year-end:							
Total assets	27,973	29,218	47,774	82,410	130,244	190,975	1,625,733
Shareholders' equity	18,674	20,227	30,483	59,807	96,060	142,455	1,212,694
Number of employees	339	431	669	990	1,713	2,534	
Dividends (Yen and U.S. dollars)	–	–	–	–	484	156	1.33
Cash flows	1,304	1,475	15,837	16,428	29,349	29,043	247,239
Cash flows from operating activities	4,367	6,139	19,667	26,147	46,084	59,604	507,401
Cash flows from investing activities	(3,077)	(4,675)	(3,779)	(10,913)	(17,119)	(27,533)	(234,382)
Cash flows from financing activities	15	11	(51)	1,194	384	(3,028)	(25,780)
Ratios:							
Operating margin (%)	37.2	35.0	51.6	54.4	51.1	47.3	
Net income to net sales ratio (%)	20.8	19.7	25.9	32.8	31.0	27.1	
ROA (%)	15.5	20.5	31.4	38.1	34.3	29.3	
ROE (%)	22.2	30.2	47.7	55.0	46.9	39.5	
Shareholders' equity ratio (%)	66.8	69.2	63.8	72.6	73.8	74.6	

Notes:

- Yen amounts for fiscal 2005, the year ended March 31, 2006, have been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥117.47 = U.S.$1, the effective rate of exchange at March 31, 2006.
- Net income per share figures for fiscal years preceding fiscal 2005 have been retroactively adjusted to reflect stock splits.
- Beginning with fiscal 2003, the Company altered its method of booking sales. Figures in this annual report for fiscal years preceding fiscal 2003 have been revised to reflect this change in accounting method.
- Segment disclosure started from fiscal 2002.
- Commencing with fiscal 2001, the Company has reported on a consolidated basis. Because the Company had no consolidated subsidiaries during the period up to and including fiscal 2000, there is no difference between consolidated and nonconsolidated figures for that period.

Management's Discussion and Analysis

Results of Operations

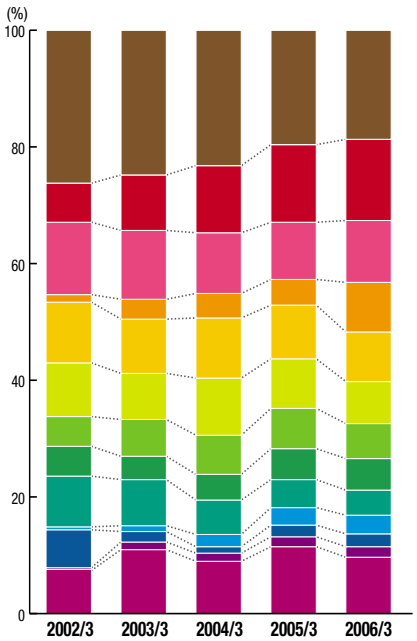
Net Sales

Net sales for the fiscal year ended March 31, 2006, jumped ¥55,917 million, or 47.5%, to ¥173,696 million. The substantial growth in sales can principally be attributed 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 and Corporate Common businesses.

Cost of Sales

Cost of sales amounted to ¥12,843 million, up ¥3,911 million, or 43.8%. The main factor behind this rise was higher merchandise inventories at Seven and Y and ALPS MAPPING in line with sales growth.

SG&A Expenses



(Millions of yen)

For the years ended	2002/3	2003/3	2004/3	2005/3	2006/3
Personnel expenses	3,182 (26.2%)	4,722 (24.8%)	6,782 (23.2%)	9,537 (19.6%)	**14,730** (18.7%)
Business commissions	812 (6.7%)	1,813 (9.5%)	3,366 (11.5%)	6,482 (13.3%)	**10,905** (13.9%)
Sales commissions	1,503 (12.4%)	2,236 (11.8%)	3,038 (10.4%)	4,778 (9.8%)	**8,377** (10.6%)
Sales promotion costs	162 (1.3%)	653 (3.4%)	1,238 (4.2%)	2,135 (4.4%)	**6,722** (8.5%)
Depreciation and amortization	1,256 (10.4%)	1,765 (9.3%)	3,003 (10.3%)	4,462 (9.2%)	**6,663** (8.5%)
Communications charges	1,115 (9.2%)	1,496 (7.9%)	2,861 (9.8%)	4,138 (8.5%)	**5,675** (7.2%)
Royalty charge	622 (5.1%)	1,207 (6.3%)	1,963 (6.7%)	3,379 (6.9%)	**4,709** (6.0%)
Lease and utility expenses	614 (5.1%)	765 (4.0%)	1,285 (4.4%)	2,561 (5.3%)	**4,252** (5.4%)
Content provider fees	1,054 (8.7%)	1,502 (7.9%)	1,725 (5.9%)	2,358 (4.8%)	**3,346** (4.3%)
Payment commissions	64 (0.5%)	190 (1.0%)	606 (2.1%)	1,444 (3.0%)	**2,537** (3.2%)
Advertising costs	792 (6.5%)	346 (1.8%)	309 (1.1%)	989 (2.0%)	**1,766** (2.2%)
Allowance for doubtful accounts	40 (0.3%)	253 (1.3%)	421 (1.4%)	847 (1.7%)	**1,394** (1.8%)
Others	908 (7.6%)	2,073 (11.0%)	2,675 (9.0%)	5,550 (11.5%)	**7,644** (9.7%)
Total	12,124 (100.0%)	19,021 (100.0%)	29,272 (100.0%)	48,660 (100.0%)	**78,720** (100.0%)

Note:

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

Financial Section

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses totaled ¥78,720 million, increasing ¥30,060 million, or 61.8%. The major components of SG&A expenses were as follows:

Personnel expenses shot up ¥5,193 million, or 54.5%, to ¥14,730 million. Compared with the figure one year earlier, the number of directors and employees (excluding overlapping positions) of the Group at the fiscal year-end increased by 821, or 46.8%, to 2,576.

Business commissions climbed ¥4,423 million, or 68.2%, to ¥10,905 million. This increase resulted primarily from higher expenses for temporary and contract employees.

Sales commissions rose ¥3,599 million, or 75.3%, to ¥8,377 million. Higher sales commissions reflected an increase in commissions paid to advertising agencies in line with advertising sales growth.

Sales promotion costs surged ¥4,587 million, or 214.8%, to ¥6,722 million. This increase was the result of growth in expenses related to Yahoo! BB's campaigns to attract new subscribers.

Depreciation and amortization expenses expanded ¥2,201 million, or 49.3%, to ¥6,663 million. Higher depreciation was due principally to additional installations of equipment, such as servers, to handle service upgrades and growth in page views. Beginning in the fiscal year under review, the Company reduced the useful life of servers and network-related equipment from five to four years for depreciation purposes. As a result, depreciation and amortization expenses were ¥795 million higher than they would have been under the previous accounting method.

Communications charges advanced ¥1,537 million, or 37.1%, to ¥5,675 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 ¥1,330 million, or 39.3%, to ¥4,709 million, in accordance with the growth in net sales.

Lease and utility expenses rose ¥1,691 million, or 66.0%, to ¥4,252 million.

Content provider fees advanced ¥988 million, or 41.9%, to ¥3,346 million. Higher fees reflected growth in payments to collaborating providers due to the expansion and upgrading of search and other services.

Payment commission expenses grew ¥1,093 million, or 75.7%, to ¥2,537 million. This increase was due chiefly to a higher volume of transactions settled via Yahoo! ezPay.

Notable expenses in addition to those listed above were as follows: (1) advertising costs rose ¥777 million, or 78.6%, to ¥1,766 million, and (2) allowance for doubtful accounts advanced ¥547 million, or 64.5%, to ¥1,394 million.

Operating Income

Operating income climbed ¥21,946 million, or 36.5%, to ¥82,133 million.

Income Taxes, including Adjustments

Income taxes amounted to ¥32,593 million, a rise of ¥8,354 million, or 34.5%. On a consolidated basis, the income tax rate for the fiscal year under review was 40.8%.

Minority Interest in Subsidiaries

Minority interest in subsidiaries amounted to a profit of ¥280 million. Compared with the loss of ¥29 million in the previous fiscal year, this represents an increase of ¥309 million. Minority interest reflects the profits or losses of shareholders other than the Company in those subsidiaries.

Net Income

Net income increased ¥10,570 million, or 28.9%, to ¥47,091 million. Reflecting two 2-for-1 stock splits implemented during the fiscal year under review, primary net income per share amounted to ¥1,536.40. Fully diluted net income per share was ¥1,532.38.

Financial Position

At March 31, 2006, total assets amounted to ¥190,975 million, an increase of ¥60,731 million, or 46.6%, from the figure at the previous fiscal year-end. Total liabilities were ¥47,153 million, up ¥13,430 million, or 39.8%. Total shareholders' equity advanced ¥46,395 million, or 48.3%, to ¥142,455 million.

Assets

- The substantial growth in cash and deposits was due chiefly to earnings growth based on sales activities.
- The expansion in accounts receivable—trade was related primarily to growth in sales to individuals and corporations.
- The rise in short-term loans was due primarily to the reclassification of long-term loans made under a finance scheme for Yahoo! BB's business as current maturities of long-term debt owing to their expected maturity within one year.
- The increase in property and equipment was due principally to additional installations of equipment, such as servers, to handle service upgrades and growth in page views.
- The growth in amortization of goodwill was due mostly to the consolidation of new subsidiaries.
- The expansion in other intangible fixed assets can be attributed largely to additional capitalized software.
- The increase in investment securities was due mainly to the acquisition of shares of affiliates.
- The decline in long-term loans resulted chiefly from the reclassification of long-term loans made under a finance scheme for Yahoo! BB's business as current maturities of long-term debt owing to their expected maturity within one year.

Liabilities

- The significant growth in accounts payable—other resulted mainly from higher operating expenses.
- The substantial increase in income taxes payable was due principally to the growth in net income.
- Other current liabilities rose significantly owing primarily to an increase in the deposits of Netrust, resulting from growth in the transaction volume of Yahoo! ezPay.

Shareholders' Equity

- The increase in common stock during the fiscal year resulted from the exercise of stock options.
- The growth in retained earnings can be attributed to the increase in net income.

Cash Flows

Net cash provided by operating activities totaled ¥59,604 million, up ¥13,520 million, or 29.3%. Net cash expanded on the strength of the growth in net income, which more than offset the payment of income taxes and higher sales receivables.

Net cash used in investing activities totaled ¥27,533 million, a rise of ¥10,414 million, or 60.8%. Payments for purchases of servers and other equipment and software, as well as the acquisition of shares of affiliates, resulted in a higher overall cash outflow for investing activities.

Net cash used in financing activities amounted to ¥3,028 million, compared with ¥384 million provided by financing activities the previous fiscal year. This change was due primarily to the payment of dividends by the Company and the repayment of loans by subsidiaries.

As a result, the net change in cash and cash equivalents for the year was an increase of ¥29,043 million, compared with an increase of ¥29,349 million for the previous year. Cash and cash equivalents at the end of the year amounted to ¥98,035 million, up ¥29,043 million, or 42.1%, from the figure one year earlier.

Consolidated Balance Sheets

Yahoo Japan Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
ASSETS	2005	2006	2006
Current assets:			
Cash and deposits (Note 13)	¥ 68,992	¥ 98,039	$ 834,587
Accounts receivable–trade	18,294	25,214	214,640
Accounts receivable–other	616	852	7,254
Inventories (Notes 3 (3) and 6)	181	166	1,409
Prepaid expenses	537	1,149	9,779
Short-term loans	2,263	3,656	31,127
Deferred tax assets (Notes 3 (10) and 11)	2,234	3,472	29,559
Other current assets	658	1,447	12,319
Less: Allowance for doubtful accounts (Note 3 (4))	(1,365)	(1,806)	(15,374)
Total current assets	92,410	132,189	1,125,300
Property and equipment (Notes 3 (5) and 3 (6)):			
Buildings and structures	2,225	2,449	20,849
Machinery and equipment	18,288	25,574	217,705
Construction in progress	182	82	702
Less: Accumulated depreciation	(8,819)	(14,090)	(119,946)
Total property and equipment, net	11,876	14,015	119,310
Intangible assets:			
Goodwill (Note 3 (1))	1,808	4,129	35,147
Software (Note 3 (6))	3,734	7,546	64,235
Other intangibles	22	28	240
Total intangible assets, net	5,564	11,703	99,622
Investments and other assets:			
Investment securities (Notes 3 (7), 3 (14), and 7)	8,877	13,027	110,893
Investments in affiliates (Notes 3 (1) and 8)	5,070	15,674	133,426
Long-term loans	3,657	–	–
Guaranteed deposits	2,764	3,830	32,608
Other investments (Note 3 (14))	61	559	4,760
Deferred tax assets (Notes 3 (10) and 11)	16	–	–
Less: Allowance for doubtful accounts (Note 3 (4))	(51)	(22)	(186)
Total investments and other assets	20,394	33,068	281,501
Total assets	¥ 130,244	¥ 190,975	$ 1,625,733

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31,
	2005	2006	2006
Current liabilities:			
Accounts payable–trade	¥ 1,228	¥ 890	$ 7,573
Accounts payable–other	7,619	12,419	105,717
Short-term borrowings	280	168	1,430
Current portion of long-term debt	40	40	342
Income taxes payable (Note 3 (10))	16,676	23,484	199,919
Accrued consumption taxes	1,674	2,049	17,442
Provision for Yahoo! Points (Note 3 (8))	478	1,337	11,381
Other current liabilities	3,569	5,102	43,436
Total current liabilities	31,564	45,489	387,240
Long-term liabilities:			
Deferred tax liabilities (Note 11)	1,947	1,619	13,782
Other long-term liabilities (Note 3 (9))	212	45	378
Total long-term liabilities	2,159	1,664	14,160
Total liabilities	33,723	47,153	401,400
Minority interest in subsidiaries (Note 3 (1))	461	1,367	11,639
Shareholders' equity:			
Common stock (Note 9) –			
Authorized: 15,080,000.00 shares at March 31, 2005			
120,800,000.00 shares at March 31, 2006			
Issued: 7,550,123.64 shares at March 31, 2005	6,692	–	–
30,226,068.56 shares at March 31, 2006	–	7,033	59,870
Additional paid-in capital	1,773	2,114	17,995
Retained earnings (Notes 3 (12) and 10)	83,461	126,738	1,078,896
Net unrealized gains on other securities (Notes 3 (7) and 7)	4,162	6,597	56,163
Foreign currency translation adjustments	–	1	10
Less: Treasury stock (Note 9) –			
240.40 shares at March 31, 2005	(28)	–	–
962.92 shares at March 31, 2006	–	(28)	(240)
Total shareholders' equity	96,060	142,455	1,212,694
Contingent liabilities (Note 15)			
Total liabilities and shareholders' equity	¥ 130,244	¥ 190,975	$1,625,733

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,
	2005	2006	2006
Net sales (Note 16)	¥ 117,779	¥ 173,696	$ 1,478,639
Cost of sales (Note 16)	8,932	12,843	109,332
Gross profit	108,847	160,853	1,369,307
Selling, general and administrative expenses (Notes 3 (6), 3 (8), 3 (9), 3 (15), 12 and 16)	48,660	78,720	670,124
Operating income	60,187	82,133	699,183
Non-operating income (expenses):			
Interest and dividend income	708	654	5,565
Interest expenses	(8)	(5)	(46)
Gain on sale of investment securities, net (Note 7)	567	1,512	12,873
Dilution gain from changes in equity interest, net	–	418	3,554
Equity in net losses under the equity method	(427)	(2,690)	(22,897)
Impairment charges on investment securities	(0)	(1,087)	(9,258)
Loss on disposal of property and equipment	(326)	(211)	(1,799)
Impairment loss on fixed assets (Note 3 (5))	–	(195)	(1,661)
Compensation for cancellation of alliance	–	(598)	(5,088)
Others, net	30	33	288
Income before income taxes and minority interest	60,731	79,964	680,714
Income taxes (Notes 3 (10) and 11):			
Current	(24,707)	(35,711)	(304,000)
Deferred	468	3,118	26,546
	(24,239)	(32,593)	(277,454)
Minority interest in subsidiaries	29	(280)	(2,383)
Net income	¥ 36,521	¥ 47,091	$ 400,877

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,
	2005	2006	2006
Primary	¥ 1,204.57	¥ 1,536.40	$ 13.08
Diluted	¥ 1,200.63	¥ 1,532.38	$ 13.04

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	Foreign currency transaction adjustment	Treasury stock	Total
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 and statutory auditors	–	–	–	(127)	–	–	–	(127)
Stock split (Notes 3 (11) and 9)	5,659,265.48	–	–	–	–	–	–	–
Exercise of stock options and warrants	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
Net income	–	–	–	47,091	–	–	–	47,091
Cash dividends	–	–	–	(3,654)	–	–	–	(3,654)
Bonuses to directors and statutory auditors	–	–	–	(160)	–	–	–	(160)
Stock split (Notes 3 (11) and 9)	22,654,977.92	–	–	–	–	–	–	–
Exercise of stock options and warrants	20,967	341	341	–	–	–	–	682
Increase in net unrealized gains on other securities (Notes 3 (7) and 7)	–	–	–	–	2,435	–	–	2,435
Foreign currency adjustment	–	–	–	–	–	1	–	1
Acquisition of treasury stock (Note 9)	(722.52)	–	–	–	–	–	(0)	(0)
Balance at March 31, 2006	**30,225,105.64**	**¥ 7,033**	**¥ 2,114**	**¥ 126,738**	**¥ 6,597**	**¥ 1**	**¥ (28)**	**¥ 142,455**

(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	Foreign currency transaction adjustment	Treasury stock	Total
Balance at March 31, 2005	7,549,883.24	$ 56,969	$ 15,095	$ 710,488	$ 35,424	–	$ (238)	$ 817,738
Net income	–	–	–	400,877	–	–	–	400,877
Cash dividends	–	–	–	(31,107)	–	–	–	(31,107)
Bonuses to directors and statutory auditors	–	–	–	(1,362)	–	–	–	(1,362)
Stock split (Notes 3 (11) and 9)	22,654,977.92	–	–	–	–	–	–	–
Exercise of stock options and warrants	20,967	2,901	2,900	–	–	–	–	5,801
Increase in net unrealized gains on other securities (Notes 3 (7) and 7)	–	–	–	–	20,739	–	–	20,739
Foreign currency adjustment	–	–	–	–	–	10	–	10
Acquisition of treasury stock (Note 9)	(722.52)	–	–	–	–	–	(2)	(2)
Balance at March 31, 2006	**30,225,105.64**	**$ 59,870**	**$ 17,995**	**$ 1,078,896**	**$ 56,163**	**$ 10**	**$ (240)**	**$1,212,694**

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,
	2005	2006	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 60,731	¥ 79,964	$ 680,714
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:			
Depreciation and amortization	4,532	6,922	58,928
Goodwill amortization	330	1,039	8,848
Increase in allowance for doubtful accounts	627	412	3,504
Loss on disposal of property and equipment	326	211	1,799
Impairment charges on investment securities	0	1,088	9,257
Gain on sale of investment securities, net	(567)	(1,512)	(12,873)
Interest and dividends received	(707)	(654)	(5,565)
Increase in accounts receivable–trade	(5,034)	(6,354)	(54,088)
Increase in accounts payable–trade	538	1,386	11,802
Equity in net gains under the equity method	427	2,690	22,897
Compensation for cancellation of alliance	–	598	5,088
Decrease (increase) in other receivables	254	(2,549)	(21,701)
Increase in other payables	3,920	5,305	45,162
Increase in consumption tax payable	434	391	3,328
Others, net	363	158	1,346
	66,174	89,095	758,446
Payment for compensation for cancellation of alliance	–	(598)	(5,088)
Income taxes paid	(20,090)	(28,893)	(245,957)
Net cash provided by operating activities	46,084	59,604	507,401
Cash flows from investing activities:			
Purchase of property and equipment	(7,651)	(7,228)	(61,533)
Purchase of intangibles	(2,278)	(4,084)	(34,768)
Purchase of investment securities	(5,816)	(15,210)	(129,477)
Proceeds from sale of investment securities	738	1,963	16,707
Acquisition of shares of entities newly consolidated (Note 13 (2))	(1,061)	(3,984)	(33,911)
Sales of interests in subsidiaries previously consolidated, net	–	(866)	(7,370)
Decrease in loan receivables	100	2,264	19,269
Increase in other investments, net	(1,399)	(944)	(8,034)
Others, net	248	556	4,735
Net cash used in investing activities	(17,119)	(27,533)	(234,382)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	(132)	(142)	(1,209)
Proceeds from issuance of shares under exercise of warrants and stock options	584	667	5,676
Proceeds from issuance of shares to minority shareholders	–	100	851
Interest paid	(8)	(5)	(46)
Payment for dividends	–	(3,654)	(31,107)
Others, net	(60)	6	55
Net cash provided by (used in) financing activities	384	(3,028)	(25,780)
Effect of exchange rate fluctuations on cash and cash equivalents	0	0	0
Net increase in cash and cash equivalents	29,349	29,043	247,239
Cash and cash equivalents at the beginning of the year	39,643	68,992	587,317
Cash and cash equivalents at the end of the year (Note 13 (1))	¥ 68,992	¥ 98,035	$ 834,556

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) comprise seven businesses, as described below.

• Listing business

The Listing business publishes various providers' information on the Company's Web site. It provides search and directory 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.

• 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) and BB TECHNOLOGY Corp. (BBT), wholly owned subsidiaries of SOFTBANK. The business acquires subscribers over the Web and then receives incentives from BBT. It also provides an Internet services provider (ISP) service to individual subscribers that the Company has acquired through its Web site and that SBB and BBT have 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, and Yahoo! Sports; entertainment services, such as Yahoo! Games and Yahoo! Music; and community services, such as Yahoo! Message Boards and Yahoo! Avatar.

• 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 and preparation. Seven and Y, an online book retailer and former consolidated subsidiary, has been accounted for by the equity method from the fourth quarter of the fiscal year ended March 31, 2006.

• 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 one subsidiary during the fiscal year ended March 31, 2006. It also acquired a majority shareholding in INFO PLANT CO., LTD. (INFO PLANT), NewsWatch, Inc.

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries

(NewsWatch) and other companies.

Seven and Y Corp., a subsidiary of the Company as at March 31, 2005, was excluded from the scope of consolidation, and began applying the equity method as at February 14, 2006 due to a decrease in ownership in that company. The income statement of Seven and Y Corp. for the period through December 31, 2005 was included in the consolidated statements of income.

At March 31, 2005 and 2006, the Company had consolidated nineteen and twenty-two 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 on consolidation, and the portion thereof attributable to minority shareholders is credited or charged to "Minority interest." All the assets and liabilities of subsidiaries are recorded at fair value as of the acquisition of control. All consolidated subsidiaries have a fiscal year ending on March 31 except for ALPS MAPPING K.K., INFO PLANT and INFO PLANT's subsidiaries. The provisional financial statements of ALPS MAPPING K.K., INFO PLANT and INFO PLANT's subsidiaries as at March 31, 2006 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 reasonably estimated periods.

(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 historical experience of write-off ratios.

(5) Accounting standard for impairment of fixed assets

The Company applied "Accounting Standards for Impairment on Fixed Assets" ("Opinions Concerning Establishment of Accounting Standards for Impairment of Fixed Assets" issued on August 9, 2002 by the Business Accounting Council in Japan), and "Application Guideline for Accounting Standards for Impairment of Fixed Assets" (Financial Accounting Standards Implementation Guideline No. 6 issued on October 31, 2003) beginning April 1, 2005.

As a result of the application of these standards and guidelines, for the fiscal year ended March 31, 2006, operating expense decreased by ¥40 million ($338 thousand), operating income increased by ¥40 million ($338 thousand), and income before income taxes and minority interest decreased by ¥195 million ($1,661 thousand).

(6) Depreciation and amortization

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed based on the declining-balance method. Effective from April 1, 2005, the Company changed the estimated useful life of servers and network machines (property and equipment) from five years to four years. The effect of this change was to increase depreciation by ¥795 million ($6,775 thousand) and decrease income before income taxes and minority interest by ¥795 million ($6,775 thousand).

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 weighted average computed periodically. 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 were accounted for as "investment securities" on the consolidated balance sheets effective the fiscal year ended March 31, 2005 under Article 2-2 of Securities and Exchange Law, a net amount equivalent to the Company's portion of investment gain or loss on equity method based on the latest financial statements as at the fiscal year end date of the corresponding associates available, was recognized in the

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consolidated financial statements for the fiscal year ended March 31, 2005.

(8) Provision for Yahoo! Points

For sales promotion purposes, the Company adopted the Yahoo! Points system, under which certain points are awarded to the users of Yahoo! JAPAN's services that the holder can redeem for a discount on purchases from Yahoo! Shopping. Accordingly, the Company accrued a provision for the future use of points by the entitled point holders as at March 31, 2006.

(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, 2006 amounted to ¥128,635 million ($1,095,044 thousand), and the participation ratio of the Company and the relevant subsidiaries was 2.8% 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 ¥262 million and ¥447 million ($3,806 thousand), and were charged to the consolidated statements of income for the fiscal years ended March 31, 2005 and 2006.

Some domestic consolidated subsidiaries still maintain a defined benefit pension plan at March 31, 2006. The funded status of retirement benefit obligations at March 31, 2005 and 2006 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 base 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 computed periodically 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, during the relevant periods. Dilutive net income per share for the years ended March 31, 2005 and 2006, 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 and statutory auditors," which are determined through appropriation of retained earnings by resolution of a general shareholders' meeting subsequent to the fiscal year-end, are not reflected in the statements of income of the current fiscal year. However, "bonuses to directors and statutory auditors" are reflected in the calculation of net

income per share as if "bonuses to directors and statutory auditors" were charged to income in the current fiscal year.

On May 20 and November 18, 2005, the Company effected two-for-one stock splits which increased the number of shares issued by 22,654,977.92 in total. Earnings per share data for the years ended March 31, 2005 and 2006 has therefore been restated to reflect the 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 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) 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. The amount of investment in partnerships accounted for as "other investments" as at March 31, 2004 was ¥639 million.

(15) 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. 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 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 (¥117.47 = US$1, the effective rate of exchange at March 31, 2006).

5. Mergers, acquisitions and restructuring

(1) The Company acquired shares of INFO PLANT CO., LTD., in October 2005, and NewsWatch, Inc., in March 2006 for ¥3,013 million ($25,645 thousand) and ¥1,317 million ($11,209 thousand) respectively, and consolidated the entities in the consolidated financial statements for the fiscal year ended March 31, 2006.

Seven and Y Corp., a subsidiary of the Company as at March 31, 2005, was excluded from the scope of consolidation, and began applying the equity method as at February 14, 2006 due to a decrease in ownership of the Company. The income statement of Seven and Y Corp. for the period through December 31, 2005 was included in the consolidated statements of income.

(2) 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, ¥84 million, ¥1,731 million and ¥123 million, respectively, and consolidated the entities in the consolidated financial statements for the fiscal year ended March 31, 2005.

6. Inventories

Inventories at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Raw material	¥ 5	¥ 1	$ 5
Work-in-process	42	21	180
Merchandise	33	21	174
Finished goods	56	40	342
Supplies	45	83	708
Total	¥ 181	¥ 166	$ 1,409

7. Investments in debt and equity securities

Investments in debt and equity securities at March 31, 2005 and 2006 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, 2005 and 2006 were as follows:

	Millions of yen			
	March 31, 2006			
	Cost	Gross unrealized		Market value
		Gains	(Losses)	
Other securities–				
Equity securities	¥ 674	¥ 9,698	¥ –	¥ 10,372
Others	–	–	–	–
Total	¥ 674	¥ 9,698	¥ –	¥ 10,372

	Thousands of U.S. dollars			
	March 31, 2006			
	Cost	Gross unrealized		Market value
		Gains	(Losses)	
Other securities–				
Equity securities	$ 5,735	$ 82,556	$ –	$ 88,291
Others	–	–	–	–
Total	$ 5,735	$ 82,556	$ –	$ 88,291

	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

(2) Details of other securities sold during the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		
	For the year ended March 31, 2006		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	¥ 1,963	¥ 1,040	¥ –

	Thousands of U.S. dollars		
	For the year ended March 31, 2006		
	Amount sold	Total gain on sale	Total loss on sale
Equity securities	$ 16,707	$ 8,855	$ –

	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

(3) Unlisted investment securities at March 31, 2005 and 2006 had the following carrying amounts:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Unlisted equity securities (a)	¥ 153	¥ 467	$ 3,978
Investments in limited partnerships and similar investments	1,119	1,859	15,828
Other	–	329	2,801
Total	¥ 1,272	¥ 2,655	$ 22,607

Note:

(a) The Company's investments in unlisted equity securities were written off by ¥0 million and ¥11 million ($95 thousand) during the fiscal years ended March 31, 2005 and March 31, 2006, 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.

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8. Investments in affiliates

Investments in affiliates at March 31, 2005 and 2006 consisted of the following:

	March 31, 2006		Millions of yen		Thousands of U.S. dollars
	Ownership percentage (%)	% of voting shares held	March 31 2005	March 31 2006	March 31, 2006
Affiliates:					
Tavigator, Inc.	30	30	¥ 142	¥ 184	$ 1,565
INTAGE Interactive Inc.	49	49	107	168	1,427
All About, Inc.	36	36	2,095	2,077	17,686
YUME NO MACHI SOUZOU IINKAI CO., LTD.	26	26	377	339	2,888
CREO CO., LTD.	37	38	1,399	1,607	13,683
Jword Inc.	33	33	950	0	0
ValueCommerce Co., Ltd.	50	50	–	9,032	76,886
Fashion Walker, Inc.	34	34	–	1,139	9,693
TV Bank Corporation	40	40	–	1,057	8,997
Seven and Y Corp.	31	31	–	71	601
Total			¥ 5,070	¥ 15,674	$ 133,426

Note:
In April 2005, AccessPort Inc. changed its name to Jword Inc.

9. Common stock and treasury stock

On February 16 and August 17, 2005, the board of directors of the Company resolved two-for-one stock splits of common stock, which were effected on May 20 and November 18, 2005 for shareholders on the register at March 31 and September 30, 2005, and issued 7,550,123.64 and 15,104,854.28 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 August 17, 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 60,400,000 shares to a total number of 120,800,000 shares. The board of directors of the Company held a meeting on February 16, 2006, and resolved a revision of the articles of incorporation to increase the number of authorized common stock by 120,800,000 shares to a total number of 241,600,000 shares from April 1, 2006.

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 shareholders' meeting held on June 22, 2006, 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, 2006, the number of shares of treasury stock held by the Company was 962.92 shares.

10. Retained earnings

Bonuses to directors and statutory auditors of ¥167 million ($1,422 thousand) in the proposed appropriation of "Retained earnings" of the Company for the year ended March 31, 2006 were approved at the general shareholders' meeting on June 22, 2006.

In the same shareholders' meeting, a cash dividend payment of ¥156 per share, or ¥4,715 million ($40,139 thousand) in total, to the shareholders on the register at March 31, 2006, was also approved.

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 40.69% for the fiscal years ended March 31, 2005 and 2006.

(1) The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Deferred tax assets:			
Enterprise tax payable	¥ 1,164	¥ 1,833	$ 15,605
Impairment charges on investment securities	503	621	5,288
Loss carry-forwards	571	1,236	10,525
Allowance for doubtful accounts	572	690	5,869
Amortization of fixed assets	58	2,011	17,122
Amortization of long-term prepaid expenses	329	273	2,327
Accounts payable unaccepted for tax purpose	64	70	593
Business office tax payable	15	20	171
Provision for use of Yahoo! Points	194	539	4,584
Others	299	338	2,878
Gross deferred tax assets	3,769	7,631	64,962
Less: valuation allowance	(571)	(1,236)	(10,524)
Total deferred tax assets	3,198	6,395	54,438
Deferred tax liabilities:			
Valuation gain on investment securities	(2,866)	(4,527)	(38,539)
Reserve for special depreciation	(29)	(15)	(122)
Total deferred tax liabilities	(2,895)	(4,542)	(38,661)
Net amount of deferred tax assets	¥ 303	¥ 1,853	$ 15,777

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The valuation allowance was provided primarily against the deferred tax assets relating to operating tax loss carry-forwards 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, 2006 was an increase of ¥665 million ($5,665 thousand).

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

	For the years ended March 31	
	2005	2006
Statutory income tax rate	40.69%	40.69%
Reconciliation–		
Goodwill amortization	0.22	0.62
Difference related to investments in affiliates	–	1.69
Change in valuation allowance	0.36	(0.06)
Tax credits	(1.57)	(2.15)
Other	0.21	(0.03)
Income tax rate per statements of income	39.91%	40.76%

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, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31,
	2005	2006	2006
Payroll and bonuses	¥ 8,085	¥ 12,486	$ 106,289
Business commissions	6,482	10,905	92,830
Sales commissions	4,778	8,377	71,313
Depreciation and amortization	4,462	6,663	56,717
Communications charges	4,138	5,675	48,306
Royalty charge	3,379	4,709	40,083
Content provider fees	2,358	3,346	28,488
Allowance for doubtful accounts	847	1,394	11,864
Pension costs	262	442	3,763

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.

"Cash and cash equivalents" at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31,
	2005	2006	2006
Cash and deposits	¥ 68,992	¥ 98,039	$ 834,587
Subtotal	68,992	98,039	834,587
Less:			
Time deposits with maturity over three months	–	(4)	(31)
Cash and cash equivalents	¥ 68,992	¥ 98,035	$ 834,556

(2) Assets and liabilities of companies newly consolidated through acquisitions

As described in Note 5, the Company acquired shares of INFO PLANT and NewsWatch during the fiscal year ended March 31, 2006. Upon consolidation, total net cash outflows of ¥3,585 million ($30,517 thousand) were included in "Acquisition of shares of entities newly consolidated" in the consolidated statement of cash flows for the year ended March 31, 2006.

The cash flows related to these acquisitions were as follows:

	Millions of yen	Thousands of U.S. dollars
INFO PLANT–		
Current assets	¥ 881	$ 7,501
Non-current assets	555	4,722
Goodwill	2,360	20,088
Current liabilities	(313)	(2,668)
Minority interest	(470)	(3,998)
Acquisition cost	3,013	25,645
Less:		
Cash and cash equivalents held by INFO PLANT at acquisition	489	4,162
Net cash outflow	¥ 2,524	$ 21,483

NewsWatch–		
Current assets	¥ 459	$ 3,905
Non-current assets	269	2,286
Goodwill	959	8,163
Current liabilities	(195)	(1,656)
Non-current liabilities	(14)	(119)
Minority interest	(161)	(1,370)
Acquisition cost	1,317	11,209
Less:		
Cash and cash equivalents held by NewsWatch at acquisition	256	2,175
Net cash outflow	¥ 1,061	$ 9,034

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 outflows of ¥1,061 million were disclosed as "Acquisition of shares of entities newly consolidated" in the consolidated statement of cash flows for the year ended March 31, 2005.

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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)
Acquisition cost	168	1,565
Less:		
Acquisition cost 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)
Acquisition cost	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)
Acquisition cost	1,731	16,119
Less:		
Cash and cash equivalents held by Firstserver at acquisition	678	6,314
Net cash outflow	¥ 1,053	$ 9,805

	Millions of yen	Thousands of U.S. dollars
CURIOCITY–		
Current assets	¥ 79	$ 735
Non-current assets	16	149
Goodwill	64	596
Current liabilities	(30)	(279)
Minority interest	(6)	(56)
Acquisition cost	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

(3) Exclusion from consolidation due to the decrease in ownership percentage

Assets and liabilities of a previously consolidated company at December 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Seven and Y Corp.–		
Current assets	¥ 2,159	$ 18,379
Non-current assets	326	2,775
Total assets	2,485	21,154
Current liabilities	2,345	19,966
Total liabilities	¥ 2,345	$ 19,966

(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 of broadcast.com japan K.K. 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, 2005 and 2006 amounted to ¥7.3 million and ¥38.0 million ($324 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, 2005 and 2006 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Capital lease assets	2005	2006	2006
Equivalent to acquisition cost:			
Property and equipment	¥ 88	¥ 114	$ 973
Software	30	50	426
Less: accumulated depreciation	(53)	(89)	(759)
Net book value	¥ 65	¥ 75	$ 640

The depreciation and amortization expense for these leased assets for the years ended March 31, 2005 and 2006 would have been ¥6.9 million and ¥36.2 million ($308 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, 2005 and 2006 would have been ¥0.3 million and ¥1.6 million ($14 thousand), respectively.

The future lease payments for capital leases at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Due within one year	¥ 23	¥ 31	$ 266
Due after one year	45	46	393
Total	¥ 68	¥ 77	$ 659

15. Contingent liabilities

There were no material contingent liabilities at March 31, 2006.

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16. Segment information

(1) Business segment information

The Company categorizes its businesses into seven segments, 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 services
Listing	Provides search and directory 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, and related business
Media	Provides various content and services, both paid and free
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 (6), the Company made a change of estimated useful life of certain fixed assets. As a result of the change, operating expense increased by ¥47 million ($399 thousand) and operating income decreased by the same amount in the Listing business, operating expense increased by ¥131 million ($1,112 thousand) and operating income decreased by the same amount in the Auction business, operating expense increased by ¥150 million ($1,277 thousand) and operating income decreased by the same amount in the Yahoo! BB business, operating expense increased by ¥55 million ($471 thousand) and operating income decreased by the same amount in the Media business, operating expense increased by ¥21 million ($178 thousand) and operating income decreased by the same amount in the Shopping business, operating expense increased by ¥9 million ($80 thousand) and operating income decreased by the same amount in the Business Solutions business, operating expense increased by ¥62 million ($531 thousand) and operating income decreased by the same amount in the Corporate Common business, and operating expense increased by ¥320 million ($2,727 thousand) and operating income decreased by the same amount in "Elimination or corporate," as compared to the amounts that would have been recognized if the previous estimated useful life had been used.

The following tables summarize business segment information of the Company for the years ended March 31, 2005 and 2006:

	Millions of yen									
	For the year ended March 31, 2006									
	Business								Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total		
Net sales–										
External customers	¥ 49,561	¥ 35,934	¥ 19,485	¥ 18,357	¥ 15,905	¥ 5,092	¥ 29,362	¥173,696	¥ –	¥ 173,696
Inter-segment	–	53	–	10	58	18	163	302	(302)	–
Total	49,561	35,987	19,485	18,367	15,963	5,110	29,525	173,998	(302)	173,696
Operating expenses (a)	12,225	14,519	11,808	10,787	14,218	5,592	11,098	80,247	11,316	91,563
Operating income (loss)	¥ 37,336	¥ 21,468	¥ 7,677	¥ 7,580	¥ 1,745	¥ (482)	¥ 18,427	¥ 93,751	¥ (11,618)	¥ 82,133
Assets (b)	¥ 55,205	¥ 47,142	¥ 25,510	¥ 11,627	¥ 5,858	¥ 7,499	¥ 35,093	¥187,934	¥ 3,041	¥ 190,975
Depreciation and amortization	426	1,059	1,003	414	283	336	565	4,086	2,836	6,922
Capital expenditures	1,161	1,911	852	976	684	816	1,249	7,649	5,209	12,858

	Thousands of U.S. dollars									
	For the year ended March 31, 2006									
	Business								Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total		
Net sales–										
External customers	$ 421,909	$ 305,895	$ 165,870	$ 156,273	$ 135,391	$ 43,348	$ 249,953	$1,478,639	$ –	$1,478,639
Inter-segment	–	454	–	80	496	150	1,387	2,567	(2,567)	–
Total	421,909	306,349	165,870	156,353	135,887	43,498	251,340	1,481,206	(2,567)	1,478,639
Operating expenses (a)	104,073	123,593	100,521	91,826	121,029	47,605	94,478	683,125	96,331	779,456
Operating income (loss)	$ 317,836	$ 182,756	$ 65,349	$ 64,527	$ 14,858	$ (4,107)	$ 156,862	$ 798,081	$(98,898)	$ 699,183
Assets (b)	$ 469,953	$ 401,312	$ 217,162	$ 98,974	$ 49,866	$ 63,840	$ 298,740	$1,599,847	$ 25,886	$1,625,733
Depreciation and amortization	3,629	9,017	8,536	3,528	2,408	2,858	4,806	34,782	24,146	58,928
Capital expenditures	9,882	16,265	7,251	8,308	5,824	6,948	10,632	65,110	44,348	109,458

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries

	Millions of yen									
	For the year ended March 31, 2005									
	Business								Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common	Total		
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

Notes:

(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

Because the amount of sales and assets in Japan exceeded 90% of the consolidated amount, the disclosure of geographic segment information has been omitted.

(3) Sales to overseas customers

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

17. Related-party transactions with the Company

For the fiscal year ended March 31, 2006

(1) Parent company and principal shareholder

Title	Name	Address	Amount of capital	Nature of business or occupation	Proportionate interest	Relationship		Nature of transaction	Amount of transaction		Account	Balance at March 31, 2006	
			Millions of yen			Concurrent directors	Business relationship		Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Parent company	SOFTBANK CORP.	Minato-ku, Tokyo	162,916	Holding company	Direct: 41.1% Indirect: 0.2%	3	–	–	–	–	–	–	–
Other affiliated company	Yahoo! Inc.	South California, USA	$1,470 thousand	Advertising on the Internet and related activities	Direct: 33.4% Indirect: 0.1%	1	Use of license	Payment for the royalty	4,709	40,083	Accounts payable	1,328	11,303

Notes:

- Consumption taxes are not included in the amount of the transaction but in the amount of the year-end balance.
- The terms and conditions applicable to the transaction have been determined on an arms-length basis and by reference to normal market prices.

(2) Directors and major individual shareholders

N/A

(3) Subsidiaries

N/A

(4) Affiliates

Title	Name	Address	Amount of capital	Nature of business or occupation	Proportionate interest	Relationship		Nature of transaction	Amount of transaction		Account	Balance at March 31, 2006	
			Millions of yen			Concurrent directors	Business relationship		Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Fellow subsidiary	BB Modem Rental PLC	Cayman Islands (British West Indies)	59	SPC operating modem rental business	–	–	–	Interest received	629	5,352	Short-term loans	3,656	31,127
											Advances received	35	301
Subsidiary of other affiliate	Overture K.K.	Minato-ku, Tokyo	10	Provide information on the Web site	–	–	–	Sales of advertisements	28,687	244,211	Accounts receivable	3,249	27,654

Notes:

- Consumption taxes are not included in the amount of the transaction but in the amount of the year-end balance.
- The terms and conditions applicable to the transaction have been determined on an arms-length basis and by reference to normal market prices.

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries

For the fiscal year ended March 31, 2005

(1) Parent company and principal shareholder

Title	Name	Address	Amount of capital (Millions of yen)	Nature of business or occupation	Proportionate interest	Relationship: Concurrent directors	Relationship: Business relationship	Nature of transaction	Amount of transaction (Millions of yen)	Account	Balance at March 31, 2005 (Millions of yen)
Parent company	SOFTBANK CORP.	Minato-ku, Tokyo	162,397	Holding company	Direct: 41.9%	3	–	–	–	–	–
Other affiliated company	Yahoo! Inc.	South California, USA	$1,416 thousand	Advertising on the Internet and related activities	Direct: 33.4% Indirect: 0.1%	1	Use of license	Payment for the royalty	4,279	Accounts payable	1,195

Notes:
- Consumption taxes are not included in the amount of the transaction but in the amount of the year-end balance.
- The terms and conditions applicable to the transaction have been determined on an arms-length basis and by reference to normal market prices.

(2) Directors and major individual shareholders

N/A

(3) Subsidiaries

N/A

(4) Affiliates

Title	Name	Address	Amount of capital (Millions of yen)	Nature of business or occupation	Proportionate interest	Relationship: Concurrent directors	Relationship: Business relationship	Nature of transaction	Amount of transaction (Millions of yen)	Account	Balance at March 31, 2005 (Millions of yen)
Fellow subsidiary	SOFTBANK BB Corp.	Minato-ku, Tokyo	148,000	Providing services related to broadband infrastructure	–	1	Business alliance in Yahoo! BB business	Purchases of fixed assets (servers)	1,882	Accounts payable	662
								Call center fee	1,539		
Fellow subsidiary	BB Modem Rental PLC	Cayman Islands (British West Indies)	59	SPC operating modem rental business	–	–	–	Interest received	692	Short-term loans	2,260
										Long-term loans	3,656
										Advances received	155

Notes:
- Consumption taxes are not included in the amount of the transaction but in the amount of the year-end balance.
- The terms and conditions applicable to the transaction have been determined on an arms-length basis and by reference to normal market prices.

18. Subsequent events

(1) Stock split

On February 16, 2006, the board of directors of the Company resolved a two-for-one stock split of common stock, which was effected at April 1, 2006 for shareholders on the register at March 31, 2006, and issued 30,226,068.56 shares. Giving effect to the stock split, net income per share for the two fiscal years ended March 31, 2005 and 2006 would be retroactively restated as follows:

	Yen		U.S. dollars
	For the years ended March 31		For the year ended March 31,
	2005	2006	2006
Net income per share:			
Primary	¥ 602.29	¥ 776.62	$ 6.61
Diluted	¥ 600.32	¥ 774.57	$ 6.59

(2) Subscription to the shares of BB Mobile Corp.

On April 27, 2006, the Company subscribed to the preferred shares and share acquisition rights issued by BB Mobile Corp., a wholly-owned subsidiary of SOFTBANK CORP., for the purpose of the acquisition of Vodafone K.K. by SOFTBANK CORP.

1. Preferred shares

(1) Total number of shares:	600,000 shares
(2) Issuance price:	¥120 billion ($1,022 million), ¥200,000 ($1,703) per share
(3) Condition for dividends:	No dividends to be paid up to the year ended March 31, 2013. In following fiscal years, the issuer will pay 12% of issuance price of ¥200,000 ($1,703) per share.
(4) Condition for redemption:	Shares may be recalled by issuer with prior notification.

2. Share acquisition rights

(1) Issue price:	Zero
(2) Allotment:	98 units
(3) Shares covered by acquisition right:	98,000 shares
(4) Exercise price:	¥95,098 ($810)
(5) Exercisable period:	From April 1, 2013 to April 27, 2016
(6) Condition for exercise:	Accumulated EBITDA of BB Mobile Corp. exceeds ¥3,350 billion ($28,518 million) from April 1, 2006 to March 31, 2013

(3) Financing through loan agreement with a syndicate

The Company entered into a loan agreement with a syndicate for which Mizuho Bank, Ltd. is the arranger and agent, in order to subscribe to the preferred shares issued by BB Mobile Corp. The Company used the funds to purchase the preferred shares in accordance with the alliance between the Company and SOFTBANK CORP.'s mobile business.

The details of the syndicate loan are as follows:

(1) Amount borrowed:	¥80 billion ($681 million)
(2) Date of execution of loan:	April 25, 2006
(3) Term of borrowing:	From April 25, 2006 to May 25, 2010
(4) Repayment method:	The date of initial repayment is November 27, 2006. In following terms, equal payment of principal every 6 months
(5) Interest rate:	Initial term: Japanese yen 1-month TIBOR + 0.30% In following terms: Japanese yen 6-month TIBOR + 0.30%

Report of Independent Auditors

To the Board of Directors and Shareholders of Yahoo Japan Corporation

We have audited the accompanying consolidated balance sheets of Yahoo Japan Corporation and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards 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, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 18, on April 27, 2006, the Company subscribed to the preferred shares and share acquisition rights issued by BB Mobile Corp., a wholly-owned subsidiary of SOFTBANK CORP., for the purpose of the acquisition of Vodafone K.K. by SOFTBANK CORP.

As described in Note 18, the Company entered into a loan agreement with a syndicate for which Mizuho Bank, Ltd. is the arranger and agent in order to subscribe to the preferred shares issued by BB Mobile Corp. The Company used the funds to purchase the preferred shares in accordance with the alliance between the Company and SOFTBANK CORP.'s mobile business.

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 22, 2006

Risk Factors

(April 20, 2006)

A number of factors could substantially impact future performance. Major factors contributing to business risks for Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (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 shares of Yahoo Japan Corporation (the Company).

1. Influence of Internet Markets and Competition

1) Influence of Internet markets and infrastructure

a. Dependence on the growth of Internet usage

Internet usage in Japan has grown steadily since the Internet's emergence as a recognizable force in 1995, with particularly notable growth thanks to the recent spread of broadband communications. As the Group is dependent on the Internet indirectly and directly, the most basic requirements for its operations are the continued expansion of communications and commercial activity through the Internet as well as a stable and secure infrastructure for Internet users.

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 capacity; the need for the development and application of technological standards and new protocols for responding to growing Internet traffic and increasingly advanced applications; and the possibility of new regulations or charges related to Internet use.

b. Dependence on the infrastructure for Internet connection

As almost the entire catalog of Group services is dependent on the Internet, business operations require a stable infrastructure for Internet connection, which includes 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 infrastructure should deteriorate and prevent easy use of the Internet, usage could decline, reducing site traffic and negatively impacting Group performance.

2) Internet advertising market

a. Potential of the Internet advertising market

Since it began operations in 1996, the Group has offered search engine and information-related services through its portal site, with advertising as its main source of income. It has grown to become the leading Internet service operator in Japan, with overwhelmingly dominant viewer rates.

The Internet-based advertising industry in Japan is generally thought to have begun with the Group's start of operations. Since that time, the Internet advertising market has grown significantly, accounting for 4.7% of the total advertising market in calendar year 2005, according to a recent DENTSU INC. report. For the second consecutive year, Internet advertising expenditures exceeded radio advertising expenditures. The Internet market, however, is still far smaller than the advertising markets for traditional media, including television, newspapers, and magazines. In the future, growth in Internet advertising expenditures could slow and fall short of our expectations, resulting in lower-than-anticipated Group income, which could negatively affect Group performance.

Although the Internet advertising market is attracting increasing advertising expenditures from firms in various

Risk Factors

industries, the Internet's value as an advertising medium has not been adequately established among advertisers, advertising agencies, and consumers. Corporate use of Internet advertising, which has a relatively short history, is often done on a test-case basis with limited budgets. To promote greater understanding and appreciation of Internet advertising within the advertising industry, including both advertisers and advertising agencies, the Group regularly hosts seminars and other informational events. In addition, the Group is enhancing its advertising sales system and strengthening ties with advertising agencies with the goal of expanding and stabilizing the advertiser base. It is uncertain, however, whether the Internet will prove to be a profitable advertising medium capable of competing with traditional media. There is no guarantee that National Clients, leading companies that conduct nationwide sales campaigns on relatively large budgets, will decide to use Internet advertising on a continual, large-volume basis, similar to their use of advertising in traditional media. If they do not, the Group might have difficulties in achieving stable advertising income.

The Group projects that advertising through Internet-enabled mobile terminals such as mobile phones will grow at a quickening pace and is therefore working to make its services available through such mobile terminals in addition to personal computers. If the bulk of Internet access shifts from computers to mobile phones, however, the Group may see a fall in viewer rates and a corresponding reduction in its market share, which would slow down growth in advertising revenue and negatively impact earnings.

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 that companies reduce. 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 from advertisers for advertising space 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.

c. Greater variation in advertising products

The Group develops and sells a variety of advertising products suited to advertiser needs, including products with guaranteed exposure times and page views. In addition, we offer Sponsor Site (paid search advertising), operated jointly with Overture.

Recently, advertising products that employ unconventional advertising methods have appeared, such as affiliate ad program (results-based advertising). The Group intends to remain abreast of current advertising trends through cooperative relations with new business partners, such as ValueCommerce. If the Group fails to properly respond to changes in advertising methods, its advertising income could decrease even as the costs of developing new products and forming new partnerships with companies possessing expertise in new advertising methods grow. As a result, Group performance could be negatively affected.

d. Trends among competitors

Competitors for the Group's advertising business are companies working to earn advertising income by operating portal sites offering Japanese-language search engine and information-related services.

Japanese-language search engine and information-related services are currently offered through the portal sites of Google (Google Inc.), MSN (Microsoft Corporation), infoseek (Rakuten, Inc.), goo (NTT Resonant Inc.), livedoor (livedoor Co., Ltd.), and excite (Excite Japan Co., Ltd.). In addition, many other Web sites offer more specialized information-related services. All of these sites compete with the Group in the markets for its various services.

Operators of these sites include those affiliated with U.S.

companies that compete in the U.S. Internet market with Yahoo! Inc., a major shareholder of the Company. In this competitive environment, it is uncertain whether the Group can maintain its dominant position in the industry. Competition could lead to price competition in the form of lower unit prices for the Group's advertising products. In addition to paying content provider fees and sales commissions to information providers and advertising agencies, the Group may have to increase advertising expenditures to attract advertisers, thereby negatively impacting Group performance.

3) Personal services

a. Market shifts due to increasing individual Internet use

The Group's primary income sources from businesses targeting individual customers include system-use fees for Yahoo! Auctions; membership fees for Yahoo! Premium, a package of various Yahoo! services including Yahoo! Auctions; Internet services provider fees for Yahoo! BB service; and sales of individually priced contents. With the spread of broadband communications, the number of Internet users has increased drastically. Accordingly, the market for business designed for individuals is likely to continue to expand. Sooner or later, broadband proliferation in Japan will reach a saturation point and growth in the number of users will plateau. To prepare for that time, the Group is implementing various measures to boost customer satisfaction and promote greater use of the full range of its services. Growth in the numbers of Yahoo! Auctions participants, Yahoo! Premium members, and Yahoo! BB subscribers, however, might lose its early momentum, which will have a significant negative influence on Group earnings.

Yahoo! Auctions transaction volume has expanded in line with increases in the number of participants. With that growth, however, have come reports of incidents that were not considered at the time the service was created, including fraud and illegal listings. To create a safe auction site, the Group will continue implementing measures to comply with legal restrictions and social norms. If these measures fail to have the intended effects and instead discourage participation in Internet auctions, Group income from system-use fees for Yahoo! Auctions and the number of Yahoo! Premium members could decrease, significantly influencing Group performance.

The spread of broadband communications has enabled the Group to deliver a variety of content to meet Internet users' needs, including high-volume services such as video and music. Demand for such content via the Internet is likely to expand as Internet users increase. If such content fails to become a regular part of the lives of users, or if access to content via terminals other than personal computers becomes the norm, and if the Group fails to break into the non-PC market, the achievement of expected earnings could be difficult.

b. Trends among competitors

Competitors for the Group's personal services business targeting individual users are companies offering Japanese-language electronic commerce services such as auctions, ISP services, and content delivery.

These competitors include the previously mentioned portal site operators; auction sites such as Rakuten Ichiba (Rakuten) and bidders (DeNA Co., Ltd.); and ISP business sites such as @nifty (NIFTY Corporation), So-net (Sony Communication Network Corporation), BIGLOBE (NEC BIGLOBE, Ltd.), and OCN (NTT Communications Corporation). Many other companies deliver content in competition with the Group.

In this competitive environment, it is uncertain that the Group will be able to maintain its dominant position in the industry. If participation in the Company's auction site decreases as a result of competition, and if Yahoo! Premium members and Yahoo! BB subscribers also decrease as a result of competition, the Group's revenues from system-use fees and commissions could decline. In addition, the potential exists for commission reductions and major revisions to the pricing structure as a result of price competition. As well, the Group might have to increase advertising expenditures to compete for customers. All these factors could negatively impact Group performance.

Risk Factors

4) Business services

a. Trends in corporate Internet use and market change

In business services other than advertising, Group income is derived mainly from listing services, such as Yahoo! Rikunabi, Yahoo! Autos, and Yahoo! Real Estate, as well as from e-commerce services, such as Yahoo! Auctions and Yahoo! Shopping.

To expand the market for listing services, particularly Yahoo! Rikunabi, an employment information site jointly operated with RECRUIT, the Group is leveraging the convenience of its Web sites and its dominant brand strength to attract new customers. Using an enhanced sales infrastructure, the Group also continually works to solicit registration by retailers on the Yahoo! Auctions and Yahoo! Shopping sites with the aim of expanding e-commerce income. Despite such efforts, the market might fail to expand for various reasons. Corporate use of the Internet might not expand as anticipated. The shift of listing services to the Internet from traditional media, particularly paper-based media such as newspapers, magazines, and flyer inserts, might not advance further. Use of the Group's auction and shopping sites might not increase as expected, and the number of tenants registered on these sites might be insufficient, with the result that transaction volumes might not increase as anticipated. These factors could negatively affect Group performance.

b. Influence of changes in the broadband market

Incentive fees received from BB TECHNOLOGY Corp. (BBT) (see note, below) for each new Yahoo! BB account provide important income for the Group's business services.

The entire Group promotes the Yahoo! BB service, a comprehensive broadband service provided jointly by the Company and BBT.

The commencement of the Group's Yahoo! BB service was a major stride for broadband communications in Japan. According to the Ministry of Internal Affairs and Communications' most recent White Paper on Telecommunication, Japan is No. 2 in the world in terms of number of broadband accounts, with the fastest and most economical broadband services in the world. The Group's Yahoo! BB service, mainly its ADSL service, holds the top customer share in the domestic market.

Owing to rapid progress in telecoms technology, however, the market is shifting from ADSL service to fiber-to-the-home (FTTH) service, which enables faster data transfer via optical fiber. In line with this shift, the Group has added a new comprehensive broadband service, Yahoo! BB Hikari, which employs FTTH technology. By emphasizing sales promotions, leveraging the advantages of its strengths in brand dominance and price-competitiveness, and undertaking various campaigns, the Group is working to attract new subscribers. Despite these efforts, it is possible that the Group will attract fewer new accounts than expected and lose customers to competing services, resulting in a failure to achieve its sales goals. At the same time, the Group might incur heavier costs than projected. As a result, Group performance could be negatively affected.

Note:
SOFTBANK BB Corp. (SBB) undertook a reorganization of its businesses to further strengthen its broadband operations. As part of this process, SBB spun off its modem rental business on November 1, 2005, establishing BB Modem Rental Yugen Kaisha as a modem rental specialist. (BB Modem Rental was subsequently sold to Yugen Kaisha Gemini BB.) In addition, on December 1, 2005, SBB transferred its ADSL operations to BBT (surviving company), which will specialize in ADSL operations while SBB specializes in FTTH, retail business, and other non-ADSL operations.

c. Trends among competitors

Competitors for Group business services are companies offering Japanese-languages services in the areas of ADSL business, e-commerce services such as auction and shopping sites, or listing services via the Internet.

Listing services are an important arena for competition among the previously mentioned operators of portal sites and specialized information sites. In e-commerce services, competitors include Rakuten Ichiba (Rakuten, Inc.) and bidders (DeNA Co., Ltd.). Competing ADSL services include FLET'S (NTT East Corp. and NTT West Corp.), eAccess (eAccess Ltd.), and ACCA (ACCA Networks Co., Ltd.).

In this competitive environment, it is uncertain that the

Group will be able to maintain its dominant position in the industry. Competition might result in a decline in listing business or a decrease in retailer participation in the Group's auction and shopping sites. In addition, increased costs associated with attracting new customers might negatively affect Group performance.

5) Revision of business forecasts

Change is rapid in the technologies and markets of the Internet sector, with which the Group is closely associated. The advertising business, meanwhile, is highly susceptible to overall economic trends.

The Group bases its forecasts for sales and costs largely on assumptions regarding usage rates for each of its services. If these assumptions prove to be inaccurate owing to unforeseen drastic changes in the business environment surrounding the Group, then actual business results might differ considerably from announced forecasts.

When the likelihood of considerable differences between forecast and actual results is recognized, the Group will announce revisions to its forecasts in a timely manner.

2. Influence of Legal and Institutional Changes

1) Potential legal restrictions

a. Legal restrictions related to the Internet

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 publishing legal opinions on the subject.

Since May 2002, the Law Regarding Limitations on the Liability of Providers of Specified Electronics Communications Services and Regarding Privacy of User Information (Provider Responsibility Law) has been in force. 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 intermediates in distributing information over the Internet. Nevertheless, passage of a new law could start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business could be restricted owing to 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 enforced by related government divisions. Changes in the law or ordinances could influence the Group's business.

b. Potential legal restrictions on auction business

There have been recent reports of illegal or fraudulent merchandise bought and sold via Yahoo! Auctions services.

Effective September 2003, a revision of the law regarding the sale of used goods was promulgated in order to prevent criminal misuse of Internet auctions. In addition to imposing a registration 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 stipulates that when an operator is ordered by an investigative body to remove an auction listing based on suspicion of fraud, the operator must do so. The scope of the reformed law, however, is limited to items with which the Group is already in compliance. Furthermore, because 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.

On June 10, 2005, the Japanese government introduced its "Plan 2005 to Promote Intellectual Property Rights Strategy" to carry forward extensive measures to fight the infringement of intellectual property via the Internet. To help prevent damage to consumers and the owners of intellectual property, the plan includes such measures as compliance with the obligation to indicate the business operators subject to the Specified Commercial Transactions Law, instituting voluntary rules requiring compliance by auction houses, and closer linkage among the relevant government divisions and auctioneers.

Risk Factors

When sellers subject to the law list branded products for auction, the Group instructs them to identify themselves properly and will revoke their IDs if they do not comply. Together with Internet auction operators DeNA and Rakuten, the Group has begun discussions with a view to formulating and enforcing voluntary restrictions, and will gradually seek cooperation from related government divisions. To educate those who list items for sale and potential buyers of those items, the Group has published on its Web site its "Intellectual Property Protection Guide," which defines and explains copyrights, image rights, and trademarks.

If these measures do not have the desired results and reports of illegal listings and fraud continue, new legislation could restrict commercial activities carried out via the Internet. Depending on the degree of restriction entailed by such legislation, this could have a significant impact on the Group's auction services.

c. Potential legal restrictions on other business

The Group offers the Yahoo! JAPAN Card service for financial settlements and Yahoo! Trading (securities brokerage service).

In its Yahoo! JAPAN Card service, the Group independently issues credit cards and offers loans, including cash advances, which activities bring it under the Money-Lending Business Control and Regulation Law and Interest Rate Restriction Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau. Recently, there have been an increasing number of cases where debtors demand refunds of interest paid in excess of the legal limit, claiming that the interest is undue profit for creditors. In our service, the Company intends to set interest rates within the range specified in the Interest Rate Restriction Law. However, in the case that the interest rates of our service exceed the legal limit for some reason, possible demands for refunds of the excess amount could negatively impact the Group's earnings.

In its Yahoo! Trading (securities brokerage service), the Group is under the supervision of the Financial Services Agency and is subject to the Securities and Exchange Law and rules set by the Japan Securities Dealers Association. Under the Securities and Exchange Law, the Company registers as a securities broker with the Prime Minister. Although the Group is committed to compliance with these rules and regulations, it could be subject to penalties, such as a loss of registration, if, despite all our efforts, we should be found guilty of violating any of those laws and rules. Strengthening or revising the compliance system to prepare for a tightening of those regulations might entail increased costs and could therefore negatively impact the Group's earnings.

2) Potential litigation

a. Illegal acts by auction participants

The Group has taken various measures to improve the security of its systems to build a safer and more stable auction environment. In September 2000, the Group commenced a new escrow service (see note, below) for online auctions. In May 2001, the Group introduced a fee-based personal identification system. In July 2004, the Group initiated a system that verifies by mail the postal addresses of users listing items on the auction site. In addition, the Group has set up a patrol team to eliminate the listing of illegal items in cooperation with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it is uncertain that illegal acts will not occur in the future. Therefore, the possibility of legal action being taken against the Group cannot be ruled out, whether or not the Group is responsible. In fact, users have already filed a suit for damage compensation against the Group. Depending on how the suit progresses, the image and/or performance of the Group could be harmed. Moreover, developing a system to prevent criminal activity and upgrading the Group's ability to ensure proper management could lead to increased costs and therefore negatively impact earnings.

The Group has established a compensation system for users who have suffered damage owing to illegal activity. This could raise expenditures for the Group.

Note:
The escrow service consists of a company acting as an intermediate between the sell and buy sides of a transaction to ensure the smooth transfer of the item and payment. Provided by third parties and not the Company, this service varies according to the escrow company used. However, in general, the escrow company receives payment from the buyer and transfers it to the seller upon confirming the

buyer's receipt of the correct item in good condition. This service eliminates concerns that the item will not be delivered or payments not made.

b. Solicitation of securities transactions

In providing its Yahoo! Trading (securities brokerage service), the Company complies with its own solicitation policies and guidelines under the supervision of its affiliated securities houses (see note, below) in setting up trading accounts and handling transactions. Before soliciting customers into transactions, the Company consults with the securities houses, but the solicitation could mislead customers into losses. In such cases, the Company could be subject to demands for damage compensation from the securities houses, which temporarily pay damages to customers, depending on the situation.

Note:
"Affiliated securities houses" refers to firms that have signed a consignment agreement with the Company for securities brokerage.

c. Information distribution via the Internet

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

To promote compliance 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 all advertisers, advertisers take full responsibility for the content of their advertisements. The Group also maintains the right to remove at any time Web sites listed on its Internet directory search services. In addition, the Group fully discloses its legal obligations in written contracts with the creators of those Web sites with clauses indicating the full responsibility of the creators for the content of their sites. For such services as bulletin boards, blogs, and auctions, where users can exchange 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 users. The Group maintains the right to remove content and will do so upon discovering Web content in violation of its contracts with users.

Through such internal regulations the Group prohibits illegal and slanderous content on its sites 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 information posting, and that the Group accepts no responsibility for damages caused to users during Web browsing or information posting. To protect minors from harmful content, the Group has implemented 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 sites, contributions to community message boards, and/or trading on its auction site. The resulting decline in user confidence could lead to a drop in hits or a suspension of services.

d. Third-party responsibility

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Group and those provided by the Group itself, measures are taken to ensure the understanding and agreement of customers through user rules or clauses posted on the Group's sites. Despite these efforts, it is possible that these measures will fail and that customers will demand compensation for damages from the Group that actually are the responsibility of a third party. This could result in additional costs to the Group or damage to its brand image, impacting negatively on performance.

The Group assigns all responsibility to the user and accepts no responsibility regarding Yahoo! Auctions, making no guarantees as to the selection, display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, 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 employing these services. Nor does the Group

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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 delay in the delivery of said goods. However, it remains possible that users of these services or other related parties will take legal action against the Group for claims or compensation related to the content of its services. Such legal action could have a negative impact on the Group as a result of monetary obligations or damage to the Group's brand image. Further, it is possible that the Group will be involved in legal disputes with users of these services outside Japan because of the treaty regarding the jurisdictions of international courts.

3) 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 might be forced to substantially increase expenditures related to patent management, which could impact its earnings. The geographic boundaries for the 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 intellectual assets, such as copyrights and 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 be certain that such problems will not occur. In such cases, the Group may be sued for compensation, required to pay substantial royalty fees, or be forced to cease providing certain services.

4) Changes in accounting standards

Against the backdrop of the recent trend to establish international accounting standards, the Group has made quick and appropriate changes to its accounting standards for severance and retirement benefits, financial instruments, and other categories. 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.

3. Information Security Management

1) Group efforts to achieve information security

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. While the development of Internet technology has broadened the horizons of Internet users and boosted convenience, it has also turned the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group is obligated to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures companywide. To facilitate this process, we have appointed a Chief Security Officer (CSO) and established an Information Security Office, giving them wide-ranging authority to carry out their mission. The President of the Company himself announced our "Information Security Declaration" (see Note 1), setting out the Group's overall information security efforts. Based on this declaration, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important

information. At the same time, to promote adherence to our in-house rules we established the Information Security Council, comprising information security members from each of our divisions. As part of our information security measures, the addresses and other information of our customers are encrypted using SSL (Securities Sockets Layer) systems, and access to stored data is tightly restricted. In April 2002, the Company obtained the right to use the TRUSTe mark (see Note 2) of the nonprofit privacy protection licensing institution TRUSTe. In August 2004, the Group acquired Information Security Management Systems (ISMS) certification, which was developed by British Standards Institution. The Group has been certified under the BS 7799-2:2002 international standard and the Japanese domestic standard ISMS Certification Standards Version 2.0 (see Note 3). As of March 31, 2006, Yahoo Japan Corporation and 13 of its subsidiaries had acquired ISMS certifications. The Group has used these third-party certification systems to implement a third-party check of its operations using a global standard in order to continue to strengthen its information security measures and fulfill its social responsibility regarding this issue.

Nevertheless, these actions do not guarantee that the Group's information security systems are perfect. If, under some circumstance, problems such as an information leak were to occur, they not only might impact negatively on performance but also could result in a weakening of the public's confidence in the Group.

Notes:

1. Information Security Declaration
   The Company declares its commitment to the following policy regarding information-security management for society as a whole.
   The customer and other information held by Yahoo Japan Corporation and its subsidiaries and affiliates, hereinafter referred to as the Group, is our most important asset. Protecting this information is extremely important not only for our sake but also for that of our customers, vendors, and business partners.
   For that reason we have positioned our information systems, such as the computers that hold the information and our networks, as information assets. We have established information security rules to protect and manage these assets, and our protection and management measures for these information assets are carried out in the form of information security regulations.
   The people using or having access to these information assets, such as employees of the parent company and subsidiaries, are fully aware of the importance of information security to protect our assets, the confidence of our customers and vendors, and our brand image. Consequently, they comply with our information security regulations and treat our information assets with great care.

2. TRUSTe Certification Institution and the TRUSTe mark
   TRUSTe is an independent, nonprofit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Web sites based on examinations of their personal information protection systems, guaranteeing that the site is being monitored on this issue by a third party. As of April 2001, a TRUSTe Certification Institution was established as part of the Japan Engineers Federation, a nonprofit organization, in recognition of the spreading use of the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms to the privacy protection policies of TRUSTe and meets the license contract standards. The mark can only be used on sites that are being monitored and guided by TRUSTe and that agree with and follow the guidelines of TRUSTe for the processing of consumer complaints.

3. BS 7799-2:2002 and ISMS Certification Standards Ver. 2.0
   Taking into consideration both technical security methods and overall organization management, this certification system focuses on establishing and maintaining an information security management system as well as continuously improving it. Following certification, continuous inspections are made regarding maintenance and upgrading of the system, and the site receives regularly scheduled checks from a third-party perspective. Specifically, the PDCA cycle of Plan (establish detailed plans and goals for information security measures), Do (initiate and carry out measures based on plans), Check (check and monitor results), and Act (management team revises, improves, and processes) is continuously repeated with the goal of improving information security levels.

2) Personal information

a. Group efforts to protect personal information

The Group holds personal information to identify each individual customer in providing various services and electronic commerce.

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. The Group has set up a Yahoo! Security Center within the Yahoo! JAPAN site that encourages users to be careful by posting information on examples of fraudulent behavior regarding the abuse of personal information and by suggesting effective security measures to help users protect themselves. It also handles 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, either 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. Recently, there have been several cases of personal information stored on personal computers

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being unknowingly leaked onto networks by virus-infected personal computers of users of file-sharing software called Winny. There is also a possibility that third parties will use passwords, for example, to fraudulently access systems or employ a method such as phishing (see note, below), whereby they illicitly obtain personal user information. Under such circumstances, the Group's services could be adversely affected, its brand image tarnished, and the Group drawn into legal disputes.

Regardless of whether or not the Group is legally responsible, its policy is to take measures to strengthen the management and monitoring of the security systems of companies with which it has business alliances. Representatives of the Group are currently participating in the phishing e-mail countermeasures committees of the ministries of Economy, Trade and Industry, and Internal Affairs and Communications, as well as a committee set up by the National Police Agency. By sharing information with related ministries, agencies, and industry associations, the Group is seeking to establish effective measures against this type of fraud.

Starting in April 2005, the Personal Information Protection Act and guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. Because the Group had already implemented in advance systems to ensure compliance with the regulations and requirements of the law and guidelines regarding handling of personal information, the enforcement of the law and guidelines is likely to have very little or no impact on Group operations.

Note:
Phishing fraud involves obtaining personal information by sending an e-mail purportedly from a financial institution or other company that tricks people into accessing a fraudulent Web site, where they are asked to input such personal information as credit card numbers, login IDs, passwords, or other sensitive information. Damages from money theft using this system are mounting in Europe and the United States, and such cases have become common in Japan recently, as well. The National Police Agency has posted warnings about phishing fraud on its Web site.

b. Risk of fraudulent use of credit cards

In providing services such as Yahoo! Wallet and Yahoo! ezPay, the Group has taken all practical precautions in protecting itself from such problems as the fraudulent use of credit cards as well as the leakage of sensitive personal information. However, there can be 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 a suit against the Group seeking compensation for losses, preventing the recovery of the funds reimbursed through Yahoo! ezPay, 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 other services of the Group.

The Group has projected certain risks of fraudulent use, including card copying and theft, of its Yahoo! JAPAN Card since the related services began. However, if such acts exceed those expectations, damages in excess of the anticipated level could be incurred. Furthermore, in order to guard against such fraudulent action, it may be necessary to implement expensive security measures, such as biometric validation systems, that would result in greater-than-anticipated costs.

c. Personal information management of business alliance partners and of stores registered on Yahoo! Shopping and Yahoo! Auctions

Personal information obtained through Group services is held within the Group in principle, and the Group is committed to taking all possible information protection measures as stated above. However, there are cases where the personal information management systems of business partners or stores registered on the Yahoo! Shopping and Yahoo! Auctions sites have a significant influence on the Group's efforts.

The Group intends to outsource the major portion of Yahoo! JAPAN Card services to take full advantage of available expertise in managing individual information and to maximize cost flexibility. Although the Group has been extremely careful in choosing its business partner for this service, the Group could be sued for damages should its business partner leak

personal information.

For Yahoo! Trading (securities brokerage services), personal information necessary for opening accounts and accumulated information about transactions will be obtained and held by our securities-house partner. A portion of this information will be transferred to the Company in a way that complies with the Personal Information Protection Act. The Company has been extremely careful about the transfer and management of this information. If personal information is leaked from the Company or affiliated securities houses, the Company could be liable for damage compensation.

Previously, it was possible for stores on the Yahoo! Shopping and Yahoo! Auctions sites that had an independent contract with a credit card company to access customers' credit card information related to credit card settlements on those sites. However, we are now working to prevent personal information leaks by these stores by making it unnecessary for stores to handle credit card numbers, offering services that omit the cumbersome process of stores independently validating cards with credit card companies, strengthening the log-in procedure when using store management tools, restricting downloading of order information including customer information, and broadening information security awareness. Despite the implementation of these measures, it is possible that incidents regarding information leaks will occur, resulting in a loss of Group credibility, regardless of whether or not it was responsible.

3) Network security

Although the Group has established appropriate security systems for ensuring the security of its external and internal computer networks, the possibility of damage by computer viruses or hackers cannot be completely ruled out. The Group does not hold sufficient insurance to compensate for potential losses arising from such events. Recently, there have been several cases of specific Web sites or networks being targeted by huge volumes of data sent over a short period of time for the purpose of paralyzing the Web site or network. Although the Group has implemented effective security programs and related measures as well as strengthened its monitoring system to deal with such attacks, there is no guarantee that all such 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.

4. International Conflicts, Terrorist Attacks, and Natural Disasters

In the event of outbreaks of international conflicts, terrorist attacks, or large-scale natural disasters such as earthquakes and tidal waves, the Group expects that its businesses 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's site, causing a disruption in planned advertising business. Or, for other reasons advertising agencies might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might be interrupted or some other circumstance arise whereby users would no longer be able to use the Group's paid services. 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, Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and its related companies or SBB, BBT, and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to maintain operations.

In addition, Group operations are vulnerable to fire, power outage, damage to telephone networks, and other phenomena. Its network infrastructure is concentrated in Tokyo, which is susceptible to earthquakes and other disasters. To cope with accidents and surges in Internet access, the Group intends to continue improving the infrastructure by duplicating and

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dispersing its systems and data center.

The Group has taken steps to ensure that it can respond quickly and appropriately groupwide in the event that such incidents occur. However, an incident might occur for unforeseen reasons, making it 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. Business with Involved Parties

1) Relationship with the SOFTBANK Group

a. Positioning within the SOFTBANK Group

As of March 31, 2006, SOFTBANK was the parent company of the Company, holding 41.1% of the Company's shares. As a holding company, SOFTBANK has a variety of companies operating under its umbrella that are active in a range of business fields and geographic regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecom, e-commerce, media and marketing, broadcasting media, technology services, and an overseas fund investment service. The Group belongs to the Internet Culture segment and Broadband Infrastructure segment of the SOFTBANK Group.

b. Alliance contracts and other arrangements with SBB and BBT

The Company has signed the following contracts concerning Yahoo! BB business with SBB and BBT, both subsidiaries of SOFTBANK. Yahoo! BB accounted for 11.2% of Group sales in the fiscal year ended March 31, 2006. Therefore, these contracts are considered to be important to the Group.

Contract name: Business alliance contract
Contract date: March 8, 2006 (original contract dated June 20, 2001)
Contract term: March 8, 2006–(valid until terminated)
Contracted parties: SOFTBANK BB Corp. and BB TECHNOLOGY Corp.
1) The Company, SBB, and BBT will jointly provide Internet access services using FTTH and DSL technology. 2) The Company's main responsibilities * Promoting Yahoo! BB services * Recruiting subscribers for Yahoo! BB services * Operating the Yahoo! BB portal site * Providing mail and Web site services * Providing a fee-collection platform 3) Main responsibilities of SBB and BBT * Providing ADSL and FTTH services 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 * From the ISP charge the Company takes ¥200 in exchange for service.

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract dated April 1, 2002)
Contract term: One year from April 1, 2004 (automatically renewed each year)
Contracted party: BB TECHNOLOGY Corp.
Incentives * Acquisition incentives (100% upon verification of operational subscriber lines) Approx. ¥5,000–¥15,000 per application * Continuing incentives Approx. ¥30–¥280 per month per continuing subscriber

Notes:

1. Although the counterparty to the above business alliance contract and incentive agreement was in both cases SBB, as indicated in a previous note its operations were reorganized and split between SBB and BBT on December 1, 2005. Therefore, these contracts were changed to those shown above.
2. As of April 1, 2005, the Company pays ¥2,400 per line to BBT after the first subscription fee is charged, sharing the cost of Yahoo! BB subscriber acquisition.

c. Dependence on SBB and BBT

The portion of Yahoo! BB business handled by SBB and BBT could indirectly but significantly influence Group performance. If SBB and BBT fail to complete construction on time and services to subscribers are delayed, the Group would be unable to account for projected sales on time and could lose business opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel service quickly and impact Group earnings.

d. Joint directorships

As of March 31, 2006, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK, as follows:

* Yahoo Japan Corporation president and CEO Masahiro Inoue (SOFTBANK part-time director)
* Yahoo Japan Corporation chairman Masayoshi Son (SOFTBANK president)

Yahoo Japan Corporation president and CEO Masahiro Inoue has been a part-time director of SOFTBANK since June 2001. In addition, he sits on the board of another company in the SOFTBANK Group (excluding subsidiaries and affiliates of the Company) as a part-time director. Mr. Inoue has been engaged to sit on this board to offer advice on the strategic direction of its business, not to be involved in the business activities of this company. 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.

2) Business relationship with the Yahoo! Inc. Group

a. Licensing agreement with Yahoo! Inc.

The Group's operations are based on a licensing agreement with Yahoo! Inc., one of the founding partners of the Company and owner of 33.4% of the Company's shares as of March 31, 2006. The Yahoo! trademark, software, and tools (hereinafter referred to as the trademark) used in the operation of the Group's Internet search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License name: YAHOO! JAPAN CORPORATION LICENSING AGREEMENT
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified *Note:* The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the Company's outstanding shares by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SOFTBANK 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.
1) Licensing rights granted by Yahoo! Inc. to the Company: * Non-exclusive rights granted to the Company for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! 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! search services 2) Non-exclusive licensing rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by the Company 3) Royalties to be paid by the Company to Yahoo! Inc. (see Note) *Note:* Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

b. 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

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addition, some agreements with overseas Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are in force. 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.

c. Business tie-up with Overture

Based on the business tie-up with Overture, which is a part of the Yahoo! Inc. group, the Group's Sponsor Site sales have firmly expanded and become a larger proportion of overall advertising sales. The Group intends to further expand these advertising sales based on a continuing good relationship with Overture. However, should the business relationship change or some type of obstruction arise to the smooth operation of Overture, it could have a significant negative impact on the performance of the Group and the viability of the related services being offered.

Recently, a form of fraud misusing the system of Sponsor Sites has become a problem. Some fraudsters have taken advantage of the fact that the cost of Sponsor Site is based on the number of clicks, dishonestly increasing the number of clicks, and excessively charging advertisers. In the United States, there have been cases where advertisers that have fallen victim to this type of fraud have brought class action lawsuits against companies that offer this type of advertising product. In the future, the Group cannot rule out the possibility that such legal action will be taken against the Group and Overture. Such an event would damage our brand image and could have a negative impact on performance.

d. 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 startup and expansion.

3) Share distribution

The proportion of the Company's share distribution held by major shareholders is high. At March 31, 2006, SOFTBANK and Yahoo! Inc. held a total of 74.6% of the Company's shares. Recently, there has been some progress in reducing the proportion of nonfloat shares due to SOFTBANK's sale of a portion of its shareholdings. The Company has requested the cooperation of these major shareholders in this respect.

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.

6. Dependence on Specific Customers and Third Parties

1) Dependence on specific customers

In each of its businesses, the Group has a degree of dependence on sales to specific customers or by specific agencies other than the involved parties described above.

In terms of advertising sales, the revenue of the Group from sales agents, such as certain advertising companies and media reps, provides a high proportion of advertising sales. In other businesses, also, the Group has major business transactions with specific companies among its sales customers, and these transactions account for a growing percentage of the Group's sales.

If there were a change in our business relationships with or

sales to or by these customers or agents, or deterioration in their business conditions, or a problem with their systems or other facilities, it could impact negatively on the performance of the Group or on the viability of its services.

2) Dependence on third parties

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken, or for some other reason 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 relevant 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 where obstructed operation or 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 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.

7. Technological Innovation and Research and Development

1) 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 require close cooperation with Yahoo! Inc., which operates almost identical services in the United States, the center of innovation in Internet technologies. With this, the Group is constantly developing new technology to improve its services. The failure of either Yahoo! Inc. or the Group to keep up with technological advances could render their services outdated and erode their competitive positions. The Group might also bear an increasing financial burden from original development, including a rising level of expenditures for localizing work and preparing for the possibility that technological innovation in Japan will at some point surpass that in the United States, with new technologies being developed in Japan instead of in the United States.

2) Research and development

To respond to the growth and diversification of Internet use and maintain a competitive advantage, the Group intends to develop new strategies and businesses for providing content and services that meet customer needs. To that end, the Group is projecting substantial R&D expenses. However, these expenses could rise beyond those projections and, depending on the required development period, our competitiveness could

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be reduced despite our efforts.

The market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, the Group intends to improve operating efficiency not only by hiring specialists and technically skilled staff but also by undertaking business cooperation with other companies with proven records in the business. In order to respond quickly to changing market needs, organizational enhancement for service planning and for system development is also our focus. However, there is the possibility of failure in achieving targeted sales and profit for reasons such as systems taking much longer to build or development costs rising much higher than expected. Focusing investment on the development of these services might negatively affect the development and operations of other services of the Group. In addition, technical and operating problems could result in subscriber demands for compensation.

In addition, the Group has introduced measures to respond to the increase in Internet access via mobile phones and other mobile terminals, which could result in larger expenditures for service development that could compress the Group's profits.

8. Group Business Operations

1) Maintenance and control of service quality

a. Acquisition of quality information and content

The Group offers and plans to continue offering Internet users quality, appealing information, such as up-to-the-minute news, weather, and stock quotes, as well as broadband content such as films and music. Failure to consistently provide high-quality information and content and/or to acquire content at a cost in the projected range could lower traffic and sales below expected levels, thereby subsequently impacting advertising revenue negatively.

b. Advertising guarantee

As already mentioned, advertising contract periods and page views on which an advertisement appears are guaranteed for many of our products, and advertising fees are based on them. However, a failure to obtain the number of required page views owing to problems with the Internet connection environment or to similar system-based problems could force the Group to extend advertising contract periods or to devise some other type of compensation, which could negatively impact Group advertising revenues.

Moreover, the Group could fail to provide services that meet the needs of advertisers, which could result in loss of sales opportunities as well as reduced demand from advertisers, negatively impacting Group advertising revenues.

c. Equipment investment for quality service

To support expected business expansion and continue providing quality services to fulfill customer needs, 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 and reception over short periods. Consequently, the Group anticipates a growing need 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 of user inquiries. Further, 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 system-development and equipment 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, insufficient and/or delayed effects of capital investments 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 invested facilities may be shorter than 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 disposal of current facilities.

d. Diversification and new business

The Group plans to further diversify and enter new businesses to strengthen its operating base and provide quality services. To realize this goal, it is possible that the Group will have to incur additional expenses to employ new staff, expand and upgrade 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 could 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 investment expenses, which would significantly affect performance.

2) Internal control system

a. Operations and management

The Group has implemented stricter controls and operational standards for behavior so that problems related to improper conduct by employees or human operational errors are prevented or do not recur. Still, it is possible that such problems will occur in the future in terms of business management and control.

b. Human resource management as business expands

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

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

Although the Group will work to minimize the effects of increased staff on operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

c. Continued support from senior management

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 technical expertise concerning the Group and its business. Consequently, if key personnel were to leave and the Group fail to replace them, this 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 will not motivate the participants in the plan but rather reduce their motivation and cause them to leave the Group.

d. Doing business with a large pool of unspecified customers

Along with the expansion of its operations and the ramping up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's revenues stemming directly from a large pool of unspecified individual customers is steadily increasing. The Group has formed a special team responsible for strengthening management of this pool of customers and for taking such steps as introducing a new

Risk Factors

system to improve business efficiency. Despite these measures, it is possible that 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.

It is also possible that the quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of 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 and computerizing businesses. It is possible that the costs of these measures and improvements could negatively affect the Group's profits. In addition, these measures do not eliminate the possibility that customers will not be sufficiently satisfied despite these measures. By hurting its brand image and other factors, such a result could negatively impact Group performance.

e. Collection of sales credit claims

In sales of advertising and other products, the Group carefully examines the credit standing of clients, following a set of internal rules. It also undertakes sufficient precautions so that the collection of receivables will not be delayed by taking such measures as making sales through advertising agencies or using credit card settlements. Nevertheless, economic fluctuations and deterioration of customer business could increase delays in collections and the occurrence of defaults.

The Group plans to curtail unrecoverable debt by rigorously evaluating the creditworthiness of individual Yahoo! JAPAN Card holders and monitoring their card use. However, it is possible that the Group will be unable to collect payments from cardholders to recover advances to the holders due to unrecoverable debt arising from declines in cardholder creditworthiness.

3) Consolidated Group operations

The Group has subsidiaries and affiliates of all sizes, and the degree of in-house management varies by size. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand. If these measures are not implemented in a timely manner, however, the Group's performance could be negatively affected.

Use of the Company's services or network as well as personnel support are essential to the operations of all of the services of its subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it is possible that it will become difficult to adequately provide such cooperative support owing to operational expansion of the Company and its subsidiaries and affiliates. This could have a negative impact on the Group's performance.

Several 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. Currently, relationships with 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.

9. Risk Related to Funds Procurement and Changes in Interest Rates

1) Yahoo! ezPay service

Yahoo! ezPay is a payment service provided by the Company's subsidiary Netrust, whereby on the request of the seller and buyer of an item sold on Yahoo! Auctions, Netrust acts as the intermediate in the settlement of the auction transaction.

Since Netrust reimburses the seller of the item one to three business days after the buyer has made settlement by credit

card or Internet bank transfer, the subsidiary must carry the credit card receivables for the period up to the fixed settlement date of the bank used by the credit-card company. The Group is exploring methods of reducing the amount of reimbursement funds by shortening settlement cycles with the credit card companies' settlement banks as well as seeking methods of diversifying its sources of funds. However, if the pace of growth of this service should substantially exceed the anticipated rate, it is possible that 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.

2) Yahoo! JAPAN Card service

The Yahoo! JAPAN Card differs from the joint cards that the Group has offered in the past in that the Group is the credit card issuer and will be providing credit to those who are issued the card. The Group will also be reimbursing payments made by cardholders to the merchants honoring the card. Since payments will be collected from cardholders once a month while reimbursements to merchants will be made about three times a month, it will be necessary to finance those reimbursements. The Group is considering diversification of its funding sources as the business expands, but the possibility remains that the Group will not be able to obtain the necessary funding for reimbursements to merchants at a suitable cost.

10. Risk Related to Loans and Investments

1) Loans and investments

As of March 31, 2006, the companies or organizations in which the Group has invested as a result of business ties or with an eye to forming business ties in the future are as shown on pages 82 and 83. The Group cannot guarantee that these investments will be recovered.

Furthermore, although there are companies in which the Group has invested that have already publicly listed and produced an unrealized gain, this unrealized gain 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 impairment 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 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, engage in new investments by establishing companies, etc., or provide new loans to adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risk of said investments or loans based on thorough analysis and compliance with in-house procedures. However, if these new investments or loans do not achieve the originally planned level of profit or, in the worst case, become irrecoverable, they could adversely affect the Group's financial condition in the future.

2) 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 SBB. The SPC is BB Modem Rental PLC., registered in the Cayman Islands. On July 31, 2003, the Group made a loan of ¥5.7 billion that will mature 42 months after that date.

Risk Factors

Finance scheme summary

- The SPC raises a total of ¥19.14 billion from several lenders as loans and as investments. This amount is structured as senior and mezzanine loans and a *Tokumei Kumiai (TK),* an anonymous partnership.
- The SPC acquires modems and a modem rental agreement from SBB and pays SBB for them using the funds raised.
- The SPC operates a modem rental business and pays principal and interest to lenders and dividends to TK investors using the cash flow generated from the underlying assets (rental fee revenues).
- In the case that modem rental fees are not paid using 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 whereby SBB cannot adequately honor 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 exposure to the above finance scheme is limited to the principal and interest on its loan. The Group does not intend to commit to investing additional capital in the scheme.

If, in the 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.

As of March 31, 2006, the outstanding balance of the mezzanine loans was approximately ¥3,656 million, and the SPC had been making its payments without delay.

Note:
As a result of the previously mentioned reorganization of the operations of SBB, BBT is now the company that will be making any necessary credit compensation. However, this change has no actual effect on the above-mentioned risks to the Group.

Main Companies Invested in by Yahoo Japan Corporation

(As of March 31, 2006)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (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	7.9	5,572	Internet technical support services		
2	Vector Inc.	OSE Hercules	99/03/26	10.7	2,020	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers	
3	SOFTBANK Internet Technology Fund No. 1	–	00/02/21	–	1,850			
4	e-Seikatsu Co., Ltd.	TSE Mothers	05/07/14	5.0	1,698	ASP solutions, network solutions	Alliance for Yahoo! Real Estate	Yes
5	Oricon Inc.	OSE Hercules	00/03/30	1.5	451	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping	
6	WEATHERNEWS INC.	TSE 1st Section	99/06/01	3.8	341	Weather observation, data collection and analysis, weather forecast, and related information services		
7	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	275	Internet sales of personal computers and audiovisual and home equipment	Yahoo! Shopping/ Auctions tenant	
8	DigiOn, Inc.	–	05/08/23	7.5	200	Multimedia software for PCs, platform software, enterprise business solutions		
9	CyberMap Japan Corp.	–	98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps	Yes
10	NNA JAPAN Co., Ltd.	–	05/10/25	14.8	80	Compiling and publishing regional economic and business information magazines in overseas markets; distributing news articles over the Internet in Japan		

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Line of business	Relationship with the Company	Directors on loan
Shares in affiliated companies								
1	ValueCommerce Co., Ltd.	–	05/04/11	49.6	9,032	Affiliate program, Internet advertising distribution and management, Internet marketing consulting, server rental, hosting, and domain purchasing services	Alliance for affiliate marketing	Yes
2	All About, Inc.	Jasdaq	04/09/08	35.7	2,077	General information site based on expert guides; Internet advertising	Comprehensive alliance to solicit customers for both sites	Yes
3	CREO CO., LTD.	Jasdaq	05/01/26	36.9	1,607	System development; planning, development, and sale of software packages; and others	Alliance for system development	Yes
4	Fashion Walker Inc.	–	05/08/25	33.6	1,139	Operation of fashion goods shopping site	Alliance for shopping business	Yes
5	TV Bank Corporation	–	05/12/19	40.0	1,057	Streaming content services	Alliance for Yahoo! Streaming	Yes
6	YUME NO MACHI SOUZOU IINKAI CO., LTD.	–	04/10/20	25.5	339	Internet-based home delivery store information services centered on Demae Kan site; planning, development, and operation of e-commerce services	Alliance for Yahoo! Gourmet	Yes
7	Tavigator, Inc.	–	00/03/07	30.0	184	Internet travel agent and travel information services	Alliance for Yahoo! Travel and Yahoo! Shopping tenant	Yes
8	INTAGE Interactive Inc.	–	02/10/01	49.0	168	Internet-based research services	Alliance for Yahoo! Research	Yes
9	Seven and Y Corp.	–	99/09/10	31.3	71	Internet-based sale of publications, CDs, and DVDs, and related services	Alliance for Yahoo! Shopping	Yes
10	JWord Inc.	–	05/01/28	33.4	0	"JWord" (Japanese keyword search) service	Alliance for Yahoo! JAPAN search services	Yes
Investments								
1	Other investments	–	–	–	242			

Notes:

- In principle, the date of acquisition is the day that the Company became a shareholder.
- B/S accounting amounts are shown on a consolidated basis in units of millions of yen.

Investor Information

Corporate Data

Company name	Yahoo Japan Corporation
Founded	January 31, 1996
Capital	¥7,033 million
Businesses	Advertising on the Internet Auction business Broadband-related business Other businesses
Number of employees	2,534
Headquarters	Roppongi Hills Mori Tower, 6-10-1, Roppongi, Minato-ku, Tokyo 106-6182, Japan
Home page	http://www.yahoo.co.jp/
English-language IR page	http://ir.yahoo.co.jp/en/

Main Consolidated Subsidiaries

ALPS MAPPING K.K.
Business: Producing various types and kinds of maps, providing map data and regional information
Founded: Aug. 2000
Headquarters: Chuo-ku, Tokyo
Capital Stock: ¥410 million
Yahoo! JAPAN's Ownership: 100.0%
URL: http://www.alpsmap.co.jp/

BridalNet, Inc.
Business: Web-based marriage matchmaking service
Founded: Dec. 1998
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥27 million
Yahoo! JAPAN's Ownership: 100.0%
URL: http://www.bridalnet.co.jp/

Firstserver, Inc.
Business: Information processing business of rental server, registration of domain and other Internet services
Founded: Oct. 1996
Headquarters: Osaka-shi, Osaka
Capital Stock: ¥364 million
Yahoo! JAPAN's Ownership: 65.0%
URL: http://www.fsv.jp/

Indival, Inc.
Business: Web-based recruiting services. Development and operation of support services for job and personnel searches and recruiting activities
Founded: Feb. 2004
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥200 million
Yahoo! JAPAN's Ownership: 60.0%
URL: http://shotworks.yahoo.co.jp/

INFO PLANT CO., LTD.
Business: Online marketing reseach services
Founded: Jul. 1996
Headquarters: Nakano-ku, Tokyo
Capital Stock: ¥594 million
Yahoo! JAPAN's Ownership: 58.2%
URL: http://www.info-plant.com/

NETGENE Co., Ltd.
Business: Development of applications for mobile devices
Founded: Jun. 1999
Headquarters: Nakano-ku, Tokyo
Capital Stock: ¥149 million
Yahoo! JAPAN's Ownership: 48.0%
URL: http://www.netgene.co.jp/

Netrust, Ltd.
Business: Online settlement services
Founded: Sept. 2000
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥244 million
Yahoo! JAPAN's Ownership: 60.0%
URL: http://www.netrust.ne.jp/

NewsWatch, Inc.
Business: Information provision services based on language processing technology
Founded: Apr. 1996
Headquarters: Chuo-ku, Tokyo
Capital Stock: ¥428 million
Yahoo! JAPAN's Ownership: 69.0%
URL: http://www.newswatch.co.jp/
http://www.fresheye.com/

Tricle Inc.
Business: Mobile commerce service
Founded: Jul. 2005
Headquarters: Setagaya-ku, Tokyo
Capital Stock: ¥130 million
Yahoo! JAPAN's Ownership: 60.0%

UniCept, Inc.
Business: Consultation for Internet business. Planning, development, and operation of various services
Founded: Aug. 2002
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥50 million
Yahoo! JAPAN's Ownership: 100.0%

Y's Agencies Inc.
Business: Planning and sales of ad products
Founded: Aug. 2001
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥10 million
Yahoo! JAPAN's Ownership: 100.0%

Y's Insurance Inc.
Business: Life/non-life insurance agency
Founded: Nov. 2003
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥30 million
Yahoo! JAPAN's Ownership: 60.0%

Y's Sports Inc.
Business: Collecting sports information and producing articles and content
Founded: Dec. 1996
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥100 million
Yahoo! JAPAN's Ownership: 100.0%
URL: http://sportsnavi.yahoo.co.jp/

(As of March 31, 2006)

Share-Related Information

Fiscal year-end	March 31
General meeting of shareholders	June
Annual dividend	March 31
Interim dividend	September 30
Share listing	First Section of the Tokyo Stock Exchange (listed on October 28, 2003)
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation

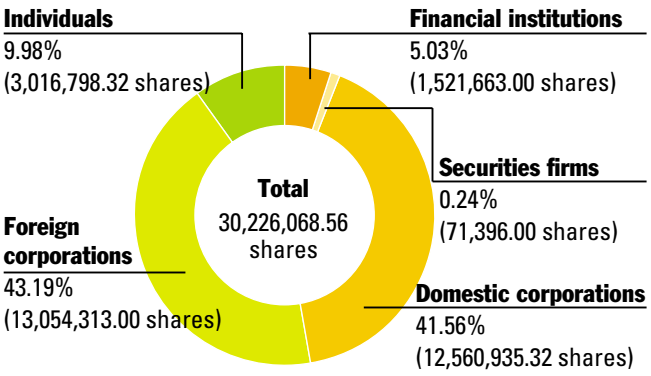
Major Shareholders

Name	Shareholding	Percent of total shares issued
SOFTBANK CORP.	12,426,912.00 shares	41.11%
Yahoo! Inc.	10,107,704.00 shares	33.44%
State Street Bank and Trust Company	766,176.00 shares	2.53%
Japan Trustee Services Bank, Ltd.	382,240.00 shares	1.26%
UBS AG London - IPB Client Account	336,000.00 shares	1.11%
The Master Trust Bank of Japan, Ltd.	322,612.00 shares	1.06%

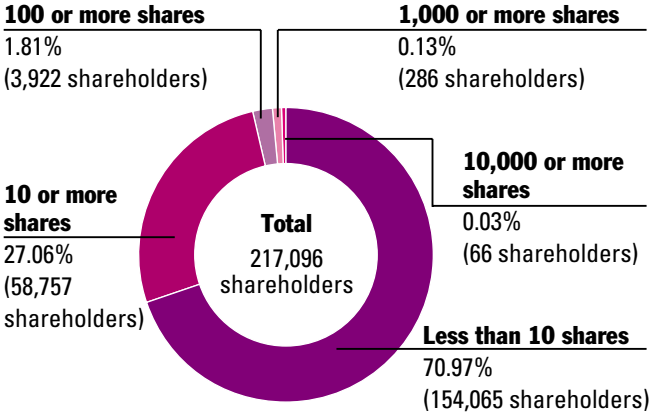
Historical Number of Shares Outstanding

Date	Action	Number of shares outstanding
1996/1/31	Establishment of the Company	4,000.00
1997/9/6	Rights offering: 1,800 shares	5,800.00
1997/11/4	Public offering: 975 shares	6,775.00
1999/3/6	Public offering at market price: 125 shares	6,900.00
1999/5/20	2-for-1 stock split	13,822.00
1999/11/19	2-for-1 stock split	27,826.00
2000/3/1	New stock issuance at merger: 1,100.15 shares	28,954.15
2000/5/19	2-for-1 stock split	57,940.30
2000/9/1	New stock issuance at merger: 110 shares	58,167.50
2000/11/20	2-for-1 stock split	116,917.00
2002/5/20	2-for-1 stock split	235,063.60
2002/11/20	2-for-1 stock split	471,059.04
2003/5/20	2-for-1 stock split	942,118.08
2003/11/20	2-for-1 stock split	1,884,923.16
2004/5/20	2-for-1 stock split	3,772,188.32
2004/11/19	2-for-1 stock split	7,546,426.64
2005/5/20	2-for-1 stock split	15,100,808.28
2005/11/18	2-for-1 stock split	30,209,708.56
2006/4/1	2-for-1 stock split	60,452,137.12

Breakdown of Shares, by Shareholder Type



Breakdown of Shareholders, by Number of Shares Held



http://www.yahoo.co.jp/

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