SOFT BANK SOFTBANK CORP.

http://www.softbank.co.jp/english/

# Becoming the Greatest Lifestyle Company

ANNUAL REPORT 2004

# Becoming the Greatest Lifestyle Company

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**PRECAUTIONS REGARDING FORWARD-LOOKING STATEMENTS**

This annual report includes information regarding mid- and long-term strategies, plans and outlooks. All information that is not based on historical facts does not represent a guarantee regarding future operating results and contains inherent risks and uncertainties. Consequently, as there may be significant changes in the operating environment and other factors, investors are cautioned not to rely entirely on the information in this annual report with regard to the outlook for future operating results.

# MESSAGE FROM THE PRESIDENT

MASAYOSHI SON
*President and Chief Executive Officer*

## THE EMERGENCE OF IT SOCIETY

Today, we are witnessing the IT revolution, the third revolution in social development following the agricultural and industrial revolutions. Because of this, a 21st century IT society is now taking shape. Driving the IT revolution, and serving as the basis for the IT society, is broadband, a domain that encompasses all three of the principal electronic technologies: television, telephones and microprocessors. In Japan, utilization of broadband has grown rapidly in just a few short years since the SOFTBANK Group launched its *Yahoo! BB* service. The broadband household penetration rate has exceeded 30%. Broadband will continue to develop as a means of communication that plays an increasingly vital role in our daily activities.

The use of broadband networks to link items of all kinds is taking us into the ubiquitous broadband age where information can be moved instantly from person to person, between people and machines, and from machine to machine anytime-anywhere. Free of the restraints of established concepts and common sense, companies will be launching a steady stream of new services that will bring about dramatic changes in lifestyles.

## THE SOFTBANK GROUP'S BROADBAND STRATEGY

Since its inception, the SOFTBANK Group has been conducting operations by envisioning these types of lifestyle changes. Following the appearance of the Internet, we quickly concentrated our management resources in this domain, conducting activities that use networks to enable people to share wisdom and knowledge. Broadband has been the nucleus of our operations for several years now. We constructed a proprietary large-scale IP network ahead of our competitors, basing it on the concept of supplying content not only as text but also voice and streaming content.

We believe that three strengths are essential to the execution of our broadband strategy: an unparalleled infrastructure, strong sales and marketing capabilities, and powerful content. The SOFTBANK Group's position as Japan's number-one provider of broadband infrastructure services is made possible by overwhelming superiority regarding our infrastructure, which employs a revolutionary IP network, and strength in sales and marketing gained through the distribution of IT-related products since the inception of SOFTBANK CORP. As we advance to the next stage, supplying powerful content will also be a key factor. We must become the leader in the content domain too, capturing even more synergies among group companies that are developing a diverse range of brands. Through these activities, our objective is to become a corporate group that can create and extend support for new lifestyles.

## A REVIEW OF RESULTS IN THE FISCAL YEAR ENDED MARCH 2004—THE ESTABLISHMENT OF A BROADBAND BUSINESS MODEL

In the fiscal year that ended in March 2004, sales in the core Broadband Infrastructure segment surpassed ¥100 billion, mainly a reflection of growth in paying customers at *Yahoo! BB*. While we continued to incur expenses for acquiring customers, growth in revenue and variable profit led to a substantial reduction in this segment's operating loss. This performance makes us confident that we have established a business model for the broadband domain. Excluding the Broadband Infrastructure segment, consolidated operating income was ¥32.7 billion. Moreover, although the consolidated net loss increased to ¥107.0 billion, the operating loss was ¥37.1 billion less than in fiscal 2003.

Turning to our financial position compared with the last fiscal year-end, there was a decline in the fiscal year-end equity ratio, but equity financing conducted during the year limited the decrease in shareholders' equity. A variety of other fund-raising activities were conducted during the fiscal year, resulting in a large increase in cash and cash equivalents at the end of the period compared with the last fiscal year-end.

During the fiscal year, an incident occurred concerning the unauthorized acquisition of *Yahoo! BB* customer information. We have already put in place countermeasures covering 649 items to prevent the reoccurrence of this type of incident. The entire group is devoted to building the best possible information security management system. We are determined to establish the *Yahoo! BB* brand as a symbol of "safety and reliability."

## BRIDGING THE DIGITAL DIVIDE—*Yahoo! BB* REACHES HACHIJOJIMA

In March 2004, we started offering the *Yahoo! BB* service on Hachijojima, an island under the jurisdiction of Tokyo. This move is rooted in our belief that everyone has an equal right to gain access to information. Residents of distant islands and other less-populated areas should be able to use the Internet and other networks just as residents of urban areas do. To establish an environment in which information can be readily accessed and utilized, the e-Japan Priority Policy Program of the Japanese government promotes the creation of a society in which everyone can enjoy the benefits of IT. Bridging the digital divide caused by geographic constraints is one issue that must be addressed to create this society. We are assisting in this process by providing infrastructure and services in areas where broadband communication services are not yet available. By playing a major role in bridging the digital divide, and in other ways, the SOFTBANK Group will fulfill its responsibility to society as a corporate citizen.

## MAXIMIZING SHAREHOLDER VALUE AS A 21st CENTURY LIFESTYLE COMPANY

We conduct broadband businesses with the goal of serving as a lifestyle company that can use broadband to make peoples' lives more enriching and enjoyable. By translating our vision and strategies into concrete businesses, we will strive to maximize value for shareholders, taking the SOFTBANK Group to an even higher plane. I hope that investors can share our philosophy and goals, and will continue to honor us with their support.

July 2004

*President and Chief Executive Officer*
**MASAYOSHI SON**

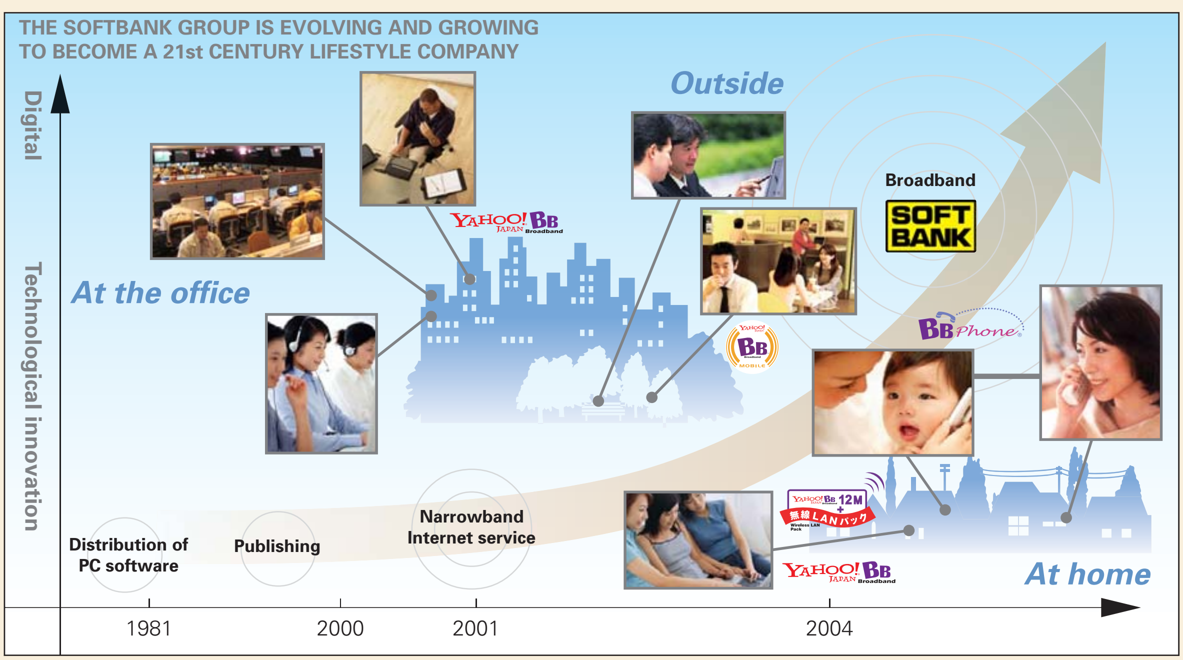
# FEATURE

# THE SOFTBANK GROUP AND BROADBAND BUSINESS

SOFTBANK CORP. began operations in 1981 as a distributor of software for PCs, the first step on the road toward achieving its vision of becoming the world's leading infrastructure provider in the information industry. We have grown over the years by enlarging our software distribution business, adding a publishing arm, and then rolling out businesses related to the narrowband Internet. Today, the SOFTBANK Group has evolved into a diversified corporate group with a large number of powerful Internet brands.

Since the mid-1990s, the SOFTBANK Group has followed a clear policy of concentrating management resources in the Internet domain. In 1995, an investment was made in U.S.-based Yahoo! Inc. and Yahoo Japan Corporation, the Japanese arm of this company, was established the following year. One of the first companies to spot the potential of the Internet, the SOFTBANK Group has been a driving force behind the popularization of the Internet business in Japan.

Today, the Internet industry is entering its second stage of growth, one that is driven by broadband network. Since our establishment, we had the foresight to anticipate the arrival of this era. This foresight was behind the September 2001 launch of the *Yahoo! BB* comprehensive broadband service. We view the advent of the IT society brought about by the IT revolution, the third great social revolution, as a rare opportunity, an event of the same magnitude as the agricultural and industrial revolutions. Drawing on more than two decades of knowledge, experience and technology in the IT industry, the SOFTBANK Group is now directing its collective strengths to the broadband business domain.



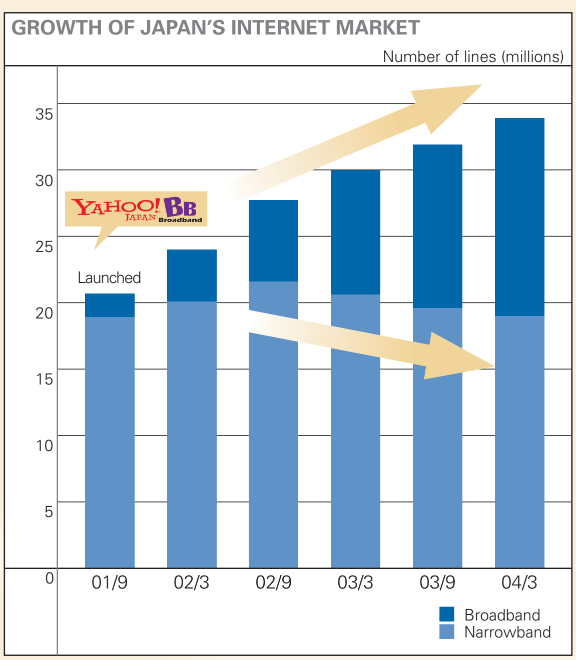
# THE RAPIDLY EXPANDING BROADBAND MARKETS OF JAPAN AND THE WORLD

Just a few years ago, Japan was viewed as an undeveloped country in the broadband world. But broadband has rapidly gained acceptance since the Japanese government took up the cause at a national level, such as by announcing the National Broadband Initiative in 2001. The SOFTBANK Group's *Yahoo! BB* service was another catalyst of the same magnitude. The launch of this service helped give Japan the world's highest broadband connection speeds along with subscription fees that are the lowest of any other major country or region [*1] where broadband is used. In all, dramatic improvements in the environment for using broadband have accompanied rapid growth in Japan's broadband market. Today, Japan ranks firmly among the broadband world's advanced nations.

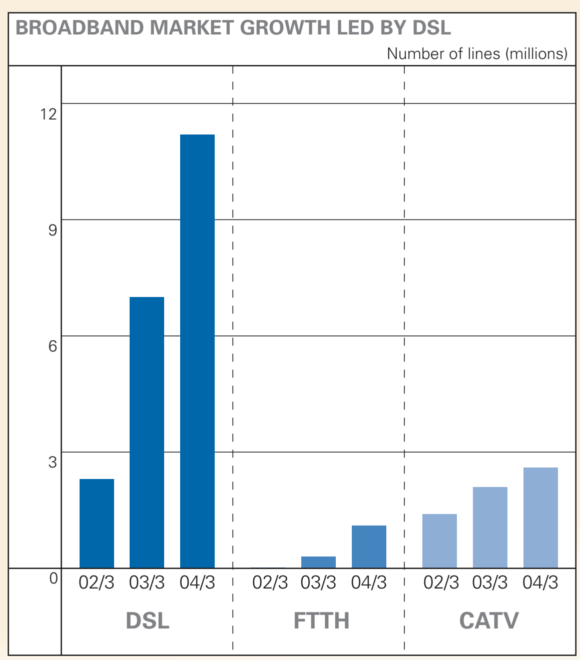
As narrowband Internet use declines, the number of broadband subscribers has grown fast, rising to 15.37 million at the end of April 2004, representing a penetration rate of more than 30% in Japan. DSL accounts for 75% of these broadband subscribers, or about 11.51 million. This is followed by cable TV Internet connections at 17% (2.62 million) and fiber-to-the-home (FTTH) at 8% (1.24 million) [*2]. The rising penetration rate of DSL is thus the primary source of growth in the broadband market in Japan, as is the *Yahoo! BB* comprehensive broadband service of the SOFTBANK Group, which has made an enormous contribution.

The broadband wave is now sweeping through China, other areas of Asia and the world with increasing speed. Rapidly rising penetration rates clearly indicate the existence of immense long-term growth potential in the broadband market.

[*1] Source: International Telecommunication Union
[*2] Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications




Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications




Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications

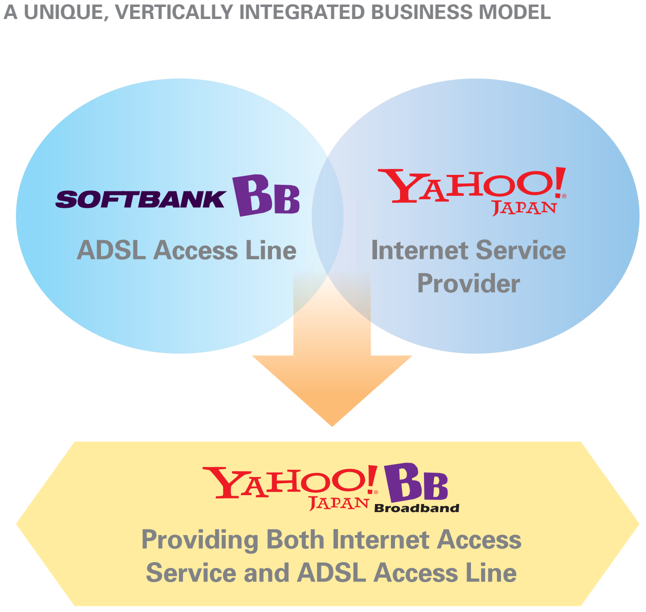
# THE *Yahoo! BB* BUSINESS MODEL AND SOFTBANK'S BROADBAND STRATEGY

Dedicated to growing and evolving with the broadband market, which presents unlimited opportunities, the SOFTBANK Group is establishing a highly competitive business model while conducting operations in line with a clearly defined strategy.

*Yahoo! BB* is based on a unique, vertically integrated business model that provides an ADSL access line and Internet access service within a group. Distinguishing this model most of all is that, although rates for each service are low, revenues and profitability per user can be increased by selling an increasing number of services to each subscriber. Furthermore, vertical integration, unlike the horizontal styles of other players that separate the ADSL and ISP (Internet Service Provider) functions, makes it possible to supply quality services with considerable flexibility. This is an invaluable advantage in conducting a business linked to the broadband business, where the pace of technological progress is rapid. Another strength of this business model is a low churn rate due to the provision of bundled services, so that subscribers use a number of services of the SOFTBANK Group.

A powerful infrastructure is an essential component of this business model. The SOFTBANK Group has used dark fiber (*1) to construct the world's largest full-IP backbone network using Gigabit Ethernet (*2) technology. Compared with conventional ATM-based networks, an IP backbone network has a much greater transmitting speed. By using dark fiber and inexpensive, yet highly sophisticated IP-based routers, we have created this network at a low cost. This has allowed us to pass the benefits on to users in the form of lower prices for *Yahoo! BB*-related services. Adding still more value to this network is that it was structured from the design phase to support a broad spectrum of services in the future. Now that our network can serve more than 90% of telephone lines in Japan, the enactment of measures to ensure stable network operation has become an important issue for us. Our Network Operations Center (*3) employs a highly sophisticated system to perform the centralized management of one of

**A UNIQUE, VERTICALLY INTEGRATED BUSINESS MODEL**




Network Operations Center

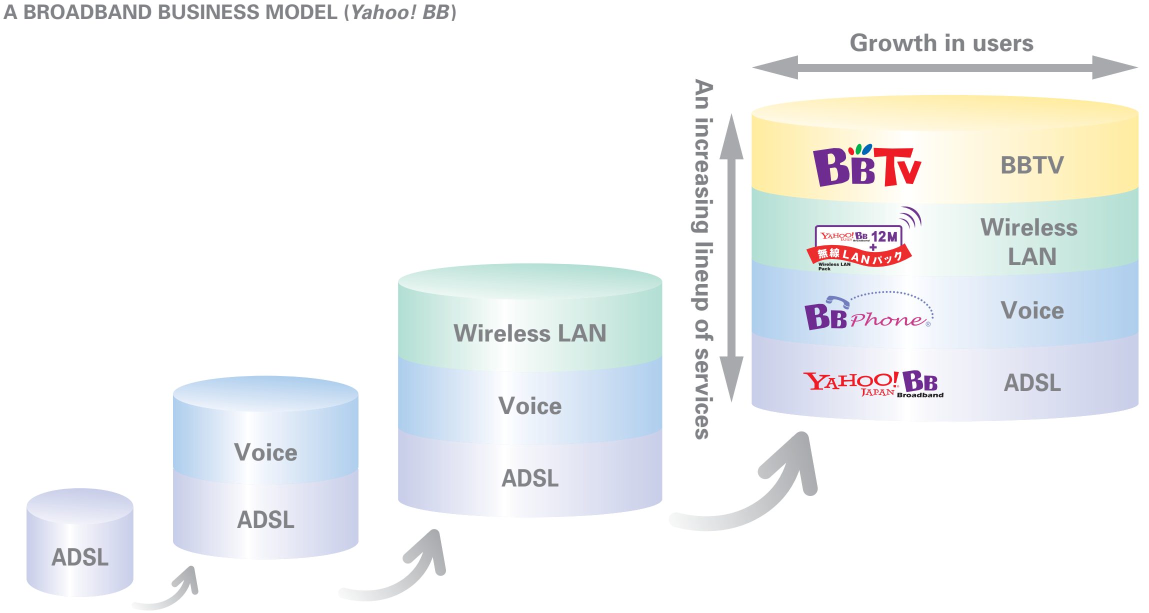
Japan's largest backbone networks. For disasters recovery, actions also include bolstering the risk management system by locating facilities at several locations in Japan and taking other measures.

Construction of the infrastructure was the first stage. Stage two entailed recovering the up-front investment in this infrastructure by acquiring more users and increasing market share to generate earnings and cash flows over the long term. Here again, the vertically integrated structure of the business model demonstrated its superiority. But another key to success is effective marketing activities to attract customers. In this regard, while taking advantage of relationships established by the SOFTBANK Group over more than two decades with IT industry vendors and resellers, we have conducted a variety of marketing activities, chiefly through the Internet, large retailers and outdoor marketing activities. Customer response has been strong, raising awareness of *Yahoo! BB* and enabling the acquisition of customers from an early stage in the launch of this service.

Now that the SOFTBANK Group has achieved great success in these two stages, we now have the top share in the Japanese broadband market. To build on this position of superiority, we are currently focusing on stage three, the development of content businesses. Since the launch of *Yahoo! BB*, emphasis has been placed on the content and service business, offering a variety of services and applications that include those using voice and streaming. *BB Phone* and *BBTV* [*4] are already operating. From this base, we are now targeting further gains in both the quantity and quality of our services.

[*1] Refers to fiber-optic cables that have been laid but are as yet unused.
[*2] LAN standard that raises the transmission speed of Ethernet to 1Gbps (1,000Mbps).
[*3] Base facilities of Internet network operators in which settled computers are connected directly to high-capacity backbone.
[*4] *BB Cable* TV was renamed *BBTV* on June 1, 2004.

**A BROADBAND BUSINESS MODEL (*Yahoo! BB*)**



# THE MANY ACCOMPLISHMENTS OF *Yahoo! BB*

Since its launch in September 2001, the *Yahoo! BB* comprehensive broadband service has grown to more than four million lines installed in March 2004, after only about 31 months of operations. At the end of May, this figure stood at approximately 4.188 million as this service remained a driving force behind the rapid expansion of Japan's broadband market. *Yahoo! BB* has the largest market share in broadband services among both Japan's telecommunications carriers and ISPs.

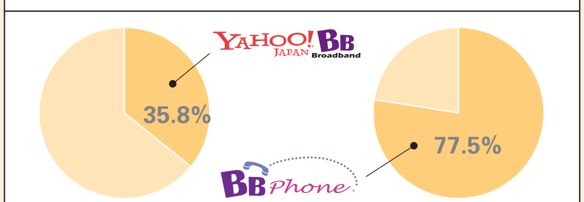
The *BB Phone* IP telephony service, which we launched ahead of other companies in April 2002, started the popularization of IP telephony services in Japan and continues to drive the growth of this market. By the end of May 2004, the number of lines installed was more than 3.952 million, giving *BB Phone* an overwhelming share of Japan's IP telephony service market.

We take advantage of our backbone to offer bundled services that produce consistent growth in ARPU (Average Revenue Per User). Our goal now is to increase the number of lines installed and paying customers. In addition we are enlarging the lineup of content and other services with a high degree of added value, thereby raising ARPU and boosting variable profitability.

One performance indicator that we watch closely is the churn rate. Excluding fluctuations caused mainly by seasonal factors, the monthly churn rate at *Yahoo! BB* has remained consistently low at about 1%, clear proof of our ability to maintain a high level of customer satisfaction. This is a reflection of the high marks customers give to the high quality, low cost and ease of use of our services, our 24-hour call center and other components of our customer support system tailored to respond to customers' needs. We will continue to concentrate on finding ways to offer services of an even higher caliber.

Our next target for the user base is six million lines installed by September 2005, an accomplishment that will lead to further growth as the leading company in the broadband market.

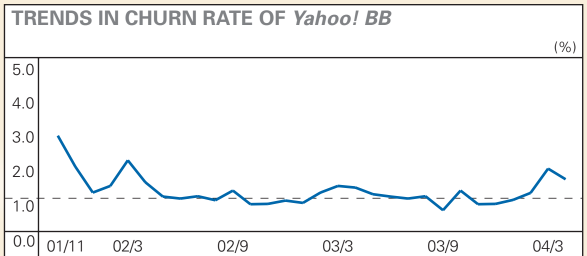
**MARKET SHARE**



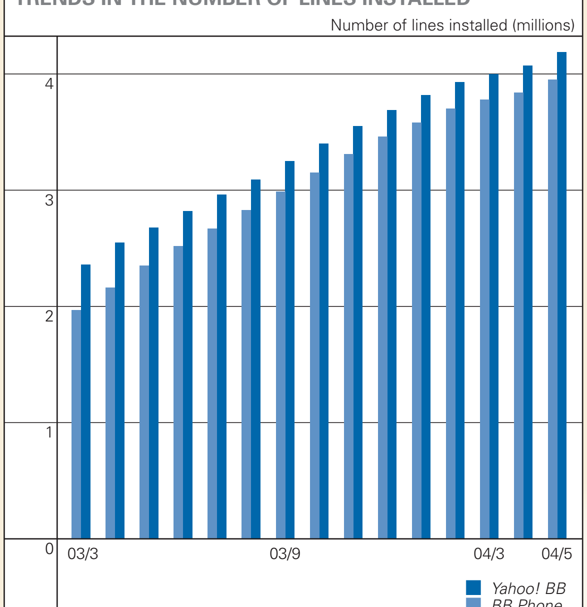

Source: "Information About the Spread of DSL Services," Ministry of Public Management, Home Affairs, Posts and Telecommunications, and SOFTBANK CORP. data

Source: "Report on the Competition Conditions of Broadband Services," Japan Fair Trade Commission (April 2004)

**TRENDS IN CHURN RATE OF *Yahoo! BB***




**TRENDS IN THE NUMBER OF LINES INSTALLED**



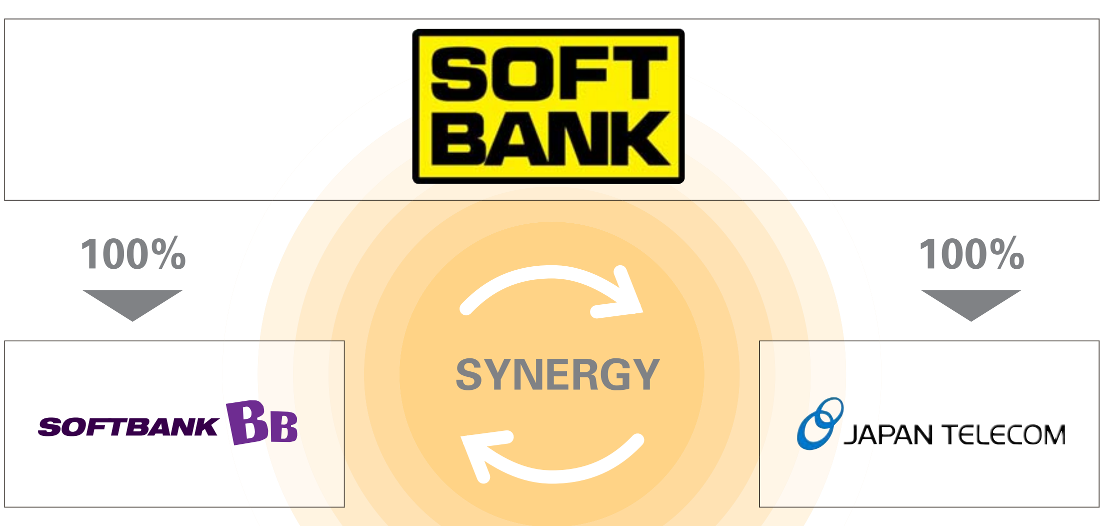
# BECOMING THE BROADBAND LIFESTYLE COMPANY

The SOFTBANK Group is poised to enter its second phase of growth, one driven by broadband rather than narrowband, as was the case during the first phase. To continue expanding, we are conducting businesses so as to take full advantage of our management resources. One is a broadband infrastructure that we built on our own. Also supporting growth is strong sales and marketing capabilities, a diverse group of companies with Internet-based activities and the largest customer base in Japan.

In May 2004, SOFTBANK CORP. announced that it would acquire JAPAN TELECOM CO., LTD. as one way to execute its broadband business strategy. Formerly the telecommunications division of Japan National Railways, JAPAN TELECOM CO., LTD. was established in 1984. Today, this company is a fixed-line telecommunications carrier with an extensive network infrastructure throughout Japan. This acquisition will transform the SOFTBANK Group into a telecommunications carrier with consolidated net sales of about ¥1,000 billion and lines serving about 10 million individual and corporate customers. A greater scale of operations is one benefit. But we will also use this acquisition to generate synergies by uniting the SOFTBANK Group's strength in the consumer market with the strength of JAPAN TELECOM CO., LTD. in the corporate market. By reinforcing corporate businesses, enlarging the base of individual users, gaining more channels for acquiring customers, enhancing networks and raising efficiency, we will offer an even broader service lineup to corporate and individual customers. Our goal is to offer new lifestyles and workstyles for the next generation.

The world today stands on the doorstep of the ubiquitous broadband age. Broadband will be a pivotal infrastructure that will dramatically alter how we lead our lives. Through the provision of revolutionary services precisely when and where they are needed, the SOFTBANK Group is determined to create new markets while contributing to society. We want our diverse selection of services distributed over broadband infrastructures to help make peoples' lives more enriching. The SOFTBANK Group will continue to grow and evolve as a lifestyle company that is constantly at the leading edge of progress.

**THE ACQUISITION OF JAPAN TELECOM CO., LTD.
WILL EXPAND THE SCALE OF BUSINESS ACTIVITIES AND PRODUCE SYNERGIES**



# DIRECTORS AND CORPORATE AUDITORS

As of June 24, 2004

## President & Chief Executive Officer

**Masayoshi Son**

## Directors

**Yoshitaka Kitao**
President & CEO,
SOFTBANK FINANCE CORPORATION

**Ken Miyauchi**
Executive Vice President & COO,
SOFTBANK BB Corp.

**Kazuhiko Kasai**

**Masahiro Inoue**
President & CEO,
Yahoo Japan Corporation

**Ronald D. Fisher**
Vice Chairman,
SOFTBANK Holdings Inc.

**Jun Murai, Ph.D.**
Professor, Faculty of Environmental Information,
KEIO University

**Tadashi Yanai**
Chairman & CEO,
FAST RETAILING CO., LTD.

## Corporate Auditors

**Mitsuo Sano**
Full-time Corporate Auditor,
SOFTBANK CORP.

**Soichiro Uno**
Attorney

**Kouichi Shibayama**
(Zeirishi-Hojin ChuoAoyama (PricewaterhouseCoopers)/ Advisor)

**Hidekazu Kubokawa**
Certified Public Accountant,
Certified Tax Accountant

Note: Mr. Soichiro Uno, Mr. Kouichi Shibayama, and Mr. Hidekazu Kubokawa, candidates for the reappointment of Corporate Auditors, satisfy the qualifications of outside corporate auditors as provided in Paragraph 1, Article 18 of the "Law for Special Measures under the Commercial Code Concerning Audit, etc. of Kabushiki-kaisha."

# SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Years ended March 31

| | | | | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | **2004** | **2004** |
| **For the year:** | | | | | | | |
| Sales | ¥528,159 | ¥ 423,221 | ¥ 397,105 | ¥ 405,315 | ¥406,892 | **¥ 517,394** | **$ 4,895,391** |
| Operating income (loss) | 12,130 | 8,378 | 16,431 | (23,901) | (91,997) | **(54,894)** | **(519,386)** |
| Income (loss) before income taxes and minority interest | 36,640 | 32,169 | 87,010 | (119,940) | (71,475) | **(76,745)** | **(726,130)** |
| Net income (loss) | 37,538 | 8,447 | 36,631 | (88,755) | (99,989) | **(107,094)** | **(1,013,285)** |
| **At year-end:** | | | | | | | |
| Interest-bearing debts | ¥444,392 | ¥ 418,706 | ¥ 413,442 | ¥ 365,645 | ¥340,796 | **¥ 575,541** | **$ 5,445,557** |
| Shareholders' equity | 284,976 | 380,740 | 424,261 | 465,326 | 257,397 | **238,081** | **2,252,634** |
| Total assets | 952,578 | 1,168,308 | 1,146,083 | 1,163,679 | 946,331 | **1,421,207** | **13,446,935** |
| Shareholders' equity ratio (%) | 29.9 | 32.6 | 37.0 | 40.0 | 27.2 | **16.8** | **16.8** |
| Return on equity (%) | 14.2 | 2.5 | 9.1 | (20.0) | (27.7) | **(43.2)** | **(43.2)** |

| | | | | | | Yen | U.S. dollars |
|---|---|---|---|---|---|---|---|
| **Per share:** | | | | | | | |
| Net income (loss)-primary | ¥121.79 | ¥ 26.02 | ¥ 110.47 | ¥ (263.53) | ¥(296.94) | **¥(314.72)** | **$(2.98)** |
| Shareholders' equity | 906.45 | 1,152.18 | 1,260.14 | 1,381.31 | 767.56 | **677.40** | **6.41** |
| Cash dividends | 20.00 | 20.00 | 7.00 | 7.00 | 7.00 | **7.00** | **0.07** |

Notes: 1. Yen figures have been translated into U.S. dollars, for convenience only, at the rate of ¥105.69=U.S.$1.00, the exchange rate prevailing on March 31, 2004.

2. Sales represents sales from non-financial business and revenue from financial business.

3. Effective from fiscal 2003, shareholders' equity per share and net income (loss) per share are calculated in accordance with "Accounting Standards for Earnings per Share" (Financial Accounting Standards No. 2) and "Implementation Guidance for Accounting Standards for Earnings per Share" (Financial Accounting Standards Implementation Guidance No. 4).

4. Net income (loss) per share is calculated based on the weighted-average number of shares issued and outstanding during each fiscal year, and shareholders' equity per share is calculated based on the number of shares outstanding as of each fiscal year-end.

These figures are retroactively adjusted to reflect the following stock splits:

June 23, 2000 3:1

# FINANCIAL ANALYSIS

## Operating Environment

During fiscal 2004, the fiscal year ended March 31, 2004, Japan's economy was generally flat in the first half due to persistent deflation. In the second half, however, exports and industrial output began to grow slowly again due to an economic uptick in the U.S. and elsewhere in the world. A continuation in the upturn in corporate earnings, rising capital expenditures and other factors further contributed to a steady recovery in the Japanese economy. In this environment, steady growth continued in Japan's broadband communication market, with expansion driven by the *Yahoo! BB* comprehensive broadband service, which the SOFTBANK Group started offering on a commercial basis in September 2001. At the end of March 2004, there were 14.92 million broadband communication subscribers in Japan, representing a penetration rate of more than 30%. Broadband services in Japan have advanced to the stage where they are regarded as the fastest and most inexpensive in the world.

Based on its vision of using broadband to accelerate the IT revolution and make it a success, the SOFTBANK Group in fiscal 2004 continued to place the highest priority on the broadband business domain. The Group thus continued activities to increase its customer base, with the aim of expanding business to maximize future earnings and cash flows. As a result, the Group reported an operating loss, ordinary loss and net loss for the year, primarily due to customer-acquisition costs and other up-front expenses. However, net sales were higher than in fiscal 2003 and there was a large decline in the operating loss. Furthermore, the number of *Yahoo! BB* customers was more than 4 million at the end of March 2004, firmly positioning this service as the leader among Japan's communications carriers and ISPs. Outside the Broadband Infrastructure segment, businesses were conducted so as to maximize synergies between this segment and group companies. Examples of this policy include the Internet auction and advertising businesses of Yahoo Japan Corporation and BB Cable Corporation's *BB Cable TV* * broadcasting service, which uses *Yahoo! BB* subscriber lines.

* *BB Cable TV* was renamed *BBTV* on June 1, 2004.

## SOFTBANK Group's Organizational Structure

As of March 31, 2004, the SOFTBANK Group consisted of 177 subsidiaries and 103 affiliates. Operations are divided into eight business segments: Broadband Infrastructure, e-Commerce, e-Finance, Media & Marketing, Broadmedia, Internet Culture, Technology Services and Overseas Funds. As a pure holding company, SOFTBANK CORP. manages and coordinates the Group's diverse businesses, mainly through its board of directors and CEO Conference, while respecting the independence and specialized knowledge of each group company, and is working to strengthen its group management system.

## Strengthened Corporate Governance

The SOFTBANK Group conducted measures to strengthen its corporate governance in order to maximize its enterprise value and the value of the entire group, as well as to conduct management with an emphasis on shareholders and cash flows.

SOFTBANK CORP. adopts the corporate auditor system. To ensure fairness and transparency, the majority of corporate auditors are from outside the Group. Other key components of the corporate governance system are the eight-member board of directors, which includes two external directors, and the CEO Conference, which is made up of the directors, CEOs of each business segment and other executives.

From the standpoint of stressing accountability to stakeholders, the Group began releasing quarterly results of operations beginning with the first quarter of fiscal 2004, thus better disclosing information in a timely and appropriate manner. In the first and third quarters, the Group released information on the same level as in its interim financial statements.

To strengthen the management system for information security, a number of concrete actions were taken. At SOFTBANK BB Corp., a Chief Information Security Officer (CISO) was appointed and two committees were established: the Privacy Management Advisory Board, and the Technical Advisory Board. Both are made up of experts in information security from outside the Group. In addition, to reinforce the information security management system across the Group, the entire Group is taking concrete actions, including the appointment of a CISO at each company and development of a security policy applicable to the entire Group.

## Factors Underlying Fluctuations in Consolidated Results

The following is a list of some significant items that may have an effect on the operating results, financial position and other aspects of the SOFTBANK Group's operations.

(I) The Group is active in a broad range of markets including broadband-related markets, IT-related distribution markets, securities transaction markets and other markets. Demand for services and products supplied by the Group is dependent on economic conditions, trends in these markets and other factors.

(II) In the IT industry, where the Group conducts its business activities, technological innovation is rapid and competition among participants is increasing. The provision of services by the Group and trends in demand for services supplied by the Group are subject to trends in IT industry technological innovation and competition among participants.

(III) The Group's business activities are governed by a variety of laws and regulations including, but not limited to, the Telecommunications Business Law and the Securities and Exchange Law. Revisions to these laws and regulations, and the establishment of new laws and regulations in the future, may prevent the Group from conducting its business activities as expected.

(IV) Valuations of investment securities held by the Group are affected by economic and stock market conditions in Japan and overseas, and trends in foreign exchange markets. Furthermore, loans between the Company and its overseas subsidiaries, the import of communications equipment and other activities are vulnerable to trends in foreign exchange markets.

(V) The Group may not be able to operate new businesses as expected. For example, the Group has acquired a preliminary license to conduct tests regarding TD-CDMA and CDMA2000, which are third-generation mobile phone standards. Although tests are now under way, the Group's entry into a third-generation mobile phone business will depend on the ability to obtain a commercial license, the trends in demand for this service and other factors.

(VI) The Group uses dark-fiber owned by NIPPON TELEGRAPH AND TELEPHONE CORPORATION ("NTT") to conduct its broadband infrastructure business. The Group has installed its communications equipment at NTT's central offices and pays NTT a connection fee. Furthermore, the *Yahoo! BB* comprehensive broadband service, which is a core service of the broadband infrastructure business, depends on the *Yahoo!* brand of Yahoo! Inc. If there is any change in the relationship between the Group and these companies, the Group may no longer be able to conduct its business activities as expected.

Please note that this is not a complete list of factors that could affect operating results. Furthermore, these risk factors are current as of March 31, 2004.

## Outline of Consolidated Results

### Sales

Net sales increased ¥110,502 million, or 27%, to ¥517,394 million. Net sales increased ¥88,899 million to ¥128,907 million in the Broadband Infrastructure segment due to growth in the number of paying customers for the *Yahoo! BB* service and other factors. In addition, net sales increased in the Internet Culture and e-Finance segments.

### Operating Income

The operating loss decreased ¥37,103 million to ¥54,894 million. Operating income increased ¥15,700 million to ¥32,582 million in the Internet Culture segment, and the e-Finance segment reported operating income of ¥5,911 million compared with the prior year's loss of ¥5,823 million. In addition, the operating loss in the Broadband Infrastructure segment decreased due to the increase in net sales and other factors. Aggregate operating income for the segments outside the broadband infrastructure continued to increase, rising to ¥32,703 million.

### Net Income

The net loss increased ¥7,105 million to ¥107,094 million.
Details regarding income and expense items are as follows:

Interest expense, net: ¥11,252 million

Interest expense, net increased ¥3,603 million due to the issuance of convertible bonds and straight bonds, an increase in long-term debt and other additions to interest-bearing debts.

Equity in loss under the equity method, net: ¥2,276 million

There was a gain of ¥11,108 million in fiscal 2003, but in fiscal 2004 there was a decline in equity in gain in Aozora Bank, Ltd., due to the sale of all shares in this company during the fiscal year, and there was equity in loss, mainly from overseas investments.

Foreign exchange gain, net: ¥6,508 million

This income mainly reflects foreign exchange gains caused by the appreciation of the yen on loans to overseas subsidiaries from SOFTBANK CORP.

Valuation loss on inventories: ¥10,053 million

The Broadband Infrastructure segment posted inventory valuation losses associated with modems and other equipment purchased for its start-up phase.

Gain on sales of marketable and investment securities, net: ¥27,015 million

(Major items)

SOFTBANK INVESTMENT CORPORATION ..... ¥10,398 million
UTStarcom, Inc. .......................... ¥9,043 million
cyber communications inc. ................. ¥7,857 million
E*TRADE SECURITIES CO., LTD. ............. ¥5,846 million
Aozora Bank, Ltd. ........................ ¥(10,272 million)

Special expenses for information security measures: ¥3,177 million

This expense mainly represents the cash vouchers that were distributed to customers in association with the unauthorized acquisition of *Yahoo! BB* customer data.

### Income Taxes

Current income tax totaled ¥24,530 million. Deferred income tax was ¥9,337 million. The total tax provision in fiscal 2004 was ¥15,193 million, resulting in a tax rate per statement of income of negative 19.80%. The difference between the effective tax rate and statutory tax rate of 42.05% was mainly attributable to the valuation allowance established against the deferred assets on operating tax loss carry-forwards of certain consolidated subsidiaries.

## Outline of Consolidated Business Results by Segment

### Sales

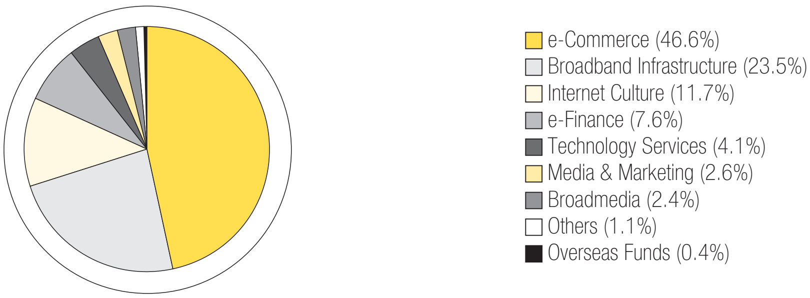
| | Millions of yen | | (%) |
|---|---|---|---|
| | 2003 | **2004** | Change |
| Broadband Infrastructure | ¥ 40,008 | **¥128,907** | 222 |
| e-Commerce | 266,086 | **254,889** | (4) |
| e-Finance | 28,167 | **41,427** | 47 |
| Media & Marketing | 16,914 | **14,408** | (15) |
| Broadmedia | 11,945 | **12,893** | 8 |
| Internet Culture | 38,201 | **64,055** | 68 |
| Technology Services | 25,729 | **22,603** | (12) |
| Overseas Funds | 3,277 | **2,444** | (25) |
| Others | 15,862 | **5,872** | (63) |

The above numbers include inter-segment sales.

### Operating Income (loss)

| | Millions of yen | | (%) |
|---|---|---|---|
| | 2003 | **2004** | Change |
| Broadband Infrastructure | ¥(96,205) | **¥(87,597)** | – |
| e-Commerce | 2,466 | **3,647** | 48 |
| e-Finance | (5,823) | **5,911** | – |
| Media & Marketing | (522) | **(1,093)** | – |
| Broadmedia | (1,616) | **(3,305)** | – |
| Internet Culture | 16,882 | **32,582** | 93 |
| Technology Services | 1,113 | **736** | (34) |
| Overseas Funds | 1,991 | **1,376** | (31) |
| Others | (6,384) | **(3,966)** | – |

[ Share of Sales by Segment ]




### Broadband Infrastructure
### (15 consolidated subsidiaries and 7 affiliates accounted for under the equity method)

Main sources of sales: ADSL high-speed Internet connection service and IP telephony service; fiber-optic ultra-high-speed Internet connection service and other operations

Sales increased ¥88,899 million, or 222%, to ¥128,907 million. Expansion in the scale of the *Yahoo! BB* service contributed to sales growth at SOFTBANK BB Corp. and ISP revenue increase at Yahoo Japan Corporation. As a result, this segment has developed into a business generating annual sales of more than ¥100 billion. Mainly due to customer acquisition costs, the operating loss was ¥87,597 million, but this was ¥8,608 million less than in fiscal 2003 due to growth in the number of paying customers and other factors.

### e-Commerce
### (18 consolidated subsidiaries and 7 affiliates accounted for under the equity method)

Main sources of sales: Distribution of PC software and such hardware as PCs and peripherals; enterprise solutions; diversified e-commerce businesses, including business transaction platform (B2B) and consumer-related e-commerce (B2C)

Sales decreased ¥11,197 million, or 4%, to ¥254,889 million. This was attributable to the decrease in sales of software to consumers due to a drop in average unit prices and other factors, whereas the solutions business, mainly involving security, and hardware posted strong sales at SOFTBANK BB Corp. Operating income increased ¥1,181 million, or 48%, to ¥3,647 million. This was the result of reducing selling, general and administrative expenses by rationalizing personnel, logistics and other expenses and also growth in the solutions business, which has a high profit margin, at SOFTBANK BB Corp., especially in the second half.

Among other companies in this segment, operating results were generally better compared with fiscal 2003. In particular, Carview Corporation and eCareer CORP. (now SOFTBANK Human Capital Corp.) and other companies continued to post growth in net sales and operating income.

### e-Finance
### (42 consolidated subsidiaries and 9 affiliates accounted for under the equity method)

Main sources of revenues: All-inclusive financial operations, including on-line securities business; management of domestic venture capital funds; incubation of portfolio companies

Revenue increased ¥13,260 million, or 47%, to ¥41,427 million. A major source of growth was the sales growth following the acquisition of a controlling stake in WORLD NICHIEI Securities Co., Ltd.* by SOFTBANK INVESTMENT CORPORATION in October 2003. Other factors were an increase in brokerage commission revenue and financial income from interest and dividends at E*TRADE SECURITIES CO., LTD. due to the higher trading volume in Japan's active stock markets. The segment recorded operating income of ¥5,911 million compared with the loss of ¥5,823 million in fiscal 2003. In addition to increased operating income at E*TRADE SECURITIES CO., LTD. and the contribution of WORLD NICHIEI FRONTIER Securities Co., Ltd., the operating income benefited from a decrease in the valuation loss on operational investment securities and a gain on sale of operational investment securities of SOFTBANK INVESTMENT CORPORATION.

This segment recorded a ¥10,398 million gain on sale of investment securities, resulting from the partial sale of shares held in SOFTBANK INVESTMENT CORPORATION.

* WORLD NICHIEI Securities Co., Ltd. and SOFTBANK FRONTIER SECURITIES CO., LTD. merged in February 2004 to form WORLD NICHIEI FRONTIER Securities Co., Ltd.

## Media & Marketing

### (10 consolidated subsidiaries and 6 affiliates accounted for under the equity method)

Main sources of sales: Book and magazine publication in such areas as PCs, the Internet, entertainment, etc.; development of web content specialized in IT

Sales decreased ¥2,506 million, or 15%, to ¥14,408 million and the operating loss increased ¥571 million to ¥1,093 million. This performance mainly reflects lower sales of magazines and books at SOFTBANK Publishing Inc. amid a prolonged slump in the publishing market.

## Broadmedia

### (14 consolidated subsidiaries and 2 affiliates accounted for under the equity method)

Main sources of sales: Provision of applications and content for broadband broadcasting and communications and promoting the spread of such operations

Sales increased ¥948 million, or 8%, to ¥12,893 million and the operating loss increased ¥1,689 million to ¥3,305 million. This was mainly attributable to depreciation expenses, leasing fees, development-related expenses, content expenses and others at BB Cable Corporation, which operates the *BB Cable TV** service via the ADSL network.

* *BB Cable TV* was renamed *BBTV* on June 1, 2004.

## Internet Culture

### (17 consolidated subsidiaries and 5 affiliates accounted for under the equity method)

Main sources of sales: Internet-based advertising operations; broadband portal business; Internet-based auction business

Sales increased ¥25,854 million, or 68%, to ¥64,055 million and operating income was up ¥15,700 million, or 93%, to ¥32,582 million. Amid signs of recovery in the overall Japanese advertising market, Yahoo Japan Corporation aggressively sold major advertising products to National Clients*, such as *Brand Panels* for top pages and others, capturing more advertising business from these clients. Sponsor site related sales were also favorable, helping to raise advertising sales to a new record high. In the auction business at Yahoo Japan Corporation, a new system was introduced to boost its server capacity and other infrastructure components were added, enabling this business to handle more than 10 million items. Moreover, monthly system-use fees for stores were lowered in order to increase auction stores and a package discount was introduced for stores that also open stores on Yahoo! Shopping. As a result, auction sales increased substantially.

* Advertisers with significant exposure through other mass media channels.

## Technology Services

### (7 consolidated subsidiaries and 3 affiliates accounted for under the equity method)

Main sources of sales: Systems solution business; business solution business

Sales decreased ¥3,126 million, or 12%, to ¥22,603 million. There was an increase in sales relating to the backoffice service of SOFTBANK TECHNOLOGY CORP., which handles everything from sales to billing and bill collection on e-commerce sites. However, net sales in the ADSL sales support service declined. Operating income decreased ¥377 million, or 34%, to ¥736 million. This was mainly the result of a decline in the gross margin in the broadband solution business and increase of personnel expenses associated with new businesses at SOFTBANK TECHNOLOGY CORP.

## Overseas Funds

### (38 consolidated subsidiaries and 61 affiliates accounted for under the equity method)

Main sources of revenues: U.S.-and Asia-focused global venture capital business with a main focus on Internet-related companies

Revenue decreased ¥833 million, or 25%, to ¥2,444 million. Operating income was down ¥615 million, or 31%, to ¥1,376 million. This was mainly due to lower fund management fees at SOFTBANK Holdings Inc.

## Others

### (16 consolidated subsidiaries and 3 affiliates accounted for under the equity method)

Main sources of sales: Holding company functions for overseas operations; back-office services in Japan

Sales decreased ¥9,990 million, or 63%, to ¥5,872 million, mainly a reflection of lower sales at SOFTBANK Commerce Korea Corporation. The operating loss decreased ¥2,418 million to ¥3,966 million.

## Balance Sheet Analysis

### Current Assets

Current assets increased ¥480,504 million to ¥887,941 million. There was a ¥179,521 million increase in cash and deposits mainly due to the issuance of convertible bonds (¥150,000 million), common stock (¥48,681 million) and straight bonds (400 million euros, equivalent to ¥55,316 million). In addition, marketable securities increased ¥108,599 million due to a loan through a subsidiary in the United States of America that temporarily invested the funds in short-term investment trust. There was an increase of ¥193,155 million in cash segregated as deposits related to securities business and receivables related to margin transactions due to an increase in margin accounts and number of transactions at E*TRADE SECURITIES CO., LTD. and the inclusion of WORLD NICHIEI Securities Co., Ltd. in the scope of consolidation.

### Property and Equipment

Property and equipment, net increased ¥12,930 million to ¥115,179 million. Transmission equipment increased ¥12,947 million, mainly at SOFTBANK BB Corp. due to growth in the number of lines installed for its *Yahoo! BB* service.

### Investments and Other Assets

Investments and other assets decreased ¥13,345 million to ¥399,002 million. Major changes were as follows.

| | |
|---|---|
| Aozora Bank, Ltd.: Decrease due to sale of all shares | ¥(104,763 million) |
| Yahoo! Inc.: Increase in market value and other items | ¥61,366 million |
| UTStarcom, Inc.: Reflects revaluation of shares after this company was excluded as an equity-method affiliate | ¥23,906 million |

### Total Liabilities

Total liabilities increased ¥447,409 million to ¥1,090,338 million. There was a ¥72,723 million decrease in short-term borrowings but a ¥165,470 million increase in payables related to margin transactions and guarantee deposits received from customers related to securities business mainly at E*TRADE SECURITIES CO., LTD. and WORLD NICHIEI FRONTIER Securities Co., Ltd. Regarding long-term liabilities, corporate bonds (long-term liabilities) increased ¥175,259 million due to the issuance of convertible bonds and straight bonds, and long-term borrowings increased ¥134,327 million due to loans through a subsidiary in the United states of America and other loans.

### Shareholders' Equity

Shareholders' equity decreased ¥19,316 million to ¥238,081 million. Accumulated deficits increased ¥109,595 million due to the net loss, while net unrealized gain on other securities in relation to stock in Yahoo! Inc., UTStarcom, Inc. and certain other companies increased ¥65,603 million. In addition, the issuance of common stock raised common stock by ¥24,436 million and additional paid-in capital by ¥24,458 million.

## Cash Flow Analysis

Cash flows were positive in fiscal 2004 as cash was provided by investing and financing activities while cash was used in operating activities. As a result, cash and cash equivalents at the end of fiscal 2004 totaled ¥437,133 million, an increase of ¥289,607 million from the end of fiscal 2003.

| | Millions of yen | |
|---|---|---|
| | 2003 | **2004** |
| Net cash used in operating activities | ¥(68,601) | **¥(83,829)** |
| Net cash provided by investing activities | 119,750 | **81,878** |
| Net cash (used in) provided by financing activities | (17,616) | **306,390** |
| Effect of exchange rate changes | (5,728) | **(13,459)** |
| Net increase in cash and cash equivalents | 27,805 | **290,980** |
| Increase in cash and cash equivalents due to newly consolidated companies | 61 | **–** |
| Decrease in cash and cash equivalents due to exclusion of previously consolidated entities | (195) | **(1,373)** |
| Cash and cash equivalents at the beginning of the year | 119,855 | **147,526** |
| Cash and cash equivalents at the end of the year | 147,526 | **437,133** |

### Net Cash Used in Operating Activities

Net cash used in operating activities increased ¥15,228 million to ¥83,829 million. Loss before income taxes and minority interest was ¥76,745 million, mostly the result of the operating loss in the Broadband Infrastructure segment, interest paid was ¥11,206 million and income taxes paid, net of refund were ¥12,407 million. Depreciation and amortization increased ¥11,961 million to ¥32,865 million.

### Net Cash Provided by Investing Activities

Net cash provided by investing activities decreased ¥37,872 million to ¥81,878 million. ¥61,472 million was used for purchase of property and equipment and intangibles, mainly transmission equipment at SOFTBANK BB Corp., and ¥38,945 million for purchase of marketable and investment securities. However, there were proceeds of ¥151,137 million from sale of marketable and investment securities, including shares held in Aozora Bank, Ltd. and UTStarcom, Inc. There were also proceeds of ¥29,213 million from the partial sale of shares held in certain consolidated subsidiaries, including E*TRADE SECURITIES CO., LTD. and SOFTBANK INVESTMENT CORPORATION.

| Proceeds from major sales of marketable and investment securities | |
|---|---|
| Aozora Bank, Ltd. | ¥100,635 million |
| UTStarcom, Inc. | ¥15,762 million |
| cyber communications inc. | ¥8,707 million |

| Major proceeds from partial sales of shares in consolidated subsidiaries | |
|---|---|
| E*TRADE SECURITIES CO., LTD. | ¥14,945 million |
| SOFTBANK INVESTMENT CORPORATION | ¥12,643 million |

### Net Cash Provided by Financing Activities

Net cash provided by financing activities increased ¥324,006 million to ¥306,390 million. Despite the use of ¥76,852 million for repayment of short-term borrowings, net, ¥56,871 million for redemption of bonds and ¥50,994 million for repayment of long-term debt, there were proceeds of ¥216,636 million from the issuance of convertible bonds and straight bonds, ¥48,631 million from the issuance of shares and ¥204,829 million from long-term debt, mainly through a subsidiary in the United States of America.

## Interest-Bearing Debts, Liquidity on Hand and Fund Procurement

### Interest-Bearing Debts and Liquidity on Hand

Interest-bearing debts as of March 31, 2004 were ¥575,541 million, a ¥234,745 million increase from fiscal 2003. During the fiscal year, the Company issued convertible bonds and straight bonds, and long-term debt due to loan through a subsidiary in the United States of America, and conducted other activities to ensure a strong level of liquidity, thus preserving a financial position that is largely immune to changes in economic and market conditions.

As of March 31, 2004, liquidity, which the Company defines as the sum of cash and deposits and marketable securities (current assets), was ¥440,683 million, a ¥288,120 million increase from fiscal 2003. The Company will continue to preserve a suitable level of liquidity in consideration of future business activities, bond redemptions and other items.

### Fund Procurement

In segments other than Broadband Infrastructure, each business is clearly projected to be self-reliant for operating funds. In the Broadband Infrastructure segment, the Group has a policy of using a variety of channels to procure the required funds for operations and the repayment of debt.

In fiscal 2004, the Group procured funds through a variety of channels to preserve the necessary level of liquidity. Among these actions were sales of investment securities and stock in affiliates in conjunction with a realignment of the business portfolio, the use of leases, the sale of asset-backed securities, the issuance of stock, convertible bonds and straight bonds, and bank loans. Although the equity ratio as of March 31, 2004 was lower than one year earlier, the Group supplemented its equity position through equity financing during the fiscal year.

The Group will continue to manage its financial position by conducting diverse fund procurement channels as required, and effectively manage its finances in consideration of appropriate leverage levels and optimal capitalization composition, a process that includes reducing the cost of capital.

## Acquisition of All Shares of JAPAN TELECOM CO., LTD.

On May 27, 2004, SOFTBANK CORP. announced its decision to acquire JAPAN TELECOM CO., LTD. at a total cost of approximately ¥340.0 billion. JAPAN TELECOM CO., LTD. had revenues of ¥347.1 billion in the fiscal year that ended on March 31, 2004. The acquisition of all outstanding shares (about 144 million) is to take place on November 16, 2004. The cost represents a projected cash payment of about ¥143.3 billion and the assumption of net interest-bearing debt of about ¥164.0 billion.

This acquisition will expand the scale of business of the SOFTBANK Group as well as combine the SOFTBANK Group's large base of individual customers with the user base of JAPAN TELECOM CO., LTD., which excels in the provision of corporate services. This combination will strengthen services for companies and generate other synergies. The acquisition is expected to yield two primary benefits: (1) higher earnings due to the shift of narrow-band customers at JAPAN TELECOM CO., LTD. to broadband, the integration of sales activities and other benefits; (2) cost reductions due to the integration of networks, customer support, and products and services, as well as the creation of a more efficient organization and other benefits.

## Market Capitalization at Fiscal 2004 Year-End

The following table lists the market capitalization of main companies invested in directly by the SOFTBANK Group's holding companies (including SOFTBANK BB Corp.) in Japan and overseas:

Year ended March 31, 2004 (Billions of yen)

| Company Names | Market | Market Capitalization(*1) | Interest % (including indirect holdings)(*2) | SOFTBANK's Portion of Market Capitalization |
|---|---|---|---|---|
| Club iT Corporation | Hercules: 4347 | 13.7 | 86.5% | 11.8 |
| cyber communications inc. | Mothers/Hercules: 4788 | 54.3 | 20.0% | 10.8 |
| Morningstar Japan K.K. | Hercules: 4765 | 13.9 | 50.5% | 7.0 |
| M.P. Technologies, Inc. | Mothers: 3734 | 21.7 | 24.4% | 5.3 |
| SOFTBANK INVESTMENT CORPORATION | TSE First/OSE First: 8473 | 280.4 | 47.2% | 132.3 |
| SOFTBANK TECHNOLOGY CORP. | JASDAQ: 4726 | 26.5 | 59.9% | 15.9 |
| UTStarcom, Inc. | NASDAQ: UTSI | 355.8 | 12.5% | 44.5 |
| Vector Inc. | Hercules: 2656 | 21.2 | 46.9% | 9.9 |
| Yahoo! Inc. | NASDAQ: YHOO | 3,407.4 | 4.0% | 134.7 |
| Yahoo Japan Corporation | TSE First: 4689 | 4,790.4 | 41.9% | 2,007.6 |
| Other | | | | 1.5 |
| Total | | | | 2,381.8 |

Notes: 1. Market capitalization was calculated based on the closing prices of stocks on March 31, 2004. The value of foreign stocks was translated into yen at the exchange rate prevailing on that day.

2. Interest percentage refers to the ratio of economic interests (SOFTBANK Corp.'s ownership ratio in the subsidiary x the subsidiary's ownership ratio in the investee), excluding the interests of venture capital funds managed by SOFTBANK Corp.'s subsidiaries.

3. On March 8, 2004, shares of M.P. Technologies, Inc. were listed on the Tokyo Stock Exchange Mothers market.

4. On October 14, 2003, shares of cyber communications inc. were listed on the Tokyo Stock Exchange Mothers market.

5. On June 2, 2003, SOFTBANK INVESTMENT CORPORATION and E*TRADE Japan K.K. merged to form the new SOFTBANK INVESTMENT CORPORATION.

6. On October 28, 2003, shares of Yahoo Japan Corporation were listed on the First Section of the Tokyo Stock Exchange and JASDAQ trading was terminated.

# CONSOLIDATED BALANCE SHEETS

SOFTBANK CORP. AND CONSOLIDATED SUBSIDIARIES

| | Millions of yen | | Thousands of U.S. dollars (note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and deposits (notes 3(13), 15(1) and 27) | ¥147,503 | ¥ 327,024 | $ 3,094,178 |
| Notes and accounts receivable-trade (notes 8, 15(1) and 15(2)) | 64,255 | 87,982 | 832,457 |
| Marketable securities (notes 3(7), 13, 17 and 27(1)) | 5,060 | 113,659 | 1,075,403 |
| Inventories (notes 3(3), 9 and 15(1)) | 42,202 | 25,065 | 237,154 |
| Cash segregated as deposits related to securities business | 34,574 | 95,533 | 903,898 |
| Receivables related to margin transactions (notes 16 and 17) | 48,847 | 181,043 | 1,712,963 |
| Deferred tax assets (notes 3(11) and 22) | 7,036 | 5,255 | 49,722 |
| Other current assets (note 15(2)) | 65,228 | 64,106 | 606,547 |
| Less: allowance for doubtful accounts (note 3(5)) | (7,268) | (11,726) | (110,952) |
| Total current assets | 407,437 | 887,941 | 8,401,370 |
| Property and equipment, net (notes 3(6), 3(14), 11, 15(1) and 28): | | | |
| Transmission equipment | 79,284 | 92,231 | 872,660 |
| Others | 22,965 | 22,948 | 217,127 |
| Total tangible assets | 102,249 | 115,179 | 1,089,787 |
| Intangible assets, net (note 3(6)): | | | |
| Goodwill (note 3(1)) | 9,860 | – | – |
| Other intangibles | 14,438 | 19,085 | 180,571 |
| Total intangible assets | 24,298 | 19,085 | 180,571 |
| Investments and other assets: | | | |
| Investment securities (notes 3(7), 13, 15(1) and 17) | 109,308 | 232,016 | 2,195,247 |
| Investment in non-consolidated subsidiaries and affiliates (notes 3(1), 3(7), 5, 12 and 15(1)) | 208,142 | 66,075 | 625,179 |
| Deferred tax assets (notes 3(11) and 22) | 32,702 | 29,303 | 277,255 |
| Other assets (note 15(3)) | 63,989 | 75,933 | 718,446 |
| Less: allowance for doubtful accounts (note 3(5)) | (1,794) | (4,325) | (40,920) |
| Total investments and other assets | 412,347 | 399,002 | 3,775,207 |
| Total assets | ¥946,331 | ¥1,421,207 | $13,446,935 |

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

| | Millions of yen | | Thousands of U.S. dollars (note 4) |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings (notes 14(1) and 15(1)) | ¥ 147,223 | ¥ 74,500 | $ 704,892 |
| Commercial paper (note 14(1)) | 4,000 | 11,000 | 104,078 |
| Current portion of long-term debt (notes 14(2) and 15(1)) | 59,614 | 50,496 | 477,774 |
| Notes and accounts payable-trade (notes 15(1) and 15(2)) | 58,534 | 47,614 | 450,504 |
| Accounts payable-other and accrued expenses | 74,820 | 66,420 | 628,442 |
| Income taxes payable (notes 3(11) and 22) | 10,912 | 18,859 | 178,436 |
| Payables related to margin transactions (notes 16 and 17) | 44,459 | 160,383 | 1,517,484 |
| Guarantee deposits received from customers related to securities business | 34,565 | 84,111 | 795,831 |
| Deferred tax liabilities (notes 3(11) and 22) | 5,979 | 234 | 2,213 |
| Other current liabilities (note 15(1)) | 18,399 | 42,125 | 398,577 |
| Total current liabilities | 458,505 | 555,742 | 5,258,231 |
| Long-term liabilities: | | | |
| Long-term debt (notes 14(2), 14(3), 14(4) and 15(1)) | 129,959 | 439,545 | 4,158,813 |
| Consolidation adjustment (note 3(1)) | – | 1,722 | 16,288 |
| Deferred tax liabilities (notes 3(11) and 22) | 33,286 | 58,212 | 550,783 |
| Other liabilities | 20,617 | 33,745 | 319,289 |
| Total long-term liabilities | 183,862 | 533,224 | 5,045,173 |
| Reserves under special laws (note 3(9)): | | | |
| Reserve for securities trading liabilities | 494 | 1,268 | 11,993 |
| Reserve for commodities trading liabilities | 68 | 104 | 980 |
| Total reserves under special laws | 562 | 1,372 | 12,973 |
| Total liabilities | 642,929 | 1,090,338 | 10,316,377 |
| Minority interest in consolidated subsidiaries | 46,005 | 92,788 | 877,924 |
| Shareholders' equity: | | | |
| Common stock (note 20) | | | |
| Authorized: 1,200,000,000 shares | | | |
| Issued: 336,876,826 shares in 2003 and 351,436,826 shares in 2004 | 137,868 | 162,304 | 1,535,657 |
| Additional paid-in capital | 162,232 | 186,690 | 1,766,394 |
| Accumulated deficit (notes 3(10) and 21) | (101,031) | (210,626) | (1,992,865) |
| Net unrealized gain on other securities (notes 3(7) and 13) | 39,595 | 105,198 | 995,348 |
| Net unrealized loss on derivative instruments (notes 3(4) and 7) | – | (9,463) | (89,534) |
| Translation adjustments (note 3(2)) | 20,933 | 4,044 | 38,264 |
| Less: Treasury stock (note 20) | | | |
| 1,583,500 shares in 2003 and 32,730 shares in 2004 | (2,200) | (66) | (630) |
| Total shareholders' equity | 257,397 | 238,081 | 2,252,634 |
| Contingent liabilities (note 29) | | | |
| Total liabilities and shareholders' equity | ¥ 946,331 | ¥1,421,207 | $13,446,935 |

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

# CONSOLIDATED STATEMENTS OF OPERATIONS

SOFTBANK CORP. AND CONSOLIDATED SUBSIDIARIES

| | Millions of yen | | Thousands of U.S. dollars (note 4) |
|---|---|---|---|
| | For the years ended March 31 | | For the year ended March 31, |
| | 2003 | 2004 | 2004 |
| Net sales from non-financial business (notes 1 and 31) | ¥379,999 | ¥ 477,001 | $ 4,513,209 |
| Cost of sales (notes 3(6) and 31) | 347,889 | 372,477 | 3,524,242 |
| Gross profit | 32,110 | 104,524 | 988,967 |
| Selling, general and administrative expenses (notes 3(6), 23 and 31) | 120,187 | 167,778 | 1,587,450 |
| Operating loss from non-financial business | (88,077) | (63,254) | (598,483) |
| Revenue from financial business (notes 1, 28 and 31) | 26,893 | 40,393 | 382,182 |
| Financial business expenses (notes 3(6), 23 and 31) | 30,813 | 32,033 | 303,085 |
| Operating (loss) income from financial business | (3,920) | 8,360 | 79,097 |
| Total operating loss (note 31) | (91,997) | (54,894) | (519,386) |
| Non-operating income (expenses): | | | |
| Interest income | 1,092 | 800 | 7,566 |
| Interest expense | (8,741) | (12,052) | (114,034) |
| Equity in gain (loss) under the equity method, net (note 3(1)) | 11,108 | (2,276) | (21,539) |
| Foreign exchange (loss) gain, net (note 3(2)) | (7,704) | 6,508 | 61,580 |
| Reversal of warrants due to expiration | 881 | 1,812 | 17,144 |
| Gain on sale of marketable and investment securities, net (note 24) | 116,761 | 27,015 | 255,609 |
| Impairment loss on investment securities (notes 3(7) and 25) | (66,173) | (14,274) | (135,059) |
| Valuation loss on inventories | – | (10,053) | (95,113) |
| Special expenses for information security measures | – | (3,177) | (30,056) |
| Others, net | (26,702) | (16,154) | (152,842) |
| Loss before income taxes and minority interest | (71,475) | (76,745) | (726,130) |
| Income taxes (notes 3(11) and 22): | | | |
| Current | (14,849) | (24,530) | (232,096) |
| Refunded | 11,125 | – | – |
| Deferred | (27,351) | 9,337 | 88,342 |
| | (31,075) | (15,193) | (143,754) |
| Minority interest | 2,561 | (15,156) | (143,401) |
| Net loss | ¥ (99,989) | ¥(107,094) | $(1,013,285) |

| | Yen | | U.S. dollars (note 4) |
|---|---|---|---|
| | 2003 | 2004 | 2004 |
| Net loss per share (notes 3(12) and 26) | | | |
| - Primary | ¥(296.94) | ¥(314.72) | $(2.98) |
| - Diluted (note below) | ¥ – | ¥ – | $ – |

Note: Diluted net income per share is not disclosed due to the loss position.

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

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SOFTBANK CORP. AND CONSOLIDATED SUBSIDIARIES

Millions of yen

| | Number of shares issued and outstanding | Common stock | Additional paid-in capital | Retained earnings (accumulated deficit) | Net unrealized gain on other securities | Net unrealized loss on derivative instruments | Translation adjustments | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2002 | 336,872,342 | ¥137,868 | ¥162,232 | ¥ 4,035 | ¥126,625 | ¥ – | ¥ 34,577 | ¥ (11) | ¥ 465,326 |
| Net loss | – | – | – | (99,989) | – | – | – | – | (99,989) |
| Cash dividends | – | – | – | (2,358) | – | – | – | – | (2,358) |
| Bonuses to directors | – | – | – | (75) | – | – | – | – | (75) |
| Net adjustments to retained earnings due to changes in the scope of the consolidation (see note below) | – | – | – | (2,627) | – | – | – | – | (2,627) |
| Decrease due to merger | – | – | – | (17) | – | – | – | – | (17) |
| Decrease in net unrealized gain on other securities (notes 3(7) and 13) | – | – | – | – | (87,030) | – | – | – | (87,030) |
| Translation adjustments (note 3(2)) | – | – | – | – | – | – | (13,644) | – | (13,644) |
| Acquisition of treasury stock | (1,579,016) | – | – | – | – | – | – | (2,189) | (2,189) |
| Balance at March 31, 2003 | 335,293,326 | 137,868 | 162,232 | (101,031) | 39,595 | – | 20,933 | (2,200) | 257,397 |
| Net loss | – | – | – | (107,094) | – | – | – | – | (107,094) |
| Cash dividends (note 21) | – | – | – | (2,342) | – | – | – | – | (2,342) |
| Bonuses to directors | – | – | – | (74) | – | – | – | – | (74) |
| Net adjustments to retained earnings due to changes in the scope of the consolidation (see note below) | – | – | – | (287) | – | – | – | – | (287) |
| Increase due to merger | – | – | – | 202 | – | – | – | – | 202 |
| Issuance of shares | 14,500,000 | 24,346 | 24,335 | – | – | – | – | – | 48,681 |
| Exercise of warrants | 60,000 | 90 | 90 | – | – | – | – | – | 180 |
| Increase in net unrealized gain on other securities (notes 3(7) and 13) | – | – | – | – | 65,603 | – | – | – | 65,603 |
| Increase in net unrealized loss on derivative instruments (note 3(4)) | – | – | – | – | – | (9,463) | – | – | (9,463) |
| Translation adjustments (note 3(2)) | – | – | – | – | – | – | (16,889) | – | (16,889) |
| Sale of treasury stock (note 20) | 1,558,719 | – | 33 | – | – | – | – | 2,162 | 2,195 |
| Acquisition of treasury stock (note 20) | (7,949) | – | – | – | – | – | – | (28) | (28) |
| Balance at March 31, 2004 | 351,404,096 | ¥162,304 | ¥186,690 | ¥(210,626) | ¥105,198 | ¥(9,463) | ¥ 4,044 | ¥ (66) | ¥ 238,081 |

Thousands of U.S. dollars (note 4)

| | Number of shares issued and outstanding | Common stock | Additional paid-in capital | Retained earnings (accumulated deficit) | Net unrealized gain on other securities | Net unrealized loss on derivative instruments | Translation adjustments | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2003 | 335,293,326 | $1,304,452 | $1,534,974 | $ (955,922) | $374,641 | $ – | $ 198,057 | $(20,808) | $ 2,435,394 |
| Net loss | – | – | – | (1,013,285) | – | – | – | – | (1,013,285) |
| Cash dividends (note 21) | – | – | – | (22,162) | – | – | – | – | (22,162) |
| Bonuses to directors | – | – | – | (699) | – | – | – | – | (699) |
| Net adjustments to retained earnings due to changes in the scope of the consolidation (see note below) | – | – | – | (2,712) | – | – | – | – | (2,712) |
| Increase due to merger | – | – | – | 1,915 | – | – | – | – | 1,915 |
| Issuance of shares | 14,500,000 | 230,348 | 230,252 | – | – | – | – | – | 460,600 |
| Exercise of warrants | 60,000 | 857 | 857 | – | – | – | – | – | 1,714 |
| Increase in net unrealized gain on other securities (notes 3(7) and 13) | – | – | – | – | 620,707 | – | – | – | 620,707 |
| Increase in net unrealized loss on derivative instruments (note 3(4)) | – | – | – | – | – | (89,534) | – | – | (89,534) |
| Translation adjustments (note 3(2)) | – | – | – | – | – | – | (159,793) | – | (159,793) |
| Sale of treasury stock (note 20) | 1,558,719 | – | 311 | – | – | – | – | 20,448 | 20,759 |
| Acquisition of treasury stock (note 20) | (7,949) | – | – | – | – | – | – | (270) | (270) |
| Balance at March 31, 2004 | 351,404,096 | $1,535,657 | $1,766,394 | $(1,992,865) | $995,348 | $(89,534) | $ 38,264 | $ (630) | $ 2,252,634 |

Note: Under Japanese GAAP, the cumulative effect arising from any changes in the scope of the consolidation (as described in note 5) is treated as an adjustment to retained earnings in the consolidated statement of changes in shareholders' equity.

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

SOFTBANK CORP. AND CONSOLIDATED SUBSIDIARIES

| | Millions of yen | | Thousands of U.S. dollars (note 4) |
|---|---|---|---|
| | For the years ended March 31 | | For the year ended March 31, |
| | 2003 | 2004 | 2004 |
| Cash flows from operating activities: | | | |
| Loss before income taxes and minority interest | ¥ (71,475) | ¥ (76,745) | $ (726,130) |
| Adjustments to reconcile loss before income taxes and minority interest to net cash used in operating activities: | | | |
| Depreciation and amortization | 20,904 | 32,865 | 310,954 |
| Equity in (gain) loss under the equity method, net | (11,108) | 2,276 | 21,539 |
| Impairment loss on investment securities | 66,173 | 14,274 | 135,059 |
| Gain on sale of marketable and investment securities, net | (116,839) | (27,033) | (255,773) |
| Foreign exchange loss (gain), net | 8,627 | (5,367) | (50,779) |
| Interest and dividend income | (1,312) | (1,324) | (12,527) |
| Interest expense | 8,741 | 12,052 | 114,034 |
| Increase in receivables-trade | (3,522) | (25,023) | (236,762) |
| Increase (decrease) in payables-trade | 3,173 | (9,531) | (90,186) |
| Decrease (increase) in other receivables | 8,576 | (75,485) | (714,215) |
| Increase in other payables | 2,208 | 73,831 | 698,562 |
| Others, net | 32,793 | 24,015 | 227,222 |
| | (53,061) | (61,195) | (579,002) |
| Interest and dividends received | 1,139 | 979 | 9,261 |
| Interest paid | (9,387) | (11,206) | (106,028) |
| Income taxes paid, net of refund | (7,292) | (12,407) | (117,393) |
| Net cash used in operating activities | (68,601) | (83,829) | (793,162) |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment and intangibles | (64,501) | (61,472) | (581,627) |
| Purchase of marketable and investment securities | (33,414) | (38,945) | (368,488) |
| Proceeds from sale of marketable and investment securities | 171,350 | 151,137 | 1,429,998 |
| Additional investments in newly consolidated entities (note 27(2)) | (591) | 1,693 | 16,021 |
| Proceeds from sale of interests in consolidated subsidiaries | 56,356 | 29,213 | 276,399 |
| Increase in loan receivables | (5,212) | (23,028) | (217,883) |
| Collection of loans | 1,975 | 22,577 | 213,620 |
| Others, net | (6,213) | 703 | 6,662 |
| Net cash provided by investing activities | 119,750 | 81,878 | 774,702 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of shares to minority shareholders | 4,843 | 3,705 | 35,053 |
| Increase (decrease) in short-term borrowings, net | 44,104 | (76,852) | (727,142) |
| (Decrease) increase in commercial paper, net | (6,000) | 7,000 | 66,232 |
| Proceeds from long-term debt | 1,380 | 204,829 | 1,938,015 |
| Repayment of long-term debt | (7,759) | (50,994) | (482,483) |
| Proceeds from issuance of bonds | 2,496 | 216,636 | 2,049,733 |
| Redemption of bonds | (52,223) | (56,871) | (538,091) |
| Proceeds from issuance of shares | – | 48,631 | 460,129 |
| Cash dividends paid | (2,354) | (2,317) | (21,928) |
| Others, net | (2,103) | 12,623 | 119,436 |
| Net cash (used in) provided by financing activities | (17,616) | 306,390 | 2,898,954 |
| Effect of exchange rate changes | (5,728) | (13,459) | (127,347) |
| Net increase in cash and cash equivalents (note 3(13)) | 27,805 | 290,980 | 2,753,147 |
| Increase in cash and cash equivalents due to newly consolidated companies | 61 | – | – |
| Decrease in cash and cash equivalents due to exclusion of previously consolidated entities | (195) | (1,373) | (12,996) |
| Cash and cash equivalents at the beginning of the year (note 3(13)) | 119,855 | 147,526 | 1,395,838 |
| Cash and cash equivalents at the end of the year (notes 3(13) and 27(1)) | ¥ 147,526 | ¥437,133 | $4,135,989 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SOFTBANK CORP. AND CONSOLIDATED SUBSIDIARIES

## 1. Organization and nature of business –

SOFTBANK CORP. (hereafter the "Company") was incorporated in September 1981 in Japan. The Company and its consolidated subsidiaries and affiliates (hereafter the "Group") are involved in the following businesses, which are categorized into non-financial and financial businesses.

Non-financial business

- Broadband Infrastructure: ADSL high-speed Internet connection service and IP telephony service; fiber-optic ultra-high-speed Internet connection service and other operations;
- e-Commerce: distribution of PC software and such hardware as PCs and peripherals; enterprise solutions; diversified e-commerce businesses, including business transaction platform (B2B) and consumer-related e-commerce (B2C);
- Media & Marketing: book and magazine publication in such areas as PCs, the Internet, entertainment, etc.; development of web content specialized in IT;
- Broadmedia: provision of applications and content for broadband broadcasting and communications and promoting the spread of such operations;
- Internet Culture: Internet-based advertising operations; broadband portal business; Internet-based auction business;
- Technology Services: system solution business; business solution business;
- Others: holding company functions for overseas operations; back-office services in Japan.

Financial business

- e-Finance: all-inclusive financial operations, including on-line securities business; management of domestic venture capital funds; incubation of portfolio companies;
- Overseas Funds: U.S.- and Asia-focused global venture capital business with a main focus on Internet-related companies.

## 2. Basis of presenting the consolidated financial statements –

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), while foreign subsidiaries maintain their records and prepare their financial statements in conformity with generally accepted accounting principles in their respective countries of domicile. The accompanying consolidated financial statements of the Group are an English translation of the Japanese consolidated financial statements of the Group, which have been prepared in accordance with generally accepted accounting principles and practices in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

## 3. Summary of significant accounting policies –

### (1) Consolidation and investments in affiliates –

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

Inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation, and the portion thereof attributable to minority shareholders is credited or charged to them.

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

The excess of cost over the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for under the equity method is recognized as goodwill and is amortized on a straight-line basis over reasonably estimated periods, in which economic benefits are expected to be realized, except for the goodwill held by consolidated subsidiaries in the United States of America that have adopted the Statement of Financial Accounting Standards ("SFAS") No.142, "Goodwill and Other Intangible Assets."

Certain consolidated subsidiaries have a fiscal year ending on December 31, while the Company's fiscal year ends on March 31. For consolidation purposes, the fiscal year of these subsidiaries ending December 31 has been used, with adjustments being made for significant transactions taking place in the intervening period.

(2) Translation of foreign currency transactions and accounts – Foreign currency transactions are generally translated using the foreign exchange rates prevailing at the respective transaction dates. All assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign exchange gains or losses are credited or charged to current income when incurred.

Revenues and expenses of foreign consolidated subsidiaries are translated into Japanese yen using the average foreign exchange rates for the period. Assets and liabilities are translated into Japanese yen using the foreign exchange rates prevailing at the balance sheet dates, and capital stock is translated using historical rates.

Foreign currency translation adjustments 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."

(3) Inventories –

Inventories held by the Company and its consolidated subsidiaries are stated mainly at cost, where cost is determined primarily using the moving-average method.

(4) Derivatives –

The Company and its consolidated subsidiaries in Japan have entered into forward exchange contracts and currency and interest rate swap transactions to hedge against adverse fluctuations in foreign currency exchange rates and interest rates. Derivative instruments are recognized as either assets or liabilities at their respective fair values at the respective balance sheet dates, and the Company and its consolidated subsidiaries in Japan that do not apply hedge accounting on such derivative instruments recognize gains and losses arising from changes in fair values in current income.

The consolidated subsidiary in the United States of America has entered into a variable share prepaid forward contract (the "collar transaction") utilizing its shares of 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 at maturity. It has adopted the Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No.133") on such derivative instruments.

According to SFAS No.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.

(5) 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.

(6) Depreciation and amortization –

Property and equipment are carried at cost less accumulated depreciation.

Transmission equipment is depreciated using the straight-line method, and other property and equipment are depreciated primarily using the declining-balance method.

Intangible assets are amortized using the straight-line method over their estimated useful lives.

The Company's consolidated subsidiaries in the United States of America have adopted SFAS No.142, "Goodwill and Other Intangible Assets", from the fiscal year ended March 31, 2002. Under SFAS No.142, goodwill and certain other intangible assets that are determined to have an indefinite life are no longer amortized, but rather are tested for impairment on an annual basis, and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value below its carrying amounts.

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

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

In addition, debt and equity securities held and classified as available-for-sale securities by consolidated subsidiaries in the United States of America are reported at fair value with unrealized gain and loss, net of tax, being included as "Net unrealized gain on other securities", a separate component of "Shareholders' equity" in accordance with SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities."

(8) Pension and severance costs –
Following the enactment of the Act for Defined Contribution Pensions, the Company and most of its domestic consolidated subsidiaries have transferred the projected benefit obligation and related fund assets under the tax qualified non-contributory defined benefit pension plans to the newly adopted defined contribution pension plans on July 1, 2002.

The Company and most of its domestic consolidated subsidiaries also participate in a multi-employer contributory defined benefit welfare pension plan (the "welfare pension plan") covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law, and includes a portion relating to the governmental welfare pension program and another portion into which contributions are made by the respective companies and their employees.

Contributions made by the Company and most of its domestic consolidated subsidiaries into both pension plans, as described in the previous two paragraphs, are expensed when paid. Fair value of the pooled fund assets of the welfare pension plan at March 31, 2004 belonging to employees of the Company and most of its domestic subsidiaries amounted to ¥6,128 million ($57,983 thousand).

In addition, certain domestic consolidated subsidiaries engaged in the securities business or commodities business participate in two types of welfare pension plans, both of which are similar to the above welfare pension plan. The fair value of the pooled fund assets of these two plans at March 31, 2004 belonging to employees of those subsidiaries amounted to ¥6,406 million ($60,607 thousand) and ¥189 million ($1,792 thousand), respectively.

Certain domestic subsidiaries have still maintained a tax qualified non-contributory defined pension plan.

(9) Reserves under special laws –
Reserve for securities trading liabilities and reserve for commodities trading liabilities are accrued at certain domestic consolidated subsidiaries engaged in the securities business or commodities business in accordance with the Securities Exchange Law of Japan, No. 51 and Commodity Exchange Act of Japan, No. 136-22, respectively.

(10) Appropriation of retained earnings –
Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval of the shareholders as required under the Commercial Code of Japan.

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

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

### (12) Net income per share –

Net income (loss) per share (primary and diluted) is computed based on the weighted-average number of shares of common stock issued and outstanding during each fiscal period, taking into account potentially dilutive common stock equivalents, such as bonds with warrants and warrants, during the relevant periods.

On September 25, 2002, the Accounting Standards Board of Japan issued a new accounting standard concerning accounting for net income (loss) per share effective from the fiscal year beginning April 1, 2002.

The Company and its consolidated subsidiaries adopted the new accounting standard from the fiscal year commencing on April 1, 2002. Under the new accounting standard, bonuses to directors, to be appropriated at a general shareholders' meeting held subsequent to the fiscal year-end, should be reflected in the calculation of net income (loss) per share as if bonuses to directors were charged to income in the current fiscal year.

Per share information computed in accordance with the new standard is disclosed in note 26, "Per share data".

### (13) Scope of cash and cash equivalents in the consolidated statements of cash flows –

"Cash and cash equivalents" comprise cash on-hand, demand deposits at banks and highly liquid investments with initial maturities of three months or less and a low risk of fluctuation in value.

### (14) Leases –

Under the Japanese accounting standards, capital leases, as defined therein, other than those whereby ownership of the assets is transferred to the lessee at the end of the lease term, are 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.

Foreign subsidiaries account for capital leases as assets and obligations at an amount equal to the present value of the lease payments during the lease term.

## 4. U.S. dollar amounts –

The Company maintains its accounting records in Japanese yen. U.S. dollar amounts presented in the accompanying consolidated financial statements and notes thereto are included solely for the convenience of readers outside Japan, and represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥105.69 = US$1, the effective rate of exchange at March 31, 2004. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollar amounts at that or any other rate.

## 5. Changes in scope of consolidation –

As of March 31, 2003 and 2004, the Company consolidated 269 and 177 subsidiaries, and excluded from consolidation 12 and 15 subsidiaries, respectively, due to their immateriality in terms of the consolidated total assets, sales and revenues, net income (loss) and retained earnings (accumulated deficit) of the Group's consolidated financial statements.

Significant changes in the Company's scope of consolidation for the fiscal years ended March 31, 2003 and 2004 were as follows:

Newly consolidated subsidiaries (including partnerships) 2003

| Subsidiary | Reason |
|---|---|
| BIOVISION CAPITAL CORP. | Newly established |
| Plus 37 other companies | |

Subsidiaries (including partnerships) excluded from consolidation 2003

| Subsidiary | Reason |
|---|---|
| SOFTBANK EC HOLDINGS CORP. | Merger |
| SOFTBANK COMMERCE CORP. | Merger |
| SOFTBANK Networks Inc. | Merger |
| Tokyo Metallic Communications Corp. | Merger |
| Plus 50 other companies | |

As of March 31, 2003, the Company had three non-consolidated subsidiaries and 113 affiliated companies including partnerships accounted for under the equity method. Other than the above, nine non-consolidated subsidiaries and an affiliated company were not accounted for under the equity method due to their immateriality in terms of consolidated net income (loss) and retained earnings (accumulated deficit) to the Group's consolidated financial statements.

Newly consolidated subsidiaries (including partnerships) 2004

| Subsidiary | Reason |
|---|---|
| WORLD NICHIEI FRONTIER Securities Co., Ltd. (former WORLD NICHIEI Securities Co., Ltd.) | Newly invested |
| Indival, Inc. | Newly established |
| Plus 17 other companies | |

Subsidiaries (including partnerships) excluded from consolidation 2004

| Subsidiary | Reason |
|---|---|
| E*TRADE Japan K.K. | Merger |
| SOFTBANK FRONTIER SECURITIES CO., LTD. | Merger |
| SOFTBANK INVESTMENT INTERNATIONAL (STRATEGIC) LIMITED and its 79 subsidiaries | Sale of all shares |
| Plus 29 other companies | |

As of March 31, 2004, the Company had six non-consolidated subsidiaries and 97 affiliated companies including partnerships accounted for under the equity method. Other than the above, nine non-consolidated subsidiaries and two affiliated companies were not accounted for under the equity method due to their immateriality in terms of consolidated net income (loss) and retained earnings (accumulated deficit) to the Group's consolidated financial statements.

Significant changes in non-consolidated subsidiaries and affiliated companies including partnerships (hereafter the "Entities") accounted for under the equity method for the fiscal years ended March 31, 2003 and 2004 were as follows:

Entities newly accounted for under the equity method 2003

| Name of subsidiary or affiliate | Reason |
|---|---|
| BEST BroadBand Corp. | Newly established |
| YAMADA BroadBand Corp. | Newly established |
| Plus 22 other companies | |

Entities no longer accounted for under the equity method 2003

| Name of subsidiary or affiliate | Reason |
|---|---|
| InsWeb Corporation | Partial sale of shares |
| Key3Media Group, Inc. | Sale of all shares |
| Plus 19 other companies | |

Six entities were newly accounted for under the equity method as of March 31, 2004.

Entities no longer accounted for under the equity method 2004

| Name of subsidiary or affiliate | Reason |
|---|---|
| Aozora Bank, Ltd. | Sale of all shares |
| UTStarcom, Inc. | Partial sale of shares |
| Plus 17 other companies | |

## 6. Mergers, acquisitions and restructuring –

On January 7, 2003, the Company's four wholly-owned subsidiaries: BB Technologies Corporation ("BBTC"), SOFTBANK Networks Inc., SOFTBANK EC HOLDINGS CORP. and SOFTBANK COMMERCE CORP. were merged with the aim of establishing a large, but effective and efficient broadband-focused operating company which intends to maximize corporate value as the heart of the Group. BBTC, the surviving company after the merger, changed its name to SOFTBANK BB Corp. ("SBB").

## 7. Significant contracts –

SOFTBANK America Inc. ("SBA"), a wholly-owned subsidiary of the Company, entered into a $1,136 million (¥120 billion) financing transaction, which consists of a variable share prepaid forward contract (the "collar transaction") and a loan contract, with CITIBANK, N.A. This financing was completed through a joint venture, SOFTBANK Broadband Investments in which SBA holds a 98% stake.

The above-mentioned financing involves a variable share prepaid forward contract of 26 million shares of Yahoo! Inc. owned by SBA and 530,612 shares of Yahoo! Inc. contributed into SOFTBANK Broadband Investments by another partner. The shares of Yahoo! Inc. are pledged as collateral for the collar transaction and the loan agreement. The collar transaction includes a derivative to hedge the variability of cash flows associated with the future market price of Yahoo! Inc. stock. The Company guaranteed the loan in proportion to its holding percentage in SOFTBANK Broadband Investments.

## 8. Accounts receivable sold –

The commerce division of SOFTBANK BB Corp., a wholly-owned subsidiary of the Company, entered into factoring agreements with financial institutions containing a repurchase clause. "Accounts receivable-trade" amounting to ¥7,467 million and ¥6,582 million ($62,273 thousand) at March 31, 2003 and 2004, respectively, have been excluded from the consolidated balance sheets, accordingly.

It is permissible under Japanese GAAP not to record these sold receivables on the consolidated balance sheet only in rare cases, for example, where the repurchase clause is realizable in the default of an original debtor.

## 9. Inventories –

Inventories at March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| Merchandise | ¥ 9,033 | **¥ 9,348** | **$ 88,447** |
| Transmission supplies | 29,428 | **12,649** | **119,679** |
| Other inventories | 3,741 | **3,068** | **29,028** |
| Total | ¥42,202 | **¥25,065** | **$237,154** |

## 10. Derivative transactions –

The Company and its consolidated subsidiaries use derivative transactions for hedging purposes, and certain consolidated subsidiaries in Japan engaged in trading activities with various future contracts.

The Company and its consolidated subsidiaries in Japan entered into forward exchange contracts and currency and interest rate swap transactions to hedge against adverse fluctuations in foreign currency exchange rates and interest rates. The Company and its consolidated subsidiaries in Japan do not apply hedge accounting.

As described in note 7, the consolidated subsidiary in the United States of America has entered into a variable share prepaid forward contract (the "collar transaction") utilizing its shares of an equity security 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 at maturity. The consolidated subsidiary in the United States of America has adopted hedge accounting in accordance with SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities" as described on Note 3 (4).

The Company and its subsidiaries in Japan are exposed to credit-related losses in the event of non-performance by counter parties to derivative financial instruments. However, it is not expected that any counter parties will fail to meet their obligations since they are all creditworthy financial institutions.

The fair value of the derivatives outstanding as of March 31, 2003 and 2004, excluding derivatives treated as hedge accounting was as follows:

(1) Trading transactions

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, **2004** | | | |
| | Assets | | Liabilities | |
| | Contract amounts | Fair value | Contract amounts | Fair value |
| Forward exchange contracts | **¥ 33** | **¥2** | **¥71** | **¥1** |
| Nikkei future contracts | **24** | **0** | **–** | **–** |
| Bond future contracts | **138** | **1** | **–** | **–** |
| Total | **¥195** | **¥3** | **¥71** | **¥1** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | March 31, **2004** | | | |
| | Assets | | Liabilities | |
| | Contract amounts | Fair value | Contract amounts | Fair value |
| Forward exchange contracts | **$ 311** | **$17** | **$675** | **$6** |
| Nikkei future contracts | **222** | **0** | **–** | **–** |
| Bond future contracts | **1,312** | **10** | **–** | **–** |
| Total | **$1,845** | **$27** | **$675** | **$6** |

(2) Non-trading transactions

| | Millions of yen | | |
|---|---|---|---|
| | March 31, **2004** | | |
| | Contract amounts | Fair value (see note below) | Unrealized gain (loss) |
| Forward exchange contracts to- | | | |
| Purchase U.S. dollars and sell Japanese yen | **¥ 5,650** | **¥5,438** | **¥(213)** |
| Purchase Japanese yen and sell U.S. dollars | **5,276** | **5,269** | **(6)** |
| Forward exchange contracts with certain conditions to- | | | |
| Purchase Japanese yen and sell euro | **8,868** | **1** | **1** |
| Knock-out option transactions to- | | | |
| Purchase Japanese yen put option and euro call option | **3,915** | **(9)** | **(9)** |
| Sell Japanese yen call option and euro put option | **3,915** | **23** | **23** |
| Currency swaps | **1,000** | **20** | **20** |
| Interest rate swaps to- | | | |
| Receive fixed rate and pay floating rate | **1,286** | **77** | **77** |
| Receive floating rate and pay fixed rate | **12,143** | **(291)** | **(291)** |
| Receive fixed rate (receipt later) and pay fixed rate (prepayment) | **1,000** | **36** | **36** |
| | | | **¥(362)** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | March 31, 2004 | | |
| | Contract amounts | Fair value (see note below) | Unrealized gain (loss) |
| Forward exchange contracts to- | | | |
| Purchase U.S. dollars and sell Japanese yen | $ 53,462 | $51,449 | $(2,012) |
| Purchase Japanese yen and sell U.S. dollars | 49,915 | 49,857 | (58) |
| Forward exchange contracts with certain conditions to- | | | |
| Purchase Japanese yen and sell euro | 83,907 | 10 | 10 |
| Knock-out option transactions to- | | | |
| Purchase Japanese yen put option and euro call option | 37,042 | (83) | (83) |
| Sell Japanese yen call option and euro put option | 37,042 | 215 | 215 |
| Currency swaps | 9,462 | 190 | 190 |
| Interest rate swaps to- | | | |
| Receive fixed rate and pay floating rate | 12,165 | 731 | 731 |
| Receive floating rate and pay fixed rate | 114,892 | (2,757) | (2,757) |
| Receive fixed rate (receipt later) and pay fixed rate (prepayment) | 9,462 | 339 | 339 |
| | | | $(3,425) |

| | Millions of yen | | |
|---|---|---|---|
| | March 31, 2003 | | |
| | Contract amounts | Fair value (see note below) | Unrealized gain (loss) |
| Forward exchange contracts to- | | | |
| Purchase U.S. dollars and sell Japanese yen | ¥49,125 | ¥50,106 | ¥ 981 |
| Currency swaps | 1,000 | 15 | 15 |
| Interest rate swaps to- | | | |
| Receive fixed rate and pay floating rate | 1,529 | 121 | 121 |
| Receive floating rate and pay fixed rate | 2,814 | (199) | (199) |
| Receive fixed rate (receipt later) and pay fixed rate (prepayment) | 1,000 | 37 | 37 |
| | | | ¥ 955 |

Note: Fair value is based on information provided by financial institutions.

## 11. Accumulated depreciation –

Accumulated depreciation at March 31, 2003 and 2004 was ¥27,417 million and ¥49,427 million ($467,657 thousand), respectively.

## 12. Investments in non-consolidated subsidiaries and affiliates –

Investments in non-consolidated subsidiaries and affiliates including partnerships at March 31, 2003 and 2004 were accounted for under the equity method and shown in the table below:

| | Millions of yen | | Thousands of U.S. dollars | March 31, 2004 | |
|---|---|---|---|---|---|
| | March 31 | | March 31, | Voting | Interest |
| | 2003 | 2004 | 2004 | rights (%) | percentage |
| Morningstar, Inc. | ¥ 5,850 | ¥ 4,636 | $ 43,865 | 19.6 | 19.6 |
| National Leisure Group, Inc. | 2,772 | 3,106 | 29,392 | 26.0 | 26.0 |
| Yahoo! Korea Corporation | 2,741 | 2,770 | 26,212 | 33.0 | 30.9 |
| Nexyz. Corporation | – | 2,138 | 20,230 | 19.8 | 13.9 |
| Nihon Ariba K.K. | 3,464 | 2,026 | 19,170 | 41.2 | 41.2 |
| cyber communications inc. | 1,967 | 1,280 | 12,109 | 26.8 | 26.8 |
| Alibaba.com Corporation | 1,410 | 1,209 | 11,443 | 29.7 | 26.8 |
| Aozora Bank, Ltd. | 104,763 | – | – | – | – |
| UTStarcom, Inc. | 20,614 | – | – | – | – |
| SOFTBANK US Ventures VI L.P. | 32,941 | 22,203 | 210,072 | 97.0(note) | – |
| SOFTBANK Technology Ventures V L.P. | 8,036 | 6,913 | 65,406 | 30.2(note) | – |
| SOFTBANK Ventures Fund 1 | 1,768 | 1,329 | 12,570 | 60.0(note) | – |
| E*TRADE eCommerce Fund, L.P. | 1,770 | 922 | 8,725 | 25.0(note) | – |
| SB Life Science Ventures I, L.P. | 1,020 | 755 | 7,147 | 33.7(note) | – |
| SOFTBANK Technology Ventures IV L.P. | 1,678 | 471 | 4,452 | 13.4(note) | – |
| Others | 17,348 | 16,317 | 154,386 | | |
| Total | ¥208,142 | ¥66,075 | $625,179 | | |

Note: Voting rights in these funds represent percentages calculated based on relative size of the Group's funding commitments, as the ownership percentage was not determinable due to the fund structure.

## 13. Investments in debt and equity securities –

Most investments in debt and equity securities at March 31, 2003 and 2004 were classified as other securities as described in note 3(7).

The market value (carrying value) of trading securities was as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| | March 31, 2004 | | March 31, 2004 | |
| | Market value (carrying value) | | Market value (carrying value) | |
| | Assets | Liability | Assets | Liability |
| Equity securities | ¥ 22 | ¥5 | $ 206 | $46 |
| Debt securities | 1,285 | – | 12,162 | – |
| Total | ¥1,307 | ¥5 | $12,368 | $46 |

There were no material trading securities at March 31, 2003.

The aggregate cost, gross unrealized gain (loss) and market value (carrying value) of other securities at March 31, 2003 and 2004 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, **2004** | | | |
| | | Gross unrealized | | Market value |
| | Cost | Gain | (Loss) | (carrying value) |
| Equity securities | **¥38,573** | **¥168,101** | **¥(68)** | **¥206,606** |
| Debt securities | **5,382** | **0** | **(17)** | **5,365** |
| Other | **379** | **43** | **(8)** | **414** |
| Total | **¥44,334** | **¥168,144** | **¥(93)** | **¥212,385** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | March 31, **2004** | | | |
| | | Gross unrealized | | Market value |
| | Cost | Gain | (Loss) | (carrying value) |
| Equity securities | **$364,967** | **$1,590,510** | **$(646)** | **$1,954,831** |
| Debt securities | **50,919** | **0** | **(158)** | **50,761** |
| Other | **3,584** | **405** | **(78)** | **3,911** |
| Total | **$419,470** | **$1,590,915** | **$(882)** | **$2,009,503** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | March 31, 2003 | | | |
| | | Gross unrealized | | Market value |
| | Cost | Gain | (Loss) | (carrying value) |
| Equity securities | ¥23,408 | ¥62,622 | ¥(2,650) | ¥83,380 |
| Debt securities | 110 | 0 | (0) | 110 |
| Other | 470 | 0 | (172) | 298 |
| Total | ¥23,988 | ¥62,622 | ¥(2,822) | ¥83,788 |

Unlisted investment securities at March 31, 2003 and 2004 had carrying amounts as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| (1) Unlisted held-to-maturity securities- | | | |
| Domestic debt securities | ¥ 0 | ¥ – | $ – |
| Foreign debt securities | 199 | – | – |
| (2) Unlisted available-for-sale securities and other securities- | | | |
| Equity securities (excluding over-the-counter stocks) | 19,109 | **19,237** | **182,016** |
| Domestic debt securities | 251 | – | – |
| Foreign debt securities | 1,725 | **1,081** | **10,228** |
| Money Management Fund | 4,370 | **3,272** | **30,961** |
| Mid-term government bonds fund | 321 | **262** | **2,476** |
| Commercial paper | 2,000 | – | – |
| Preferred fund certificates | 2,000 | **2,000** | **18,923** |
| Designated money trust | – | **5,000** | **47,308** |
| Investment trust without market quotations | – | **106,427** | **1,006,975** |
| Others | 605 | **0** | **3** |
| Total | ¥30,580 | **¥137,279** | **$1,298,890** |

The redemption schedule for other securities with maturity dates subsequent to March 31, 2004 is as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | April 1, 2004 to March 31, 2005 | April 1, 2005 to March 31, 2009 | April 1, 2009 to March 31, 2014 | April 1, 2014 and thereafter |
| Other securities- | | | | |
| Corporate bonds | ¥– | ¥5,472 | ¥ – | ¥– |
| Government bonds | – | 103 | – | – |
| Debt securities | – | – | 872 | – |
| Total | ¥– | ¥5,575 | ¥872 | ¥– |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | April 1, 2004 to March 31, 2005 | April 1, 2005 to March 31, 2009 | April 1, 2009 to March 31, 2014 | April 1, 2014 and thereafter |
| Other securities- | | | | |
| Corporate bonds | $– | $51,772 | $ – | $– |
| Government bonds | – | 971 | – | – |
| Debt securities | – | – | 8,247 | – |
| Total | $– | $52,743 | $8,247 | $– |

## 14. Short-term borrowings and long-term debt –

(1) "Short-term borrowings" and "Commercial paper" at March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Short-term borrowings principally from banks with interest rates ranging from- | | | |
| 0.23% to 6.96% | ¥147,223 | ¥ – | $ – |
| 0.23% to 3.75% | – | 74,500 | 704,892 |
| Commercial paper with an interest rate of- | | | |
| 1.87% per annum | 4,000 | – | – |
| 0.99% per annum | – | 10,000 | 94,616 |
| 0.29% per annum | – | 1,000 | 9,462 |

(2) "Long-term debt" outstanding at March 31, 2003 and 2004 consisted of borrowings from financial institutions and corporate bonds, as shown below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Unsecured borrowings from financial institutions with interest rates ranging from- | | | |
| 1.80% to 4.72% due 2004 to 2008 | ¥ 11,485 | ¥ – | $ – |
| 1.24% to 9.38% due 2005 to 2011 | – | 156,819 | 1,483,764 |
| Unsecured straight bonds- | | | |
| Due 2003 to 2007 with interest rates ranging from 2.40% to 3.90% | 160,937 | – | – |
| Due 2004 to 2011 with interest rates ranging from 2.45% to 9.38% | – | 170,192 | 1,610,292 |
| Warrant bonds- | | | |
| Due 2003 to 2008 with interest rates ranging from 1.00% to 4.00% | 14,642 | – | – |
| Convertible bonds- | | | |
| Due 2004 to 2005 with interest rates ranging from 1.50% to 5.00% | 2,509 | – | – |
| Due 2005 to 2015 with interest rates ranging from 0.00% to 2.00% | – | 163,030 | 1,542,531 |
| | 189,573 | 490,041 | 4,636,587 |
| Less: portion due within one year | (59,614) | (50,496) | (477,774) |
| Total long-term debt | ¥129,959 | ¥439,545 | $4,158,813 |

(3) The aggregate annual maturities of borrowings from financial institutions outstanding at March 31, 2004 were as follows:

| For the years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2005 | ¥ 14,342 | $ 135,696 |
| 2006 | 36,770 | 347,903 |
| 2007 | 7,181 | 67,950 |
| 2008 | 4,551 | 43,059 |
| 2009 and thereafter | 93,975 | 889,156 |
| Total | ¥156,819 | $1,483,764 |

(4) The aggregate annual maturities of corporate bonds outstanding at March 31, 2004 were as follows:

| For the years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2005 | ¥ 36,154 | $ 342,078 |
| 2006 | 48,116 | 455,252 |
| 2007 | 11,000 | 104,078 |
| 2008 | 23,400 | 221,402 |
| 2009 and thereafter | 214,552 | 2,030,013 |
| Total | ¥333,222 | $3,152,823 |

## 15. Assets pledged as collateral –

Assets pledged as collateral at March 31, 2004 were as follows:

(1) For short-term borrowings and long-term debt –

| Assets pledged as collateral | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash and deposits | ¥ 903 | $ 8,543 |
| Notes and accounts receivable-trade | 1,125 | 10,640 |
| Inventories | 545 | 5,156 |
| Transmission equipment | 5,487 | 51,912 |
| Property and equipment-others | 1,507 | 14,262 |
| Investment securities | 138,065 | 1,306,316 |

| | Carrying amount | |
|---|---|---|
| Secured liabilities | Millions of yen | Thousands of U.S. dollars |
| Notes and accounts payable-trade | ¥ 593 | $ 5,608 |
| Short-term borrowings | 13,081 | 123,770 |
| Other current liabilities | 347 | 3,280 |
| Long-term debt | 118,483 | 1,121,047 |

In addition, stocks of ¥2,640 million ($24,978 thousand) held for customers for margin transactions in relation to sales of securities were pledged as collateral at the fiscal year ended March 31, 2004.

(2) For future lease obligations –

The collateral for future lease liabilities of ¥33,559 million ($317,520 thousand) including a ¥58 million ($547 thousand) "Notes and accounts payable-trade" balance at March 31, 2004, was provided by mortgaging the aggregate of the current and future receivables due from the customers of certain consolidated subsidiaries and a broadcasting company based on marketing agreements, etc.

Current receivables, held as collateral for the above future lease liabilities at March 31, 2004, consisted of "Notes and accounts receivable-trade" of ¥8,727 million ($82,576 thousand) and "Other current assets" of ¥37 million ($346 thousand), respectively.

(3) For long-term debt owed by investee –

The Company's subsidiary invests in certain partnerships that finance their investments in real estate with borrowings from financial institutions. The investment in these partnerships of ¥1,842 million ($17,428 thousand) was pledged as collateral against the partnerships' borrowings of ¥2,349 million ($22,225 thousand) from the financial institutions at March 31, 2004.

## 16. Receivables and payables related to margin transactions –

Receivables and payables at March 31, 2003 and 2004 related to margin transactions in the securities business were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| Receivables- | | | |
| Loans receivable from customers for margin transactions | ¥42,458 | **¥168,485** | **$1,594,143** |
| Cash deposits (collateral) for securities borrowed from securities companies | 6,389 | **12,558** | **118,820** |
| Total | ¥48,847 | **¥181,043** | **$1,712,963** |
| Payables- | | | |
| Loans payable to securities companies for margin transactions | ¥27,906 | **¥126,722** | **$1,198,994** |
| Proceeds from securities sold for margin transactions | 16,553 | **33,661** | **318,490** |
| Total | ¥44,459 | **¥160,383** | **$1,517,484** |

## 17. Marketable and investment securities related to commodities and securities businesses –

In connection with commodities and securities businesses, marketable securities submitted, pledged or deposited at March 31, 2004 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | | March 31, **2004** |
| Marketable securities submitted to third parties for margin transactions (at fair value)- | | |
| Lent to customers | **¥ 37,660** | **$ 356,325** |
| Collateral for loans from securities companies[1] | **192,839** | **1,824,572** |
| Marketable securities received from third parties for margin transactions (at fair value)- | | |
| Borrowed from securities company | **12,516** | **118,422** |
| Received as collateral from customers[2] | **178,247** | **1,686,508** |
| Marketable securities deposited as guarantee for commodity futures and as trustee business deposits (at book value) | **865** | **8,184** |

Notes: [1] Collateral for loans from securities companies included the Group's marketable securities of ¥397 million ($3,756 thousand) at fair value and marketable securities received from customers of ¥61,933 million ($585,987 thousand) at fair value.

[2] Marketable securities received as collateral from customers at March 31, 2004 included ¥91,675 million ($867,395 thousand), which would be available to be repledged by the Group with the customers' consent.

In addition, "Investment securities" of ¥100 million ($946 thousand) at March 31, 2004 were pledged as deposits for conducting commodities and securities businesses with financing companies.

## 18. Cash receipt as collateral –

Cash receipt as collateral from financial institutions, to whom the Company lent its subsidiary's shares under a security deposit agreement, is presented as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | | March 31, 2004 |
| Other current liabilities | ¥10,000 | $94,619 |

## 19. Pension and severance costs –

The Company and most of its domestic consolidated subsidiaries adopted the defined contribution pension plan on July 1, 2002, with minor exceptions, as described in note 3(8), and the contribution amounts paid to the pension plans for the fiscal years ended March 31, 2003 and 2004 were ¥160 million and ¥368 million ($3,477 thousand), respectively.

In accordance with the adoption of the defined contribution pension plan as described in note 3(8), the Company and its consolidated subsidiaries were obligated to pay ¥668 million to the defined contribution pension plan, and ¥371 million of accrued retirement benefit described above was reversed. As a result, the remaining amount of ¥297 million was recorded as loss on transfer of pension plans for the fiscal year ended March 31, 2003.

Information on the tax qualified non-contributory defined benefit pension plan was as follows:

Funded status-

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Projected benefit obligations | ¥131 | ¥2,086 | $19,746 |
| Plan assets at fair value | 81 | 1,880 | 17,793 |
| Unfunded projected benefit obligations | 50 | 206 | 1,953 |
| Unrecognized actuarial losses | – | 195 | 1,841 |
| Net liability for retirement benefits | – | 11 | 112 |
| Prepaid pension costs | – | 23 | 212 |
| Accrued retirement benefits | ¥ 50 | ¥ 34 | $ 324 |

Composition of net periodic pension costs-

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the years ended March 31, | | For the year ended March 31, |
| | 2003 | 2004 | 2004 |
| Service costs | ¥531 | ¥ 627 | $5,932 |
| Interest costs | 9 | 20 | 194 |
| Expected return on plan assets | (5) | (17) | (161) |
| Recognized actuarial loss | 4 | 50 | 471 |
| Net periodic pension costs | 539 | 680 | 6,436 |
| Contributions | 160 | 368 | 3,477 |
| Loss on transfer of pension plans | 297 | – | – |
| Total periodic pension costs | ¥996 | ¥1,048 | $9,913 |

## 20. Common stock and treasury stock –

Upon resolution at the shareholders' meeting held on June 24, 2004, the Company amended the statutes of corporation regarding acquisition of treasury stock so that the Company is able to acquire treasury stock upon the resolution at the board of directors' meeting in accordance with the Commercial Code of Japan.

At March 31, 2004, the number of treasury stock held by the Company was as follows:

| | | |
|---|---|---|
| Held by the Company | Common stock | 32,730 shares |

## 21. Retained earnings (accumulated deficit) –

Under the Commercial Code of Japan, any appropriation of retained earnings for a fiscal year is made upon resolution of the shareholders at a general meeting, to be held within three months of the balance sheet date, and any approved appropriations are reflected in the accounts in the period in which the resolution is passed.

In June 2003, the Company paid a year-end cash dividend of ¥7 per share, or ¥2,358 million in total, to the shareholders on the register at March 31, 2003 in accordance with a resolution passed at the shareholders' general meeting held on June 24, 2003. Cash dividends of ¥2,342 million ($22,162 thousand), after elimination of cash dividends of ¥16 million paid for treasury stock held by subsidiaries of the Company, were recorded in the consolidated financial statements for the fiscal year ended March 31, 2004.

At the general shareholders' meeting on June 24, 2004, a cash dividend payment of ¥7 per share, or ¥2,460 million ($23,274 thousand) in total, to the shareholders on the register at March 31, 2004, was approved.

## 22. Income taxes –

The Group is subject to a number of different income taxes, which, in aggregate, resulted in a statutory income tax rate in Japan of approximately 42.05 % for each of the two years ended March 31, 2003 and 2004.

The differences between the statutory income tax rate and the income tax rate reflected in the consolidated statements of operations can be reconciled as follows:

| | 2003 | **2004** |
|---|---|---|
| Statutory income tax rate | 42.05% | **42.05 %** |
| Reconciliation- | | |
| Differences related to investments in affiliates | 10.01 | **(1.36)** |
| Changes in valuation allowance | (86.90) | **(55.54)** |
| Tax rate differential | (6.95) | **(2.81)** |
| Change in statutory tax rate | (1.43) | **(2.79)** |
| Other | (0.26) | **0.65** |
| Income tax rate per statements of operations | (43.48)% | **(19.80)%** |

The enterprise tax rate, which is a component of the statutory income tax rate, has been lowered from 10.08% to 7.56% effective from the year commencing on April 1, 2004 upon approval of the National Diet in March 2003. Accordingly, deferred tax assets and liabilities at March 31, 2003, which were expected to be realized in the following year, were calculated using a 42.05% tax rate while those expected to be realized after April 1, 2004 were calculated using a 40.69% tax rate.

The effect of this change in statutory tax rate for the fiscal year ended March 31, 2003 was a decrease in net deferred tax assets of ¥1,013 million and an increase of income tax expense of ¥1,022 million. These impacts are presented as change in statutory tax rate in the above table.

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Deferred tax assets- | | | |
| Loss carry-forwards | ¥ 116,452 | ¥ 143,906 | $ 1,361,588 |
| Valuation loss on investment securities | 66,016 | 64,792 | 613,037 |
| Allowance for doubtful accounts | 4,480 | 7,407 | 70,086 |
| Unrealized profit | 3,657 | 3,158 | 29,877 |
| Depreciation and amortization | 1,519 | 1,623 | 15,357 |
| Enterprise tax payable | 1,029 | 1,808 | 17,106 |
| Net unrealized loss on derivative instruments | – | 4,940 | 46,743 |
| Valuation loss on inventories | 529 | 6,001 | 56,778 |
| Others | 3,044 | 5,605 | 53,026 |
| Gross deferred tax assets | 196,726 | 239,240 | 2,263,598 |
| Less: valuation allowance | (141,061) | (191,221) | (1,809,260) |
| Total deferred tax assets | 55,665 | 48,019 | 454,338 |
| Deferred tax liabilities- | | | |
| Unrealized gain on other securities | (30,870) | (57,892) | (547,749) |
| Valuation gain on investment securities | (22,898) | (4,764) | (45,076) |
| Foreign exchange gain on long-term receivables | (743) | (4,324) | (40,909) |
| Others | (681) | (4,927) | (46,623) |
| Total deferred tax liabilities | (55,192) | (71,907) | (680,357) |
| Net amount of deferred tax assets (liabilities) | ¥ 473 | ¥ (23,888) | $ (226,019) |

The valuation allowance was provided mainly against the deferred tax assets relating to future tax-deductible temporary differences and operating tax loss carry-forwards of certain consolidated subsidiaries, as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in total valuation allowance for the fiscal year ended March 31, 2004 was an increase of ¥50,160 million ($474,587 thousand).

## 23. Non-financial business selling, general and administrative expenses and financial business expenses –

The main components of "Selling, general and administrative expenses" and "Financial business expenses" for the fiscal years ended March 31, 2003 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the years ended March 31, | | For the year ended March 31, |
| | 2003 | 2004 | 2004 |
| Non-financial business- | | | |
| Sales promotion expenses | ¥43,499 | ¥81,631 | $772,360 |
| Payroll and bonuses | 20,154 | 22,164 | 209,704 |
| Allowance for doubtful accounts | 1,403 | 2,690 | 25,451 |
| Financial business- | | | |
| Payroll and bonuses | 4,076 | 4,424 | 41,854 |
| Allowance for doubtful accounts | 251 | 228 | 2,156 |

In addition, research and development costs of ¥1,268 million ($11,995 thousand) for the fiscal year ended March 31, 2004 were included in general and administrative expenses and cost of sales.

## 24. Gain on sale of marketable and investment securities, net –

Gain (loss) on sale of marketable and investment securities for the fiscal years ended March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the years ended March 31, | | For the year ended March 31, |
| | 2003 | 2004 | 2004 |
| SOFTBANK INVESTMENT CORPORATION | ¥ – | ¥ 10,398 | $ 98,377 |
| UTStarcom, Inc. | 6,916 | 9,043 | 85,558 |
| cyber communications inc. | – | 7,857 | 74,343 |
| Aozora Bank, Ltd. | – | (10,272) | (97,186) |
| Yahoo! Inc. | 63,457 | (16) | (147) |
| Yahoo Japan Corporation | 52,230 | – | – |
| Others | (5,842) | 10,005 | 94,664 |
| Total | ¥116,761 | ¥ 27,015 | $255,609 |

## 25. Impairment loss on investment securities –

"Impairment loss on investment securities" for the fiscal years ended March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the years ended March 31, | | For the year ended March 31, |
| Loss on investment in- | 2003 | **2004** | **2004** |
| Subsidiaries | ¥10,610 | **¥ 7,276** | **$ 68,839** |
| Affiliates | 21,714 | **1,913** | **18,102** |
| Other securities | 33,849 | **5,085** | **48,118** |
| Total impairment loss | ¥66,173 | **¥14,274** | **$135,059** |

## 26. Per share data –

As described in note 3(12), the Company and its consolidated subsidiaries adopted the new accounting standard for net income (loss) per share from the fiscal year beginning April 1, 2002. Per share information computed in accordance with the new standard is disclosed as follows:

| | For the years ended March 31, | | For the year ended March 31, |
|---|---|---|---|
| | 2003 | **2004** | **2004** |
| Net loss per share | | | |
| Primary | ¥(296.94) | **¥(314.72)** | **$(2.98)** |
| Diluted | – | **–** | **–** |
| Shareholders' equity per share | 767.56 | **677.40** | **6.41** |

Note: Diluted net income per share is not disclosed due to the loss position.

Basic data for the computation of per share data is shown below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the years ended March 31, | | For the year ended March 31, |
| | 2003 | **2004** | **2004** |
| Net loss | ¥ (99,989) | **¥ (107,094)** | **$ (1,013,285)** |
| Bonuses to directors (see note 3(12)) | (39) | **(40)** | **(376)** |
| Net loss after bonuses to directors | (100,028) | **(107,134)** | **(1,013,661)** |
| Weighted-average number of common stock issued and outstanding during each fiscal year (unit: shares) | 336,857,133 | **340,407,372** | **340,407,372** |

## 27. Cash flow information –

(1) "Cash and cash equivalents" at March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| Cash and deposits | ¥147,503 | **¥327,024** | **$3,094,178** |
| Marketable securities | 5,060 | **113,659** | **1,075,403** |
| Subtotal | 152,563 | **440,683** | **4,169,581** |
| Less: | | | |
| Time deposits with maturity over three months | (2,866) | **(2,332)** | **(22,060)** |
| Stocks and bonds with maturity over three months | (2,141) | **(1,143)** | **(10,818)** |
| Deposits from customers in commodities business | (30) | **(75)** | **(714)** |
| Cash and cash equivalents | ¥147,526 | **¥437,133** | **$4,135,989** |

(2) Acquisition of WOLRD NICHIEI Securities Co., Ltd. ("WORLD NICHIEI")-

In October 2003, SOFTBANK INVESTMENT CORPORATION, a consolidated subsidiary of the Company, acquired shares of WOLRD NICHIEI for ¥7,844 million ($74,217 thousand), which was consolidated in the Group's consolidated financial statements for the fiscal year ended March 31, 2004.

Upon consolidation, a net cash flow of ¥1,488 million ($14,079 thousand), representing the excess cash of the "Cash and cash equivalents" of ¥9,332 million ($88,296 thousand) held by WOLRD NICHIEI as at the date of acquisition over the cash consideration of ¥7,844 million ($74,217 thousand) paid for the acquisition, was disclosed as "Additional investment in newly consolidated entities" in the consolidated statements of cash flows for the fiscal year ended March 31, 2004.

## 28. Leases –

As described in note 3(14), the Group, as a lessee, charges periodic capital lease payments to expenses when paid. Such payments for the fiscal years ended March 31, 2003 and 2004 amounted to ¥12,021 million and ¥15,837 million ($149,843 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term had been capitalized, capital lease assets at March 31, 2003 and 2004 would have been as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| Capital lease assets | 2003 | 2004 | 2004 |
| Equivalent to acquisition cost | | | |
| Transmission equipment | ¥33,210 | ¥ 49,114 | $ 464,701 |
| Less: accumulated depreciation | (7,484) | (17,251) | (163,221) |
| | 25,726 | 31,863 | 301,480 |
| Equivalent to acquisition cost | | | |
| Property and equipment | 19,101 | 11,176 | 105,740 |
| Less: accumulated depreciation | (9,844) | (5,328) | (50,412) |
| | 9,257 | 5,848 | 55,328 |
| Equivalent to acquisition cost | | | |
| Software | 1,106 | 928 | 8,788 |
| Less: accumulated amortization | (262) | (187) | (1,772) |
| | 844 | 741 | 7,016 |
| Net book value | ¥35,827 | ¥ 38,452 | $ 363,824 |

Depreciation and amortization expense for these leased assets for the fiscal years ended March 31, 2003 and 2004 would have been ¥10,062 million and ¥13,748 million ($130,077 thousand), respectively, if it had been 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.

Interest expense on lease payments under these capital leases for the fiscal years ended March 31, 2003 and 2004 would have been ¥2,142 million and ¥2,409 million ($22,793 thousand), respectively.

Future lease payments for capital leases at March 31, 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Due within one year | ¥12,434 | ¥15,155 | $143,387 |
| Due after one year | 25,709 | 27,902 | 263,996 |
| Total | ¥38,143 | ¥43,057 | $407,383 |

Future lease payments for non-cancelable operating leases at March 31, 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | 2004 | 2004 |
| Due within one year | ¥211 | ¥599 | $5,668 |
| Due after one year | 241 | 285 | 2,701 |
| Total | ¥452 | ¥884 | $8,369 |

The Group, as a lessor, recognizes periodic capital lease payments received from lessees as financial business revenues. Lease income recognized during the fiscal years ended March 31, 2003 and 2004 was ¥333 million and ¥157 million ($1,482 thousand), respectively.

Assets leased to third parties under capital lease contracts at March 31, 2003 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| Equivalent acquisition cost | | | |
| Property and equipment | ¥ 614 | **¥ 617** | **$ 5,841** |
| Less: accumulated depreciation | (263) | **(284)** | **(2,692)** |
| | 351 | **333** | **3,149** |
| Equivalent acquisition cost | | | |
| Software | 296 | **168** | **1,591** |
| Less: accumulated amortization | (142) | **(39)** | **(369)** |
| | 154 | **129** | **1,222** |
| Net book value | ¥ 505 | **¥ 462** | **$ 4,371** |

Depreciation expense for assets leased to third parties for the fiscal years ended March 31, 2003 and 2004 was ¥286 million and ¥134 million ($1,273 thousand), respectively.

Interest income included in "Revenue from financial business" under these capital leases for the fiscal years ended March 31, 2003 and 2004 amounted to ¥63 million and ¥24 million ($222 thousand), respectively.

Future lease receivables for capital leases at March 31, 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31 | | March 31, |
| | 2003 | **2004** | **2004** |
| Due within one year | ¥189 | **¥176** | **$1,668** |
| Due after one year | 348 | **308** | **2,910** |
| Total | ¥537 | **¥484** | **$4,578** |

## 29. Contingent liabilities –

There were no material contingent liabilities at March 31, 2004.

## 30. Subsequent event –

### (1) Acquisition of JAPAN TELECOM CO., LTD.

The Company agreed at a board meeting held on May 27, 2004, to acquire JAPAN TELECOM CO., LTD. ("JAPAN TELECOM"), and the Company entered into stock transfer agreement on the same day.

### 1. Purpose of the acquisition

The Group will substantially expand the scale of its business through the acquisition of JAPAN TELECOM and will seek to become "the No.1 broadband company", offering a comprehensive range of communication services including both voice and data transmission and Internet connectivity to consumer and enterprise customers.

2. About JAPAN TELECOM CO., LTD.

Head office: 7-1 Hatchobori 4 chome, Chuo-ku, Tokyo

Paid-in Capital: ¥66.2 billion ($626 million)

Main business: Fixed-line telecommunications

Revenue for the fiscal year ended March 31, 2004: ¥347.1 billion ($3,284 million)

3. Summary of the acquisition

a. Number of shares acquired: Approximately 144 million (100%) shares of the issued and outstanding common stock of JAPAN TELECOM
b. Common stock purchased: ¥143.3 billion ($1,356 million)
c. Sellers: Eight companies in total, including Japan Telecom Holdings L.P.
d. Date of acquisition: Scheduled on November 16, 2004

(2) Issuance of Stock Acquisition Rights by Third Party Allotment

The Company issued Stock Acquisition Rights by third party allotment in accordance with an approval at the Board of Directors' meeting held on May 27, 2004 as follows:

1. Purpose for issuance

The purpose of the issuance is to secure working capital for the Company's broadband business and to strengthen its equity capital base.

2. Outline of the issuance of the Stock Acquisition Rights

a. Class and number of shares to be issued upon exercise of Stock Acquisition Rights:
   8,000,000 shares of common stock of the Company
   (100 shares per Stock Acquisition Right)
b. Aggregate number of Stock Acquisition Rights to be issued: 80,000 units
c. Issuance price of Stock Acquisition Rights:
   ¥20,750 ($196) per unit (¥207.50 ($1.96) per share)
d. Aggregate amount of the issue price of Stock Acquisition Rights: ¥1,660,000,000 ($15,706,311)
e. Method of offering: Third party allotment
f. Recipient of allotment and number to be allotted:
   Japan Telecom Holdings L.P.; 80,000 units
g. Application period: June 14, 2004 through June 21, 2004
h. Payment date: June 22, 2004
i. Allotment date: June 23, 2004
j. Base date for dividend calculation:
   The payment of initial dividend payable on the newly issued shares of the Company that are issued as a result of the exercise of the Stock Acquisition Rights shall be made as if the exercise of the Stock Acquisition Rights were effective as of the last day of the fiscal year immediately before the year when the Stock Acquisition Rights are exercised and the payment for such exercise is confirmed at the payment location.
k. Amount payable upon the exercise of the Stock Acquisition Rights: ¥470,000 ($4,447) per unit (¥4,700 ($44.47) per share)
l. Aggregate amount payable upon the exercise of the Stock Acquisition Rights: ¥37,600,000,000 ($355,757,404)
m. Issuance price of the shares to be issued upon the exercise of the Stock Acquisition Rights:
   ¥490,750 ($4,643) per unit (¥4,907.50 ($46.43) per share)
n. Aggregate amount of the issuance price of the shares issued upon the exercise of the Stock Acquisition Rights:
   ¥39,260,000,000 ($371,463,715)
o. Amount of equity to be capitalized upon the exercise of the Stock Acquisition Rights:
   ¥19,632,000,000 ($185,750,781)
   (¥245,400 ($2,322) per unit, ¥2,454 ($23.22) per share)
p. Exercise period:
   July 27, 2004 through November 30, 2004
q. Condition for the exercise of Stock Acquisition Rights:
   Any Stock Acquisition Rights under one unit shall not be exercisable. Other conditions of exercise shall require the approval of Board of Directors of the Company.
r. Event and conditions of cancellation of Stock Acquisition Rights:
   In the event where the Company does not acquire all issued and outstanding common shares of JAPAN TELECOM CO., LTD. by November 16, 2004, the Company shall be able to cancel the Stock Acquisition Rights from time to time by the resolution of the Board of Directors, with payment of an amount equivalent to the amount of the issuance price provided under (c) above to the holder of the Stock Acquisition Rights.
s. Transfer restrictions on Stock Acquisition Rights:
   Any transfer of the Stock Acquisition Rights shall require the approval of the Board of Directors of the Company.

t. Rationale behind the calculation of the amount payable as issuance price and upon the exercise of the Stock Acquisition Rights:

The base share price shall be set at the closing price of common shares of the Company on May 24, 2004 as traded on the First Section of the Tokyo Stock Exchange. The Company has used the swap rate with a similar maturity to the period remaining in the exercise period, and for volatility, it has used 40% after considering market conditions and the level applicable to companies pursuing comparable businesses. The calculation was conducted based on the Black-Scholes option pricing model using the aforementioned assumptions to arrive at a ¥20,750 ($196) issuance price for each Stock Acquisition Right (¥207.50 ($1.96) per share).

u. Location for claiming the right to exercise the Stock Acquisition Rights: Head office of the Company.

(3) Zero Coupon Convertible Bonds due 2009 (bonds with stock acquisition rights) (the "Bonds") offering at the Company's subsidiary.

SOFTBANK INVESTMENT CORPORATION, a subsidiary of the Company, issued the Bonds on April 8, 2004 in accordance with an approval at the Board of Directors' meeting held on March 22, 2004 as follows:

1. Bonds offered:
   ¥20,000,000,000 Zero Coupon Convertible Bonds due 2009 (bonds with stock acquisition rights) of SOFTBANK INVESTMENT CORPORATION
2. Issued amount:
   20,000 million yen ($189 million)
3. Offered amount:
   100% of principal amount
4. Interest rate:
   Zero coupons
5. Redemption date:
   April 8, 2009 (London time). Full redemption of issued amounts.
6. Date of receipt and issuance:
   April 8, 2004 (London time)
7. Collateral:
   None
8. Conditions of stock acquisition rights:
   a. Type of shares:
      Common stock of SOFTBANK INVESTMENT CORPORATION
   b. Number of stock acquisition rights:
      2,000 units
   c. Acquisition price:
      No consideration
   d. Valid period for exercise of stock acquisition rights:
      Effective from April 22, 2004 to March 18, 2009 (London time)
9. Offering:
   Private offering in foreign markets mainly in Europe, and excluding the United States of America.

## 31. Segment information –

(1) Business segment information –

Prior to April 1, 2002, the Company had categorized the business segments based on roles and responsibilities of each operating holding company. Effective from the fiscal year beginning April 1, 2002, the business segments have been categorized based on the nature of business operations, type of services, and the similarity of sales channels and other characteristics, in order to more accurately describe the Group's activities by integrating all broadband infrastructure-related business into one segment, rather than having such businesses spread across various segments.

Business segment information based on the new segmentation method for the fiscal years ended March 31, 2003 and 2004 is presented below:

Millions of yen

For the year ended March 31, **2004**

| | Business | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Broadband Infrastructure | e–Commerce | e–Finance | Media & Marketing | Broadmedia | Internet Culture | Technology Services | Overseas Funds | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | | | | | | | |
| Customers | ¥128,711 | ¥243,903 | ¥ 37,949 | ¥13,186 | ¥ 8,771 | ¥ 63,613 | ¥14,435 | ¥ 2,444 | ¥ 4,382 | ¥ 517,394 | ¥ – | ¥ 517,394 |
| Inter-segment | 196 | 10,986 | 3,478 | 1,222 | 4,122 | 442 | 8,168 | – | 1,490 | 30,104 | (30,104) | – |
| Total | 128,907 | 254,889 | 41,427 | 14,408 | 12,893 | 64,055 | 22,603 | 2,444 | 5,872 | 547,498 | (30,104) | 517,394 |
| Operating expenses | 216,504 | 251,242 | 35,516 | 15,501 | 16,198 | 31,473 | 21,867 | 1,068 | 9,838 | 599,207 | (26,919) | 572,288 |
| Operating income (loss) | ¥ (87,597) | ¥ 3,647 | ¥ 5,911 | ¥ (1,093) | ¥ (3,305) | ¥ 32,582 | ¥ 736 | ¥ 1,376 | ¥ (3,966) | ¥ (51,709) | ¥ (3,185) | ¥ (54,894) |
| Identifiable assets | ¥174,815 | ¥ 74,054 | ¥455,796 | ¥ 9,629 | ¥16,231 | ¥218,780 | ¥16,213 | ¥76,257 | ¥185,608 | ¥1,227,383 | ¥193,824 | ¥1,421,207 |
| Depreciation and amortization | 22,876 | 1,522 | 4,320 | 370 | 1,309 | 3,511 | 202 | 326 | 298 | 34,734 | (1,187) | 33,547 |
| Capital expenditures | 52,273 | 1,341 | 3,247 | 264 | 3,146 | 6,562 | 211 | 13 | 1,379 | 68,436 | 72 | 68,508 |

Thousands of U.S. dollars

For the year ended March 31, **2004**

| | Business | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Broadband Infrastructure | e–Commerce | e–Finance | Media & Marketing | Broadmedia | Internet Culture | Technology Services | Overseas Funds | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | | | | | | | |
| Customers | $1,217,816 | $2,307,720 | $ 359,063 | $124,761 | $ 82,982 | $ 601,886 | $136,582 | $ 23,120 | $ 41,461 | $ 4,895,391 | $ – | $ 4,895,391 |
| Inter-segment | 1,854 | 103,943 | 32,905 | 11,558 | 39,005 | 4,178 | 77,282 | – | 14,097 | 284,822 | (284,822) | – |
| Total | 1,219,670 | 2,411,663 | 391,968 | 136,319 | 121,987 | 606,064 | 213,864 | 23,120 | 55,558 | 5,180,213 | (284,822) | 4,895,391 |
| Operating expenses | 2,048,484 | 2,377,155 | 336,038 | 146,660 | 153,261 | 297,783 | 206,900 | 10,102 | 93,083 | 5,669,466 | (254,689) | 5,414,777 |
| Operating income (loss) | $ (828,814) | $ 34,508 | $ 55,930 | $ (10,341) | $ (31,274) | $ 308,281 | $ 6,964 | $ 13,018 | $ (37,525) | $ (489,253) | $ (30,133) | $ (519,386) |
| Identifiable assets | $1,654,032 | $ 700,668 | $4,312,577 | $ 91,102 | $153,567 | $2,070,018 | $153,399 | $721,520 | $1,756,151 | $11,613,034 | $1,833,901 | $13,446,935 |
| Depreciation and amortization | 216,444 | 14,405 | 40,878 | 3,505 | 12,387 | 33,218 | 1,916 | 3,088 | 2,818 | 328,659 | (11,252) | 317,407 |
| Capital expenditures | 494,590 | 12,692 | 30,721 | 2,498 | 29,764 | 62,084 | 1,996 | 122 | 13,044 | 647,511 | 684 | 648,195 |

Millions of yen

For the year ended March 31, 2003

| | Business | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Broadband Infrastructure | e–Commerce | e–Finance | Media & Marketing | Broadmedia | Internet Culture | Technology Services | Overseas Funds | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | | | | | | | |
| Customers | ¥ 39,945 | ¥250,782 | ¥ 23,616 | ¥15,917 | ¥10,442 | ¥ 37,741 | ¥10,913 | ¥ 3,277 | ¥ 14,259 | ¥406,892 | ¥ – | ¥406,892 |
| Inter-segment | 63 | 15,304 | 4,551 | 997 | 1,503 | 460 | 14,816 | – | 1,603 | 39,297 | (39,297) | – |
| Total | 40,008 | 266,086 | 28,167 | 16,914 | 11,945 | 38,201 | 25,729 | 3,277 | 15,862 | 446,189 | (39,297) | 406,892 |
| Operating expenses | 136,213 | 263,620 | 33,990 | 17,436 | 13,561 | 21,319 | 24,616 | 1,286 | 22,246 | 534,287 | (35,398) | 498,889 |
| Operating income (loss) | ¥ (96,205) | ¥ 2,466 | ¥ (5,823) | ¥ (522) | ¥ (1,616) | ¥ 16,882 | ¥ 1,113 | ¥ 1,991 | ¥ (6,384) | ¥ (88,098) | ¥ (3,899) | ¥ (91,997) |
| Identifiable assets | ¥136,625 | ¥ 82,518 | ¥221,647 | ¥14,515 | ¥12,442 | ¥124,574 | ¥14,758 | ¥105,752 | ¥140,713 | ¥853,544 | ¥ 92,787 | ¥946,331 |
| Depreciation and amortization | 12,033 | 1,157 | 5,753 | 324 | 364 | 2,249 | 174 | 444 | 1,434 | 23,932 | 229 | 24,161 |
| Capital expenditures | 76,928 | 4,187 | 4,427 | 192 | 4,443 | 4,690 | 365 | 21 | 317 | 95,570 | (99) | 95,471 |

For comparative purposes, business segment information for the fiscal year ended March 31, 2003 based on previous segmentation method is presented below:

Business segment information based on previous segmentation method:

Millions of yen

| | For the year ended March 31, 2003 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Business | | | | | | | | | | | |
| | Broadband Infrastructure | e–Commerce | e–Finance | Media & Marketing | Broadmedia | Internet Culture | Technology Services | Overseas Funds | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | | | | | | | |
| Customers | ¥ 24,798 | ¥250,782 | ¥ 23,616 | ¥15,917 | ¥10,442 | ¥ 52,888 | ¥10,913 | ¥ 3,277 | ¥ 14,259 | ¥406,892 | ¥ – | ¥406,892 |
| Inter-segment | 12,153 | 19,048 | 4,551 | 997 | 1,503 | 7,558 | 14,816 | – | 1,603 | 62,229 | (62,229) | – |
| Total | 36,951 | 269,830 | 28,167 | 16,914 | 11,945 | 60,446 | 25,729 | 3,277 | 15,862 | 469,121 | (62,229) | 406,892 |
| Operating expenses | 135,911 | 272,639 | 33,990 | 17,436 | 13,561 | 36,713 | 24,616 | 1,286 | 22,246 | 558,398 | (59,509) | 498,889 |
| Operating income (loss) | ¥ (98,960) | ¥ (2,809) | ¥ (5,823) | ¥ (522) | ¥ (1,616) | ¥ 23,733 | ¥ 1,113 | ¥ 1,991 | ¥ (6,384) | ¥ (89,277) | ¥ (2,720) | ¥ (91,997) |
| Identifiable assets | ¥138,967 | ¥ 82,518 | ¥221,647 | ¥14,515 | ¥12,442 | ¥128,339 | ¥14,758 | ¥105,752 | ¥140,713 | ¥859,651 | ¥ 86,680 | ¥946,331 |
| Depreciation and amortization | 12,043 | 1,157 | 5,753 | 324 | 364 | 2,574 | 174 | 444 | 1,434 | 24,267 | (106) | 24,161 |
| Capital expenditures | 76,928 | 4,187 | 4,427 | 192 | 4,443 | 4,690 | 365 | 21 | 317 | 95,570 | (99) | 95,471 |

Unallocated operating expenses for the fiscal years ended March 31, 2003 and 2004 in the column "Elimination or corporate", which mainly represent expenses of the corporate division of the Company, were ¥4,041 million and ¥3,482 million ($32,950 thousand), respectively.

Corporate assets at March 31, 2003 and 2004 in the column "Elimination or corporate" were ¥111,078 million and ¥223,971 million ($2,119,130 thousand), 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" included acquisition of long-term prepaid expenses and deferred charges. "Depreciation and amortization" included the amortization of long-term prepaid expenses and deferred charges.

(2) Geographic segment information –

The table below summarizes the geographic segment information of the Group for the fiscal years ended March 31, 2003 and 2004:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | For the year ended March 31, 2004 | | | | | |
| | Geographic region | | | | | |
| | Japan | North America | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | |
| Customers | ¥509,677 | ¥ 2,194 | ¥ 5,523 | ¥ 517,394 | ¥ – | ¥ 517,394 |
| Inter-segment | 522 | 57 | 108 | 687 | (687) | – |
| Total | 510,199 | 2,251 | 5,631 | 518,081 | (687) | 517,394 |
| Operating expenses | 558,681 | 3,507 | 7,506 | 569,694 | 2,594 | 572,288 |
| Operating loss | ¥ (48,482) | ¥ (1,256) | ¥ (1,875) | ¥ (51,613) | ¥ (3,281) | ¥ (54,894) |
| Identifiable assets | ¥804,978 | ¥334,679 | ¥69,367 | ¥1,209,024 | ¥212,183 | ¥1,421,207 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | For the year ended March 31, 2004 | | | | | |
| | Geographic region | | | | | |
| | Japan | North America | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | |
| Customers | $4,822,371 | $ 20,761 | $ 52,259 | $ 4,895,391 | $ – | $ 4,895,391 |
| Inter-segment | 4,943 | 537 | 1,020 | 6,500 | (6,500) | – |
| Total | 4,827,314 | 21,298 | 53,279 | 4,901,891 | (6,500) | 4,895,391 |
| Operating expenses | 5,286,033 | 33,180 | 71,019 | 5,390,232 | 24,545 | 5,414,777 |
| Operating loss | $ (458,719) | $ (11,882) | $ (17,740) | $ (488,341) | $ (31,045) | $ (519,386) |
| Identifiable assets | $7,616,404 | $3,166,609 | $656,326 | $11,439,339 | $2,007,596 | $13,446,935 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the year ended March 31, 2003 | | | | | | | |
| | Geographic region | | | | | | | |
| | Japan | North America | Europe | Korea | Others | Total | Elimination or corporate | Consolidated |
| Net sales- | | | | | | | | |
| Customers | ¥386,477 | ¥ 2,992 | ¥ – | ¥13,974 | ¥ 3,449 | ¥406,892 | ¥ – | ¥406,892 |
| Inter-segment | 556 | 872 | 161 | – | 26 | 1,615 | (1,615) | – |
| Total | 387,033 | 3,864 | 161 | 13,974 | 3,475 | 408,507 | (1,615) | 406,892 |
| Operating expenses | 469,289 | 4,482 | 734 | 16,791 | 5,283 | 496,579 | 2,310 | 498,889 |
| Operating loss | ¥ (82,256) | ¥ (618) | ¥ (573) | ¥ (2,817) | ¥ (1,808) | ¥ (88,072) | ¥ (3,925) | ¥ (91,997) |
| Identifiable assets | ¥617,743 | ¥131,911 | ¥46,994 | ¥20,816 | ¥18,649 | ¥836,113 | ¥110,218 | ¥946,331 |

Net sales by geographic region were recognized based on geographic location.

The significant countries in each region are shown below:

North America- United States of America and Canada

Europe- United Kingdom, Germany and France

Others- China, Hong Kong and Singapore

Due to the decrease in materiality of the results of "Europe" and "Korea", the results of "Europe" and "Korea" were combined into "Others" effective from April 1, 2003.

Unallocated operating expenses for the fiscal years ended March 31, 2003 and 2004 in the column "Elimination or corporate", which mainly represent the expenses of the corporate division of the Company, were ¥4,041 million and ¥3,482 million ($32,950 thousand), respectively.

Corporate assets at March 31, 2003 and 2004 in the column "Elimination or corporate" were ¥111,078 million and ¥223,971 million ($2,119,130 thousand), 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) Sales to overseas customers –

Sales to overseas customers for the fiscal years ended March 31, 2003 and 2004 were omitted because total overseas sales were less than 10% of total consolidated sales.

# REPORT OF INDEPENDENT AUDITORS

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To the Board of Directors of
SOFTBANK CORP.

We have audited the accompanying consolidated balance sheets of SOFTBANK CORP. and its subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SOFTBANK CORP. and its subsidiaries as of March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in note 31(1), certain business segments were re-categorized during the year ended March 31, 2003. Previously, the business segments had been categorized on the basis of the roles and responsibilities of each operating holding company. Effective from the year ended March 31, 2003, the business segments have been categorized based on the nature of business operations, type of services, and the similarity of sales channels in order to more accurately describe the Group's activities by integrating all broadband infrastructure-related business into one segment, rather than having such business spread across various segments.

As described in note 30(1), SOFTBANK CORP. agreed at a board meeting held on May 27, 2004, to acquire JAPAN TELECOM CO., LTD. and entered into stock transfer agreement on the same day.

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

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 24, 2004

(Note: The name of the firm was changed from ChuoAoyama Audit Corporation to ChuoAoyama PricewaterhouseCoopers on April 15, 2004.)

# SOFTBANK CORPORATE DIRECTORY

## Domestic

### SOFTBANK CORP.
http://www.softbank.co.jp/english/
24-1, Nihonbashi-Hakozakicho, Chuo-ku, Tokyo 103-8501, Japan

### SOFTBANK BB Corp.
http://www.softbankbb.co.jp/
24-1, Nihonbashi-Hakozakicho, Chuo-ku, Tokyo 103-8501, Japan

### SOFTBANK FINANCE CORPORATION
http://www.sbfinance.co.jp/
Izumi Garden Tower, 20th Floor, 1-6-1, Roppongi, Minato-ku,
Tokyo 106-6020, Japan

### SOFTBANK Media & Marketing Corp.
http://www.softbankmm.co.jp/
4-13-13, Akasaka, Minato-ku, Tokyo 107-0052, Japan

### SOFTBANK Broadmedia Corporation
http://www.broadmedia.co.jp/
Aoyama Tower Place, 6F, 8-4-14
Akasaka, Minato-ku, Tokyo 107-0052, Japan

### Yahoo Japan Corporation
http://www.yahoo.co.jp/
Roppongi Hills Mori Tower, 6-10-1, Roppongi, Minato-ku,
Tokyo 106-6182, Japan

### SOFTBANK TECHNOLOGY CORP.
http://www.tech.softbank.co.jp/
Iidabashi Building, 8th Floor, 13-1, Nishi-Gokencho, Shinjuku-ku,
Tokyo 162-0812, Japan

## Overseas

### SOFTBANK Holdings Inc.
300 Delaware Avenue,
Wilmington, DE 19801, U.S.A.

### SOFTBANK Korea Co., Ltd.
http://www.softbank.co.kr/
ASEM Tower, 24th Floor,
159-1 Samsung-dong, Kangnam-gu,
Seoul 135-798, Republic of Korea

### SB CHINA HOLDINGS PTE LTD
Zhao Feng World Trade Building, 28th Floor,
369 Jiangsu Road, Shanghai 200050, P.R.C.

# SHAREHOLDER INFORMATION

| | |
|---|---|
| Corporate Headquarters | SOFTBANK CORP.<br>24-1, Nihonbashi-Hakozakicho, Chuo-ku, Tokyo 103-8501, Japan |
| Founded | September 3, 1981 |
| Paid-in Capital | ¥162,303,564,101<br>(As of March 31, 2004) |
| Common Stock Issued | 351,436,826 shares<br>(As of March 31, 2004) |
| Number of Shareholders | 249,064<br>(As of March 31, 2004) |
| Stock Exchange Registration | Tokyo Stock Exchange, First Section |
| Annual Meeting | June |
| Independent Auditors | ChuoAoyama PricewaterhouseCoopers<br>Kasumigaseki Bldg., 32nd Floor, 3-2-5, Kasumigaseki, Chiyoda-ku,<br>Tokyo 100-6088, Japan |
| Transfer Agent | UFJ Trust Bank Limited |

SOFTBANK CORP.
24-1, Nihonbashi-Hakozakicho, Chuo-ku, Tokyo 103-8501, Japan



Printed in Japan