

**SOFTBANK CORP.**  
**CONSOLIDATED FINANCIAL REPORT**  
**For the fiscal year ended March 31, 2006**

Tokyo, May 10, 2006

**FINANCIAL HIGHLIGHTS**

**1. Results of Operations**

(Millions of yen; amounts less than one million yen are omitted.)

	Net sales		Operating income(loss)		Ordinary income(loss)		Net income(loss)	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>FY 2006</b> <b>April 2005 through</b> <b>March 2006</b>	<b>¥1,108,665</b>	<b>32.5</b>	<b>¥62,299</b>	<b>-</b>	<b>¥27,492</b>	<b>-</b>	<b>¥57,550</b>	<b>-</b>
FY 2005 April 2004 through March 2005	¥837,018	61.7	¥(25,359)	-	¥(45,248)	-	¥(59,871)	-

	Net income(loss) per share— primary (yen)	Net income per share— diluted (yen)	Return on Equity (%)	Ordinary income(loss)/ Total assets (%)	Ordinary income(loss)/ Net sales (%)
<b>FY 2006</b> <b>April 2005 through</b> <b>March 2006</b>	<b>¥54.36</b>	<b>¥50.71</b>	<b>27.4</b>	<b>1.6</b>	<b>2.5</b>
FY 2005 April 2004 through March 2005	¥(171.03)	-	(28.9)	(2.9)	(5.4)

Note:

1. Equity in earnings under the equity method, net:  
Fiscal Year ended March 31, 2006: ¥9,521million  
Fiscal Year ended March 31, 2005: ¥5,425 million
2. Weighted average number of shares issued and outstanding during the year (consolidated)  
Fiscal Year ended March 31, 2006: 1,054,478,501 shares  
Fiscal Year ended March 31, 2005: 351,418,709 shares

Weighted average number of shares issued and outstanding during 2006 was calculated supposing the share split was conducted at the beginning of the fiscal year.

3. There are changes in accounting policies for the fiscal year ended March 31, 2006.
4. Percentage changes for net sales, operating income (loss), ordinary income (loss) and net income (loss) are compared with the corresponding period of the previous fiscal year.

## 2. Financial Condition

(Millions of yen; amounts less than one million yen are omitted.)

	Total assets	Shareholders' equity	Equity ratio (%)	Shareholders' equity per share (yen)
<b>FY 2006</b> <b>March 31, 2006</b>	<b>¥1,808,398</b>	<b>¥242,767</b>	<b>13.4</b>	<b>¥229.88</b>
FY 2005 March 31, 2005	¥1,704,853	¥178,016	10.4	¥505.86

Note: Number of shares outstanding (consolidated)

As of March 31, 2006: 1,055,082,087 shares

As of March 31, 2005: 351,457,170 shares

## 3. Cash Flows

(Millions of yen; amounts less than one million yen are omitted.)

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at the end of the period
<b>FY 2006</b> <b>April 2005 through</b> <b>March 2006</b>	<b>¥57,806</b>	<b>¥27,852</b>	<b>¥30,078</b>	<b>¥446,694</b>
FY 2005 April 2004 through March 2005	¥(45,989)	¥(242,944)	¥277,770	¥320,194

## 4. Scope of Consolidation at March 31, 2006

Consolidated subsidiaries:	153
Equity-method non-consolidated subsidiaries:	3
Equity-method affiliates:	84

## 5. Changes in Scope of Consolidation

Consolidated subsidiaries:	
Newly added:	23
Excluded:	23
Equity-method non-consolidated subsidiaries and affiliates:	
Newly added:	15
Excluded:	36

# Management Policies

## 1. Fundamental Management Policies

The core management philosophy of SOFTBANK CORP. (hereafter "the Company") and the SOFTBANK Group (hereafter "the Group") is "Endeavoring to benefit society and the economy and to maximize enterprise value by fostering the sharing of wisdom and knowledge gained through the IT revolution." By conducting business activities in a creative manner, the Group focuses its energy on both enhancing its enterprise value and contributing to the development of society. In accordance with its management philosophy, the Group is working to facilitate the realization of the ubiquitous society, where broadband will enable anyone to access all kinds of information at any time and place.

Since the Company established Yahoo Japan Corporation (hereafter "Yahoo Japan") in January 1996, the Group has worked to increase the penetration of commercial Internet services in Japan. In addition, the *Yahoo! BB ADSL*, comprehensive broadband service which began commercial services in September 2001, has surpassed 5 million cumulative lines installed. In these ways, the Group has contributed to the development of the world's lowest cost high-speed broadband environment. In July 2004, the Group acquired fixed-line telecommunications carrier JAPAN TELECOM CO., LTD. (hereafter "JAPAN TELECOM"), securing a nationwide fiberoptic network and a customer base of about 6 million lines, principally corporate customers. In April 2006, the Group acquired 99.54% of the stock of Vodafone K.K., a mobile telecommunications carrier with about 15 million subscribers, through take-over bid and the acquisition of Metrophone Service Co., Ltd., a Vodafone K.K. shareholder. At the same time, the Company agreed upon an alliance in mobile phone operations with Yahoo Japan, which operates *Yahoo! JAPAN*, the largest Internet portal site in Japan. These acquisitions and alliance have made the Group a comprehensive telecommunications carrier with about 26 million lines in fixed-line and mobile operations. At the same time, the Group's operations also extend beyond that framework, and these acquisitions and alliance will significantly advance the Group, as a comprehensive digital information company that is also developing content and services for delivery over broadband infrastructure, toward the realization of the true ubiquitous society.

In Japan, along with the rapid penetration of broadband infrastructure, video is taking over text as the mainstream Internet content, and Internet video portals will play a major role in the years ahead. To build a competitive advantage in video portal services, in October 2005, the Group began a trial service of *TV Bank*, an Internet-based video service. Furthermore, in December 2005, the Company established TV Bank Corp. (hereafter "TV Bank") a joint venture with Yahoo Japan. In TV Bank, the Group has brought together its human resources and know-how related to Internet-based video content delivery services. TV Bank has redoubled its efforts to aggregate content and provide distribution technology to *Yahoo! Streaming*, a video portal site operated by Yahoo Japan, and is working to enhance the usability of services in general.

In corporate businesses, the Group is developing a range of solutions that meet business needs in the ubiquitous society through utilization of the latest ICT\*<sup>1</sup> of Group companies and business partners. In December 2005, JAPAN TELECOM launched *ULTINA*—a new brand for an ICT platform service integrating network technologies and content/application—and began to provide *KeyPlat (ULTINA on-Demand Platform)* on-demand Web system platform services. In the future, the Group will accelerate the development of FMC\*<sup>2</sup> solutions which integrate fixed-line and mobile telecommunications for corporate customers.

As a 21st century lifestyle company that uses broadband technologies to make people's lifestyles more affluent and enjoyable, and as a comprehensive digital information company that provides broadband infrastructure as well as the innovative content deployed over such infrastructure, the Group aims to be the global No. 1 corporate group in the broadband era.

\*1. ICT: Information & Communications Technology

\*2. Fixed Mobile Convergence: the convergence of fixed-line telephony and mobile telephony

## **2. Policy Regarding Allocation of Earnings**

The fundamental policy of the Company is to increase shareholder value by raising the Company's enterprise value and providing an appropriate return to shareholders and all other stakeholders.

The Company's policy regarding dividends is to set dividend payments while taking into consideration the need to maintain the proper balance between bolstering the operating base and preserving a stable dividend from a medium- to long-term perspective. The Company has proposed a dividend of ¥2.5 per share for the fiscal year 2006. Although the year-end dividend for the previous fiscal year was ¥7 per share, in January 2006 the Company implemented a share split (three-for-one), and as a result the year-end dividend for the fiscal year 2006 is an increase of ¥0.5 per share from the previous fiscal year.

## **3. Target Management Indices**

The Group places great importance on results and rates of change in the principal management indices—net sales, operating income, ordinary income, net income, cash flows, and EBITDA\*<sup>3</sup>, for each of our internal management segments. The Group also attaches great importance to indices that track user trends, particularly in telecommunications businesses, such as the number of subscribers, market share, churn rate, and average revenue per user (ARPU).

\*3. EBITDA: Operating income/loss + depreciation and loss from disposal of fixed assets (which are included in operating expenses)

## **4. Medium- and Long-Term Strategies**

As a comprehensive digital information company in the ubiquitous society, the Group aims to achieve fixed mobile convergence (FMC) through broadband and to seamlessly develop a range of broadband content over that infrastructure. In this way, the Group's medium- and long-term strategies target the maximization of Group revenues and enterprise value through the establishment of a unique business model for the broadband era that will generate long-term, stable income from its infrastructure businesses, increasing returns from its portal businesses, and diversify sources of profit from its content businesses.

### (1) Expanding broadband content

The Group is taking steps to further expand the content available on the broadband infrastructure. Along with the growth in the household penetration rate of access to fixed-line broadband services, the use of broadband in mobile telecommunications is also expected to grow. The Group believes that the provision of video and a wide range of other attractive broadband content will be important in the years ahead. In addition to substantially improving the services and content available under the Group's brand including Yahoo! Japan, the Group will strive to expand broadband content through alliances with leading content providers in Japan and overseas.

### (2) Rapidly establishing ubiquitous, seamless broadband infrastructure

To realize a ubiquitous, seamless broadband environment, the Group aims to provide a comprehensive range of telecommunications modes. In fixed-line broadband infrastructure, the Group's *Yahoo! BB ADSL* service has driven the popularization of broadband in Japan. The Group is working to achieve further increases in the speed of ADSL service through technical innovation, and at the same time the Group is engaged in R&D targeting the commercialization of new technologies, such as FTTR\*<sup>4</sup>. In mobile phone operations, the Group made a full-scale entry into the mobile phone market in April 2006 with the acquisition of Vodafone K.K. Targeting the use of broadband and rich content in mobile phone operations, the Group aims to achieve fixed mobile convergence (FMC) through utilization of next-generation

high-speed mobile telecommunications services and Group wireless LAN networks at an early stage.

\*4. Fiber To The Remote terminal: From NTT central offices to equipment located near the user's premises, transmission is handled over fiberoptic technology, like that used with FTTH. From the nearby transmission equipment, which is installed on such structures as telephone poles, to the user, transmission is handled over metal wire technology, like that used with ADSL.

### (3) Providing broadband content developed in-house to customers around the world

The Group aims to be the No. 1 broadband content group in Japan, which has the lowest cost high-speed, fixed-line broadband infrastructure base in the world. The Group is also implementing a range of broadband content initiatives in other Asian countries that have advanced broadband environments like that in Japan, and in the future, the Group intends to extend this broadband content business model to countries around the world. In parallel with the negotiations for the recent acquisition of Vodafone K.K., the Group also agreed to pursue discussions concerning alliances and joint ventures with Vodafone Group PLC (hereafter "Vodafone PLC") in the area of Internet portals and content. Over the medium to long term, the Group will work to expand profit opportunities on a global basis by providing its abundant broadband content to potential customers among Vodafone PLC's 510 million subscribers around the world.

## **5. Important Management Issues**

### (1) Taking steps in response to mobile number portability\*<sup>5</sup>

With the acquisition of Vodafone K.K. in April 2006, the Group has made a full-scale entry into the mobile phone market, which is expected to undergo intensified competition among service providers with the introduction of mobile number portability this fall. In response to the introduction of mobile number portability, the Group will consider the following measures, work to acquire new customers, and strive to reduce the churn rate.

1. Enhance 3G\*<sup>6</sup> network
2. Enhance 3G terminals
3. Enhance sales and marketing structure
4. Expand content for mobile platforms

\*5. A system that allows mobile phone users to switch to another mobile phone company without changing their mobile phone number

\*6. Third-generation mobile phone

### (2) Rapidly creating group synergies

With the acquisition of Vodafone K.K., the Group has reached a scale of about ¥2.5 trillion\*<sup>7</sup> in net sales and approximately 17 thousand\*<sup>8</sup> employees on a consolidated basis. The Group will work to build a group system that can move as rapidly as possible to create new synergies among Vodafone K.K. and Group companies. Anticipated synergies with JAPAN TELECOM, which offers fixed-line telecommunications services; BB TECHNOLOGY Corp., which offers broadband operations; and Yahoo Japan, which conducts Internet operations, include the following:

1. Synergies from network integration
2. Synergies from expansion of customer bases and sales channels
3. Synergies from organizational integration and increased efficiency
4. Synergies involving content services, such as *Yahoo! JAPAN*

\*7. Total of consolidated net sales of the Group in fiscal 2006 and of Vodafone K.K. in fiscal 2005.

\*8. Total of employees on a consolidated basis of the Group in fiscal 2006 and of Vodafone K.K. in the first half of fiscal 2006.

### (3) Becoming a comprehensive digital information company

As a corporate group based on the Internet-related businesses, the Group will not limit itself to its existing role as a comprehensive telecommunications carrier. Rather, as a comprehensive digital information company in the broadband era, the Group will work to develop innovative services in infrastructure, portals, and content and strive to clearly differentiate itself from competitors.

### (4) Strengthening governance and compliance systems

In December 2005, the Company revised the SOFTBANK Group Charter in order to improve the governance and compliance systems of the Group as a whole. Along with this revision, the Company prepared guidelines containing specific compliance items that must be observed by SOFTBANK Group companies and is working to strengthen governance within the Group. In addition, the Company prepared the SOFTBANK Group Officers & Employees Code of Conduct comprising 10 items that Group officers and employees are expected to comply with at all times. Furthermore, the Group established a Group Hotline so that Group officers and employees can receive advice about compliance matters. With such developments as the April 2006 acquisition of Vodafone K.K., the Group continues to post rapid growth in operational scale and number of employees. In this environment, by ensuring thorough Group-wide knowledge of the SOFTBANK Group Charter, the Group will strengthen its governance and compliance systems and ensure thorough risk management.

## Results of Operations and Financial Position

### 1. Consolidated Results of Operations

#### <Overview of Fiscal Year Results>

**Net sales** increased ¥271,646 million, or 32% from the previous fiscal year, to ¥1,108,665 million, surpassing ¥1 trillion for the first time in the Company's history. In the Broadband Infrastructure segment, the number of paying customers and ARPU (average revenue per user) for the *Yahoo! BB ADSL* service remained strong, and as a result, sales increased ¥63,145 million, or 31%, to ¥268,451 million. In the Fixed-line Telecommunications segment, the financial results of JAPAN TELECOM were consolidated for the entire fiscal 2006 but only for the second half of the previous fiscal year. As a result, the segment sales were ¥354,233 million, compared with ¥166,878 million in the second half of the previous fiscal year. In the e-Commerce segment, sales of PC software to large appliance discount stores were strong, and segment sales totaled ¥283,275 million, an increase of ¥28,353 million, or 11%. The Internet Culture segment benefited from strong advertising revenues, and sales rose ¥53,671 million, or 52%, to ¥156,120 million. On March 31, 2005, SOFTBANK INVESTMENT CORPORATION\*<sup>1</sup> was changed from a consolidated subsidiary to an equity-method affiliate. As a result, sales were not recorded in the e-Finance segment in fiscal 2006, compared with ¥78,797 million recorded in the previous fiscal year.

**Operating income** was ¥62,299 million, an improvement of ¥87,658 million in comparison with the operating loss of ¥25,359 million recorded in the previous fiscal year. These results marked the Company's first full-year operating profit in five years. In the Broadband Infrastructure segment, gains in number of paying customers and in ARPU led to higher sales, and customer acquisition costs were reduced. As a result, the segment's operating income was ¥20,672 million, an improvement of ¥74,419 million. In the Internet Culture segment, operating income increased ¥24,110 million, or 48%, to ¥74,190 million, due to strong advertising revenues. The Fixed-line Telecommunications segment reported an operating loss of ¥25,158 million due to a delay in the installation of lines for the *Otoku Line* service of JAPAN TELECOM. However, accompanying a change in marketing strategy in this service from the second half of the fiscal year, profitability improved rapidly, and in the fourth quarter, following such temporary factors as access charge adjustments, the segment recorded operating income of ¥2,928 million. Operating income was not recorded in the e-Finance segment, compared with operating income of ¥19,714 million in the previous fiscal year.

**Ordinary income** was ¥27,492 million, an improvement of ¥72,740 million from the ordinary loss of ¥45,248 million recorded in the previous fiscal year. This income is attributable to an improvement in operating income and to equity in earnings under the equity method of ¥9,521 million, which increased ¥4,096 million due to the transition of SOFTBANK INVESTMENT CORPORATION from a consolidated subsidiary to an equity-method affiliate. On the other hand, interest expense increased by ¥4,033 million to ¥27,005 million due to the reflection of the financial results in the Fixed-line Telecommunications segment on a full-year basis. In addition, foreign exchange loss amounted to ¥6,320 million.

**Net income** was ¥57,550 million, an improvement of ¥117,422 million from the net loss of ¥59,871 million recorded in the previous fiscal year. In special income, the Company recorded gain on sales of investment securities of ¥172,306 million on the sale of shares in four Yahoo group companies in Europe and Korea, Tao Bao Holding Limited, Yahoo Japan and others. Dilution gain from changes in equity interest, mainly SBI Holdings, Inc., and Alibaba.com Corporation, was ¥21,846 million. In special loss, the Company recorded ¥25,495 million in loss on contract revision relating to sales operation change for the *Otoku Line* service, ¥18,052 million in impairment loss in fixed-line telecommunication business, ¥14,749 million in restructuring charge relating to BBTB business and ¥7,188 million in valuation loss on investment securities.

Current income taxes of ¥40,753 million and minority interest of ¥29,342 million were mainly attributable to Yahoo Japan.

\*1. Currently SBI Holdings, Inc.

## <Fiscal Year Results by Business Segment>

### Broadband Infrastructure

Segment sales increased ¥63,145 million, or 31%, from the previous fiscal year, to ¥268,451 million. Operating income was ¥20,672 million, an improvement of ¥74,419 million from the previous fiscal year's operating loss of ¥53,747 million.

	(Millions of yen; amounts less than one million yen are omitted)							
	FY2006				FY2005			
	2006/Q4	2006/Q3	2006/Q2	2006/Q1	2005/Q4	2005/Q3	2005/Q2	2005/Q1
Sales	71,262	71,543	64,439	61,205	56,861	52,450	49,819	46,175
Operating income (loss)	12,321	9,361	3,483	(4,494)	(6,594)	(12,474)	(16,340)	(18,337)

### ADSL Business

The *Yahoo! BB ADSL*, the driving force for expanding the usage of broadband Internet services, reported 5.04 million cumulative lines installed as of March 31, 2006. Since its launch, the *Yahoo! BB ADSL* has maintained consecutive net increases in the number of paying customers. Moreover, with the exception of temporary factors, such as customer relocations, the churn rate has remained stable at a low of slightly more than 1%.

ARPU of the ADSL business continued to increase as a result of a growth in the number of users of high-value-added services such as higher-speed service plans and in-house wireless LAN services. The percentage of *Yahoo! BB 50M* users continued to increase, over 20% of the total number of subscribers. The number of in-house wireless LAN users exceeded 1.33 million and surpassed 26% of the total number of subscribers. *BB Phone*, IP telephony service maintained its No.1 share of the market in Japan, with cumulative lines installed totaling 4.81 million as of March 31, 2006. Customer acquisition costs have been substantially reduced through a shift to more efficient customer acquisition channels, principally large appliance discount stores.

With ADSL connections, upload speeds have been more challenging than download speeds. However, we will maintain our competitiveness and improve ARPU with the introduction of services such as *Yahoo! BB 50M Revo*, the industry's fastest speed new ADSL service resolving this technical challenge. Moreover, the acquisition of Vodafone K.K. presents the Company with the opportunity to leverage synergies by cross-selling *Yahoo! BB ADSL* services to Vodafone K.K.'s existing mobile phone customers and others.

With the objective of restructuring its broadband business, in December 2005, SOFTBANK BB Corp. (hereafter "SOFTBANK BB") was split into BB TECHNOLOGY Corp. (hereafter "BB TECHNOLOGY"), which focuses on the ADSL business, and (New) SOFTBANK BB Corp., which assumes the businesses other than ADSL. Furthermore, with the aim of concentrating management resources on its core broadband business, BB TECHNOLOGY sold its modem rental business. Under the terms of a service agreement, after the sale of the business BB TECHNOLOGY will receive incentives, royalties, and subcontracting fees based on the performance of the business as measured by key factors in the ADSL business, such as the number of paying subscribers. Accompanying the sale, BB TECHNOLOGY received a total of ¥85,000 million, ¥45,000 million for the sale of modem rental business and ¥40,000 million in an advance royalty. (See chart on the next page for details.)

### FTTH Business

In the FTTH business, the Group has concluded that the opportunities for fair competition are limited in the current market environment and has opted to follow a strategy focusing on cost efficiency. Although the Group has now restrained aggressive customer acquisition activities, it is taking steps to expand its service lineup in preparation for fully-fledged services, offering *Yahoo! BB hikari TV Package* and *Wireless TVBOX*, which enable users to watch TV broadcasts from terrestrial stations on their PCs, and the *BB Phone hikari*, a fiber optic telephony service. The Group is making progress in FTTR research and development. Furthermore, the Group is actively sharing its opinion regarding



necessary conditions for fair competition in the broadband era in such forums as study groups set up by the Ministry of Internal Affairs and Communications.

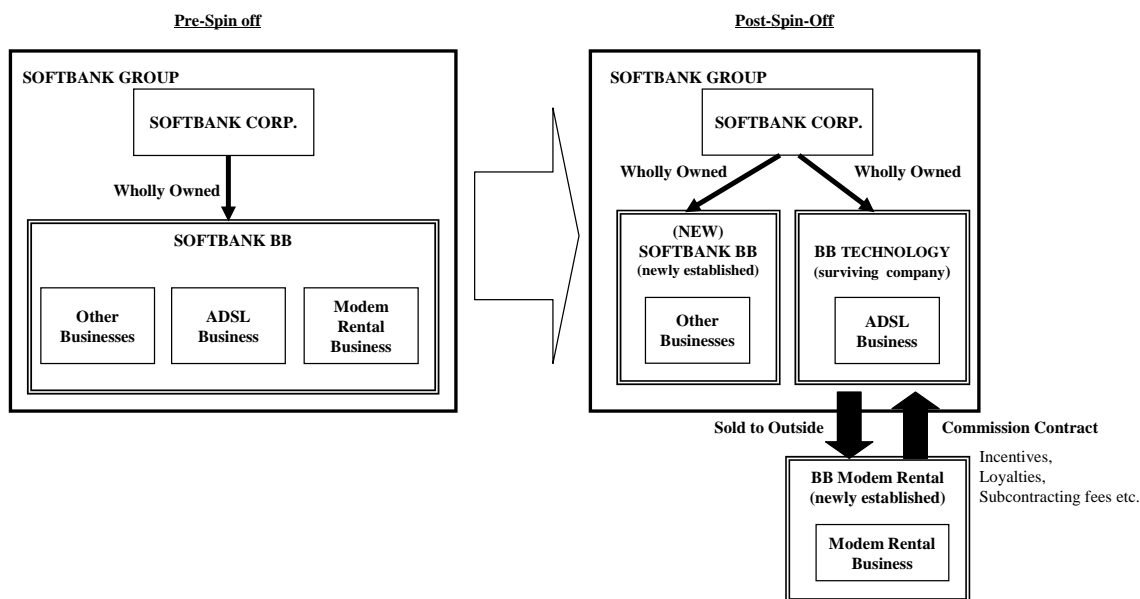
### Video Content Delivery Business

In October 2005, the Group began the demonstration experiments of *TV Bank*, an Internet-based video service, and in December 2005, TV Bank Corp. was established as a joint venture between the Company and Yahoo Japan. In TV Bank, the Group has brought together its human resources and know-how in the field of Internet video content delivery services. In addition to the procurement of video content and the provision of distribution technologies to *Yahoo! Streaming*, TV Bank will work to improve the usability of video search services overall. The objective of these initiatives is to secure a dominant position as the No. 1 video portal site. In fiscal 2006, TV Bank's results are included in the Other segment.

In broadband TV broadcasting service *BBTV*, the *Yahoo! BB hikari TV Package* and *Yahoo! BB ADSL* services are offered nationwide. The Group will continue to aggressively develop these services. However, following the start-up of new video content services, such as *TV Bank* and *Yahoo! Streaming*, the Company reexamined the level of future revenue to be generated from the assets solely used in the *BBTV* business and revalued those assets. As a result, a restructuring charge of ¥14,749 million relating to the *BBTV* business was recognized as a special loss in the third quarter of fiscal 2006.

This segment includes the results of the Broadband Infrastructure operations of Yahoo Japan and JAPAN TELECOM, such as ISP revenues.

### Broadband Business Restructuring



## Fixed-line Telecommunications

Segment sales were ¥354,233 million and operating loss was ¥25,158 million.

	(Quartely trends of the Segment)				(Millions of yen; amounts less than one million yen are omitted)			
	FY2006				FY2005			
	2006/Q4	2006/Q3	2006/Q2	2006/Q1	2005/Q4	2005/Q3	2005/Q2	2005/Q1
Sales	92,071	90,256	83,300	88,604	84,803	82,075	Newly established on September 30,2004	
Operating income (loss)	2,928	(1,787)	(12,209)	(14,089)	(21,767)	(14,297)		

The cumulative number of lines installed for JAPAN TELECOM's *Otoku Line*, direct connection voice service, reached 840 thousand as of March 31, 2006. Due to such factors as the initial investment and others required for the start-up of *Otoku Line* service, the Fixed-line Telecommunications segment has recorded substantial operating losses, but as a result of improved profitability in the *Otoku Line* service, and following such temporary factors as access charge adjustments, the segment recorded its first operating profit in the fourth quarter of fiscal 2006. There were two major reasons for this improvement. (1) Following the start-up of JAPAN TELECOM INVOICE Co., Ltd. (hereafter "JAPAN TELECOM INVOICE"), a joint venture with INVOICE INC., in October 2005, agency management and other responsibilities related to the *Otoku Line* business, which had previously been handled by JAPAN TELECOM, were transferred to JAPAN TELECOM INVOICE, which resulted in a substantial reduction in agency administration expenses. (2) JAPAN TELECOM, which has taken steps to reinforce its marketing to corporate customers, is focusing on providing its voice-network solutions using *Otoku Line* to corporate customers with high revenue-generating potential.

This segment recorded special losses of ¥25,495 million in loss on contract revision relating to sales operation change for the *Otoku Line* service and ¥18,052 million as an impairment loss from fixed-line telecommunications business.

JAPAN TELECOM is using the latest ICT of Group companies and business partners to develop a range of solutions that meet business needs in the ubiquitous society. In December 2005, JAPAN TELECOM launched *ULTINA*—a new brand for an ICT platform service integrating network technologies and content/application—and, in partnership with Oracle Corporation Japan, began to provide *KeyPlat (ULTINA on Demand Platform)* on-demand Web system platform services. Also in December, Microsoft Japan, JAPAN TELECOM, and SOFTBANK BB agreed on a strategic partnership targeting the development and provision of integrated messaging services for corporate customers. Further, through the acquisition of Vodafone K.K., the Group will accelerate the development of fixed mobile convergence (FMC) solutions targeting corporations and integrating fixed-line and mobile telecommunications.

## e-Commerce

Segment sales increased ¥28,353 million, or 11%, to ¥283,275 million, while operating income decreased ¥379 million, or 8%, to ¥4,860 million.

	(Quartely trends of the Segment)				(Millions of yen; amounts less than one million yen are omitted)			
	FY2006				FY2005			
	2006/Q4	2006/Q3	2006/Q2	2006/Q1	2005/Q4	2005/Q3	2005/Q2	2005/Q1
Sales	83,661	71,456	67,688	60,469	71,922	63,388	61,574	58,035
Operating income	1,843	1,473	817	726	1,168	1,491	1,039	1,540

Sales of PC software and peripheral equipment through large appliance discount stores were strong, including during the year-end holiday sales season. In addition, the marketing of PC servers and software to corporate customers was enhanced. As a result, strong sales were recorded, and operating income improved in the second half of the fiscal year. As a result of initial investment in e-commerce related business, operating income for the segment as a whole registered a small decline from the previous fiscal year.

## Internet Culture

Segment sales increased ¥53,671 million, or 52%, to ¥156,120 million. Operating income increased ¥24,110 million, or 48%, to ¥74,190 million.

(Quarterly trends of the Segment) (Millions of yen; amounts less than one million yen are omitted)

	FY2006				FY2005			
	2006/Q4	2006/Q3	2006/Q2	2006/Q1	2005/Q4	2005/Q3	2005/Q2	2005/Q1
Sales	42,374	42,214	36,896	34,635	31,663	26,989	22,725	21,070
Operating income	21,297	19,256	17,167	16,469	15,033	12,849	11,093	11,103

The Internet advertising market continued to post strong growth, and Yahoo Japan conducted aggressive sales activities, especially to national clients, for mainstay advertisements, such as top page brand panel ads. As a result, Yahoo Japan continued to record favorable advertising sales. In non-advertising business services, the *Yahoo! Rikunabi* employment information service recorded a strong performance accompanying a pickup in business conditions, and in consumer services, steady gains were made in the transaction volumes at *Yahoo! Auctions* and in the number of *Yahoo! Premium* members.

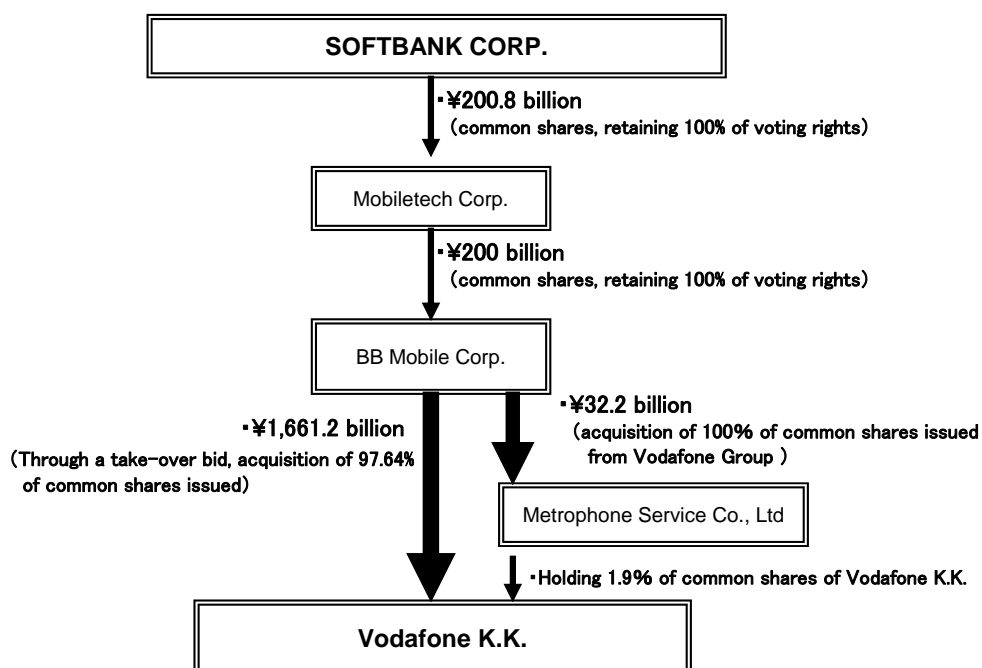
## Others

The results of this segment include the performance of Broadmedia businesses (mainly Club iT Corporation), Technology Services businesses (mainly SOFTBANK TECHNOLOGY CORP.), Media & Marketing Businesses (mainly SOFTBANK Creative Corp.), and Other Businesses (mainly Fukuoka Softbank Hawks Corp.).

## Mobile Telecommunications

In fiscal 2006, BB Mobile Corp. (hereafter “BB Mobile”) took steps towards its entry into mobile telecommunications, principally R&D activities. BB Mobile’s results for the year are included in the Broadband Infrastructure segment. In April 2006, the Group is to make a full-scale entry into the mobile telecommunication market with the acquisition of Vodafone K.K. (Please refer to the following chart.) For the fiscal year ending March 2007 and thereafter, the Company plans to establish the Mobile Telecommunications segment, which will include the operations of companies involved in mobile communications, such as BB Mobile and Vodafone K.K. The Company plans to include Vodafone K.K.’s consolidated results of operations in the Company’s consolidated financial statements from May 2006.

## Structure of the acquisition of Vodafone K.K.



Through a take-over bid of Vodafone K.K. and acquisition of 100% of common shares, Acquisition of 99.54% of common shares of Vodafone K.K.

## 2. Consolidated Financial Position

### <Balance Sheet Analysis>

**Current assets** increased ¥139,012 million from the end of the previous fiscal year, to ¥745,130 million. The principal reasons were an increase in cash and deposits of ¥158,327 million due to borrowing and a decrease in marketable securities of ¥35,031 million as a result of sales.

**Property and equipment** decreased ¥33,111 million, to ¥418,605 million. This was primarily due to both depreciation and the divestiture and sale of the modem rental business in the Broadband Infrastructure segment.

**Intangible assets** decreased ¥1,254 million, to ¥102,286 million. Other intangibles, such as software, increased ¥2,922 million, while goodwill decreased ¥4,176 million due to amortization.

**Investments and other assets** decreased ¥590 million, to ¥541,382 million. The Company recorded ¥37,560 million from the acquisition of convertible bonds and dilution gain from changes in equity interest for Alibaba.com Corporation; ¥22,125 million in equity in earnings under the equity method and dilution gain from changes in equity interest for SBI Holdings, Inc.; ¥10,149 million following Yahoo Japan's acquisition of ValueCommerce Co., Ltd.; and ¥7,299 million resulting from the increase in the market value of Yahoo! Inc. On the other hand, the sale of IT Fund\*<sup>2</sup> reduced investment securities by ¥52,041 million. As a result, investment securities and investments in partnerships increased by ¥30,209 million from the end of the previous fiscal year. Principally as the result of the Company's receipt of dividends from consolidated subsidiaries, non-current deferred tax assets declined ¥15,432 million.

**Current liabilities** decreased ¥100,743 million, to ¥590,052 million. At the end of the previous fiscal year, accounts payable—other and accrued expenses reflected a temporary increase in accounts payable stemming from the initial investment required to start-up new businesses, such as FTTH and *Otoku Line*. At the end of fiscal 2006, however, accounts payable—other and accrued expenses fell by ¥114,141 million due to the completion of these payments.

**Long-term liabilities** increased ¥107,135 million, to ¥874,232 million. The principal reasons were an increase of ¥77,880 million in corporate bonds as a result of the Company's issuance of domestic straight bonds (20th-23rd unsecured bonds) and long-term deferred revenue of ¥41,840 million resulting from the sale of the modem rental business.

**Shareholders' equity** increased ¥64,751 million, to ¥242,767 million. This mainly reflected a decrease in accumulated deficit of ¥54,801 million from recognition of net income and an increase in foreign currency translation adjustments of ¥12,365 million. As a result, the equity ratio was 13.4%, compared to 10.4% at March 31, 2005.

\*2. SOFTBANK INTERNET TECHNOLOGY FUND, No.1 and No.2.

### <Cash Flow Analysis>

#### 1. Overview of Fiscal Year Results

During the fiscal 2006, net cash provided by operating activities was ¥57,806 million, net cash provided by investing activities was ¥27,852 million, and net cash provided by financing activities amounted to ¥30,078 million. As a result, cash and cash equivalents at the end of the period totaled ¥446,694 million, an increase of ¥126,499 million from March 31, 2005.

**Net cash provided by operating activities** was ¥57,806 million. Income before income taxes and minority interest amounted to ¥129,484 million, depreciation and amortization totaled ¥80,417 million, and royalties received in advance following the sale of the modem rental business came to ¥40,000 million. However, cash outflows included ¥171,864 million of gain on sales of marketable and investment securities, net, and ¥21,806 million in dilution gain from changes in equity interest, net, which were recorded as adjustment items (affecting special income and loss in the consolidated

statements of operations). Other factors affecting net cash used in operating activities were interest paid of ¥22,332 million and payments of ¥31,588 million in corporate income taxes by Yahoo Japan and others.

**Net cash provided by investing activities** was ¥27,852 million. The Company recorded ¥178,022 million in proceeds from sales of marketable and investment securities following the sale of shares in four Yahoo group companies in Europe and Korea; ¥45,000 million in proceeds from sale of modem rental business; ¥39,826 million in sales of interests in subsidiaries previously consolidated, principally following the sale of shares in Tao Bao Holding Limited; and ¥29,232 million in proceeds from sales of interests in consolidated subsidiaries, principally Yahoo Japan. However, cash outflows included ¥189,490 million for the purchase of property and equipment, mainly in connection with the Broadband Infrastructure and Fixed-line Telecommunications segments, and ¥88,479 million for the purchase of marketable and investment securities.

**Net cash provided by financing activities** was ¥30,078 million. Proceeds from long-term debt were ¥125,550 million, proceeds from the issuance of bonds totaled ¥91,849 million, and increase in short-term borrowings, net, was ¥32,043 million, while repayment of long-term debt was ¥158,211 million and redemption of bonds totaled ¥53,547 million.

## **2. Factors That May Have a Material Impact on Cash Flows in the Following Fiscal Year**

### **Need for Funds to Support Growth in the Group's Telecommunications Business**

In addition to broadband infrastructure and fixed-line telecommunications, in which the Group has concentrated its management resources, the Group has made a full-scale entry into mobile telephony operations with the acquisition of Vodafone K.K. The capital investment accompanying this business expansion and customer acquisition costs undertaken to strengthen the Group's customer base might have a temporary negative effect on the Group's cash flows.

### **Acquisition of Vodafone K.K. and Fund-Raising Accompanying the Acquisition**

In April 2006, BB Mobile, a wholly-owned consolidated subsidiary acquired 99.54% of the stock of Vodafone K.K. through take-over bid and the acquisition of Metrophone Service Co., Ltd, at a cost of approximately ¥1,690 billion.

In order to raise funds for the acquisition of Vodafone K.K., BB Mobile entered into one year bridge facility contract\*<sup>3</sup>, totaling ¥1,280 billion with a group of 17 financial institutions, centered on 7 co-lead managers. This bridge facility contract was structured as a non-recourse loan. Including this contract, BB Mobile's financing structure is as follows:

- |  |                |
|--|----------------|
| 1. Loan based on bridge facility contract<br>(Including consideration of Vodafone, repayment of inter-company loan to Vodafone group, and other expenses)                                      | ¥1,160 billion |
| 2. Subordinated loans by Vodafone International Holdings B.V.  | ¥100 billion   |
| 3. Preferred shares subscribed by Vodafone International Holdings B.V.   | ¥300 billion   |
| 4. Preferred shares subscribed by Yahoo Japan  | ¥120 billion   |
| 5. Common shares subscribed by Mobiletech Corporation<br>(The Company subscribed common stock of Mobiletech Corporation, the company's wholly-owned subsidiary for ¥200.8 billion in advance.) | ¥200 billion   |

\*3. This bridge facility contract includes the amount to be used for the working capital of ¥100 billion of Vodafone K.K.

### **Commitment-line Contract**

In October 2005, when a commitment-line established in the previous fiscal year reached the end of its term, the Company entered into a ¥109 billion commitment-line with 8 financial institutions, which was arranged by Mizuho Corporate Bank, Ltd. In November 2005, the Company expanded the commitment line to 24 participating financial institutions and an amount ¥161 billion. As of March 31, 2006, the balance of commitment-line borrowings totaled ¥100 billion.

### **Legal Defeasance for Euro-Denominated Senior Notes**

On April 3, 2006, in regard to Euro-denominated Senior Notes due 2011 with aggregate principal of €400 million, the Company deposited with the trustee cash sufficient for the payment of principal and interest on the notes and implemented legal defeasance. As a result, the Company has been released from most of the debt covenants included under the terms of indenture, but the Company will continue to be responsible for payments on the notes until they reach maturity. Also, the

notes continue to be recorded as “corporate bonds” in its consolidated and stand-alone financial statements of the Company until maturity or redemption of the notes.

### <Trends in Cash Flow Indicators>

A summary of trends in cash flow indicators is presented below.

	FY2006 ended March 31, 2006	FY2005 ended March 31, 2005	FY2004 ended March 31, 2004
Equity ratio	13.4%	10.4%	16.8%
Equity ratio (Market cap.)	201.3%	91.1%	120.4%
Debt repayment period	15.6 year	—	—
Interest coverage ratio	2.1	—	—

Notes:

- The above indicators are calculated using the following formulas based on consolidated figures.
  - Equity ratio                      Shareholders' equity divided by total assets
  - Equity ratio (Market cap.)    Market capitalization divided by total assets
  - Debt repayment period        Interest-bearing debt divided by net operating cash inflows
  - Interest coverage ratio        Net operating cash inflows divided by interest expenses
- Market capitalization is calculated by multiplying the closing stock price by the number of shares outstanding, net of treasury stock, as at March 31, 2006.
- Interest-bearing debt is the sum of all liabilities on the consolidated balance sheet on which interest is paid.
- Net operating cash inflows and interest expenses are the corresponding figures shown on the consolidated statements of cash flows.
- Negative figures are indicated by “—”.

### 3. Risk Factors

The following is a list of some significant risk factors that may have an effect on the operating results, financial position, and other aspects of the Group's operations. Furthermore, factors other than those listed below could have a significant effect on the Group's business. The following risks associated with the business are those apparent to the Company at present and are not intended to be all-inclusive.

#### (1) Risks Related to Economic Conditions and Market Trends

The Group is active in a broad range of markets, including broadband-related markets, fixed-line telecommunications markets, IT-related distribution markets, and other markets. Moreover, the Group will enter the mobile phone market in the fiscal year ending March 2007 following the acquisition of Vodafone K.K. Demand for services and products supplied by the Group is dependent on economic conditions, trends in these markets, and other factors.

In particular, deregulation of the telecommunications industry has facilitated easier market entry, resulting in extremely tough competition in Japan's broadband, fixed-line telecommunications, and mobile phone markets. As a result, broadband usage fees in Japan are the lowest in the world, and competition is intensifying in the fixed-line telecommunications and mobile phone markets. Nonetheless, it is possible that price competition will continue in each of these markets. Some of the Group's competitors boast capital strength, price competitiveness, customer bases, and brand recognition that exceeds those of the Group. As a result of these factors, the Group's competitiveness could decline.

Specifically, in the Broadband Infrastructure segment, the emergence of new market trends may result in increased customer acquisition costs. In addition, if the market penetration of FTTH connection service exceeds the Group's projections and the churn rate of the ADSL connection service increases, or if Japan's broadband market penetration approaches saturation, the growth in this business could be severely restricted.

In the Fixed-line Telecommunications segment, accompanying the growing penetration of mobile phone and other services, the fixed-line telephony market has been shrinking each year, and if the ARPU for the *MYLINE* service offered by JAPAN TELECOM declines, or if the churn rate for the service increases, it is possible that revenues could be significantly influenced. The marketing of *Otoku Line* direct connection voice services to small and medium-sized companies was transferred to JAPAN TELECOM INVOICE Co., Ltd., a joint venture with INVOICE INC. *Otoku Line* services are directly marketed to large companies by JAPAN TELECOM. Generally, the circuits provided to large companies generate higher profits per circuit than those provided to small and medium-sized companies but require more time for construction work, so it is possible that it will take longer to realize profits than initially projected.

In the e-Commerce segment, wholesale sales of security-related software and PC peripheral equipment to large appliance discount stores remain favorable, but if the Group is not able to respond to changes in the market environment, such as changes in the methods of distribution for products handled by the Group companies or rapid shifts in consumer preferences, this business could be adversely affected.

In the Internet Culture segment, the Internet advertising business conducted by Yahoo Japan and other companies, is generally extremely sensitive to economic trends, particularly in sluggish economic conditions, when the tendency in all industries is to put a high priority on controlling advertising spending. Furthermore, as the Internet advertising business has a short history, it is also easily affected by overseas markets that are ahead of Japan in this field, such as the United States.

In the mobile telecommunications segment that the Group plans to establish in the fiscal year ending March 2007, prior to the implementation of mobile number portability, scheduled this fall, it is possible that competition among companies will intensify and customer acquisition will not proceed as planned, or that customer acquisition costs will rise and revenues will be significantly affected. Also, for the Group, it is possible that time will be required to achieve recognition as a new brand and new customer acquisition will be sluggish, while on the other hand the Group will not be able to stop the loss of existing customers, and as a result that the customer base will be affected. Moreover, due to price competition stemming from intensified competition, ARPU might fall below the Group's projections, with a major influence on revenues in this segment.

## **(2) Risks Related to Technological Innovation**

In the telecommunications and IT industries in which the Group is developing business, technologies and industry standards are changing rapidly on an industry-wide scale, including the fields of telecommunications networks and telecommunications systems technologies. The industries are undergoing rapid progress and change, and the Group must respond on a daily basis.

However, if the Group is unable to respond appropriately for any of a number of reasons, it is possible that the services offered by the Group in the telecommunications and IT industries could become obsolete or lose competitiveness, accompanied by a loss of the Group's competitive advantage in these industries.

Furthermore, even if the Group is able to respond to such changes, it is possible that the cost of improving existing equipment and the cost of new development will increase. These trends and the Group's response to them could affect the Group's results.

## **(3) Risks Related to Rules and Regulations**

### **1. Rules and regulations related to telecommunications operations**

A number of laws and regulations—including the Telecommunications Business Law and the Radio Law—apply to the Group's telecommunications operations. In the event of changes in these laws and regulations or the implementation of new laws and regulations in the future, the Group might not be able to develop its business as expected. Furthermore, the Ministry of Internal Affairs and Communications has set up study groups that have the potential to influence future competition policies in the telecommunications industry, such as the "Study Group on a Framework for Competition

Rules to Address Progress in the Move to IP" and the "Study Group on a Framework for Telecommunications and Broadcasting." The final reports of these study groups are scheduled for delivery in June and September, respectively, and depending on the results of the deliberations, they could have a significant influence on the development of the Group's operations in the future.

## 2. Rules and regulations related to intellectual property

The Group strives to ensure that the video content handled in the Group's video distribution operations, including *TV Bank*, *Yahoo! Streaming*, and *BBTV*, does not infringe on any rights or interests, including the intellectual property rights of holders of various intellectual property rights. However, it is possible that the Group's actions will infringe upon various rights and interests, including the intellectual property rights of intellectual property rights holders, and that the Group will be subject to demands that it stop using video content or that it pay compensatory damages.

With regard to intellectual property, a number of companies are aggressively promoting the development of Internet technologies and business models that include broadband technology, and as a result there is the possibility that the Group might be sued by a third party for compensatory damages for patent infringement and that, in the future, the Group's business activities may be restricted in regard to the provision of content and/or the use of technologies.

In addition, if laws and regulations regarding intellectual property, such as the Copyright Law, are revised, the Group might not be able to develop its operations as expected.

## 3. Rules and regulations related to the protection of personal information

In regard to the management of personal information, the Group has implemented measures to prevent leaks of personal information by significantly strengthening its customer information management system, establishing handling methods for personal information that it acquires and retains, and restricting access to databases that contain personal information. In particular, telecommunications carriers of the Group are handling personal information appropriately in accordance with the "Guidelines on the Protection of Personal Data in Telecommunications Business" (MPT Notice No. 570 of 1998, revised on April 1, 2005). Nonetheless, despite the aforementioned policies being implemented by the Group, it is possible that the Group will not be able to completely prevent leaks of personal information.

## **(4) Risks Related to Foreign Exchange, Financial, and Stock Markets**

The value of investment securities in the Group's possession depends on economic conditions and trends in stock and foreign exchange markets in Japan and overseas, and imports of telecommunications equipment are influenced by trends in the foreign exchange market.

As of March 31, 2006, consolidated interest-bearing debt totaled ¥905,293 million, and interest expense was ¥27,005 million. In April 2006, in order to raise funds for the acquisition of Vodafone K.K., the Group borrowed ¥1,280 billion.

The Group has a substantial amount of interest-bearing debt and holds large amounts of assets and liabilities denominated in foreign currencies. The Group considers interest rate and foreign exchange rate risks to be significant risks. The Group strives to minimize the risks it faces, utilizing long-term fixed rates to minimize interest rate risks and currency hedges on major assets and liabilities denominated in foreign currencies.

Investing activities are a primary source of cash flows for the Group, and an overall decline in the market prices of its investments could adversely affect the Group's ability to raise funds. Stocks of Internet-related companies in Japan, the United States, and other countries constitute the majority of the Group's investments. Changes in the stock prices of these companies could be extreme, and a decline in the value of these assets could have a significant effect on the Group's ability to raise funds for its operations. As of March 31, 2006, the unrealized gain on other marketable securities totaled ¥129,051 million. In addition, the Group's equity in publicly traded consolidated subsidiaries and affiliates accounted for under the equity-method amounted to ¥2,203,143 million at market value. The consolidated book value of these



securities was ¥140,769 million and the unrealized gain (the difference between the market value of the portion held by the Group and the consolidated book value) was ¥2,062,373 million.

#### **(5) Risks Related to Operational Expansion Based on Investments Accompanying M&A Activities and Business Alliances**

The Group is developing a comprehensive range of operations, from telecommunications infrastructure to content and portal businesses. The Group believes that M&A activities and alliances are effective means of rapidly building competitive advantages in these operational fields. In past fiscal years, the Group has made major acquisitions and investments, such as investing in Yahoo! Inc. (1995), establishing Yahoo Japan in conjunction with Yahoo! Inc. (1996), acquiring JAPAN TELECOM (2004), and acquiring Cable & Wireless IDC Inc. (2005). These acquisitions and investments have made a major contribution to the establishment of the foundation of a comprehensive digital information company as well as a major contribution to the establishment of points of differentiation and competitive advantage in regard to other companies, and the Group believes that they have had a certain level of results. Also, in regard to the recent acquisition of Vodafone K.K., the Company believes that similar results can be expected. The Group will continue to place importance on mergers with, acquisitions of, and alliances with companies that hold key content in these fields and companies that hold technologies that will be essential for progress in broadband operations, and the Group will consider them as necessary.

In the event of an acquisition or alliance, the Group works to avoid risk by conducting due diligence regarding such matters as the financial position of the other party. However, there is clearly a risk that unrecognized debts will arise after an acquisition, such as bad debts. Furthermore, due to changes in the business environment or competitive conditions, it is possible that the implementation of initial operating plans will be hindered. Moreover, there is a risk that the Group will not be able to adequately recover investments already made due to such problems as a failure to realize, for any of a number of reasons, the synergies with the other company that had been initially anticipated. As a result, the Group might not be able to develop its operations as expected.

#### **(6) Risks Related to Reliance on the Management Resources of Other Companies**

In developing its broadband infrastructure, fixed-line telecommunications, and mobile telecommunications operations, the Group uses telecommunications facilities owned by NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION and NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (hereafter "NTT East-West"). In building its network, the Group uses telecommunications facilities including dark fiber and dry copper owned by NTT East-West and installs telecommunications equipment at NTT East-West central offices. Under the Telecommunications Business Law, NTT East-West are required to provide access to their dark fiber and dry copper, which are classified as designated telecommunications facilities. Therefore, at this point, the Group believes that the possibility of its operational development being hindered is low, but in the future, for any of a number of reasons, if the continued use of these network facilities becomes difficult, or if usage fees are increased, there could be an adverse influence on the Group's performance.

In addition, the Broadband Infrastructure segment's primary service, *Yahoo! BB*, employs the Yahoo! brand of Yahoo! Inc. Currently, the Group has a good relationship with Yahoo! Inc., but if there is a significant change in this relationship in the future, it is possible that the Group will not be able to develop its business as forecast.

#### **(7) Risks Related to Disruption of System Services**

To provide comprehensive telecommunications services, the Group has created networks for fixed-line telephone, mobile phone, FTTH, ADSL, and other modes of telecommunication. To prevent disruption of services on these networks, the Group pays maximum attention to continuity through internal control activities, but there is a possibility of disruption due to human error. In addition, it is also possible that major natural and other disasters (such as typhoons, earthquakes, and terrorist incidents) could result in disruption of services. In such an event, the Group's ability to provide continuing telecommunication services may be significantly affected and considerable time might be required to restore these services. As a result, such circumstances could have an adverse impact on the performance of the Group.

**(8) Risks Related to Unforeseen Situations Concerning Management**

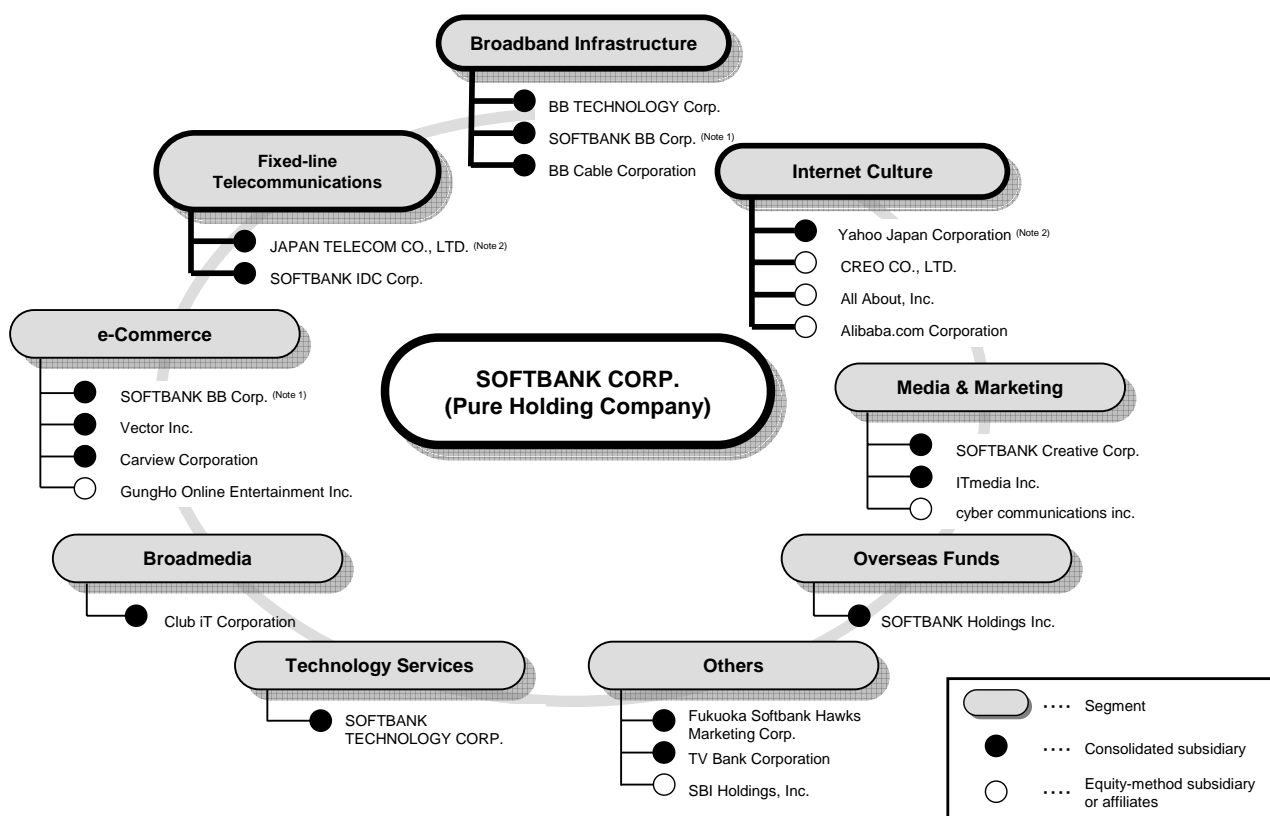
The Company's existing and new businesses are planned and promoted by the Group's officers and employees. Unforeseen situations concerning top management— especially President and Chief Executive Officer Masayoshi Son—could create an obstacle to smooth operational progress and influence the Group's operations.

## The SOFTBANK Group

As of March 31, 2006, the SOFTBANK Group included 153 companies with operations in nine business segments as follows.

Business segment	Consolidated subsidiaries	Equity-method non-consolidated subsidiaries and affiliates	Principal products and operational content of each business
1. Broadband Infrastructure	(Note 1) 16	7	ADSL and fiber-optic high-speed Internet connection service, IP telephony service, provision of content and other operations
2. Fixed-line Telecommunications	(Note 2) 13	2	Fixed-line telecommunications such as voice transmission service, data transmission service, private leased circuit and data center service
3. e-Commerce	(Note 2) 18	11	Distribution of PC software and such hardware as PCs and peripherals, enterprise solutions, and diversified e-commerce businesses, including business transaction platform (B2B) and consumer-related e-commerce (B2C)
4. Internet Culture	(Note 2) 25	9	Internet-based advertising operations, broadband portal business, and Internet-based auction business
5 Others:			
Broadmedia	10	3	Broadband service such as broadcasting and communications; support for procurement of content
Technology Services	7	3	System solution business and business solution business
Media & Marketing	7	5	Book and magazine publication in such areas as PCs, the Internet, entertainment, etc., and development of web content specializing in IT
Overseas Funds	33	40	U.S.- and Asia-focused global venture capital business principally focused on Internet-related companies
Others	24	7	Leisure and service business, holding company functions for overseas operations, and back-office services in Japan
<b>Total</b>	<b>153</b>	<b>87</b>	

- Note: 1. On December 1, 2005, SOFTBANK BB Corp. was split into BB TECHNOLOGY Corp., (the surviving company; the name of SOFTBANK BB Corp. was changed to this name.), which focuses on ADSL business and SOFTBANK BB Corp. (newly established company; hereafter "New SOFTBANK BB Corp."), which assumes the businesses other than ADSL business such as FTTH business and e-Commerce business. BB TECHNOLOGY Corp. is included in Broadband Infrastructure segment.
2. New SOFTBANK BB Corp., JAPAN TELECOM CO., LTD. and Yahoo Japan Corporation are included in the consolidated subsidiaries of the e-Commerce, Fixed-line Telecommunications and Internet Culture segments, respectively, while New SOFTBANK BB Corp., JAPAN TELECOM CO., LTD. and Yahoo Japan Corporation operate multiple businesses and their operating results are allocated to multiple business segments.
3. The former e-Finance business segment ended since SOFTBANK INVESTMENT CORPORATION (current SBI Holdings, Inc.) changed to an equity-method affiliate from a consolidated subsidiary on March 31, 2005.



Broadmedia, Technology Services, Media & Marketing, Overseas Funds, and others segments are included in “Others” segment. From April 1, 2006, Mobile Telecommunications segment is to be established.

SOFTBANK subsidiaries listed on domestic stock exchanges as of March 31, 2006:

Subsidiary	Listed exchange
1. Yahoo Japan Corporation	Tokyo Stock Exchange 1 <sup>st</sup> section
2. SOFTBANK TECHNOLOGY CORP.	Tokyo Stock Exchange 1 <sup>st</sup> section
3. Vector Inc.	Hercules
4. Club iT Corporation	Hercules

**CONSOLIDATED BALANCE SHEETS**

(Millions of yen; amounts less than one million yen are omitted.)

	March 31, 2006		March 31, 2005		Increase (Decrease)
	Amount	%	Amount	%	
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and deposits	¥446,306		¥287,978		¥158,327
Notes and accounts receivable - trade	188,921		168,262		20,658
Marketable securities	4,372		39,403		(35,031)
Inventories	50,597		47,224		3,372
Deferred tax assets	14,107		3,025		11,082
Other current assets	48,250		67,542		(19,292)
Less:					
Allowance for doubtful accounts	(7,424)		(7,319)		(104)
Total current assets	745,130	41.2	606,117	35.5	139,012
<b>Non-current assets:</b>					
<b>Property and equipment, net</b>					
Buildings and structures	57,304		56,860		444
Telecommunications equipment	194,970		198,598		(3,628)
Telecommunications service lines	91,724		99,133		(7,408)
Land	19,404		19,396		7
Construction-in-progress	27,875		49,354		(21,479)
Others	27,325		28,373		(1,048)
Total tangible assets	418,605	23.1	451,717	26.5	(33,111)
<b>Intangible assets, net:</b>					
Goodwill	44,136		48,313		(4,176)
Other intangibles	58,149		55,227		2,922
Total intangible assets	102,286	5.7	103,540	6.1	(1,254)
<b>Investments and other assets:</b>					
Investment securities and investments in partnerships	464,650		434,441		30,209
Deferred tax assets	25,039		40,472		(15,432)
Other assets	61,241		75,728		(14,487)
Less:					
Allowance for doubtful accounts	(9,548)		(8,669)		(879)
Total investments and other assets	541,382	29.9	541,972	31.8	(590)
<b>Deferred charges</b>	993	0.1	1,504	0.1	(510)
<b>Total assets</b>	¥1,808,398	100.0	¥1,704,853	100.0	¥103,545

**CONSOLIDATED BALANCE SHEETS**

(Millions of yen; amounts less than one million yen are omitted.)

	March 31, 2006		March 31, 2005		Increase (Decrease)
	Amount	%	Amount	%	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities:</b>					
Notes and accounts payable - trade	¥60,432		¥63,684		¥(3,251)
Short-term borrowings	218,300		181,186		37,113
Commercial paper	10,400		15,500		(5,100)
Current portion of corporate bonds	11,094		48,145		(37,051)
Accounts payable – other and accrued expenses	114,112		228,264		(114,141)
Income taxes payable	29,137		21,600		7,536
Deferred tax liabilities	-		527		(527)
Cash receipts as collateral	100,000		100,000		-
Other current liabilities	46,564		31,887		14,677
<b>Total current liabilities</b>	<b>590,052</b>	<b>32.6</b>	<b>690,796</b>	<b>40.5</b>	<b>(100,743)</b>
<b>Long-term liabilities:</b>					
Corporate bonds	456,128		378,248		77,880
Long-term debt	209,370		230,837		(21,466)
Deferred revenue	41,840		-		41,840
Deferred tax liabilities	48,642		57,419		(8,777)
Accrued retirement benefits	17,279		17,359		(79)
Other liabilities	100,970		83,232		17,738
<b>Total long-term liabilities</b>	<b>874,232</b>	<b>48.4</b>	<b>767,096</b>	<b>45.1</b>	<b>107,135</b>
<b>Total liabilities</b>	<b>1,464,285</b>	<b>81.0</b>	<b>1,457,893</b>	<b>85.6</b>	<b>6,391</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>101,346</b>	<b>5.6</b>	<b>68,943</b>	<b>4.0</b>	<b>32,402</b>
<b>Shareholders' equity:</b>					
Common stock	162,916	9.0	162,397	9.5	519
Pre-stock issuance paid-in capital	5	0.0	-	-	5
Additional paid-in capital	187,303	10.3	186,783	10.9	519
Accumulated deficit	(218,561)	(12.1)	(273,362)	(16.0)	54,801
Net unrealized gain on other securities	129,051	7.1	136,662	8.0	(7,610)
Net unrealized loss on derivative instruments	(36,840)	(2.0)	(41,056)	(2.4)	4,215
Foreign currency translation adjustments	19,062	1.1	6,697	0.4	12,365
Less: Treasury stock	(169)	(0.0)	(106)	(0.0)	(63)
<b>Total shareholders' equity</b>	<b>242,767</b>	<b>13.4</b>	<b>178,016</b>	<b>10.4</b>	<b>64,751</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥1,808,398</b>	<b>100.0</b>	<b>¥1,704,853</b>	<b>100.0</b>	<b>¥103,545</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Millions of yen; amounts less than one million yen are omitted.)

	FY 2006 April 2005 through March 2006		FY 2005 April 2004 through March 2005		Increase (Decrease)
	Amount	%	Amount	%	
<b>Net sales</b>	<b>¥1,108,665</b>	<b>100.0</b>	¥837,018	100.0	¥271,646
<b>Cost of sales</b>	<b>723,812</b>	<b>65.3</b>	547,402	65.4	176,409
<b>Gross Profit</b>	<b>384,853</b>	<b>34.7</b>	289,615	34.6	95,237
<b>Selling, general and administrative expenses</b>	<b>322,553</b>	<b>29.1</b>	314,975	37.6	7,578
<b>Operating income (loss)</b>	<b>62,299</b>	<b>5.6</b>	(25,359)	(3.0)	87,658
Interest income	2,136		2,398		(262)
Equity in earnings under the equity method	9,521		5,425		4,096
Income from investments in partnerships, net	777		3,711		(2,934)
Other non-operating income	3,321		4,931		(1,609)
<b>Non-operating income</b>	<b>15,756</b>	<b>1.4</b>	16,466	2.0	(709)
Interest expense	27,005		22,971		4,033
Foreign exchange loss	6,320		4,040		2,279
Other non-operating expenses	17,237		9,343		7,894
<b>Non-operating expenses</b>	<b>50,564</b>	<b>4.5</b>	36,356	4.4	(14,207)
<b>Ordinary income (loss)</b>	<b>27,492</b>	<b>2.5</b>	(45,248)	(5.4)	72,740
Gain on sale of investment securities	172,306		59,121		113,184
Dilution gain from changes in equity interest	21,846		26,269		(4,423)
Other special income	4,371		3,969		401
<b>Special income</b>	<b>198,524</b>	<b>17.9</b>	89,360	10.7	(109,163)
Valuation loss on investment securities	7,188		7,161		26
Loss on contract revision relating to sales operation change	25,495		-		25,495
Impairment loss in fixed-line telecommunication business	18,052		-		18,052
Restructuring charge relating to BBTB business	14,749		-		14,749
Penalty for unfulfilled contract commitment	3,565		6,147		(2,582)
Refinance arrangement fee	3,153		-		3,153
Other special losses	24,326		40,351		(16,024)
<b>Special loss</b>	<b>96,532</b>	<b>8.7</b>	53,660	6.4	(42,871)
<b>Income (loss) before income taxes and minority interest</b>	<b>129,484</b>	<b>11.7</b>	(9,548)	(1.1)	139,032
<b>Income taxes:</b>					
Current	40,753	3.7	34,740	4.2	6,013
Refunded	-	-	2,897	0.3	(2,897)
Deferred	1,837	0.2	(21,963)	(2.6)	23,801
<b>Minority interest</b>	<b>29,342</b>	<b>2.6</b>	40,444	4.8	(11,101)
<b>Net income (loss)</b>	<b>¥57,550</b>	<b>5.2</b>	¥(59,871)	(7.2)	¥117,422

**CONSOLIDATED STATEMENTS OF ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS**

(Millions of yen; amounts less than one million yen are omitted.)

	<b>FY 2006</b> April 2005 through March 2006	<b>FY 2005</b> April 2004 through March 2005
<b>ADDITIONAL PAID-IN CAPITAL</b>		
<b>Additional paid-in capital at the beginning of the year</b>	<b>¥186,783</b>	¥186,690
Increase due to issuance of shares	<b>519</b>	93
<b>Additional paid-in capital at the end of the year</b>	<b>¥187,303</b>	¥186,783

(Millions of yen; amounts less than one million yen are omitted.)

	<b>FY 2006</b> April 2005 through March 2006	<b>FY 2005</b> April 2004 through March 2005
<b>ACCUMULATED DEFICIT</b>		
<b>Accumulated deficit at the beginning of the year</b>	<b>¥(273,362)</b>	¥(210,625)
Net income (loss)	<b>57,550</b>	(59,871)
Cash dividends	<b>(2,460)</b>	(2,459)
Bonuses to directors	<b>(86)</b>	(176)
Net adjustments to retained earnings due to change in scope of the consolidation	<b>13</b>	(98)
Increase due to merger	<b>-</b>	17
Decrease due to merger	<b>(215)</b>	(147)
<b>Accumulated deficit at the end of the year</b>	<b>¥(218,561)</b>	¥(273,362)

Note: In accordance with the accounting principles generally accepted in Japan, the cumulative effect arising from any changes in the scope of consolidation is treated as an adjustment to retained earnings in the consolidated statements of additional paid-in capital and retained earnings.



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Millions of yen; amounts less than one million yen are omitted.)

	<b>FY 2006</b> <b>April 2005 through March 2006</b>	<b>FY 2005</b> <b>April 2004 through March 2005</b>
<b>I Cash flows from operating activities:</b>		
Income (loss) before income taxes and minority interest	<b>¥129,484</b>	¥(9,548)
Adjustments to reconcile income (loss) before income taxes and minority interest to net cash provided by (used in) operating activities:		
Depreciation and amortization	<b>80,417</b>	66,417
Impairment loss	<b>36,478</b>	-
Equity in earnings under the equity method, net	<b>(9,521)</b>	(5,425)
Dilution gain from changes in equity interest, net	<b>(21,806)</b>	(25,200)
Valuation loss on investment securities	<b>7,188</b>	7,161
Gain on sale of marketable and investment securities, net	<b>(171,864)</b>	(56,049)
Foreign exchange loss, net	<b>5,497</b>	5,324
Interest and dividend income	<b>(2,402)</b>	(2,862)
Interest expense	<b>27,005</b>	22,971
Changes in operating assets, liabilities and others		
(Increase) in receivables – trade	<b>(23,333)</b>	(15,840)
Increase in payables - trade	<b>4,331</b>	2,371
Increase in deferred revenue	<b>40,000</b>	-
(Increase) in other receivables	<b>(9,864)</b>	(70,813)
(Decrease) increase in other payables	<b>(26,773)</b>	97,095
Other, net	<b>40,524</b>	(17,519)
Sub-total	<b>105,361</b>	(251)
Interest and dividends received	<b>3,301</b>	2,506
Interest paid	<b>(22,332)</b>	(17,924)
Income taxes paid	<b>(31,588)</b>	(31,533)
Refund of income taxes	<b>3,064</b>	1,213
Net cash provided by (used in) operating activities	<b>57,806</b>	(45,989)

- Continued -

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Millions of yen; amounts less than one million yen are omitted.)

	FY2006 April 2005 through March 2006	FY2005 April 2004 through March 2005
<b>II Cash flows from investing activities:</b>		
Purchase of property and equipment and intangibles	¥(189,490)	¥(90,943)
Purchase of marketable and investment securities	(88,479)	(29,582)
Proceeds from sale of marketable and investment securities	178,022	57,099
Acquisition of interests in subsidiaries newly consolidated, net of cash acquired	(4,525)	(172,320)
Sale of interests in subsidiaries previously consolidated, net	39,826	34,840
Proceeds from sales of interests in consolidated subsidiaries	29,232	8,110
Increase in loan receivables	(17,425)	(21,387)
Collection of loans	16,583	9,105
Purchase of business rights and others	-	(13,113)
Proceeds from sale of modem rental business	45,000	-
Other, net	19,107	(24,753)
Net cash provided by (used in) investing activities	27,852	(242,944)
<b>III Cash flows from financing activities:</b>		
Increase in short-term borrowings, net	32,043	53,468
(Decrease) increase in commercial paper	(5,100)	4,500
Proceeds from long-term debt	125,550	166,400
Repayment of long-term debt	(158,211)	(192,836)
Proceeds from issuance of bonds	91,849	153,378
Redemption of bonds	(53,547)	(36,124)
Proceeds from issuance of shares	1,038	187
Proceeds from issuance of shares to minority shareholders	1,619	30,298
Proceeds from issuance of shares through public offering and allocation to a third party in SOFTBANK INVESTMENT CORPORATION	-	51,362
Redemption of preferred shares held by minority shareholder	-	(33,908)
Cash dividends paid	(2,456)	(2,457)
Cash dividends paid to minority shareholders	(2,442)	(2,160)
Increase in cash receipts as collateral, net	-	90,000
Other, net	(264)	(4,336)
Net cash provided by financing activities	30,078	277,770
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	<b>10,905</b>	<b>1,474</b>
<b>V Net increase (decrease) increase in cash and cash equivalents</b>	<b>126,642</b>	<b>(9,688)</b>
<b>VI Increase in cash and cash equivalents due to newly consolidated companies</b>	<b>-</b>	<b>12</b>
<b>VII Decrease in cash and cash equivalents due to exclusion of previously consolidated entities</b>	<b>(142)</b>	<b>(107,529)</b>
<b>VIII Increase in cash and cash equivalents due to merger</b>	<b>-</b>	<b>267</b>
<b>IX Cash and cash equivalents at the beginning of the year</b>	<b>320,194</b>	<b>437,132</b>
<b>X Cash and cash equivalents at the end of the year</b>	<b>¥446,694</b>	<b>¥320,194</b>

## CONDENSED QUARTERLY FINANCIAL INFORMATION

### Condensed Statements of Operations

(Millions of yen; amounts less than one million yen are omitted.)

	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	January 1, 2006 to March 31, 2006	October 1, 2005 to December 31, 2005	July 1, 2005 to September 30, 2005	April 1, 2005 to June 30, 2005	January 1, 2005 to March 31, 2005	October 1, 2004 to December 31, 2004	July 1, 2004 to September 30, 2004	April 1, 2004 to June 30, 2004
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
Net sales	¥298,406	¥287,471	¥264,149	¥258,637	¥275,224	¥258,087	¥156,395	¥147,311
Cost of sales	185,010	184,551	178,575	175,674	184,434	170,489	99,707	92,770
Gross profit	113,395	102,920	85,573	82,962	90,789	87,597	56,687	54,540
Selling, general and administrative expenses	79,009	79,407	77,983	86,153	101,822	95,134	59,658	58,359
Operating income (loss)	34,386	23,512	7,590	(3,190)	(11,032)	(7,536)	(2,970)	(3,819)
Non-operating income (Note)	6,227	2,784	4,442	3,122	10,704	10,465	1,846	3,068
Non-operating expenses (Note)	10,867	15,068	12,499	12,950	10,978	10,963	13,114	10,918
Ordinary income (loss)	29,747	11,228	(466)	(13,017)	(11,306)	(8,034)	(14,239)	(11,669)
Special income	40,758	98,934	35,916	22,914	22,240	16,665	40,690	9,763
Special loss	26,610	50,475	10,309	9,136	24,496	18,272	8,526	2,365
Income (loss) before income taxes and minority interest	43,895	59,687	25,141	760	(13,561)	(9,641)	17,925	(4,271)
Income taxes - Current	11,204	9,695	11,623	8,230	12,470	9,524	3,817	8,927
Income taxes - Refunded	-	-	-	-	2,897	-	-	-
Income taxes - Deferred	(15,366)	20,171	(187)	(2,779)	(6,022)	(7,449)	(4,542)	(3,949)
Minority interest	8,326	7,817	6,734	6,463	10,153	14,843	6,819	8,626
Net income (loss)	¥39,730	¥22,002	¥6,971	¥(11,153)	¥(27,266)	¥(26,560)	¥11,830	¥(17,876)

Note: Exchange gain (loss), equity in earnings (loss) under the equity method, and income (expenses) from investments in partnerships were included in "Non-operating income" and "Non-operating expenses" and were netted on quarterly basis for presentation purposes.

### Condensed Statements of Cash Flows

(Millions of yen; amounts less than one million yen are omitted.)

	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	January 1, 2006 to March 31, 2006	October 1, 2005 to December 31, 2005	July 1, 2005 to September 30, 2005	April 1, 2005 to June 30, 2005	January 1, 2005 to March 31, 2005	October 1, 2004 to December 31, 2004	July 1, 2004 to September 30, 2004	April 1, 2004 to June 30, 2004
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount
I Net cash provided by (used in) operating activities	¥13,837	¥61,949	¥232	¥(18,213)	¥(15,280)	¥(25,416)	¥6,644	¥(11,937)
II Net cash provided by (used in) investing activities	15,521	86,627	(45,593)	(28,703)	(65,379)	¥(17,352)	¥(136,910)	(23,301)
III Net cash provided by (used in) financing activities	74,963	(46,728)	(11,081)	12,925	124,046	34,503	20,469	98,752
IV Effect of exchange rate changes on cash and cash equivalents	5,248	3,866	639	1,150	2,082	(7,364)	2,977	3,778
V Net increase (decrease) in cash and cash equivalents	109,571	105,714	(55,802)	(32,840)	45,468	(15,630)	(106,819)	67,291
VI Increase in cash and cash equivalents due to newly consolidated companies	-	-	-	-	-	-	1	10
VII Decrease in cash and cash equivalents due to exclusion of previously consolidated entities	-	-	-	(142)	(107,483)	-	-	(45)
VIII Increase in cash and cash equivalents due to merger	-	-	-	-	261	-	-	6
IX Cash and cash equivalents at the beginning of the period	337,122	231,408	287,211	320,194	381,948	397,578	504,395	437,132
X Cash and cash equivalents at the end of the period	¥446,694	¥337,122	¥231,408	¥287,211	¥320,194	¥381,948	¥397,578	¥504,395
Note: Depreciation and amortization included in net cash provided by operating activities	¥18,311	¥19,519	¥21,643	¥20,942	¥24,763	¥22,847	¥8,956	¥9,850

## Basis of Presentation of Consolidated Financial Statements

### 1. Changes in scope of consolidation

As of March 31, 2006, SOFTBANK CORP. (the "Company") consolidated 153 subsidiaries. Seven subsidiaries were not consolidated as the individual and aggregate amounts were not considered material in relation to the consolidated total assets, net sales, net income (loss) and retained earnings (accumulated deficit) of the SOFTBANK consolidated financial statements.

Changes in the scope of the consolidation were as follows:

<Increase>

Softbank Media Marketing Holdings Corp.	Newly established
SOFTBANK BB Corp.	Newly established due to spin-off
	Please refer to Note.1 of the business segment chart (Page 19)
Twenty-one other companies	

<Decrease>

Tao Bao Holding Limited	Sale of shares
SOFTBANK Publishing Inc.	Merger
Twenty-one other companies	

### 2. Changes in scope of equity method

As of March 31, 2006, the Company held three non-consolidated subsidiaries and 84 affiliates, all of which were accounted for under the equity method.

Main changes in application of the equity method were as follows:

<Increase>

ValueCommerce Co., Ltd.	Newly acquired
Fourteen other companies	

<Decrease>

Morningstar, Inc.	Sale of shares
Yahoo! UK Limited	Sale of shares
Yahoo! France, SAS	Sale of shares
Yahoo! Deutschland GmbH	Sale of shares
Yahoo! Korea Corporation	Sale of shares
Thirty-one other companies	

### 3. Fiscal year end

Fiscal year ends of consolidated subsidiaries for both domestic and overseas entities are as follows:

<Fiscal year end>	<Domestic>	<Overseas>
March end		
(as same as the consolidated balance sheet date)	87	31
May end	1	-
June end	1	-
December end	5	23
January end	1	1
February end	3	-

#### 4. Summary of significant accounting policies

##### [1] Evaluation standards and methods for major assets

###### (1) Marketable securities and investment securities

Held-to-maturity debt securities: Stated at amortized cost

Other securities:

With market quotations: Stated at fair value, which represents the market prices at the balance sheet date (unrealized gain/loss is included as a separate component in shareholders' equity, net of tax, while cost is primarily determined using the moving-average method)

Without market quotations: Carried at cost, primarily based on the moving-average method

(2) Derivative instruments: Stated at fair value

##### [2] Depreciation and amortization

###### (1) Property and equipment

Buildings and structures: Computed primarily using the straight line method

Telecommunications equipment: Computed using the straight line method

Telecommunications service lines: Computed using the straight line method

Others: Computed primarily using the straight line method for Broadband Infrastructure and Fixed-line Telecommunications segments and Corporate and computed primarily using the declining balance method for other segments

##### <Additional information for change of estimated useful life>

Transmitters, exchangers and power supply facilities of JAPAN TELECOM CO., LTD. had primarily been depreciated over a period of six years. Effective from April 1, 2005, the Company changed the estimated useful life of a portion of the equipment, which is included in "Telecommunications equipment" in the Company's consolidated balance sheets, to ten years based on a reassessment of the assets' operational lives taking into consideration of years of service provided by the equipment, technological innovation cycles in the telecommunications industry and other relevant factors.

As a result, the depreciation expense included in cost of sales decreased by ¥14,125 million. Operating income, ordinary income, and income before income taxes and minority interest increased by the same amount for the fiscal year ended March 31, 2006 as compared with the amounts which would have been recognized if the previous estimated useful life had not been changed.

##### <Change in method of depreciation>

The depreciation method of assets used internally by the Company and SOFTBANK BB Corp. and another subsidiary (mainly fixtures and equipment presented as "Buildings and structures" and "others" in "Property and equipment, net") has been changed from the declining balance method to the straight-line method.

The Company relocated its headquarters to the Tokyo Shiodome Building in fiscal year 2005 and purchased a large number of assets internally used in the Company, SOFTBANK BB Corp. and other subsidiaries. Based on a reassessment of expense allocation, the change of the depreciation method has been made because the straight line method represents a more appropriate allocation of expenses, while equally recording the depreciation expense for each period to reflect the decline in usefulness of property and equipment from period to period.

As a result, for the fiscal year ended March 31, 2006, cost of goods sold and selling, general and administrative expense decreased by ¥317 million and ¥705 million, respectively. Operating income, ordinary income, and income before income taxes and minority interest increased by ¥1,023 million as compared to the amounts that would have been recognized if the declining balance method had been applied.

(2) Intangible assets: Computed using the straight-line method

<Change in accounting policy for network line construction expenses>

Beginning April 1, 2005, the accounting policy for network line construction expenses has been changed to capitalize the expenses as non-current assets which were previously recognized as selling, general and administrative expense. The capitalized network line construction expenses relate to cost incurred for each individual network set up prior to network activation. This change in accounting policy is considered a more appropriate way to reflect the allocation of such network line construction costs over the period of future economic benefit.

As a result, for the fiscal year ended March 31, 2006, cost of goods sold decreased by ¥28 million and selling, general and administrative expense decreased by ¥3,269 million. Operating income, ordinary income, and income before income taxes and minority interest increased by ¥3,240 million as compared to the amounts that would have been recognized under the original method.

[3] Accounting principles for major allowances and accruals

(1) <Allowance for doubtful accounts>

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

(2) <Accrued retirement benefits>

JAPAN TELECOM CO., LTD. and certain other subsidiaries have defined benefit pension plans for their employees. Those companies account for the obligation for retirement benefits based on the projected benefit obligations as of March 31, 2006.

[4] Translation of foreign currency transactions and accounts

All assets and liabilities in foreign currencies are translated at the foreign currency exchange rates prevailing at the respective balance sheet dates. Foreign currency exchange gains or losses are charged to net income when incurred.

The translation of foreign currency denominated revenues and expenses in the financial statements of foreign consolidated subsidiaries into Japanese yen is performed by using the average exchange rate for the period. Assets and liabilities are translated using the foreign currency exchange rates prevailing at the balance sheet dates, and capital stock is translated using the historical foreign currency exchange rates. Foreign currency financial statement translation differences are presented as a separate component of "Shareholders' equity," except for the portion pertaining to minority shareholders, which is included in "Minority interest in consolidated subsidiaries."

[5] Capital lease

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

[6] Accounting for significant hedge transactions

(1) Collar transaction

① <Hedge accounting>

Unrealized gains and losses, net of tax, on collar transaction that qualifies as an effective cash flow hedge at consolidated subsidiaries in the United States of America are reported as a separate component of "Shareholders' equity" in the Company's consolidated balance sheets. As such, unrealized gains and losses associated with the collar transaction will be recognized into earnings in the same period during which the hedged assets and liabilities are recognized in earnings.

② <Derivative instruments for hedging and hedged items>

Derivative instruments for hedging: Prepaid variable share forward contract (the collar transaction)

Hedged items: Equity security

③ <Hedging policy>

The purpose of the collar transaction is to hedge the variability of cash flows associated with the future market price of the underlying equity security.

(2) Interest rate swap

① <Hedge accounting>

For interest rate swaps whose amounts, index and periods are same as the conditions for hedged items, the “exceptional method” is adopted. Under this method, a certain domestic consolidated subsidiary does not account for gains and losses of those interest rate swaps on a fair value basis and recognizes swap interest on an accrual basis.

② <Derivative instruments for hedging and hedged items>

Derivative instruments for hedging: Interest rate swap contracts

Hedged items: Interest expense on borrowings

③ <Hedging policy>

The domestic consolidated subsidiaries use derivative financial instruments to hedge the risk of exposures to fluctuations in interest rates in accordance with its internal policies, regarding the authorization and credit limit amount.

[7] Accounting method for consumption taxes

Consumption taxes are accounted for using the net method of reporting.

**5. Accounting for business combinations**

All assets and liabilities of an acquired entities are revalued at the respective fair market value at the combination date.

**6. Amortization of goodwill**

"Goodwill" is amortized on a straight-line basis over reasonably estimated periods in which economic benefits are expected to be realized. Immaterial goodwill is expensed as incurred.

**7. Appropriation of retained earnings**

The consolidated statement of retained earnings reflects the appropriation of retained earnings approved during the fiscal year.

**8. Scope of cash and cash equivalents in the consolidated statements of cash flows**

“Cash and cash equivalents” are comprised of 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.

## Additional Information

### 1. Sale of modem rental business relating to reorganization of the broadband business

On November 1, 2005, the Company's wholly-owned subsidiary, SOFTBANK BB Corp. (hereafter "SOFTBANK BB"), spun off its modem rental business and established BB Modem Rental Yugen Kaisha. (hereafter "BB Modem Rental"). Furthermore, on December 1, 2005, SOFTBANK BB was split into BB TECHNOLOGY Corp. (the surviving company; the name of SOFTBANK BB was changed to this name; hereafter "BB TECHNOLOGY") to focus on the ADSL business while all other businesses remained with SOFTBANK BB Corp. (newly established company; hereafter "(new) SOFTBANK BB"), such as the FTTH business and the e-Commerce business.

On December 8, 2005, BB TECHNOLOGY sold its modem rental business for cash (the sale of all BB Modem Rental's whole ownership interest) to Yugen Kaisha Gemini BB for ¥45,000 million and recognized a gain on the sale of the business of ¥21,559 million. The gain was deferred and will be amortized over five years, which is the estimated economic useful life of modem equipment, which was the revenue source of the modem rental operations. For the six-month period ended March 31, 2006, revenue earned and attributed to recognition of deferred revenue were ¥1,437 million (a).

At the time of the sale, BB TECHNOLOGY also entered into a service agreement with Yugen Kaisha Gemini BB to receive royalties relating to future revenue from the modem rental business. An advance payment for future royalties was made by Yugen Kaisha Gemini BB totaling ¥40,000 million and was recorded as deferred revenue. The deferred revenue will be recognized in future periods in proportion to the actual business performance of the ADSL business, such as the number of paying customers. For the fiscal year ended March 31, 2006, royalty fees totaling ¥3,985 million (b) were recorded as revenue.

The current portion of the total amount of the deferred gain on the sale of the modem rental business and advance royalty amounting to ¥14,096 million was included in "Other current liabilities" and the non-current portion of the total amount amounting to ¥41,840 million was reported as "Deferred revenue" in the consolidated balance sheet as of March 31, 2006.

BB TECHNOLOGY received ¥45,000 million on the sale of the modem rental business and ¥40,000 million in advance royalties, totaling ¥85,000 million. In the consolidated cash flow statement, those amounts are presented as "Proceeds from sale of modem rental business" and "Increase in deferred revenue," respectively.

BB TECHNOLOGY will continue to offer services to Yugen Kaisha Gemini BB in accordance with the service agreement following the sale of the modem rental business. For the fiscal year ended March 31, 2006, servicing fees of ¥4,207 million (c), incentive fees of ¥11,838 million for retaining ADSL service users (d), and incentive fees of ¥9,523 million for new subscribers based on applications for new subscription, the subscription ratio of Wireless LAN card applicants, and the number of paying customers (e) were recognized as revenue. As a result, BB TECHNOLOGY recorded revenue of ¥30,993 million (the sum of (a) through (e)) relating to the modem rental business after its sale and incidental expenses relating to the sale of ¥500 million are included in selling, general and administrative expenses for the fiscal year ended March 31, 2006.



## Notes

### 1. Accumulated depreciation of property and equipment

	As of March 31, 2006	As of March 31, 2005
	<b>603,313 million yen</b>	625,280 million yen

### 2. Number of treasury stock held by the Company and its subsidiaries

		As of March 31, 2006	As of March 31, 2005
Held by the Company	common stock	<b>149,391 shares</b>	40,956 shares
Number of shares issued	common stock	<b>1,055,231,478</b>	351,498,126

### 3. Investments in non-consolidated subsidiaries and affiliates

	As of March 31, 2006	As of March 31, 2005
Investment securities and investments in partnerships	<b>194,816 million yen</b>	120,897 million yen

### 4. Assets pledged as collateral

#### (1) For future lease liabilities

	As of March 31, 2006	As of March 31, 2005
<u>Assets pledged as collateral:</u>		
Notes and accounts receivable - trade	<b>10,653 million yen</b>	11,247 million yen
Other current assets (accounts receivable – other)	-	7

#### Secured liabilities:

Notes and accounts payable - trade	-	<b>million yen</b>	5 million yen
------------------------------------	---	--------------------	---------------

Note: The collateral for future lease liabilities was provided by mortgaging the aggregate of the current and future receivables due from customers of certain consolidated subsidiaries and a broadcasting company, based on marketing agreements, etc. The future lease liabilities at the end of years are as follows:

	As of March 31, 2006	As of March 31, 2005
Future lease liabilities (including the above “Notes and accounts payable-trade”)	<b>23,846 million yen</b>	37,263 million yen

#### (2) For short-term borrowings and long-term debt

	As of March 31, 2006	As of March 31, 2005
<u>Assets pledged as collateral:</u>		
Cash and deposits	<b>336 million yen</b>	446 million yen
Notes and accounts receivable - trade	<b>1,061</b>	1,120
Buildings and structures	<b>867</b>	6,660
Telecommunications equipment	<b>1,513</b>	14,172
Telecommunications service lines	-	13,689
Land	<b>5,001</b>	5,582
Property and equipment- others	<b>0</b>	0
Investment securities	<b>201,293</b>	193,398
Total	<b>210,074 million yen</b>	235,070 million yen

#### Secured liabilities:

Notes and accounts payable - trade	<b>975 million yen</b>	493 million yen
Short-term borrowings	<b>8,209</b>	25,882
Accounts payable – other and accrued expenses	<b>25</b>	18
Long-term debt	<b>119,805</b>	212,119
Other long-term liabilities	<b>113</b>	289
Total	<b>129,128 million yen</b>	238,804 million yen

Note: In connection with JAPAN TELECOM CO., LTD's loan refinancing on April 27, 2005, assets pledged as factory foundation collateral and investment securities in JAPAN TELECOM CO., LTD. held by the Company and three consolidated subsidiaries of JAPAN TELECOM CO., LTD. as of March 31, 2005 were released.

## 5. Securities loaned

Certain consolidated subsidiaries lent a portion of investment securities to financial institutions according to stock lending agreements. The amounts of applicable investment securities recorded in the Company's consolidated balance sheets are as follows:

	As of March 31, 2006	As of March 31, 2005
Investment securities	364 million yen	- million yen

## 6. Cash receipts as collateral

Cash receipts as collateral from financial institutions, to whom the Company has lent shares in its subsidiary under security deposit agreements, are presented as follows:

	As of March 31, 2006	As of March 31, 2005
Cash receipts as collateral	100,000 million yen	100,000 million yen

According to the security deposit agreements, the Company paid a fixed rate amount as stock bailment fees and other fees totaling ¥2,859 million, and ¥1,692 million for the fiscal year ended March 31, 2006 and March 31, 2005, respectively, and recorded the fees as other non-operating expenses in the consolidated statements of operations.

## 7. Pre-stock issuance paid-in capital

Pre-stock issuance paid-in capital represents amounts paid at the exercise of warrants, but the shares were not issued. At the issuance of 3,900 new shares in April 2006, pre-stock issuance paid-in capital was converted into common stock of ¥2 million and additional paid-in capital of ¥2 million.

## 8. Net unrealized gains/losses on derivative instruments

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") is adopted on derivative instruments which the Company's consolidated subsidiary in the United States of America utilized.

The consolidated subsidiary in the United States of America has entered into a variable share prepaid forward contract ("collar transaction") utilizing its shares in an equity security. The purpose of this collar transaction is to hedge the variability of cash flows associated with the future market price of the underlying security, which is used for the settlement of the loans.

According to SFAS 133, unrealized gains and losses, net of tax, on the effective portion of the cash flow hedge as defined are reported as a separate component of "Shareholders' equity", until gains and losses on the hedged item are recognized in earnings.

## 9. Line of credit as a creditor (not used)

	As of March 31, 2006	As of March 31, 2005
	16,097 million yen	200 million yen

## 10. Balance of accounts receivable sold

	As of March 31, 2006	As of March 31, 2005
	8,477 million yen	7,855 million yen

## 11. Selling, general and administrative expenses

The main components of "Selling, general and administrative expenses" for the fiscal years ended March 31, 2006 and 2005 were as follows:

	FY2006 ended March 31, 2006	FY 2005 ended March 31, 2005
Payroll and bonuses	69,505 million yen	45,550 million yen
Sales promotion expenses	59,671	95,131
Fees for outsourced services	38,045	37,665
Allowance for doubtful accounts	4,319	3,720

## 12. Research and development costs included in selling, general and administrative expenses and cost of sales

	FY 2006 ended March 31, 2006	FY 2005 ended March 31, 2005
	3,697 million yen	4,098 million yen

### 13. Consolidated statements of cash flows

Reconciliation of cash and cash equivalents to the amounts presented in the accompanying consolidated balance sheets

	As of March 31, 2006		As of March 31, 2005
Cash and deposits	<b>446,306</b>	<b>million yen</b>	287,978 million yen
Marketable securities	<b>4,372</b>		39,403
Time deposits with original maturity over three months	<b>(1,400)</b>		(1,455)
Stocks and bonds with original maturity over three months	<b>(2,584)</b>		(5,732)
Cash and cash equivalents	<b>446,694</b>	<b>million yen</b>	320,194 million yen

## Significant Subsequent Events

### **1. Acquisition of Vodafone K. K.**

The Company's wholly-owned subsidiary, BB Mobile Corp. (hereafter "BB Mobile") agreed on its commencement of a take-over bid for Vodafone K.K. at its Board of Directors' meeting held on April 3, 2006. Based on this agreement, BB Mobile conducted a take-over bid from April 4, 2006 to April 24, 2006 and acquired 5,299,814 shares (ownership: 97.64%) of common stock outstanding for approximately ¥1,661.2 billion on April 27, 2006.

Moreover, BB Mobile agreed on the acquisition of the entire common stock of Metrophone Service Co., Ltd. (hereafter "Metrophone") a wholly-owned subsidiary of Vodafone International Holdings B.V., for ¥32.2 billion and Metrophone became a consolidated subsidiary of BB Mobile. Through the acquisition of Metrophone, BB Mobile acquired 1.90% of the common stock outstanding of Vodafone K.K. held in Metrophone.

As a result, BB Mobile acquired 99.54% of common stock outstanding of Vodafone K.K. for ¥1,693.5 billion.

#### **(1) Purpose of the acquisition**

By acquiring Vodafone K.K., the third largest mobile communication company in Japan, SOFTBANK Group will take a large step towards its goal of offering ubiquitous communications.

#### **(2) About Vodafone K.K.**

Head office: 1-9-1 Higashi-shimbashi, Minato-ku, Tokyo

Paid-in capital: ¥177.2 billion

Main business: Mobile communication business through cellular phone service and sale of mobile terminals associated with the service.

Revenue for the fiscal year ended March 31, 2005: ¥1,470 billion

#### **(3) Summary of the acquisition**

Number of shares acquired and purchase price:

- 5,299,814 (97.64%) shares of the issued and outstanding common stock of Vodafone K.K. by take-over bid for ¥1,661.2 billion
- 103,099 (1.90%) shares of the issued and outstanding common stock of Vodafone K.K. through the acquisition of Metrophone for ¥32.2 billion.

Seller: Vodafone International Holdings B.V. and other Vodafone group companies

Date of acquisition: April 27, 2006

#### **(4) Financing structure**

In order to raise funds for the acquisition of Vodafone K.K., BB Mobile entered into approximately one year bridge facility contract\*, totaling ¥1,280 billion with a group of 17 financial institutions, centered on 7 co-lead managers. This bridge facility contract was structured as a non-recourse loan. Including this contract, BB Mobile's financing structure is as follows:

1. Loan based on bridge facility contract ¥1,160 billion  
(Including consideration of Vodafone K.K., repayment of inter-company loan to Vodafone group, and other expenses)
2. Subordinated loans by Vodafone International Holdings B.V. ¥100 billion
3. Preferred shares subscribed by Vodafone International Holdings B.V. ¥300 billion
4. Preferred shares subscribed by Yahoo Japan ¥120 billion
5. Common shares subscribed by Mobiletech Corporation ¥200 billion  
(The Company subscribed common stock of Mobiletech Corporation, the company's wholly-owned subsidiary for ¥200.8 billion in advance.)

\*This ¥1,280 billion bridge facility contract includes the amount to be used for the working capital of ¥100 billion of Vodafone K.K.

Overview of fund raising

Loan based on bridge facility contract

1. Name: 7 co-lead financial institutions and others syndications
2. Principal amount: ¥1,166 billion
3. Interest rate: TIBOR +2.5% (from April 27, 2006 to September 30, 2006)  
TIBOR +3.0% (from October 1, 2006 to December 31, 2006)

- TIBOR +3.5% (from January 1, 2007 to March 31, 2007)
4. Period: From April 27, 2006 to March 31, 2007
  5. Assets pledged as collateral: Acquired Vodafone K.K. shares
- Vodafone International Holdings B.V. subordinated loans
1. Name: Vodafone International Holdings B.V.
  2. Principal amount: ¥100 billion
  3. Interest rate: 5.0%
  4. Period: From April 27, 2006 to September 30, 2013

Interest rate and period addressed above may change under the condition of bridge facility refinancing.

Preferred shares subscribed by Vodafone International Holdings B.V.

1. Amount: ¥300 billion

Loan conducted by Yahoo Japan for preferred shares subscription

1. Name: Mainly Mizuho Corporate Bank and others syndications
2. Principal amount: ¥80 billion
3. Interest rate: TIBOR +0.3%
4. Period: From April 25, 2006 to May 25, 2010 (repayment in installments)

#### **(5) Issuance of stock acquisition rights of BB Mobile**

BB Mobile allotted stock options under following conditions

1. Class and Shares: 343,000 shares of common stock
2. Total number of stock acquisition rights: 343 stocks
3. Issuance price: Charge free issue
4. Subscription date / issuance date: April 27, 2006
5. Exercise price: ¥95,098
6. Exercisable period: From April 1, 2013 to April 27, 2018
7. Condition for exercise: Accumulated EBITDA of Vodafone K.K. exceeds ¥3,350 billion from April 1, 2006 to March 31, 2013.
8. Allotment: Vodafone International Holdings B.V.: 245 stocks  
Yahoo Japan: 98 stocks

## **2. Loan relating to legal defeasance**

The Company conducted the unsecured loan of ¥60 billion on April 28, 2006 based on the agreement of its Board of Directors' meeting held on April 26, 2006.

1. Purpose: Financing working capital to cover deposited amount for the implementation of legal defeasance on April 3, 2006
2. Terms of loan:
  - (1) Name: Deutsche Bank AG, Tokyo Branch
  - (2) Interest rate:
    1. LIBOR+3.0% (¥30 billion)
    2. LIBOR+3.5% (¥30 billion)
  - (3) Period of loan:
    1. From April 28, 2006 to March 15, 2007 (¥30 billion)
    2. From April 28, 2006 to April 15, 2008 (¥30 billion)
3. Details of legal defeasance:
  - (1) Implemented date: April 3, 2006
  - (2) Overview of Bond:
    1. Name: SOFTBANK CORP. Euro-denominated Senior Notes due 2011 (hereafter "the Notes")
    2. Interest Rate: 9.375%
    3. Issue Date: March 8, 2004
    4. Maturity Date: March 15, 2011 (with optional redemption which is expected to become effective on and after March 15, 2008)
    5. Aggregate principal amount: €400 million (translated amount in yen: approx. ¥57.1 billion; exchange rate as of April 3, 2006: €1=¥142.89)
    6. Outstanding Amount: €400 million (translated amount in yen: same as above)
  - (3) Purpose and effect of implementation of legal defeasance:

The legal defeasance was implemented in order to facilitate the implementation of group business and financial strategies, including the mobile business. Along with this transaction, the Company deposited €493 million, which is sufficient for the payment of principal and interest on the Notes, with the trustee. Under the terms of the indenture, the Company will continue to be responsible for payments on the Notes until maturity or redemption. The Notes continue to be recorded as "Corporate bonds" in its consolidated and stand-alone financial statements of the Company until maturity or redemption of the Notes.

## **3. Financing through securities lending transaction**

Based on the agreement made at the Board of Directors' meeting held on April 12, 2006, the Company lent common stocks of its affiliate company, which are held by SOFTBANK AM CORPORATION and received ¥64 billion on April 19, 2006 and April 21, 2006. Financing amount may change in conjunction with the fluctuation of the market price of the stock.

1. Purpose: Financing working capital for the Group companies
2. Terms of financing:
  - (1) Name: Nikko Citigroup Limited
  - (2) Interest rate: 2.5%
  - (3) Period:
    1. From April 19, 2006 to April 19, 2007 (¥50 billion)
    2. From April 21, 2006 to April 19, 2008 (¥14 billion)
3. Amount of securities to be lent:

Investment securities	¥37,226 million
-----------------------	-----------------

## **4. Financing through secured loan agreement**

The Company's consolidated subsidiary, SOFTBANK AM CORPORATION financed ¥50 billion on April 17, 2006 based on the agreement of the Board of Directors' meeting held on April 12, 2006.

1. Purpose: Investment in securities
  2. Terms of financing:
    - (1) Name: Deutsche Bank AG, Tokyo Branch
    - (2) Interest rate:
      - LIBOR +3.0% from April 17, 2006 to October 17, 2006
      - LIBOR +4.0% from October 17, 2006 to April 17, 2007
    - (3) Period: From April 17, 2006 to April 17, 2007
  3. Assets pledged as collateral
- Following assets are pledged as collateral relating to this transaction
- |   |                |
|---|----------------|
| Shares of consolidated subsidiaries eliminated in consolidation - at cost | ¥667 million   |
| Investment securities   | ¥5,862 million |

## Segment Information

### 1. Business segment information

(1) For the fiscal year ended March 31, 2006

(Millions of yen; amounts less than one million yen are omitted.)

	Broadband Infrastructure	Fixed-line Telecommunications	e-Commerce	Internet Culture	e-Finance	Others	Total	Elimination or Corporate	Consolidated
Net sales					(Note 5)				
(1) Customers	¥267,272	¥347,447	¥272,739	¥155,550	¥-	¥65,654	¥1,108,665	¥-	¥1,108,665
(2) Inter-segment	1,179	6,785	10,535	569	-	17,419	36,489	(36,489)	-
Total	268,451	354,233	283,275	156,120	-	83,073	1,145,154	(36,489)	1,108,665
Operating expenses	247,779	379,392	278,414	81,929	-	87,833	1,075,350	(28,984)	1,046,366
Operating income (loss)	¥20,672	¥(25,158)	¥4,860	¥74,190	¥-	¥(4,759)	¥69,804	¥(7,504)	¥62,299
Identifiable assets	247,592	517,974	72,136	439,178		291,172	1,568,054	240,344	1,808,398
Depreciation and amortization	28,485	46,282	1,121	7,461		4,211	87,561	958	88,519
Capital expenditures	26,256	62,254	2,169	16,338		3,416	110,436	913	111,349

(2) For the fiscal year ended March 31, 2005

(Millions of yen; amounts less than one million yen are omitted.)

	Broadband Infrastructure	Fixed-line Telecommunications	e-Commerce	Internet Culture	e-Finance	Others	Total	Elimination or Corporate	Consolidated
Net sales									
(1) Customers	¥204,974	¥165,969	¥244,971	¥101,913	¥73,235	¥45,954	¥837,018	¥ -	¥837,018
(2) Inter-segment	331	909	9,950	534	5,562	18,221	35,510	(35,510)	-
Total	205,306	166,878	254,921	102,448	78,797	64,175	872,528	(35,510)	837,018
Operating expenses	259,054	202,944	249,681	52,368	59,083	70,060	893,192	(30,815)	862,377
Operating (loss) income	¥(53,747)	¥(36,065)	¥5,240	¥50,079	¥19,714	¥(5,885)	¥(20,663)	¥ (4,695)	¥(25,359)
Identifiable assets	¥250,807	¥583,487	¥76,408	¥345,737	¥115,507	¥231,193	¥1,603,141	¥101,712	¥1,704,853
Depreciation and amortization	26,796	28,250	1,333	4,720	5,900	3,785	70,786	(1,245)	69,540
Capital expenditures	69,691	115,410	5,234	12,512	4,175	24,640	231,665	595	232,261

Notes:

- Business segments are categorized primarily based on the nature of business operations, type of services, and similarity of sales channels, etc. which the SOFTBANK Group uses for its internal management purpose.
- Please refer to the chart of "The SOFTBANK Group" for the main businesses segments.
- Unallocated operating expenses for the fiscal year ended March 31, 2006 and 2005 in the column "Elimination or Corporate", mainly represents expenses of the corporate division of the Company, totaling ¥7,841 million, and ¥6,867 million, respectively.
- The "Fixed-line Telecommunications" business segment was established as of September 30, 2004, consequently, this segment included only six-month results for the fiscal year ended March 31, 2005.
- The former "e-Finance" business segment ended, since SOFTBANK INVESTMENT CORPORATION (current SBI Holdings, Inc.) changed to an equity-method affiliate from a consolidated subsidiary on March 31, 2005.
- Corporate assets at March 31, 2006 and 2005 in the column "Elimination or corporate" were ¥275,510 million and ¥151,910 million, respectively. Corporate assets represent mainly surplus operating funds (cash and marketable securities), long-term investment securities of the Company and assets held by the corporate division of the Company.
- "Capital expenditures" include the acquisition of long-term prepaid expenses and deferred charges. "Depreciation and amortization" included the amortization of long-term prepaid expenses and deferred charges.

<Change in presentation>

In fiscal year ended March 31, 2005, segment information for net sales and operating income (loss) of Broadmedia, Technology Services, Media & Marketing, and Overseas Funds segments were presented although the portions of net sales and operating income (loss) were less than 10% of consolidated net sales and operating income (loss). Due to the relative significance of these businesses, beginning with the fiscal year ended March 31, 2006, they are included in the "Others" segment. This change in presentation of business segment information is due to increase in importance on the Broadband Infrastructure, Fixed-line Telecommunications, e-Commerce, and Internet Culture operations.

## 2. Geographic segment information

(1) FY 2006 (as of and for the year ended March 31, 2006)

(Millions of yen; amounts less than one million yen are omitted.)

	Japan	North America	Others	Total	Elimination or corporate	Consolidated
Net sales						
(1)Customers	¥1,100,446	¥1,351	¥6,867	¥1,108,665	¥-	¥1,108,665
(2)Inter-segment	3,325	686	412	4,425	(4,425)	-
Total	1,103,772	2,038	7,279	1,113,090	(4,425)	1,108,665
Operating expenses	1,028,151	2,934	12,208	1,043,294	3,071	1,046,366
Operating income (loss)	¥75,621	¥(896)	¥(4,929)	¥69,796	¥(7,496)	¥62,299
Identifiable assets	¥1,179,017	¥261,177	¥110,864	¥1,551,058	¥257,339	¥1,808,398

(1) FY 2005 (as of and for the year ended March 31, 2005)

(Millions of yen; amounts less than one million yen are omitted.)

	Japan	North America	Others	Total	Elimination or corporate	Consolidated
Net sales						
(1)Customers	¥828,768	¥1,910	¥6,339	¥837,018	¥-	¥837,018
(2)Inter-segment	464	371	223	1,060	(1,060)	-
Total	829,233	2,281	6,563	838,078	(1,060)	837,018
Operating expenses	845,650	3,220	9,742	858,613	3,763	862,377
Operating loss	¥(16,417)	¥(938)	¥(3,178)	¥(20,535)	¥(4,823)	¥(25,359)
Identifiable assets	¥1,184,086	¥270,988	¥102,832	¥1,557,907	¥146,945	¥1,704,853

Notes:

1. Net sales by geographic region are recognized based on geographic location of the operation.

Significant countries in each region are shown below:

North America: United States of America and Canada

Others: Europe, Korea, China, Hong Kong and Singapore

2. Unallocated operating expenses for the fiscal years ended March 31, 2006 and 2005 in the column "Elimination or corporate", which mainly represent expenses of the corporate division of the Company, were ¥7,841 million and ¥6,867 million, respectively.

3. Corporate assets at March 31, 2006 and 2005 in the column "Elimination or corporate" were ¥275,510 million and ¥151,910 million, respectively. Corporate assets represent mainly surplus operating funds (cash and marketable securities), long-term investment securities of the Company and assets held by the corporate division of the Company.

## 3. Overseas sales

Disclosure of overseas sales was omitted because the total overseas sales were less than 10% of total consolidated sales.



## Leases

### 1. Capital leases in which the ownership of leased assets is not transferred to lessees at the end of lease periods (as a lessee)

(1) Amounts equivalent to acquisition costs, accumulated depreciation and net book value at the end of each fiscal year are as follows:

	As of March 31, 2006	As of March 31, 2005
Telecommunications equipment and telecommunications service lines		
Equivalent to acquisition costs	197,727	195,681
Less:		
Amount equivalent to accumulated depreciation	(64,550)	(45,685)
Amount equivalent to accumulated impairment loss	(21,703)	-
Net book value	<b>111,473 million yen</b>	149,996 million yen
Buildings and structures		
Equivalent to acquisition costs	46,999	47,056
Less:		
Amount equivalent to accumulated depreciation	(2,674)	(349)
Amount equivalent to accumulated impairment loss	-	-
Net book value	<b>44,324 million yen</b>	46,706 million yen
Property and equipment - others		
Equivalent to acquisition costs	13,604	15,938
Less:		
Amount equivalent to accumulated depreciation	(5,700)	(10,293)
Amount equivalent to accumulated impairment loss	(1,657)	-
Net book value	<b>6,245 million yen</b>	5,644 million yen
Intangible assets		
Equivalent to acquisition costs	2,624	2,727
Less:		
Amount equivalent to accumulated amortization	(1,238)	(1,076)
Amount equivalent to accumulated impairment loss	(287)	-
Net book value	<b>1,097 million yen</b>	1,651 million yen
Total		
Equivalent to acquisition costs	260,955	261,404
Less:		
Amount equivalent to accumulated depreciation	(74,164)	(57,404)
Amount equivalent to accumulated impairment loss	(23,648)	-
Net book value	<b>163,141 million yen</b>	203,999 million yen

Long-term prepaid expense of ¥1,989 million relating to ten year term lease contract with payment completed in initial five years is included in "other assets" of investments and other assets.

(2) The future lease payments for capital lease at the end of the periods

	As of March 31, 2006	As of March 31, 2005
Due within one year	34,560	40,342
Due after one year	158,800	167,676
Total	<b>193,361 million yen</b>	208,018 million yen
Balance of allowance for impairment loss on leased assets	23,427 million yen	- million yen

(3) Lease payments, amounts equivalent to depreciation and interest expense for each fiscal year are as follows.

	FY 2006 ended March 31, 2006	FY 2005 ended March 31, 2005
Lease payments	<b>56,517 million yen</b>	27,366 million yen
Reversal of allowance for impairment loss on leased assets	<b>300</b>	-
Amount equivalent to depreciation expense	<b>44,595</b>	24,209
Amount equivalent to interest expense	<b>15,808</b>	5,179
Impairment loss	<b>23,727</b>	-

Note: Impairment losses above mentioned are included in "Impairment loss in fixed-line telecommunication business" "Restructuring charge relating to *BDTV* business" and "Other special loss."

(4) Calculation method used to determine the amount equivalent to depreciation and interest expense:

The amount equivalent to depreciation is computed using the straight-line method over the period of the capital leases, assuming no residual value except in cases where the residual value is guaranteed in the lease contract.

The amount equivalent to interest expense is calculated by subtracting acquisition costs from the total lease payments and allocated over the lease periods based on the interest method.

(as a lessor)

(1) Acquisition costs, accumulated depreciation and net book value at the end of the periods

	As of March 31, 2006	As of March 31, 2005
Property and equipment - others		
Acquisition costs	<b>164</b>	2,644
Less: accumulated depreciation	<b>(137)</b>	(2,576)
Net book value	<b>26 million yen</b>	67 million yen

(2) The future lease receivables for capital leases at the end of the periods

	As of March 31, 2006	As of March 31, 2005
Due within one year	<b>29</b>	43
Due after one year	-	29
Total	<b>29 million yen</b>	73 million yen

(3) Lease income, depreciation and amount equivalent to interest income

	FY 2006 April 2005 through March 2006	FY 2005 April 2004 through March 2005
Lease income	<b>46 million yen</b>	349 million yen
Depreciation expense	<b>41</b>	211
Amount equivalent to interest income	<b>3</b>	3

(4) Calculation method of amount equivalent to interest income

The amount equivalent to interest income is calculated by subtracting acquisition costs from total lease income and estimated residual value and allocated over the lease periods based on the interest method.

## 2. Non-cancelable operating lease transactions

(as a lessee)

The future lease payments for non-cancelable operating leases

	As of March 31, 2006	As of March 31, 2005
Due within one year	<b>9,904</b>	6,264
Due after one year	<b>11,041</b>	15,551
Total	<b>20,946 million yen</b>	21,815 million yen

(as a lessor)

The future lease receivables for non-cancelable operating leases

	As of March 31, 2006	As of March 31, 2005
Due within one year	<b>1,305</b>	972
Due after one year	<b>1,921</b>	1,816
Total	<b>3,227 million yen</b>	2,789 million yen

**RELATED PARTY TRANSACTIONS WITH THE COMPANY**

1. Parent Company and Major Corporate Shareholders

N/A

2. Directors and Major Individual Shareholders

Category	Name	Address	Amount of capital	Nature of business or occupation	Proportionate interest	Relationship		Nature of transaction	Amount of transaction	Account	Balance at March 31, 2006
						Concurrent directors	Business relationship				
Director and shareholder	Masayoshi Son	—	—	Son Assets Management, Inc.  President	31%	—	—	Cash paid on behalf of Son Assets Management Inc. Facility use fee	185 5	Other current asset	27
								Transfer of fixed assets	626	Accounts payable	657
								Deposits received	142	Deposits received	142

Note: Consumption taxes are included in the amount of the transaction and year end balance.

3. Subsidiaries

N/A

4. Affiliates

N/A

## Tax effect accounting

FY 2006 (For the year ended March 31, 2006)		FY 2005 (For the year ended March 31, 2005)	
<b>1. Significant components of deferred tax assets and liabilities</b>	(Million yen)	<b>1. Significant components of deferred tax assets and liabilities</b>	(Million yen)
<b>Deferred tax assets</b>		<b>Deferred tax assets</b>	
Loss carry-forwards	¥181,802	Loss carry-forwards	¥195,151
Valuation loss on investment securities	63,777	Valuation loss on investment securities	76,288
Depreciation / Amortization	52,759	Depreciation / Amortization	41,511
Unrealized loss on derivative instruments	19,665	Unrealized loss on derivative instruments	21,949
Allowances for doubtful accounts	17,686	Allowances for doubtful accounts	16,789
Accrued expenses	17,531	Accrued expenses	9,697
Exchange gain on affiliates' stock	11,429	Valuation loss on inventories	6,451
Deferred revenue	8,656	Enterprise tax payable	2,409
Valuation loss on inventories	3,855	Unrealized gain	1,305
Enterprise tax payable	2,897	Others	8,210
Unrealized gain	897		
Others	4,825	Gross deferred tax assets	379,764
		Less: valuation allowance	(305,824)
<b>Gross deferred tax assets</b>	<b>385,784</b>	<b>Total deferred tax assets</b>	<b>73,939</b>
<b>Less: valuation allowance</b>	<b>(318,184)</b>		
<b>Total deferred tax assets</b>	<b>67,599</b>		
		<b>Deferred tax liabilities</b>	
<b>Deferred tax liabilities</b>		Unrealized gains on other securities	(79,676)
Unrealized gains on other securities	(70,264)	Valuation gain on investment securities	(6,077)
Valuation gain on investment securities	(6,371)	Foreign currency exchange gains on long-term receivables	(2,092)
Foreign currency exchange gains on long-term receivables	(227)	Others	(542)
Others	(232)		
		<b>Total deferred tax liabilities</b>	<b>(88,389)</b>
<b>Total deferred tax liabilities</b>	<b>(77,095)</b>	<b>Net deferred tax liabilities</b>	<b>¥(14,449)</b>
<b>Net deferred tax liabilities</b>	<b>¥(9,495)</b>		
		<b>2. Reconciliation between the statutory income tax rate and effective income tax rate:</b>	
<b>2. Reconciliation between the statutory income tax rate and effective income tax rate:</b>		Statutory tax rate	40.69 %
Statutory tax rate	40.69 %	(Reconciliation)	
(Reconciliation)		Dilution gain (loss) from changes in equity interest	111.94 %
Dilution gain (loss) from changes in equity interest	(3.71) %	Tax reserve reversal in the Company's subsidiary in the United States of America	46.05
Differences related to investments in affiliates	(4.35)	Differences related to investments in affiliates	33.81
Tax rate differential	(2.17)	Tax rate differential	17.68
Tax deduction for IT industry and others development	(1.27)	Change in valuation allowance	(354.40)
Change in valuation allowance	4.21	Others	0.78
Others	(0.50)		
		<b>Income tax rate per statements of operations</b>	<b>(103.45) %</b>
<b>Income tax rate per statements of operations</b>	<b>32.89 %</b>		

## Investment in Debt and Equity Securities

FY 2006 (as of March 31, 2006)

(1) Available-for-sale and other securities at fair value

(Millions of yen; amounts less than one million yen are omitted.)

	FY 2006 (as of March 31, 2006)		
	Investment Cost	Carrying Amount	Differences
<b>Carrying Amount &gt; Investment Cost</b>			
Equity securities	¥18,532	¥220,845	¥202,313
Sub-total	18,532	220,845	202,313
<b>Carrying Amount ≤ Investment Cost</b>			
(1)Equity securities	16,277	13,473	(2,804)
(2)Others	59	59	-
Sub-total	16,337	13,533	(2,804)
<b>Total</b>	<b>¥34,869</b>	<b>¥234,379</b>	<b>¥199,509</b>

(2) Available-for-sale and other securities sold during the fiscal year ended March 31, 2006

(Millions of yen; amounts less than one million yen are omitted.)

	Sales Price	Gain on sales	Loss on sales
(1)Equity securities	¥33,103	¥27,951	¥173
(2)Debt securities	7,044	839	-
(3)Others	61,152	13,229	2
<b>Total</b>	<b>¥101,300</b>	<b>¥42,020</b>	<b>¥175</b>

(3) The carrying amounts of the unlisted investment securities

(Millions of yen; amounts less than one million yen are omitted.)

	Carrying Amounts
<b>Available-for-sale and other securities</b>	
Unlisted equity securities, excluding over-the-counter stocks	¥26,759
Investments in limited partnerships (seeNote)	6,494
Money Management Fund	2,959
Preferred fund certificate	2,000
Designated Money Trust	1,000
Mid-term government bond funds	191
Unlisted foreign debt securities	94
Others	329
<b>Total</b>	<b>¥39,827</b>

Note: With respect to "Investment in limited partnerships," the difference between cost and fair value of limited partnerships, net of tax, is recorded in "Net unrealized gain on other securities" in the consolidated balance sheets.

(4) The redemption schedule for "held-to-maturity securities" and "available-for-sale and other securities" with maturity date subsequent to the consolidated balance sheet date

(Millions of yen; amounts less than one million yen are omitted.)

	April 1, 2006 to March 31, 2007	April 1, 2007 to March 31, 2011	April 1, 2011 to March 31, 2016	April 1, 2016 and thereafter
<b>Available-for-sale and other securities</b>				
<b>Debt securities</b>				
Government bonds	¥-	¥-	¥-	¥-
Corporate bonds	-	94	-	-
Others	-	-	-	-
<b>Total</b>	<b>¥-</b>	<b>¥94</b>	<b>¥-</b>	<b>¥-</b>

FY 2005 (as of March 31, 2005)

1. Non-trading securities

(1) Available-for-sale and other securities at fair value

(Millions of yen; amounts less than one million yen are omitted.)

	FY2005 (as of March 31, 2005)		
	Investment Cost	Carrying Amount	Differences
Carrying Amount > Investment Cost			
(1)Equity securities	¥29,522	¥229,035	¥199,513
(2)Debt securities: Government bonds	5,134	5,141	7
(3)Others	18	18	0
Sub-total	34,675	234,195	199,520
Carrying Amount ≤ Investment Cost			
(1)Equity securities	402	377	(24)
Sub-total	402	377	(24)
Total	¥35,077	¥234,572	¥199,495

(2) Available-for-sale and other securities sold during the fiscal year ended March 31, 2005

(Millions of yen; amounts less than one million yen are omitted.)

	Sales Price	Gain on sales	Loss on sales
(1)Equity securities	¥26,864	¥5,157	¥1,864
(2)Debt securities	2	0	-
(3)Others	3,739	26	855
Total	¥30,606	¥5,184	¥2,719

(3) The carrying amounts of the unlisted investment securities

(Millions of yen; amounts less than one million yen are omitted.)

	Carrying Amounts
Available-for-sale and other securities	
Investment in limited partnerships (see Note)	¥63,373
Investment trust without market quotations	30,388
Unlisted equity securities, excluding over-the-counter stocks	16,466
Preferred fund certificate	2,000
Money Management Fund	1,836
Unlisted foreign debt securities	1,108
Mid-term government bond funds	191
Others	3,010
Total	¥118,374

Note: With respect to "Investment in limited partnerships," the difference between cost and fair value of limited partnerships, net of tax, is recorded in "Net unrealized gain on other securities" in the consolidated balance sheets.

(4) Redemption schedule for "held-to-maturity securities" and "available-for-sale and other securities" with maturity date subsequent to the consolidated balance sheet date

(Millions of yen; amounts less than one million yen are omitted.)

	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2010	April 1, 2010 to March 31, 2015	April 1, 2015 and thereafter
Available-for-sale and other securities				
Debt securities				
Government bonds	¥-	¥0	¥-	¥-
Corporate bonds	-	3,373	-	-
Others	-	-	892	-
Total	¥-	¥3,373	¥892	¥-

## DERIVATIVE TRANSACTIONS

### 1. Currency Related

(Millions of yen; amounts less than one million yen are omitted.)

	Nature of transaction	March 31, 2006				March 31, 2005			
		Contract amounts		Fair value	Unrealized gain	Contract amounts		Fair value	Unrealized gain (loss)
			Over 1 year				Over 1 year		
Off-market transactions	Swap transactions to-								
	• Receive Australia dollars and pay Japanese yen	¥-	-	¥-	¥-	¥1,000	-	¥12	¥12
	Forward exchange contracts to-								
	• Purchase U.S. dollars and sell Japanese yen	29,132	-	29,128	(3)	3,193	-	3,249	56
	Total			¥(3)				¥68	

Notes: 1. The amounts in ( ) under "Contract amounts" represents option fees.

2. Fair value is based on information provided by financial institutions at the end of each fiscal year.

3. Derivative transactions based on forward purchases of foreign currency exchange are basically utilized to prevent fluctuation risks on foreign assets and liabilities. This transaction is disclosed since hedge accounting is not applied to it.

### 2. Interest Related

(Millions of yen; amounts less than one million yen are omitted.)

	Nature of transaction	March 31, 2006				March 31, 2005			
		Contract amounts		Fair value	Unrealized gain (loss)	Contract amounts		Fair value	Unrealized gain (loss)
			Over 1 year				Over 1 year		
Off-market transactions	Swap transactions to-								
	• Receive fixed rate and pay floating rate	¥-	-	¥-	¥-	¥1,142	-	¥39	¥39
	• Receive floating rate and pay fixed rate	-	-	-	-	11,571	-	(149)	(149)
	• Receive fixed rate (receipt later) and pay fixed rate (prepayment)	-	-	-	-	1,000	-	35	35
	Total			¥-				¥(73)	

Notes: 1. Fair value is based on the information provided by the financial institutions at the end of each fiscal year.

2. Derivative transactions to which the Company applied hedge accounting are excluded.

### 3. Securities related

There are no applicable items.

Note: Derivative transactions to which the Company applied hedge accounting are excluded.

## PENSION AND SEVERANCE PLANS

### 1. Pension Plans

Employees of the Company and most of its domestic consolidated subsidiaries participate in defined contribution pension plans and the contributory defined benefit welfare pension plans. Certain domestic consolidated subsidiaries, mainly Japan Telecom, have defined benefit pension plans. On April 1, 2006, Japan Telecom amended its pension plan by suspending the current defined benefit plan and implementing a new defined contribution plan. The severance payment existed and calculated under current plan as of March 31, 2006 was fixed and will be paid at the retirement of applicable employees. As the result of this amendment, Japan Telecom expects the projected benefit obligation to decrease ¥2,575 million.

<b>Projected Benefit Obligation</b>	<b>March 31, 2006</b>	March 31, 2005
Projected benefit obligation (PBO)	<b>17,279 million yen</b>	17,202 million yen
Plan assets at fair value	-	-
Unfunded PBO	<b>17,279</b>	17,202
Unrecognized actuarial losses	-	157
Net liability for retirement benefits	<b>17,279</b>	17,359
Prepaid pension costs	-	-
Accrued retirement benefits	<b>17,279 million yen</b>	17,359 million yen

### 2. Pension and Severance Costs

	<b>March 31, 2006</b>	March 31, 2005
a) Service costs (Notes 1 and 2)	<b>2,600 million yen</b>	1,714 million yen
b) Interest costs	<b>330</b>	212
c) Expected return on plan assets	-	42
d) Recognized actuarial losses	<b>(645)</b>	212
e) Contributions	<b>592</b>	510
f) Losses on transfer of pension plans	-	138
g) Net pension and severance costs	<b>2,878 million yen</b>	2,745 million yen

Notes:

- Service costs include ¥998 million for FY2006 and ¥657 million for FY2005 of contributions to multi-employer contributory defined benefit welfare pension plans.
- Service costs include the pension costs of subsidiaries adopting the simplified pension accounting method.



**PER SHARE DATA**

	<b>FY 2006</b>	FY 2005
Shareholders' equity per share (yen)	<b>¥229.88</b>	¥505.86
Net income (loss) per share - primary (yen)	<b>54.36</b>	(171.03)
Net income (loss) per share – diluted*	<b>50.71</b>	-

\* Per share in FY2005 was not disclosed due to the loss position.

The Company conducted the three-for one share split of the Company's common stock on January 5, 2006. Per share data for the FY2006 were calculated supposing the share split as conducted at the beginning of the fiscal year.

Per share data for the FY2005, supposing that the share split as conducted at the beginning of the FY2005.

Shareholders' equity per share	<b>168.62</b>	-
Net income (loss) per share	<b>(57.01)</b>	-

Basic data for computation of the per share data

1. Net income (loss) (in millions of yen)	<b>57,550</b>	(59,871)
2. Net income (loss) allocated to common stock outstanding (in millions of yen)	<b>57,325</b>	(60,101)
3. Amounts not allocated to shareholders (in millions of yen)	<b>224</b>	229
4. Weighted average number of common stock outstanding during each fiscal year (unit: shares)	<b>1,054,478,501</b>	351,418,709
5. Adjustment for net income used to calculate net income per share – diluted. (in millions of yen)	<b>370</b>	-
6. Increase of common stock used to calculate net income per share – diluted. (unit: shares)	<b>83,390,701</b>	-
7. Residual securities which does not dilute net income per share:	Stock acquisition rights Agreement on June 22, 2005	Due to net loss, no residual securities