YAHOO! JAPAN

ANNUAL REPORT 2005

Year ended March 31, 2005

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.

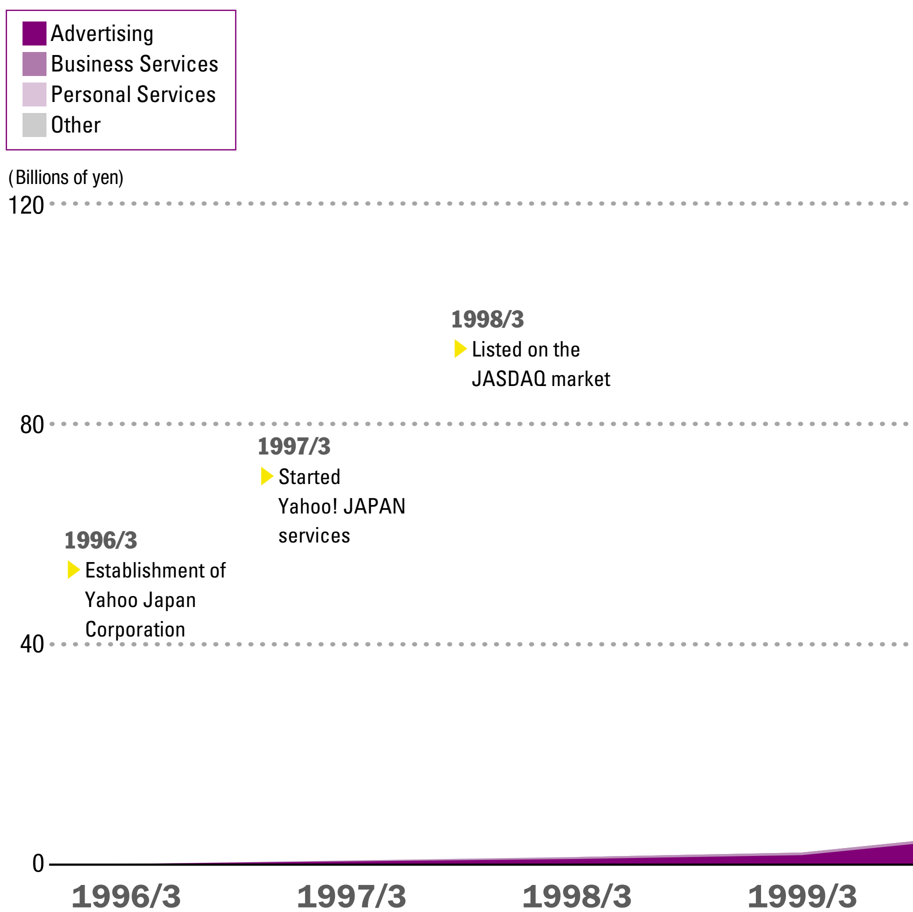
Profile & History

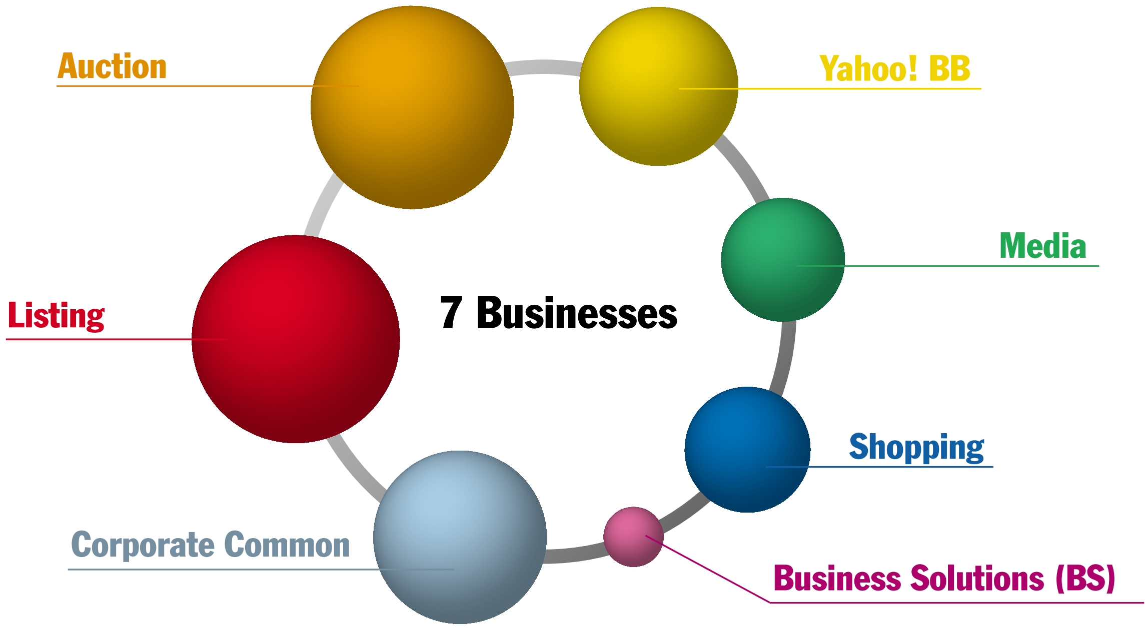
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") provide Internet users with a wide range of services, including directory search, information, community, commercial, and mobile services. Our Web site is the overwhelming leader in Japan in the number of users and page views.

Utilizing its dominant position in the industry as a business resource, the Group is aggressively developing its advertising, auction, comprehensive broadband Yahoo! BB, and other businesses. The Group intends to continue diversifying its earnings to further strengthen its business base.

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, as shown below.

Revenues, by Sales Services Category





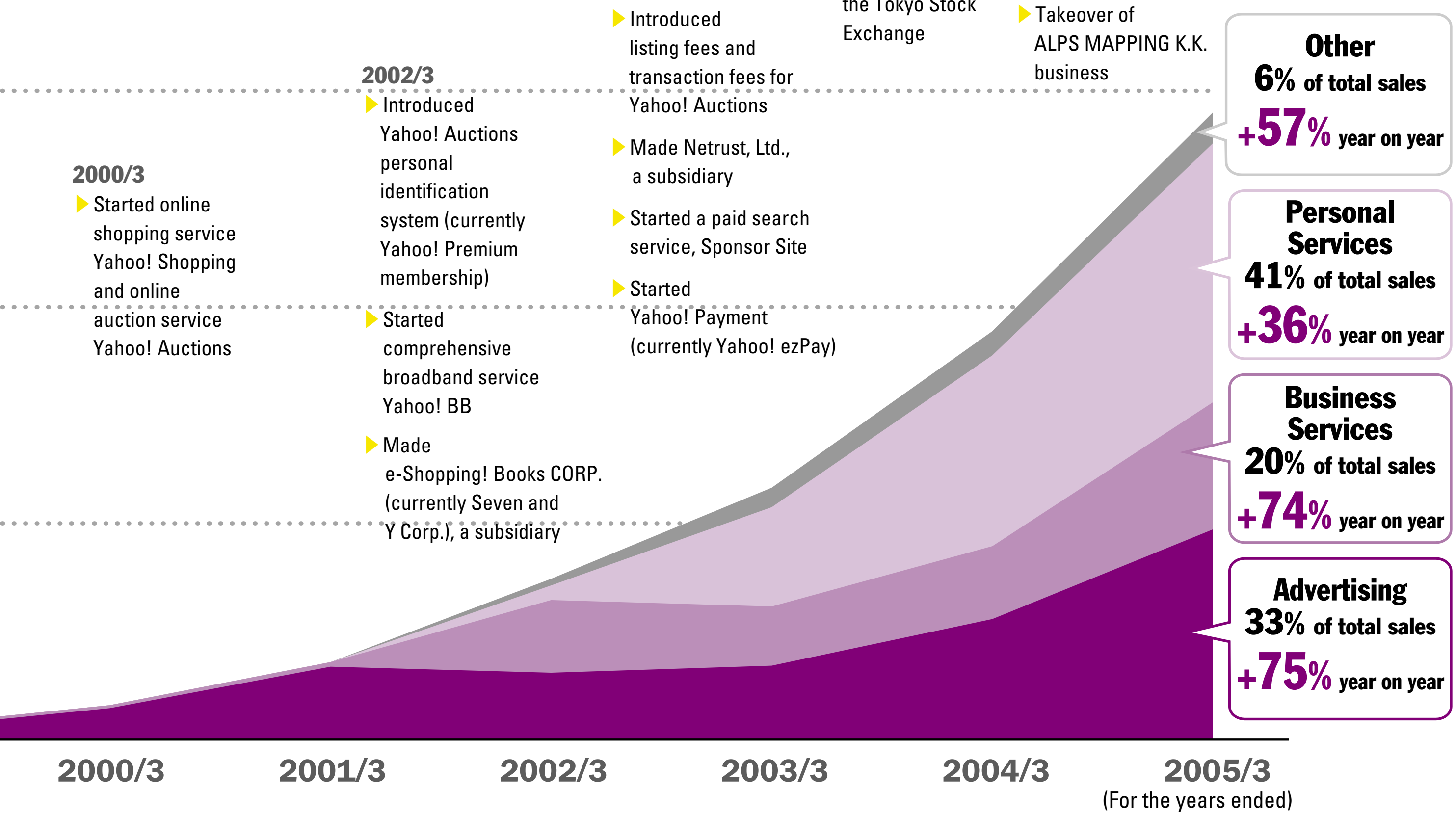
2000/3
- Started online shopping service Yahoo! Shopping and online auction service Yahoo! Auctions

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
- Takeover of ALPS MAPPING K.K. business



To Our Shareholders

It is my great pleasure to report on the performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") for fiscal 2004, the year ended March 31, 2005.

As the leading Internet services company in the Japanese market, we aimed during the fiscal year under review to attract an increasing number of Internet users by offering "life engine" services that enhance the convenience of daily life. Fully leveraging the brand power, technological capabilities, and user reach that we have built up since our establishment in 1996, we took steps in fiscal 2004 to diversify the sources of our earnings, thereby strengthening our business structure.

The Group comprises six distinct businesses—Listing, Auction, Yahoo! BB, Media, Shopping, and Business Solutions (BS)—as well as the Corporate Common business. Each of these businesses attained growth in sales during the fiscal year under review.

While working to achieve further sales growth in each of these businesses based on existing strengths, we are also developing new businesses that, by diversifying our earnings sources, will enable us to achieve steadily higher profits.

Performance

In the fiscal year ended March 31, 2005, net sales jumped 55.4%, to ¥117,779 million. Breaking down net sales by sales services category, advertising sales, which comprise banner and e-mail advertising sales and Sponsor Site sales and others, amounted to ¥38,941 million, up 74.8%. Business services sales, which comprise corporate sales but exclude advertising, totaled ¥23,619 million, up 74.4% from the previous fiscal year's result. Personal services sales, which comprise business sales to individuals, increased 35.8%, to ¥48,154 million. Finally, other sales, comprising the sales of Seven and Y Corp. (formerly e-Shopping! Books CORP.), climbed 57.3%, to ¥7,065 million.

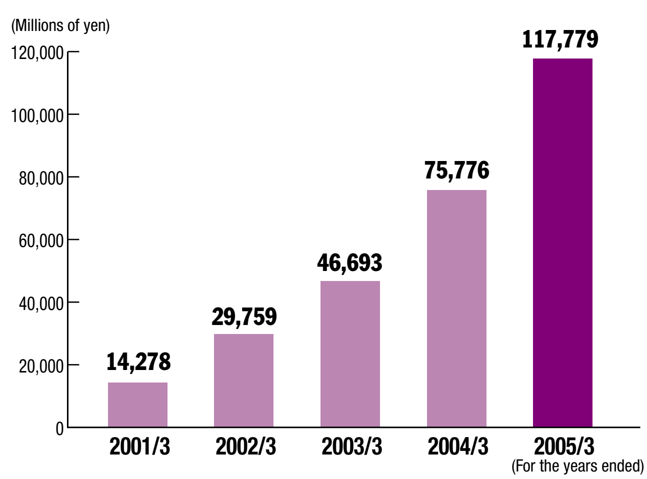
For the fiscal year, operating income advanced 46.0%, to ¥60,187 million, and net income surged 47.1%, to ¥36,521 million.

Net income per share amounted to ¥4,766.03, a 45.5% increase over the prior fiscal year's figure after retroactively adjusting to reflect two-for-one stock splits carried out in fiscal 2004. Fully diluted net income per share was ¥4,750.62.

Operating Environment

With the growth of broadband services in Japan continuing apace, the country now boasts some of the world's highest Internet-related proliferation rates. According to a survey conducted by Japan's Ministry of Internal Affairs and Communications, Japan ranks No.3 in the world in terms of total number of broadband service subscribers. In terms of Internet-enabled mobile phones as a percentage of total mobile phones, the same survey ranks Japan No. 1. In addition, broadband services in Japan are not only cheaper but also more technologically advanced than those of any other country. These world-beating broadband and Internet-enabled mobile phone proliferation rates help to explain the recent sharp increase in Internet usage in Japan. Against the backdrop of this surge in broadband services and Internet usage, Internet advertising sales in calendar year 2004 rose 53.3% from the previous year's figure, to ¥181.4 billion,

Net Sales



overtaking radio advertising sales for the first time, according to a Dentsu Inc. report, "Japanese Advertising Expenses in 2004." The Internet's value as a new mass media is growing by leaps and bounds.

Internet proliferation in Japan is no longer characterized by individual companies and schools taking hesitant first steps toward gaining connectivity. Rather, Internet proliferation today is at the stage where nearly everyone, from teenagers to their great-grandparents, is either already online or waiting in line to get there. The Internet is now an integral part of daily life, both at school and in the home, while either working or playing, and even while on the move. As the market heads toward ubiquitous broadband networks providing Internet access to anyone, anywhere, anytime, and for any reason, the Internet is becoming an increasingly important and fundamental part of daily life.

Operational Review

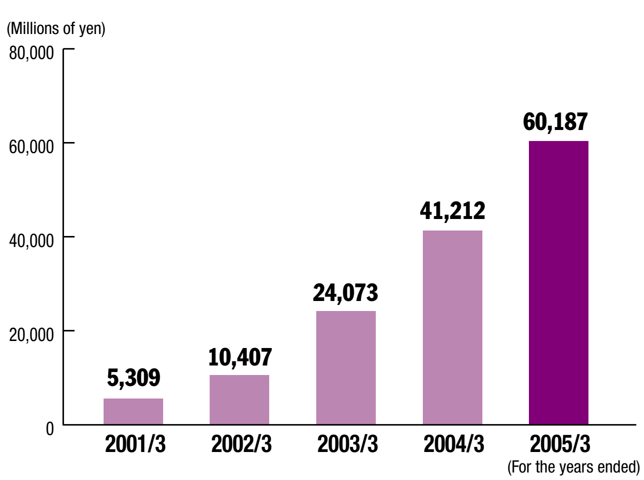
The Group's monthly page views for March 2005 reached 26,057 million. Based on data from a March 2005 survey conducted by NetRatings Japan, Inc., we estimate that Yahoo! JAPAN had approximately 37.81 million unique customers at the end of the fiscal year under review, a clearly dominant share of the domestic market.

In calendar year 2004, Japan's overall advertising market turned upward for the first time in four years. As mentioned above, Dentsu Inc. research indicates that Internet advertising sales for the same period expanded to ¥181.4 billion, exceeding radio advertising sales for the first time. In this supportive environment, the Group aggressively marketed its Brand Panels for top pages and other core products to National Clients, defined as major companies that advertise actively in various media. Sales from Sponsor Site, our paid search service offered in conjunction with Overture K.K., were also strong. As a result, advertising sales for the fiscal year reached a record-high ¥38,941 million, up 74.8% from the previous fiscal year's figure.

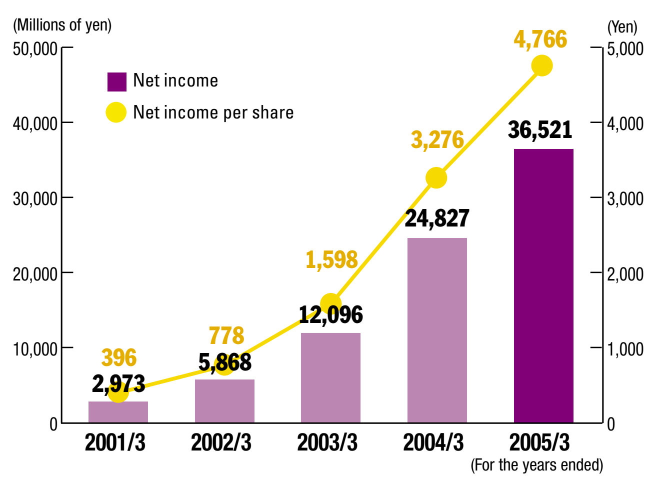
In business services, excluding advertising, sales were favorable for Yahoo! Rikunabi, our employment information site launched in April 2004. Moreover, the number of merchant stores registered on Yahoo! Auctions stood at 3,556 at the end of March 2005, an increase of 1,145 stores, or 47.5%, within the space of one year. Yahoo! Shopping also brought on board many new stores during the fiscal year, ramping up its total number of stores to 3,298, a gain of 1,674 stores, or 103.1%. During the fiscal year, Yahoo! Shopping conducted a variety of sales promotions based on Yahoo! Points to encourage wider usage of its services. Yahoo! Research and other business-oriented services also performed well. As a result, business services sales rose sharply to ¥23,619 million, up 74.4%.

In the Group's personal services sales category, the number of Yahoo! Premium member IDs stood at more than 5 million in

Operating Income



Net Income and Net Income per Share



Note: Figures for net income per share have been retroactively adjusted to reflect stock splits.

To Our Shareholders

February 2005, while the number of registered Yahoo! Wallet member IDs exceeded 10 million in January 2005. Although Yahoo! Auctions' transaction volume showed restrained growth in the first half owing to the implementation of initiatives aimed at improving site security, it rose sharply in the second half thanks to surging year-end demand and various sales campaigns. Strong growth in Yahoo! BB's ISP revenues also contributed to a 35.8% increase in personal services sales, to ¥48,154 million.

Business Strategies

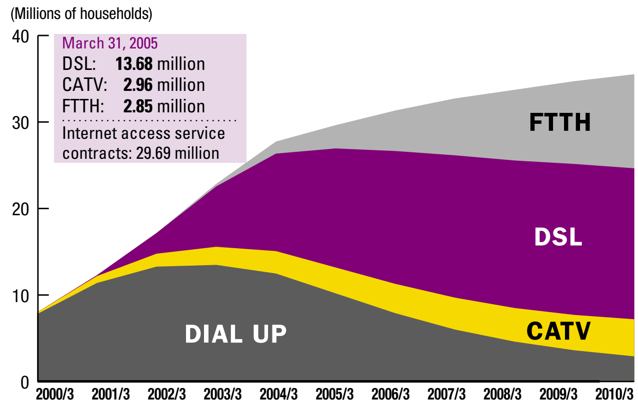
In line with the rapid proliferation of broadband services and the surging number of Internet users, Internet-based content is expanding to include not only information and services catering to specific recreational pursuits and interests but also information and services of a more general and practical nature, such as political, economic, and administrative information and services. Concomitantly, the Internet is increasingly being used for acquiring all types of information, for communicating, and for shopping for goods and services. We believe that consumers already view the Internet as a viable and necessary form of mass media for convenient, modern living. Accordingly, we have set our sights on establishing a corporate brand image as an essential "life engine" that provides users access to the Internet and its myriad goods and services for the enhancement of daily life.

The value of the Internet as a mass media is expected to continue to rise in the future. As it gains an equal footing with the four traditional mass media as an advertising platform, we anticipate continued growth in the Group's total advertising sales. Led by our Media and Listing businesses, the Group plans to expand and improve services and content in an effort to further boost customer satisfaction. At the same time, the Group will target expanded advertising opportunities through page view growth arising naturally from greater customer satisfaction. We will continue our efforts to build advertising sales revenue, especially from National Clients, by strengthening our sales capabilities and creating products that appeal to advertisers. In our Sponsor Site service, we will work to expand sales by further reinforcing our cooperation with Overture K.K.

In the business services sales category, excluding advertising, we are linking the content of our listing services more directly to regional lifestyles, centered on our Listing business. In addition, we are shifting to a new business model that enables us to take a deeper stake in each service. With Yahoo! Auctions and Yahoo! Shopping, we are implementing several measures to promote sales growth. For example, we are expanding the number of stores registered on these sites, upgrading support services and adding new tools for stores, and conducting a variety of sales promotion campaigns. In addition, we are preparing the ground for expanded corporate business sales by cultivating the customer base of Firstserver, Inc., a Web-hosting service company that became a Group subsidiary in November 2004.

To foster growth in personal services sales, we are seeking to increase the number of Yahoo! Premium members by offering expanded membership benefits. In the Auction business, we are focusing on increasing user satisfaction by raising the convenience and security of our services, maintaining the stability of our system, and providing a preferential system for high-volume users. In addition to our energetic promotions targeting new customers, we are implementing anti-fraud mechanisms and expanding our compensation system in cases where fraud does occur to

Broadband Penetration in Japan



Note: Figures before FY2003 are past estimates, and after FY2004 are projections.
Sources: Nomura Research Institute and Ministry of Internal Affairs and Communications

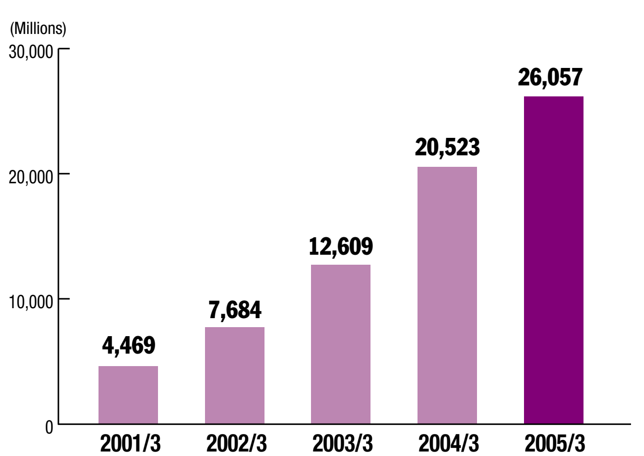
make users feel safer and more confident in using our auction system. Meanwhile, the Yahoo! BB business is working to maintain its customer base by differentiating itself from competitors, focusing particularly on quickly responding to the shift to broadband Internet services by aggressively introducing new technologies, such as high-speed ADSL and optical-fiber services. Finally, the Media business is focusing on improving paid content, including video.

Looking at future business development, in cooperation with ValueCommerce Co., Ltd., in which the Company took an equity stake in April 2005, we are planning to employ the affiliate marketing method to stimulate the Shopping and Auction businesses as well as to realize potential advertising revenues from unused pages of the Yahoo! JAPAN site. Moreover, we intend to employ the affiliate marketing method throughout the Group's businesses with a view to developing it into a major source of earnings. In addition, in April 2005 we signed an agreement with Aozora Bank, Ltd., to start an Internet banking business, using Aozora Trust Bank, Ltd., as the principal platform. This Internet banking business, with a targeted launch date in the spring of 2006, will initially be based mainly on the provision of settlement services to Yahoo! Auctions users.

Throughout the Group's operations, we have always placed high priority on maintaining systems security. In response to the leak of Yahoo! BB subscribers' personal information by SOFTBANK BB Corp. in February 2004, we have escalated our efforts to prevent leaks of both personal and sensitive in-house information. After the Yahoo! BB incident, we established fundamental policies regarding information management. Based on those policies, we have continuously revised our information management organization and implemented control measures gauged to the security levels of various types of information. We also acquired Information Security Management Systems (ISMS) certifications* to implement a neutral, third-party check of the Group's operations. As a Group, we intend to strictly and continuously manage personal information in an effort to maximize customer confidence in our services.

*In August 2004, the Group acquired international-standard ISMS certification under BS 7799-2:2002 from BSI British Standards, as well as Japanese domestic-standard ISMS Certification Standards Version 2.0. As of March 31, 2005, 12 Group companies, including the parent company and 11 subsidiaries, had received certification under both of these standards.

Monthly Page Views



Dividends

Shareholder return has been a crucial management issue since the Company's founding. Up until the fiscal year under review, we had decided against paying dividends, instead opting to reinvest earnings in strengthening our corporate structure and building up our internal reserves for future business development. For fiscal 2004, however, we decided to begin flexibly paying dividends in accordance with our business performance while continuing to accumulate internal reserves, as mentioned above. Targeting a 10% dividend payout ratio, we decided to pay shareholders ¥484 per share for the fiscal year.

Fully committed to meeting the expectations of our shareholders, we are targeting further business expansion and heightened corporate performance. As we work to attain these goals, we look forward to the continued support of our shareholders.

Masahiro Inoue
President and CEO
Yahoo Japan Corporation

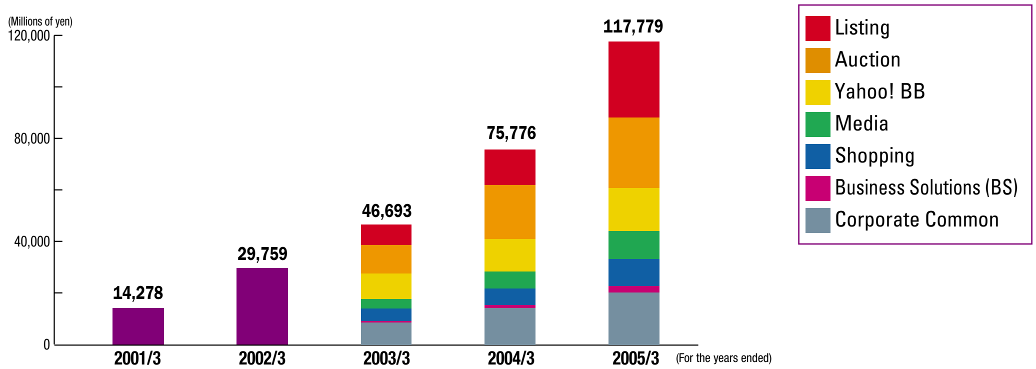
Business Review

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 for users through the Company's Web site. It provides directory and search services, information listing services, and regional information services on the Web site. It also offers a paid search service, Sponsor Site, in cooperation with Overture K.K.
Auction	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), a wholly owned subsidiary of SOFTBANK CORP. The business acquires subscribers over the Web and then receives commissions from SBB. It also provides an Internet service provider (ISP) service to individual subscribers that the Company has acquired through its Web site and that SBB has gained through electronic wholesalers and by other means. The ISP service includes e-mail, home page creation, and other services.
Media	The Media business provides various content and services, both paid and free, to users to stimulate the number of page views and to increase the volume of advertising sales. The business comprises the following services: information services, such as Yahoo! News, Yahoo! Finance, Yahoo! Sports, etc.; entertainment services, such as Yahoo! Games, Yahoo! Music, etc.; and community services, such as Yahoo! Message Boards and Yahoo! Avatar, etc.
Shopping	The Shopping business operates the Yahoo! Shopping site, a high-quality shopping venue whose stores offer a variety of products. The site's offerings include goods and services relating to travel, such as domestic or overseas accommodation, airline tickets, and the like, and provides various travel information for travel arrangements or preparation. Also included in this business is Seven and Y Corp., an online book retailer and subsidiary of the Company.
Business Solutions (BS)	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



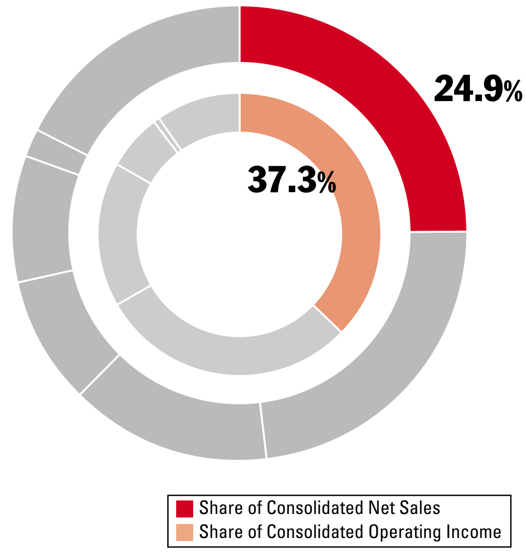
(Millions of yen)

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
20,092	9,032	235	–	29,359	277	29,082	6,632	22,450	76.5%
1,162	3,090	23,086	–	27,338	28	27,310	9,518	17,792	65.1%
1,516	5,904	9,380	–	16,800	901	15,899	5,890	10,009	59.6%
9,255	547	938	–	10,740	337	10,403	6,539	3,864	36.0%
977	2,552	–	7,065	10,594	5,618	4,976	4,580	396	3.7%
146	2,221	14	–	2,381	1,457	924	1,079	(155)	(6.5%)
5,793	273	14,501	–	20,567	314	20,253	14,422	5,831	28.4%
38,941	23,619	48,154	7,065	117,779	8,932	108,847	48,660	60,187	51.1%

Business Review

Listing

The Listing business posted net sales of ¥29,359 million for fiscal 2004, representing 24.9% of consolidated net sales. The bulk of these sales were derived from advertising, Yahoo! Rikunabi and other information listing services, and Business Express. Operating income amounted to ¥22,450 million, resulting in an operating margin of 76.5%.



Operational Review

In fiscal 2004, we expanded our directory search services by introducing Yahoo! Inc.'s proprietary search engine, Yahoo! Search Technology, and our Q&A-based Yahoo! Knowledge Search, which facilitates real-time information-sharing among users.

In April 2004, we launched Yahoo! Rikunabi, an employment information site developed as a result of an agreement with RECRUIT CO., LTD., to jointly develop an Internet-based recruiting service business. Yahoo! Rikunabi contributed strongly to business services sales growth during the fiscal year. In another tie-up with RECRUIT, in August 2004 we launched Shotworks, a temporary-staff information site, our inaugural effort to develop this segment of the employment information market.

In an effort to expand and improve our regional information services, we launched Yahoo! Coupons, a service that lists free coupons redeemable for discounts or perquisites at restaurants, stores, and leisure facilities nationwide.

Among notable events during the period, in June 2004 we reduced the number of business tie-ups for our paid search service, Sponsor Site, to just one—that with Overture K.K.—in a move to focus and expand sales of this service.

Listing Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	20,092
Business services	9,032
Personal services	235
Other	-
Total	29,359
Cost of sales	277
Gross profit	29,082
SG&A expenses	6,632
Operating income	22,450
Operating margin	76.5%

Outlook

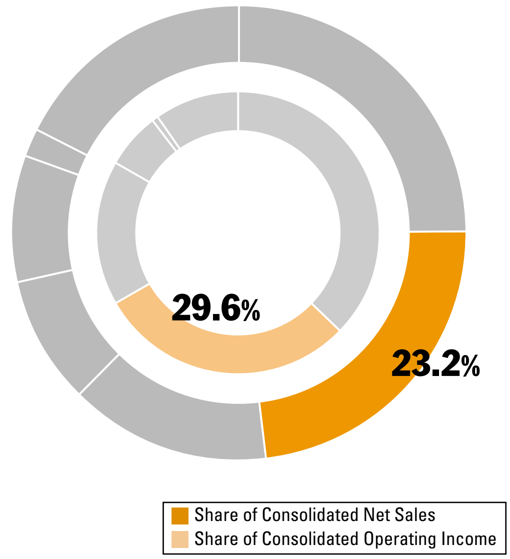
The Listing business remains committed both to launching new services and to improving existing services. In the years ahead, we intend to further raise the convenience of our directory search services by personalizing search results and by adding upgraded search functions to each of our search services, including Yahoo! Product Search and Yahoo! Knowledge Search. At the same time, we will seek to expand advertising revenues stemming from our Sponsor Site platform. Finally, taking Yahoo! Rikunabi as an example, we will modify our information listing services business model with the goal of taking a deeper stake in each service that we offer.

Among our regional information services, we plan to enhance the usefulness of our community information services by introducing a map database provided by ALPS MAPPING K.K., newly acquired in January 2005.

Business Review

Auction

Net sales recorded by the Auction business for fiscal 2004 totaled ¥27,338 million, or 23.2% of consolidated net sales. Primary sources of sales were system-use fees, merchant shop basic fees, and commission fees. Operating income was ¥17,792 million, and the operating margin was 65.1%.



Operational Review

During the fiscal year under review, the Auction business implemented a variety of measures to enhance the safety and security of its services. In a move to discourage fraud, we initiated a residential address verification system for users listing items for the first time on our auction site. In addition, we monitored listings in order to detect fraudulent activity, and we strengthened our efforts to cancel listings of illegal and inappropriate items. Moreover, as part of our efforts to promote greater awareness of intellectual property rights and to protect the interests of owners of intellectual assets, we began posting intellectual property rights guidelines on our auction site.

In fiscal 2004, our sales promotion activities included a free item listing day campaign and various campaigns featuring a specific theme, such as winter sports and jewelry. To enhance the convenience of our services, we added an optional supersize picture service to auction listings. As well, we established new item categories, including pets and other animals. Furthermore, we held the first trial Internet auction in Japan of public property, in cooperation with the Tokyo Metropolitan Government Bureau of Taxation, and made efforts to cultivate this new business throughout the fiscal year.

Although transaction volume on Yahoo! Auctions showed restrained growth in the first half of the fiscal year owing to the implementation of initiatives aimed at improving site security, it rose sharply in the second half thanks to surging year-end demand and various sales campaigns.

In August, we changed the name of the credit card based settlement service for Yahoo! Auctions users offered by consolidated subsidiary Netrust, Ltd., from Yahoo! Payment to Yahoo! ezPay. We also significantly lowered payment commissions in a bid to increase this service's transaction volume.

Auction Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	1,162
Business services	3,090
Personal services	23,086
Other	–
Total	27,338
Cost of sales	28
Gross profit	27,310
SG&A expenses	9,518
Operating income	17,792
Operating margin	65.1%

Outlook

During fiscal 2004, the Auction business completed its conversion to a new system capable of hosting a larger volume of listings while providing improved service stability to users. Looking forward, we will work to earn users' continued patronage by increasing the convenience and security of our services, maintaining the stability of our system, and offering a preferential system for high-volume users.

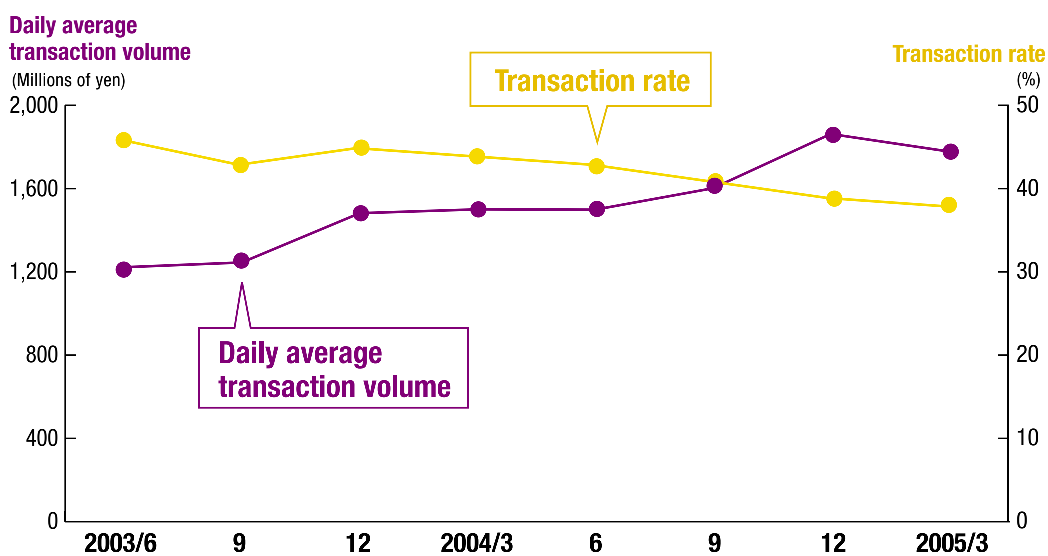
In addition to energetically working to attract new users, we are implementing measures to heighten users' confidence in the safety of our auction system, such as anti-fraud mechanisms and the expansion of our compensation system.

In our efforts to expand transaction volume by attracting more users to our site, we will employ a variety of methods, including our recently launched Yahoo! Points, the affiliate marketing system of ValueCommerce, and the QR code of Yahoo! Mobile. Furthermore, we are targeting earnings growth by adding new high-value-added options and introducing an expanded range of advertising methods.

Yahoo! Auctions Data (for the month of March 2005)

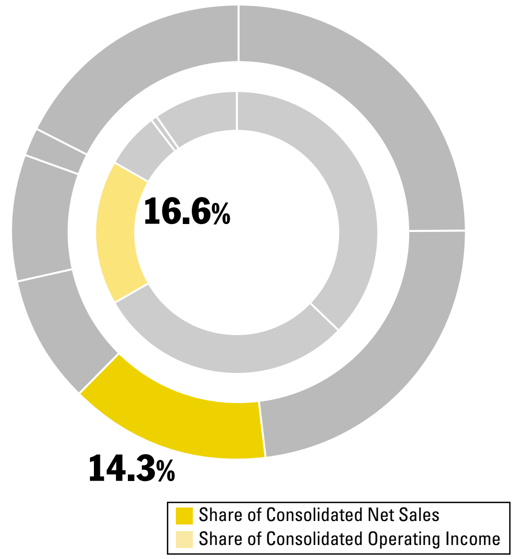
▶ Number of unique browsers	19.22 million
▶ Average number of listings at any given time	7.63 million
▶ New listings	19.88 million
▶ Average closing price	¥5,827
▶ Transaction rate	38%
▶ Number of merchant stores at month-end	3,556
▶ Transaction volume	¥55.4 billion

Yahoo! Auctions' Daily Average Transaction Volume and Transaction Rate



Business Review

Yahoo! BB



The Yahoo! BB business registered net sales of ¥16,800 million for fiscal 2004, representing 14.3% of consolidated net sales. Sales are derived from commissions for acquiring Yahoo! BB subscribers and from Internet service provider (ISP) fees. Operating income totaled ¥10,009 million, resulting in an operating margin of 59.6%.

Operational Review

In addition to running a variety of campaigns to attract new subscribers during the fiscal year, the Yahoo! BB business launched new services to meet the diversifying needs of users. Based on our business alliance with SOFTBANK BB Corp., we introduced Yahoo! BB Hikari, a comprehensive optical-fiber broadband service, and began accepting applications for Yahoo! BB 8M Otoku line type, an ADSL service using Japan Telecom's Otoku line service. We also expanded our services for Yahoo! BB subscribers, including the offer of free Yahoo! Premium memberships in an exclusive limited-duration campaign. In addition, among other new services we provided an advance-purchase ticket service for performances by popular artists.

Outlook

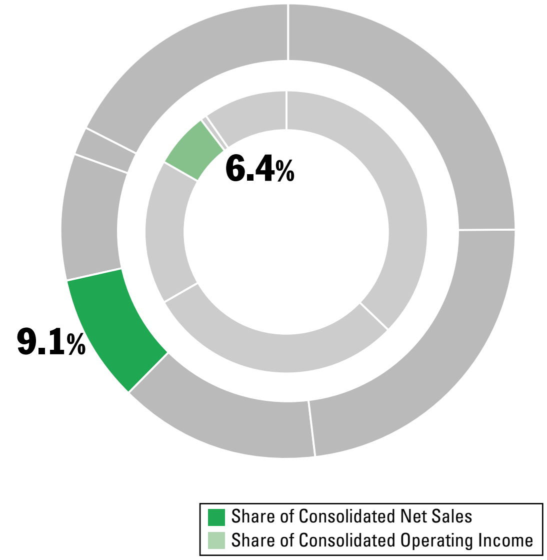
To attract new subscribers and retain existing ones, the Yahoo! BB business focuses on strategically differentiating itself from the competition. In line with this differentiation strategy, we are responding quickly to the shift to broadband Internet services by proactively introducing new technologies, such as high-speed ADSL and optical-fiber services. At the same time, we are enhancing the value of Yahoo! BB membership by expanding services offered exclusively to subscribers, such as special content and ticket services.

Yahoo! BB Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	1,516
Business services	5,904
Personal services	9,380
Other	-
Total	16,800
Cost of sales	901
Gross profit	15,899
SG&A expenses	5,890
Operating income	10,009
Operating margin	59.6%

Media



The Media business posted net sales of ¥10,740 million for the fiscal year under review, representing 9.1% of consolidated net sales. Sales mainly comprised advertising sales and paid content revenues. Operating income amounted to ¥3,864 million, for an operating margin of 36.0%.

Operational Review

In fiscal 2004, the Media business continued its efforts to develop paid and free content services that appeal to users as well as to expand and improve content. Our special features on the Athens Olympics and the Athens Paralympics captured the imaginations of users and elicited high praise from news media. In a tie-up with Group subsidiary Y's Insurance Inc., we launched Yahoo! Insurance and began to sell insurance products over the Internet. In our paid content services, Yahoo! Music launched Yahoo! Music Download. We also improved the content of such services as Yahoo! Finance VIP Club, Yahoo! Fortune Telling, Yahoo! Comics, and Yahoo! Streaming.

In recognition of the Group's growing social responsibility in line with the proliferation of Internet usage, during the fiscal year under review we inaugurated a disaster information service that utilizes page banners to provide flash reports in the case of earthquakes and other emergencies. In addition, we initiated lifeline information services on Yahoo! Message Boards and Yahoo! Topics.

Based on a wide range of these and other services, we have created branding advertising products with a broad reach. As a result of aggressively marketing these products to National Clients against the backdrop of the expanding Internet advertising market, the Media business posted large gains in advertising sales during the fiscal year.

Outlook

By continuing to provide valuable services and content, the Media business will gain strength in line with increases in access time, number of page views, and number of unique users. In cooperation with advertising headquarters, we plan to expand advertising sales by developing products that strongly appeal to advertisers. To boost personal services sales, we will expand our paid service content and create a content mall.

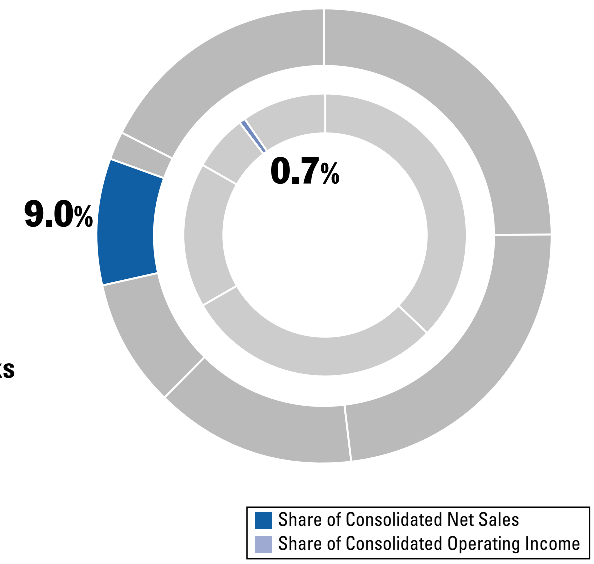
Media Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	9,255
Business services	547
Personal services	938
Other	–
Total	10,740
Cost of sales	337
Gross profit	10,403
SG&A expenses	6,539
Operating income	3,864
Operating margin	36.0%

Business Review

Shopping



Shopping business net sales for the fiscal year under review totaled ¥10,594 million, representing 9.0% of consolidated net sales. Sales principally came from Seven and Y Corp. (formerly e-Shopping! Books CORP.) transactions and from Yahoo! Shopping tenant fees and sales commissions. Operating income amounted to ¥396 million, for an operating margin of 3.7%.

Operational Review

In fiscal 2004, the Shopping business continued to focus on attracting new stores to its site in order to broaden the range of goods handled and boost customer satisfaction with services offered. Specifically, we abolished the two-tier store category system as well as reduced monthly tenant fees and sales commissions. We also refined our participating-store plan by introducing a wider range of fee-and-commission options suited to the sales of a wider range of stores. Based on these changes, and targeting companies offering products and services well-suited to e-commerce, we worked to expand the number of stores on our site. As a result, at March 31, 2005, a total of 3,298 stores were listed on Yahoo! Shopping, up 1,674, or 103.1%, from the number at the previous fiscal year-end.

Seasonal sales promotions conducted during the fiscal year included special features on Mother's Day, Father's Day, Ochugen (mid-year gift giving), and Oseibo (year-end gift giving). Moreover, we ran different types of campaigns utilizing our Yahoo! Points rebate system, introduced in September 2004. In these ways, we worked to raise purchase and repeat-purchase ratios.

Seven and Y Corp. expanded its merchandise lineup with the full-scale introduction of CD and DVD software, thereby strongly boosting sales.

Working to expand business volume during fiscal 2004, Yahoo! Travel concentrated on enhancing user convenience by strengthening its directory search capabilities and by offering a series of special promotions.

Shopping Income Statement

(Millions of yen)

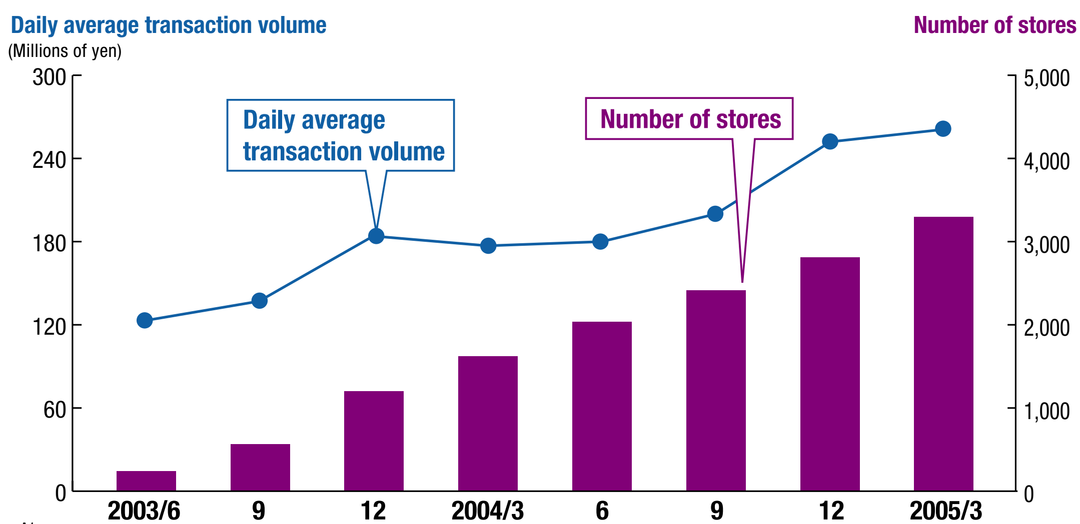
For the year ended	2005/3
Net sales:	
Advertising	977
Business services	2,552
Personal services	–
Other	7,065
Total	10,594
Cost of sales	5,618
Gross profit	4,976
SG&A expenses	4,580
Operating income	396
Operating margin	3.7%

Outlook

The Shopping business plans to further diversify Yahoo! Shopping's merchandise lines by pursuing a strategy designed to attract a wider range of stores. As part of this strategy, we are strengthening our store support organization and introducing tools to promote growth in per-store sales. At the same time, we are taking steps to increase transaction volume by expanding and improving our services with an eye to enhancing their convenience to users. With book sales, similarly, we not only will work to expand content but also aim to design marketing plans that will stimulate sales. Moreover, we plan to increase overall user convenience through site renewal.

Yahoo! Travel intends to achieve business volume expansion by positioning itself as a fully integrated travel site offering a comprehensive lineup of travel-related products and services. Meanwhile, Yahoo! Tickets will aim to boost sales by revamping its ticket delivery system and by carrying out marketing drives in cooperation with popular artists.

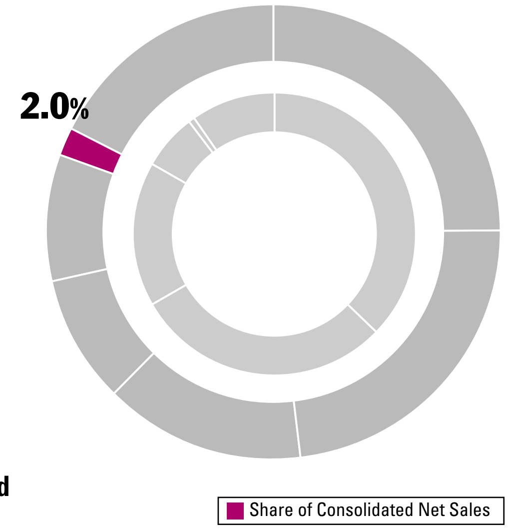
Daily Average Transaction Volume and Number of Yahoo! Shopping Stores



Note:
Daily average transaction volume includes the transactions of Yahoo! Shopping, Yahoo! Travel, Seven And Y (formerly eS! Books), and Yahoo! Tickets.

Business Review

Business Solutions (BS)



Net sales of the BS business for fiscal 2004 amounted to ¥2,381 million, or 2.0% of consolidated net sales. Sales were derived primarily from transactions by Yahoo! Research, Yahoo! WebHosting, and Yahoo! Portal Solutions. Because of the BS business's small scale and current emphasis on investing for future growth, an operating loss of ¥155 million was posted for the year.

Operational Review

In fiscal 2004, the BS business reinforced its sales capabilities and worked to attract new Yahoo! Research subscribers. To this end, we introduced Yahoo! Research Compact, a service that provides results in less than 48 hours; Yahoo! Research Mobile, a mobile phone based research service; and Yahoo! Research Self, a user-guided Internet search service.

In our domain and Web-hosting services, the Group acquired Firstserver, Inc., during the fiscal year with the aim of achieving further business scope expansion and greater earnings base stability. Moreover, in a bid to acquire new customers for our portal site construction and support services we aggressively pitched proposals for optimal navigation portal sites to private and public corporations. Also, we concluded an agreement with Hitachi, Ltd., to cooperatively develop and provide a backbone portal solution for corporations.

Outlook

The BS business is focusing on developing products and services that strongly appeal to companies and small office/home office (SOHO) proprietors, including Yahoo! Research and Yahoo! WebHosting. At the same time, we plan to expand corporate business sales by cultivating the customer base of Web-hosting specialist Firstserver, which became a Group subsidiary in November 2004.

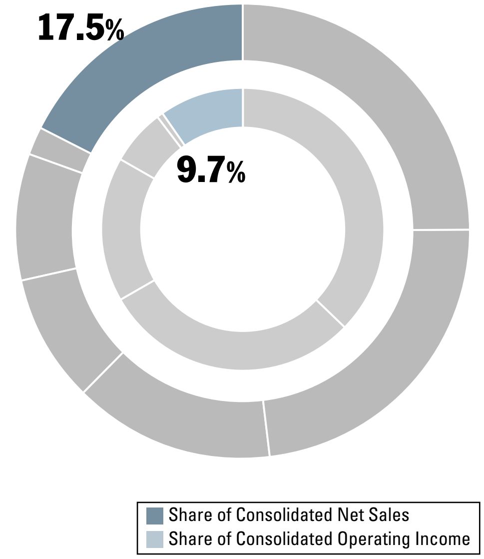
BS Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	146
Business services	2,221
Personal services	14
Other	–
Total	2,381
Cost of sales	1,457
Gross profit	924
SG&A expenses	1,079
Operating loss	(155)
Operating margin	(6.5%)

Corporate Common

–Elimination or Corporate



Revenues and expenses related to banner advertisements on Yahoo! JAPAN top pages are not reflected in the results of the Group's six businesses. In addition, revenues and expenses related to Yahoo! Premium memberships are not reflected in these businesses' results. 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.

Corporate Common business net sales totaled ¥20,567 million for the fiscal year under review, representing 17.5% of consolidated net sales. Sales were derived primarily from advertising on Yahoo! JAPAN top pages and from Yahoo! Premium membership fees. Operating income amounted to ¥5,831 million, resulting in an operating margin of 28.4%.

Operational Review

In fiscal 2004, personal services headquarters took a variety of steps to expand the number of Yahoo! Premium members. One of these measures was a cross-marketing campaign with Yahoo! BB that targeted growth in both membership bases. This limited-duration campaign offered free Yahoo! Premium memberships to Yahoo! BB subscribers. We also enhanced the value of Yahoo! Premium memberships by offering additional benefits, including invitations to premiere screenings of films, advance-purchase tickets for a Yumi Matsutoya concert, exclusive content for members, and member-exclusive packages for Yahoo! Comics and Yahoo! Fortune Telling. To stimulate demand for Yahoo! Premium memberships among Yahoo! JAPAN users, we conducted a variety of Yahoo! Points campaigns and offered special incentive gifts. At the end of March 2005, Yahoo! Premium member IDs numbered approximately 5.08 million, an increase of approximately

Corporate Common Income Statement

(Millions of yen)

For the year ended	2005/3
Net sales:	
Advertising	5,793
Business services	273
Personal services	14,501
Other	–
Total	20,567
Cost of sales	314
Gross profit	20,253
SG&A expenses	14,422
Operating income	5,831
Operating margin	28.4%

Business Review

1.22 million IDs, or 31.4%, from the number at the previous fiscal year-end. As a result, the personal services sales component of Corporate Common business sales expanded significantly in fiscal 2004.

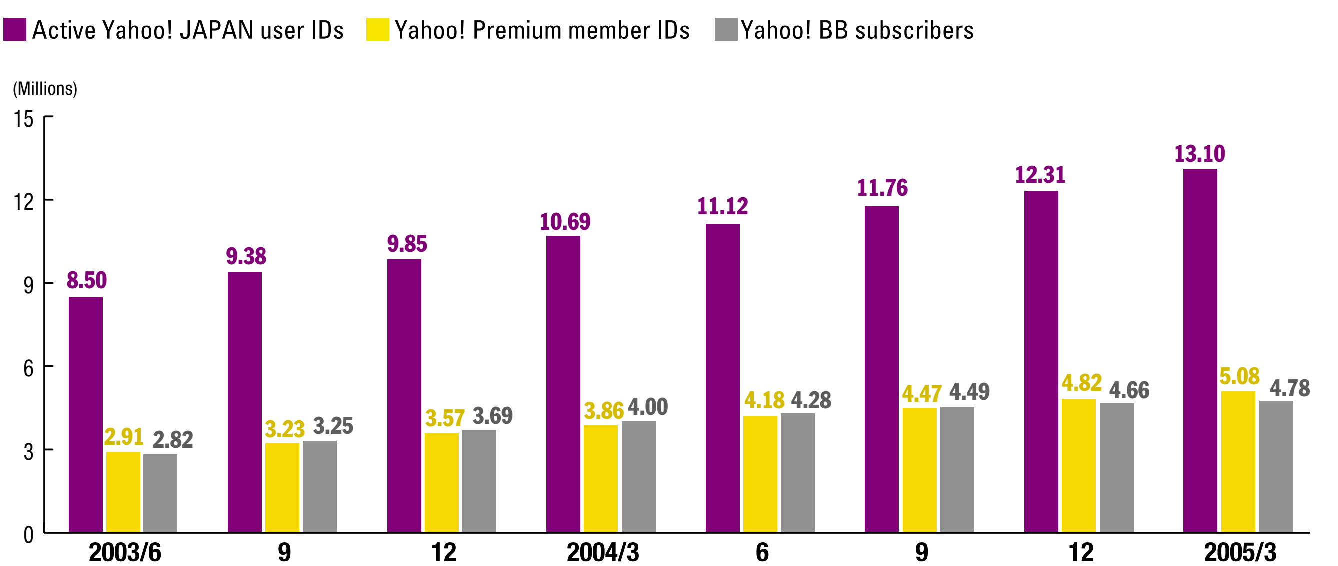
During calendar 2004, Japan's overall advertising market expanded for the first time in four years, with Internet advertising enjoying particularly strong growth. Led by advertising headquarters, the Group aggressively marketed Brand Panels for top pages and other core advertising products to National Clients. As a result, sales of top pages showed firm growth, which helped advertising sales registered by the Corporate Common business to expand significantly in fiscal 2004.

Outlook

The Group aims to get all users who do not yet have a Yahoo! JAPAN ID to register and to become paying Yahoo! Premium members, as well. In addition to expanding member and subscriber numbers, we seek to increase the average revenue per user (ARPU) by encouraging subscribers and members to broaden their use of the Group's services.

In the years ahead, we plan to upgrade our direct marketing systems and fee payment platform with the goal of increasing subscriber and member numbers, in addition to actively cross-selling and up-selling services with the goal of raising ARPU.

Yahoo! JAPAN Users



Topics

In accordance with the goal of becoming a "life engine" that provides users access to the Internet and its myriad goods and services for the enhancement of daily life, the Group describes its commitments both to society and to its own corporate sustainability in terms of the following three themes:

1

The Group and Society

Contributing to Society through Our Services and Corporate Philanthropy

- Providing a hub for volunteer-related information through Yahoo! Volunteer
- Raising money for charities through Yahoo! Auctions' charity auctions
- Donating the proceeds from Internet sales of PC wallpaper to charities assisting victims of natural disasters
- Providing a disaster information service via page banners
- Sponsoring Japanese teams participating in the Olympics, Paralympics, and Special Olympics

Rising to the Role: Representing a New Industry and a New Media

- Sending a corporate message of human compassion through our Pink Ribbon and Red Ribbon consciousness-raising campaigns for those battling breast cancer and AIDS

Preserving the Environment

- Participating in Team Minus 6%, a nationwide campaign to combat global warming
- Assisting start-up Internet-based businesses in attaining high efficiency in product distribution and other logistical activities through the support services of Yahoo! Business Center
- Promoting the re-use of goods through Yahoo! Auctions

2

The Group and the Internet Community

By designing and implementing secure systems and cooperating with government authorities, we aim to prevent inappropriate use of our services. In addition, we regularly meet both with authorities and with representatives of other companies in our industry to discuss policies and procedures geared to enhancing Internet security for all users. Examples of our activities in this area are as follows:

- Eliminating inappropriate content and giving due consideration to children's use of the Internet on our Yahoo! Kids site
- Designing a fraud-resistant system for Yahoo! Auctions, informing users about how to avoid fraud victimization, and establishing a compensation system for victims of fraud
- Implementing measures on Yahoo! Message Boards to prevent defamation and invasion of privacy, and exchanging information with government authorities in relation thereto
- Preventing the spread of stock rumors, perpetration of which is illegal under the Securities and Exchange Law, by continuously monitoring our Stock Bulletin Boards for suspect information and removing it immediately upon detection; Cooperating with the Securities and Exchange Surveillance Commission to design and implement a system that enables individual users to directly report suspect information to the commission
- Prohibiting the listing on Yahoo! Auctions of items that are in violation of intellectual property rights laws
- Providing users with tools for blocking fraudulent and spam e-mails, and exchanging information industrywide on methods and procedures to combat these problems

3

The Group and Corporate Governance/Corporate Compliance

- Clear separation between the roles and responsibilities of directors (5 directors, including 1 outside director) and those of business managers (separating business supervision from business execution)
- Strict audit conducted by Board of Corporate Auditors (4 members as of June 17, 2005, all of whom have no binding affiliation with the Group)
- Protection of personal and other sensitive business information proactively monitored by in-house Information Management Task Force; Information Security Management Systems (ISMS) certifications*
- Strong internal inspection system spearheaded by in-house Operation Audit Team (6 members as of June 17, 2005); Compliance inspections and employee-education program overseen by Legal Department
- Accounting audit conducted by independent auditing firm (ChuoAoyama Pricewaterhouse Coopers)
- Fair, merit-based personnel evaluation system
- Proactive information disclosure

* In August 2004, the Group acquired international-standard ISMS certification under BS 7799-2:2002 from BSI British Standards, as well as Japanese domestic-standard ISMS Certification Standards Version 2.0. As of March 31, 2005, 12 Group companies, including the parent company and 11 subsidiaries, had received certification under both of these standards.

Financial Section

Key Financial Data

(Millions of yen)

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

Notes:

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

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

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

Management's Discussion and Analysis

Results of Operations

Net Sales

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

Cost of Sales

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

Selling, General and Administrative Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

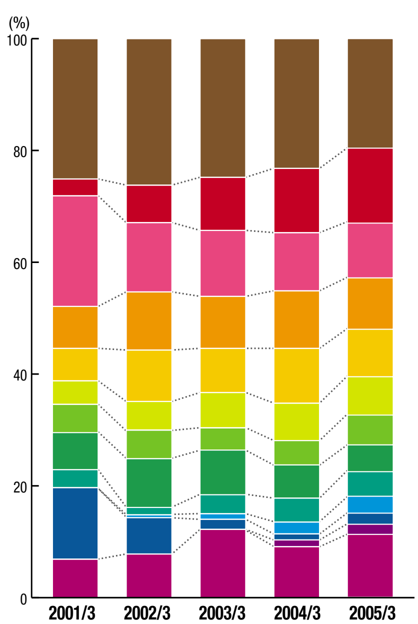
Operating Income

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

Income Taxes, including Adjustments

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

SG&A Expenses



(Millions of yen)

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

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

Financial Section

Minority Interest in Subsidiaries

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

Net Income

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

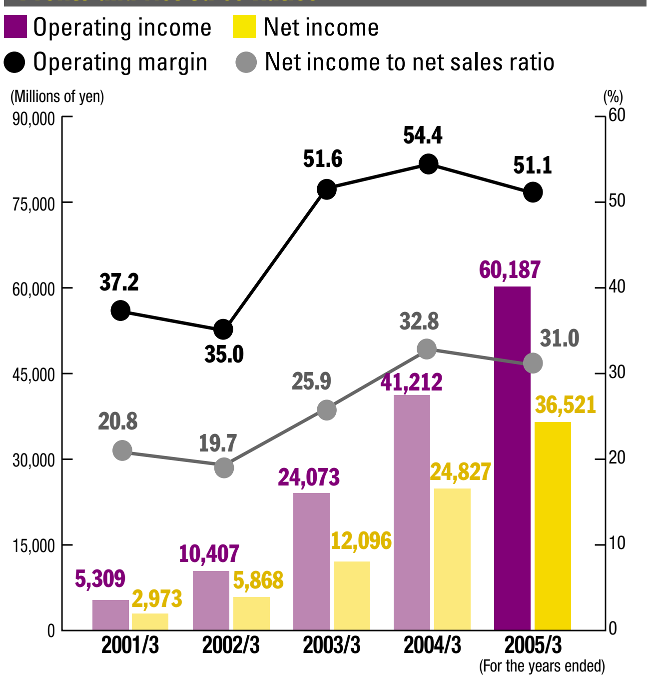
Financial Position

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

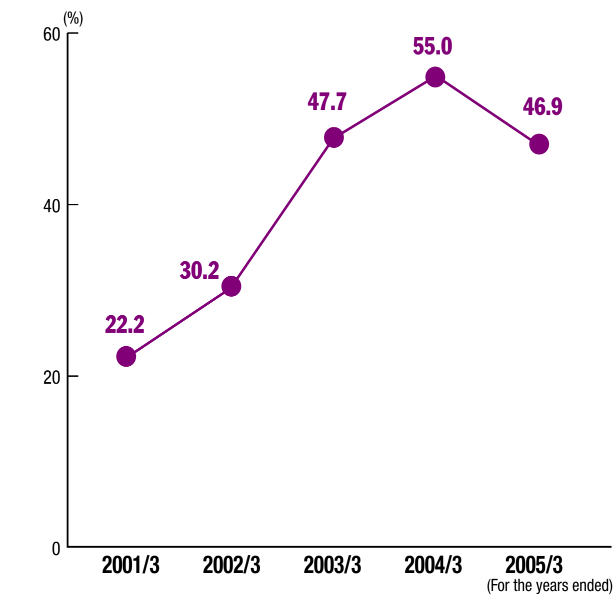
Assets

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

Profits and Net Sales Ratios



Return on Equity (ROE)



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

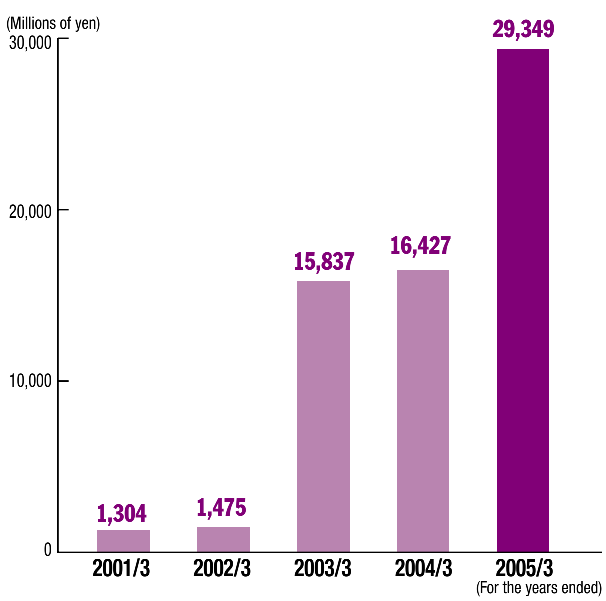
Liabilities

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

Shareholders' Equity

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

Net Cash Flows



Cash Flows

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

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

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

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

CONSOLIDATED BALANCE SHEETS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

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

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

CONSOLIDATED STATEMENTS OF INCOME

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

(Millions of yen)

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

(Thousands of U.S. dollars)

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Organization and nature of business

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

• Listing business

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

• Auction business

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

• Yahoo! BB business

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

• Media business

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

• Shopping business

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

• Business Solutions (BS) business

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

• Corporate Common business

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

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

2. Basis of presenting the consolidated financial statements

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

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

3. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

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

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

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

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

(2) Translation of foreign currency transactions and accounts

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

(3) Inventories

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

(4) Allowance for doubtful accounts

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

(5) Accounting standard for impairment of fixed assets

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

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

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

(6) Depreciation and amortization

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

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

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

(7) Investments in debt and equity securities

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

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

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

(8) Provision for Yahoo! Points

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(9) Retirement benefit plan

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

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

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

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

(10) Income taxes

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

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

(11) Net income per share

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

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

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

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

(12) Appropriation of retained earnings

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

(13) Leases

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

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

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

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

(15) Change in the presentation of investment in partnerships

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

4. U.S. dollar amounts

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

5. Mergers, acquisitions and restructuring

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

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

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

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

6. Inventories

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

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

7. Investments in debt and equity securities

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

8. Investments in affiliates

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

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

9. Common stock and treasury stock

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

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

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

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

10. Retained earnings

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

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

11. Income taxes

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

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

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

12. Selling, general and administrative expenses

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

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

13. Cash flow information

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

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

(3) Acquisitions

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

The cash flows related to these acquisitions were as follows:

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

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

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

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

(4) Business transfer

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

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

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

14. Leases

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

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

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

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

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

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

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

15. Contingent liabilities

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

16. Segment information

(1) Business segment information

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

The operations of the Company include the following businesses:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAHOO JAPAN CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(a) The unallocated operating expenses in the column “Elimination or corporate” mainly represent the expenses of the human resources and accounting divisions of the Company.

(b) The corporate assets included in the column “Elimination or corporate” are mainly investment securities of the Company, guaranteed deposits of the headquarters’ building and common assets of the Company.

(2) Geographic segment information

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

(3) Sales to overseas customers

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

17. Subsequent events

(1) Stock split

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

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

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

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

Report of Independent Auditors

To the Board of Directors of
Yahoo Japan Corporation

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

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

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

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

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 17, 2005

Risk Factors

(April 20, 2005)

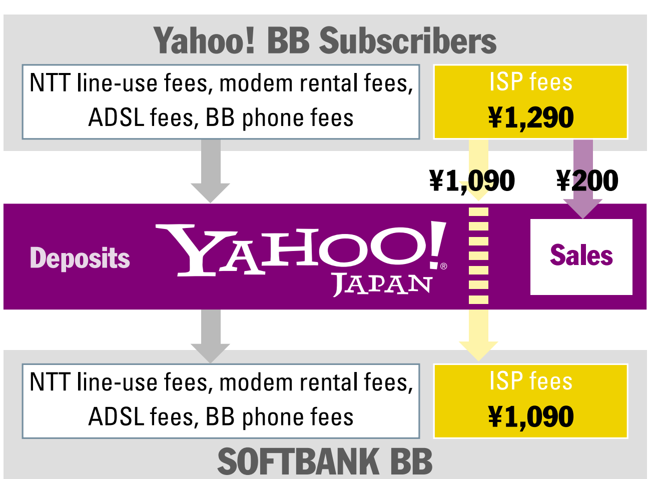
Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") have reported their results for the fiscal year ended March 31, 2005, in this document. However, a number of potential factors could substantially impact future performance.

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

1. Group Operations

(1) Yahoo! BB Business

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



a. Subscriber Sign-up Promotion Business and Incentive Commission

Beginning with the fiscal year ended March 31, 2003, sales of the Yahoo! BB Starter Kit, which provides subscribers with essential equipment for using the service, are no longer included in Yahoo! BB's revenues for the Group. The Group has introduced a system for receiving commissions from SBB based on the number of new subscribers signed up as a result of its promotion efforts. This step has been taken because the subscription route has been expanded to sign up through consumer electronic wholesalers and other means, including the Internet route, and because it has become necessary to actively develop subscriptions from corporations as a result of the start-up of BB Phone service, a broadband telephone service offered by SBB, in April 2002.

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

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

Since the Group has stopped selling the Yahoo! BB Starter Kit, it is assumed that, in principle, the Group will be able to

Risk Factors

avoid the risk associated with sales of the kits. However, the Group will continue to bear the liability risk associated with starter kits it has sold in the past.

b. ADSL Infrastructure and Internet Access Service

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

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

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

c. Broadband Portal Service

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

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

d. The Competitive Environment

As of March 31, 2005, the major providers in Japan of services similar to those the Group offers were as follows (in no particular order):

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

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

(2) Auction Business

a. Illegal Acts

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

The Group has taken multiple measures to improve the security of its systems for the purpose of achieving a safer and sounder auction site. In September 2000, the Group began an escrow service (see note below) for its 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 address of users posting items on the auction site. In addition, the Group has set up a patrol team to remove illegal items from auctions and cooperate with law enforcement agencies and copyright-related groups. Despite these measures taken by the Group, it cannot say for certain that illegal actions will not occur in the future. Therefore, the Group cannot rule out the possibility of legal action being taken against the Group for claims or compensation related to these criminal activities. Moreover, developing a system to prevent criminal activity and upgrading the Group's capabilities to allow proper management could lead to increased costs and a subsequent negative impact on earnings.

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

Note:

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

b. Damage Compensation

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

c. Yahoo! ezPay Service

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

Since Netrust, Ltd., reimburses the seller of the item one to three business days after the purchaser has made settlement by credit card or Internet bank transfer, the subsidiary must

Risk Factors

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

In providing this service, the Group has taken all possible precautions to protect itself from such problems as the fraudulent use of credit cards as well as the leakage of personal information of individuals online as outlined in "Information Security Management," beginning on page 56. However, there is no guarantee that these measures will protect the Group from all fraudulent behavior. It is possible that a malicious user could perpetrate a fraudulent act that would result in the Group being sued for compensation of losses, preventing the recovery of the funds reimbursed and having a significant negative impact on the Group's business and performance. Furthermore, it cannot be denied that such problems could have an influence on Yahoo! Auctions and other Group services.

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

Note:
Yahoo! Payment was renamed Yahoo! ezPay as of August 31, 2004.

d. The Competitive Environment

As of March 31, 2005, the major providers of Japanese-language online mall and auction businesses directed at Internet users in Japan were as follows (in no particular order):

Site	Provider	Business description
BIDDERS	DeNA Co., Ltd.	Online auction site
Rakuten Ichiba	Rakuten, Inc.	Online mall and auction site

With competition from these service providers expected to increase, it remains unclear whether the Group can attain a superior position and sustain its hold in the industry. In addition, competition could lower commission income by cutting participation as well as increase advertising costs, which would have a negative impact on the Group's operating results.

(3) Internet Advertising Business

For businesses other than those mentioned above, it is difficult to list risks specific to each business. There are also many risks common to those businesses mentioned above. Therefore, the risks associated with the Internet advertising areas that are thought to be the most important will be discussed below. Other risks that could affect our businesses are explained in "Other Overall Business Risks," beginning on page 58.

a. Use of the Internet as an Advertising Medium

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

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

The Group believes that to further the spread of Internet advertising, a standard method for evaluating its effectiveness must be established, preferably carried out by a third-party institution. Although some institutions are beginning to accept roles in this area, none has progressed far enough to be capable of full-scale evaluation. With the progressive spread of broadband, this market is gaining recognition among advertisers and advertising agencies. However, it remains unclear whether Internet advertising will become a business on a par with the traditional newspaper, magazine, television, and other advertising media.

b. Characteristics of Internet Advertising

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

Contract periods for Internet advertising are relatively short. In addition, Internet usage and demand 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.

In addition, although advertising contract periods and page views ("hits") are guaranteed for most products, failure to obtain the number of required hits during problems with the Internet connection environment and similar problems could force the Group to extend advertising contract periods or to devise some other type of compensation, which could negatively impact Group advertising revenues.

c. Advertising Sales Structure

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

d. The Competitive Environment

As of March 31, 2005, the major providers of Japanese-language Internet navigational services or similar services directed at Internet users in Japan earning advertising income through comprehensive information sites for those services were as follows (in no particular order). These companies are considered largely in competition with the Group services in the Listing and Media businesses.

Site	Provider	Business description
MSN	Microsoft Corp.	Comprehensive information site
infoseek	Rakuten, Inc.	Comprehensive information site
goo	NTT-Resonant Inc.	Comprehensive information site
livedoor	livedoor Co., Ltd.	Comprehensive information site
Google	Google Inc.	Search service site
excite	Excite Japan Co., Ltd.	Comprehensive information site

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

Risk Factors

(4) Yahoo! JAPAN Card Service

To expand its business domain and at the same time give subscribers access to additional service advantages, the Group will begin issuing its own credit card, the Yahoo! JAPAN Card.

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 plans to curtail bad debts through strict credit evaluation of cardholders and monitoring of credit card use. However, it is possible that the Group will not be able to collect payments from cardholders to cover advanced payments owing to bad debts arising from a decline in the creditworthiness of cardholders. 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.

The Group intends to outsource the major portion of this service to take maximum advantage of available expertise in managing individual information, etc. as well as cost flexibility. However, the Group may not be able to recover its fixed costs of the service if it cannot acquire a large enough number of cardholders. In addition, although the Group has been extremely careful in choosing its business partner for this service, it is possible that the Group may be sued for damages should its business partner leak personal information.

Following the start-up of this credit card service, it will be necessary to establish an organization that can respond quickly to changes in the credit card market. In the event of a change in the credit card market, the settlement commission received from affiliated merchants may decline because of intensified competition, reducing profitability. Among possible additional expenses, a certain level of costs are anticipated due to the risk of fraudulent actions, such as card copying, theft, and others. However, if fraudulent use of the Group's credit card goes beyond 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.

2. Relationship with SOFTBANK Group

(1) Positioning within the SOFTBANK Group

As of March 31, 2005, SOFTBANK CORP. was the parent company of the Company, holding 41.9% of the Company's shares. As a holding company, SOFTBANK CORP. has a variety of affiliated companies operating under its umbrella that are active in a range of business fields and geographic regions, concentrated mainly on Internet business. Their businesses include broadband infrastructure, Internet culture, fixed telecom, e-commerce, e-finance, 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.

(2) Alliance Contracts and Other Arrangements with SBB

The Company has signed the following contracts with SOFTBANK CORP. affiliate SOFTBANK BB Corp. (SBB) concerning Yahoo! BB business. Yahoo! BB business accounted for 14.3% of Group sales in the fiscal year ended March 31, 2005. Therefore, these contracts are considered to be important to the Group.

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

Contract name: Incentive agreement
Contract date: April 1, 2004 (original contract signed on April 1, 2002)
Contract term: One year from April 1, 2004 (Automatically renewed every one year)
Contracted party: SOFTBANK BB Corp.
Incentive fees 1) Lump-sum incentive fees (100% upon verification of operational subscriber lines) * BB Phone services: approx. ¥7,000 per application * Yahoo! BB services: approx. ¥15,000 per application * Yahoo! BB services + LAN Pack: approx. ¥20,000 per application 2) Continual incentive fees * BB Phone services: approx. ¥150 per month per continuing subscriber * Yahoo! BB services: approx. ¥200 per month per continuing subscriber * Yahoo! BB services + LAN Pack: approx. ¥250 per month per continuing subscriber

Notes:

1. The counterparty to the business alliance contract concluded on June 20, 2001 and the incentive agreement concluded on April 1, 2002 was in both cases BB Technologies Corporation (BBT). However, BBT has become SOFTBANK BB Corp. due to the January 7, 2003 merger of BBT with SOFTBANK EC HOLDINGS Corp., SOFTBANK Networks Inc., and SOFTBANK COMMERCE Corp. All of the merged companies had the same parent company, SOFTBANK CORP.
2. The details of the incentive agreement were changed to those shown above as of April 1, 2004.

(3) Joint Directorships

As of March 31, 2005, two of the five directors of the Company also held directorships on the board of the parent company, SOFTBANK CORP., as follows:

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

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

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

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

Risk Factors

3. Business Relationship with Yahoo! Inc.

(1) Licensing Agreements with Yahoo! Inc.

The Group's operations are based on a licensing agreement with Yahoo! Inc., one of the founding partners of the Company and owner of 33.6% of voting shares as of March 31, 2005. The Yahoo! trademark, software and tools (hereinafter referred to as "the trademark") used in the operation of the Group's Internet directory search services are the property of Yahoo! Inc. The Group conducts business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is critical to the Group's core operations.

License name: Yahoo Japan Corporation licensing agreement
Contract date: April 1, 1996
Contract term: From April 1, 1996; termination date unspecified *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 CORP. incapable of maintaining over 50% of shareholder voting rights of the ongoing company (may be waived by agreement of Yahoo! Inc.).
Contracted party: Yahoo! Inc.
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 directory search and other services customized and localized for the Japanese market (hereinafter referred to as "the Japanese version of the Yahoo! directory search services") * Non-exclusive rights granted to the Company for use in Japan of the Yahoo! trademark * Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan * Exclusive rights granted to the Company worldwide for development, commercial use and promotion of the Japanese version of the Yahoo! directory search services 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%

Note:

Yahoo Japan Corporation has held discussions with Yahoo! Inc. regarding the interpretation of the provisions in the licensing agreement that relate to the method of royalty calculation and confirmed the details of the royalty calculation as above. When Yahoo Japan Corporation plans to enter into new businesses that have different gross margin structures than those of existing Yahoo Japan Corporation businesses, both parties will discuss the appropriate calculation method to be applied to such new businesses.

(2) The Yahoo! Brand and Cooperation Overseas

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

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, the Group is unable to provide assurances as to the outcome of these efforts. Failure on the part of Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Group in the form of weaker brand presence. In addition, some agreements with overseas Group companies contain exclusionary provisions. The Group is not able to place certain advertisements while these agreements are 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.

(3) Other Joint Directorships

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

4. Influence of Internet Markets and Environment

(1) Dependence on Internet Usage Rates

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

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

(2) Dependence on the Environment for Internet Connection

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

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

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

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

Risk Factors

5. 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 this technology has broadened the horizons of Internet users and boosted convenience, it has also turned the importance of the security of personal and other information into a major social issue. As providers of a range of services over the Internet, the Group needs to address this issue extremely carefully.

Based on this understanding, the Group has proactively taken steps to deal with information security. In 2001, the Group appointed a Chief Security Officer (CSO) and implemented groupwide information security efforts based on this position. To protect personal information, the addresses and other information of our customers are encrypted with SSL (Security Sockets Layer), and access to stored data is thoroughly restricted. Moreover, in April 2002 the Company obtained the right to use the TRUSTe mark (see Note 1, below) of the non-profit privacy protection licensing institution TRUSTe. In September 2003, the Group established the Information Security Council to promote information security management, and concurrently the president of the Company himself announced our Information Security Declaration (see Note 2, below), setting out the Group's overall information security policy. In February 2004, to further reinforce our information management organization, the Company established an Information Management Measures Headquarters chaired by the president. The headquarters has been given a broad scope of authority to rapidly and effectively initiate measures companywide to protect personal and other important business information. Specifically, the headquarters regularly holds one meeting a week, checks the current status of information management operations, considers various measures to improve the management system, and confirms and monitors the progress of measures to improve information management. As part of a series of new security measures, in August 2004 the Group acquired Information Security Management Systems (ISMS) certification, which was developed by BSI British Standards. 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, below). As of March 31, 2005, Yahoo Japan Corporation and 11 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. TRUSTe Certification Institution and TRUSTe mark

   TRUSTe is an independent, non-profit institution established in 1997 in the United States. The institution issues the TRUSTe mark to Web sites based on an examination 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 within the Japan Engineers Federation, a non-profit organization established in recognition of the spreading use of the TRUSTe mark in Japan. The TRUSTe mark indicates that the Group conforms with 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.

2. Information Security Declaration

   The Company declares its commitment to the following policy regarding information security management for society as 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 the sake 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.

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

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

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

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

The Group exercises the utmost care in protecting the privacy and personal information of each user and takes extraordinary measures to ensure the security of each service. In addition, 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, etc. There is also a possibility that third parties may use passwords, etc., to fraudulently access the system or pretend to be someone else or use some other method such as phishing fraud (see note below) whereby they illicitly obtain personal information of users resulting in damage to those users. Under such circumstances, the Group's services could be adversely affected, its brand image could be tarnished, and the Group could be involved in legal disputes.

Regardless of whether the Group is legally responsible or not, 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 one set up by the National Police Agency. Sharing information with related ministries and agencies and industry associations, the Group is seeking effective measures against this type of fraud.

Starting in April 2005, the Personal Information Protection Act and the guidelines issued by the Ministry of Internal Affairs and Communications regarding the protection of personal information in the electronic communications industry went into force. However, the Group had already implemented in advance systems to meet the regulations or requirements of the law and guidelines regarding the methods of handling personal information. The Group, therefore, believes that the enforcement of the law or guidelines will have almost no impact on its operations.

Note:

Phishing fraud

This type of fraud involves obtaining personal information by sending e-mail pretending to be a financial institution or a 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 and 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 as well recently. The National Police Agency has posted warnings about phishing fraud on its Web site.

Risk Factors

(3) Network Security

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

6. Other Overall Business Risks

(1) Diversification and New Business

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

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

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

(2) Keeping Up with Technology

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

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

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

Recently, use of the Internet through mobile phones and other mobile terminals has increased. Although the Group has responded to this increase by adapting its services for use with mobile terminals, it can provide no guarantee that its services will have the same rate of viewers as that of personal computer users. User share could fall as a result and necessitate larger expenditures for services development that could compress the Group's profits.

(3) Dependence on Third Parties

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

The Group is dependent on several Internet service providers for its server connections. If access were interrupted or broken, or 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's system, negatively impacting the Group's performance or in the worst case resulting in the termination of the service.

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

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

(4) 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 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. With the expansion of business, the Group has seen and expects to continue to see a surge in transactions, including those made by individuals in Yahoo! Auctions and Yahoo! BB. Enhancing systems within the Group and increasing personnel to respond to the situation could increase costs and negatively influence the Group's sales and profit.

(5) 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.

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 the adverting sales. Moreover, advertising revenue from Sponsor Sites operated through a business alliance with Overture K.K. are growing steadily and account for a significant proportion of total advertising sales.

As for business services sales, the amount of commissions paid for acquiring new Yahoo! BB members is still large and SBB accounts for a high proportion of overall sales. In other businesses, the Group has major transactions with specific companies, and these transactions account for a growing percentage of the Group's sales revenue.

Risk Factors

If there was 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.

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

Along with the expansion of its Yahoo! BB and Yahoo! Auctions operations and the ramping up of its e-commerce business, mainly through subsidiaries and affiliates, the proportion of the Group's 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 system to improve business efficiency. Despite these measures, it is possible that compared with its previous focus on corporate customers the Group will be exposed to new risks related to the settlement and collection of receivables due to increases in the amount of small sales receivables and uncollected receivables, credit card settlement problems and the costs of receivables collection. Moreover, it is expected that the funds required for the reimbursement side of the settlement services offered by Yahoo! ezPay and Yahoo! JAPAN Card will increase substantially. If the recovery of these funds is blocked in some way, it could have a serious negative impact on the Group's operating results and financial condition.

It is also possible that the quantity of inquiries from customers may expand. Previously, most inquiries were related to usage of our 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.

(7) 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 may not motivate the participants in the plan and indeed may reduce their motivation and cause them to leave the Group.

(8) Internal Control System and Human Resources

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

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

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

To prevent problems resulting from human error in business, such as the inappropriate management of test IDs for Yahoo! Auctions revealed in March 2002, the Group has taken such measures as stricter controls and operation standards so that such problems do not occur due to improper conduct by internal staff. Nevertheless, there remains the possibility of similar problems occurring in the future in terms of business management and control.

(9) Consolidated Group Operations

There are risks because the Group's subsidiaries and affiliates are generally small scale, and accordingly, because their in-house management systems are also small scale. It is the Group's policy to acquire necessary additional staff and to strengthen its organization as businesses expand, but if these measures are not implemented in a timely manner, it could negatively affect the Group's performance.

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

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

(10) Share Distribution

At March 31, 2005, the major shareholders of Yahoo Japan Corporation held a very high stake in the Company, with over 75% of its equity owned by SOFTBANK CORP. and Yahoo! Inc. The Company has requested the cooperation of these major shareholders in decreasing the proportion of fixed shares, but at present it is difficult to imagine any significant change in the short term. As a result, it is highly likely that the proportion of fixed shares will remain high for the time being. It is possible in the worst-case scenario that the Company would violate the listing standards of the stock exchange on which its shares are listed.

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

(11) International Conflicts, Terrorist Attacks and Natural Disasters

In the event of outbreaks of international conflicts or 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 site, causing a disruption in planned advertising business. Or, for its own reasons, the advertising company might stop, reduce, or postpone advertising. Furthermore, the access infrastructure for Yahoo! BB might also be interrupted or some other circumstance arise where users would not 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

Risk Factors

structure that Yahoo! Inc. provides for the Group and its links to business alliances. In the worst-case scenario, the Group offices could be physically disabled. If other companies closely related to Group business, such as Yahoo! Inc. and related companies or SBB and other access service providers, were hit with the same conditions, it is possible that the Group could become unable to continue operations.

(12) Legal Restrictions, Lawsuits and Intellectual Property Rights

a. Government Regulations

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

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 intermediaries in distributing information over the Internet. Nevertheless, the passing of the new law may start a social movement toward requiring greater responsibility of information distribution intermediates. There is a possibility that the Group's business may be restricted through the introduction of new laws or the implementation of rules on self-regulation.

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

b. Potential Litigation

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

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

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

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

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

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

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

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

(13) Change in Accounting Standards

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

(14) Revision of Business Forecasts

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

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

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

Risk Factors

7. Risks Concerning Investment, Loan and Capital Investment Programs

(1) Investments and Loans

As of March 31, 2005, 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 page 66. 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 applying compulsory evaluation accounting. Nevertheless, depending on the direction of the performance of those companies they could have an even greater adverse effect on the Group's fiscal profit or loss in the future.

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

(2) Capital Investment Programs and Investment Plans

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

In making these capital investments, the Group will take care to prevent unnecessary cash outflows by closely considering costs and benefits, focusing on keeping the system development and equipment purchase expenses reasonable.

Although the Group believes business expansion will result in earnings growth sufficient to provide operating cash flows to cover these increased costs and cash outflows, ineffective capital investments and delayed effect could substantially impact future earnings and cash flows. Moreover, since the Internet industry is characterized by constant technological innovation and rapidly changing customer needs, the useful life of the planned facilities may be shorter than originally planned. As a result, depreciation terms may be shorter and depreciation costs higher compared with previous terms because of changes in accounting methods. In addition, greater than normal losses may be recorded because of disposal of current facilities.

(3) Participation in Finance Scheme for Yahoo! BB

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

Finance Scheme Summary

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

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

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

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

Risk Factors

Main Companies Invested in by Yahoo Japan Corporation

(As of March 31, 2005)

	Investment targets	Listing	Date of acquisition (See Note 1)	Stake (%)	B/S accounting amount (¥ M) (See Note 2)	Lines of business	Relationship with the Company
Investment securities							
1	Internet Research Institute, Inc.	TSE Mothers	98/08/01	9.9	4,468	Internet technical-support service	
2	Vector Inc.	OSE Hercules	99/03/26	10.7	1,465	Sales of download licenses for personal computer software	Alliance for Yahoo! Computers
3	SOFTBANK Internet Technology Fund No. 1	–	00/02/21	–	1,109		
4	Oricon Inc.	OSE Hercules	00/03/30	1.5	460	Construction and supply of music-related databases	Alliance for Yahoo! Music/Music shopping
5	Weathernews Inc.	TSE 1st Section	99/06/01	3.8	383	Weather observation, data collection and analysis, weather forecast, and related information services	
6	E-net Japan Corporation	OSE Hercules	00/12/16	4.8	342	Sales of personal computers, audiovisual and home equipment on the Internet	Yahoo! Shopping /Auctions tenant
7	CyberMap Japan Corp.	–	98/04/01	8.3	50	Internet-based map information service ("Mapion")	Alliance for Yahoo! Maps
8	Carview Corporation	–	99/10/05	6.5	39	Car-related information, quotes and dealer introductions	Alliance for Yahoo! Autos
9	ARCHINET, Inc.	–	01/01/23	8.9	13	Consulting on real estate and online sales of gardening equipment	Yahoo! Shopping /Auctions tenant
10	Cafeglobe.com Inc.	–	01/02/01	11.2	8	Operation of cafeglobe.com, an information site for women	Alliance for Yahoo! Gourmet/Beauty
Shares in affiliated companies							
1	All About, Inc.	–	04/09/08	41.3	2,095	General information site based on expert guides; Internet advertising	Comprehensive alliance to solicit customers for both sites
2	CREO. CO., LTD.	Jasdaq	05/01/26	36.9	1,399	System development; planning, development and sale of software packages; and support services	Business alliance for system development
3	AccessPort Inc.	–	05/01/28	33.4	950	Japanese keyword search service ("JWord")	Alliance for Yahoo! JAPAN directory search services
4	YUME NO MACHI SOUZOUIINKAI CO., LTD.	–	04/10/20	29.9	377	Internet-based ordering of delivery services	Alliance for regional information services
5	Tavigator, Inc.	–	00/03/07	30.0	142	Sales of travel gear on the Internet	Alliance for Yahoo! Travel and Yahoo! Shopping tenant
6	INTAGE Interactive Inc.	–	02/10/01	49.0	107	Internet-based marketing research services	Alliance for Yahoo!Research
Investments							
1	Other investments	–	–	–	40		

Notes:

1. In principle, the date of acquisition is the day that the Company became a shareholder.
2. B/S accounting amounts are shown on a consolidated basis in units of millions of yen.
3. AccessPort Inc. changed its name to JWord Inc. effective April 1, 2005.
4. As a result of a revision in the guidelines for practical application of financial instruments accounting rules, SOFTBANK Internet Technology Fund No. 1, which was included under investments in the previous quarter, is now being accounted for as an investment security.
5. The public tender offer for shares of ValueCommerce Co., Ltd. began on March 1, 2005 and ended on April 11, 2005. As a result, at April 12, 2005, Yahoo Japan Corporation had acquired 49.7% of the company's voting rights.

Investor Information

(As of March 31, 2005)

Data of 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 Corporation'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 Corporation's Ownership: 100.0%
URL: http://www.bridalnet.co.jp/

CURIOCITY CORP.
Business: Shopping portal service
Founded: Mar. 2000
Headquarters: Shinjuku-ku, Tokyo
Capital Stock: ¥815 million
Yahoo Japan Corporation's Ownership: 90.7%
URL: http://www.curio-city.com/

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 Corporation's Ownership: 57.7%
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 Corporation's Ownership: 60.0%
URL: http://shotworks.yahoo.co.jp/

NETGENE Co., Ltd.
Business: Development of applications for mobile devices
Founded: June 1999
Headquarters: Nakano-ku, Tokyo
Capital Stock: ¥149 million
Yahoo Japan Corporation'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 Corporation's Ownership: 60.0%
URL: http://payment.yahoo.co.jp/

Seven and Y Corp.
Business: Online retail business of books, CDs, DVDs and more
Founded: Aug. 1999
Headquarters: Chiyoda-ku, Tokyo
Capital Stock: ¥439 million
Yahoo Japan Corporation's Ownership: 51.3%
URL: http://7andy.yahoo.co.jp/

Surfmonkey Asia Inc.
Business: Filtering services against harmful information on the Internet for home and school
Founded: Apr. 2000
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥52 million
Yahoo Japan Corporation's Ownership: 100.0%
URL: http://www.surfmonkey.co.jp/

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 Corporation's Ownership: 100.0%

VACS Corporation
Business: Development and sales of PC software
Founded: Apr. 1981
Headquarters: Machida-shi, Tokyo
Capital Stock: ¥25 million
Yahoo Japan Corporation'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 Corporation's Ownership: 100.0%

Y's Insurance Inc.
Business: Life/Non-life insurance agency business
Founded: Nov. 2003
Headquarters: Minato-ku, Tokyo
Capital Stock: ¥30 million
Yahoo Japan Corporation'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 Corporation's Ownership: 100.0%
URL: http://sportsnavi.yahoo.co.jp/

Investor Information

Corporate Data

(As of March 31, 2005)

Company Name

Yahoo Japan Corporation

Founded

January 31, 1996

Capital

¥6,692 million

Businesses

Advertising on the Internet
Auction Business
Broadband-Related Business
Other Businesses

Number of Employees

1,713

Headquarters

Roppongi Hills Mori Tower,
6-10-1, Roppongi, Minato-ku,
Tokyo 106-6182, Japan

Home Page URL

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

English IR page URL

http://ir.yahoo.co.jp/en/

Directors and Statutory Auditors

(As of June 17, 2005)

President and CEO

Masahiro Inoue

Chairman of the Board of Directors

Masayoshi Son

Director

Jerry Yang

Director and CFO

Akira Kajikawa

Director and COO

Hiroaki Kitano

Statutory Auditor (Full Time)

Sumio Sue

Statutory Auditors

Toshihiro Kiribuchi
Mitsuo Sano
Shiho Konno

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