

Financial Section

Key Financial Data

For the years ended	(Millions of yen)						(Thousands of U.S. dollars)
	2001/3	2002/3	2003/3	2004/3	2005/3	2006/3	2006/3
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

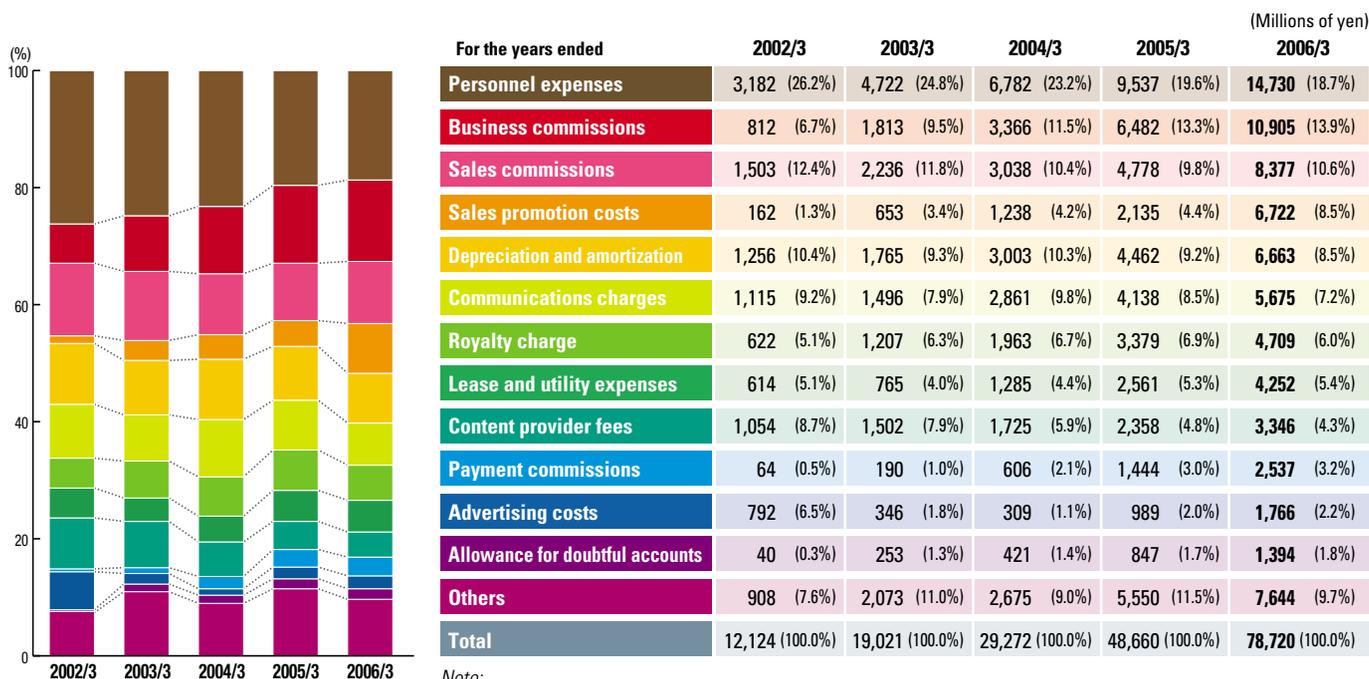
Net Sales

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



Note:

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

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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,
	2005	2006	2006
ASSETS			
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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	March 31		March 31, 2006
	2005	2006	
LIABILITIES AND SHAREHOLDERS' EQUITY			
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.....	–	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.

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

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

	Millions of yen			Market value
	March 31, 2005			
	Cost	Gross unrealized Gains	(Losses)	
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
	Ownership percentage (%)	% of voting shares held	March 31		U.S. dollars
			2005	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.

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Consolidated Subsidiaries

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							Total	Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common			
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							Total	Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common			
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							Total	Elimination or corporate	Consolidated
	Listing	Auction	Yahoo! BB	Media	Shopping	BS	Corporate Common			
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	Nature of business or occupation	Proportionate interest	Relationship		Nature of transaction	Amount of transaction	Account	Balance at March 31, 2005
			Millions of yen			Concurrent directors	Business relationship		Millions of yen		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	Nature of business or occupation	Proportionate interest	Relationship		Nature of transaction	Amount of transaction	Account	Balance at March 31, 2005
			Millions of yen			Concurrent directors	Business relationship		Millions of yen		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 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

Tokyo, Japan

June 22, 2006