

## To Our Shareholders

It gives me great pleasure to report on Yahoo! Japan Group's results for the fiscal year ended March 31, 2002.

During the fiscal year under review, we took steps to further strengthen our business base, aggressively pursuing diversification of our earnings. Thanks to these efforts, we posted record consolidated net sales and net income despite the extremely difficult business climate. It was the sixth consecutive fiscal year in which we have registered growth in sales and profits. We plan to continue to pursue a strategy of developing bases for other new businesses in a similar fashion to Yahoo! BB business and Auction business to further diversify our income sources.

### Performance

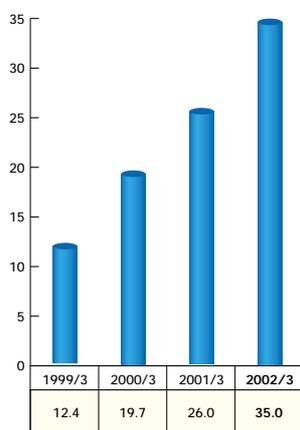
In the fiscal year ended March 31, 2002, net sales jumped 120.6%, to ¥31,497 million. Advertising business sales felt the brunt of the deterioration in the Japanese economy, declining 8.4%, to ¥12,298 million. However, this drop in sales was more than compensated for by ¥13,286 million in Yahoo! BB business sales and ¥2,416 million in auction business sales. Moreover, other businesses sales, including Yahoo! Shopping and other services, rose substantially, to ¥3,494 million, resulting in an overall surge in net sales.

Consequently, operating income increased 96.0%, to ¥10,406 million; ordinary income grew 98.1%, to ¥10,318 million; and net income advanced 97.4%, to ¥5,868 million. Net income per share amounted to ¥50,048.26, rising 27.3%. Fully diluted net income per share was ¥49,955.90.

### Operating Environment

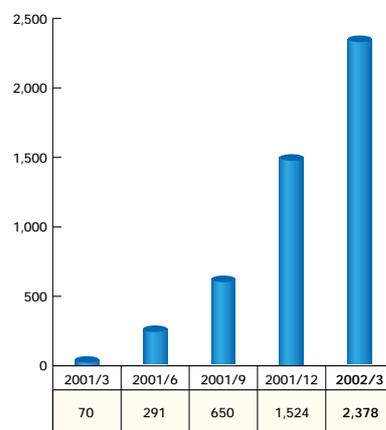
In a Web audience survey conducted by Nippon Research Center, Ltd., the number of Internet users in Japan was approximately 35 million as of March 2002, with Web users accounting for approximately 29 million of this total. According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of users of digital subscriber lines (DSL) services is rising sharply—there were approximately 2.4 million DSL subscribers at the end of March 2002, up about 33 times from a year ago.

**Internet Users in Japan** (Millions of People)



Source: Nippon Research Center, Ltd.

**DSL Subscribers in Japan** (Thousands of People)



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

In addition to making it possible to smoothly deliver audio and moving picture content, the spread of broadband service also substantially boosts the value of the Internet as a media. Able to access the Internet continuously at low, fixed rates, Internet users have increased their frequency of access and the amount of time spent surfing the Internet. Moreover, Internet users who used to take advantage of late-night discount rates now can afford to use the Internet during the so-called golden hours in the evening, making the Internet more of an indispensable lifestyle service and giving it an influence that ranks alongside the four major mass media formats. In the current calendar year, the number of DSL subscriber households is estimated to reach 6.5 million. As broadband services continue to spread rapidly, the value of the Internet as a media format should grow in leaps and bounds.

## Operational Review

During the fiscal year under review, we responded to the needs of our users by adding a variety of new services and expanding the content of the services offered by the Yahoo! Japan Group.

Reflecting these efforts, on March 11, 2002, maximum daily page views broke through the 270 million mark, and monthly page views exceeded 7.6 billion during March 2002. As of May 14, 2002, daily page views topped 300 million.

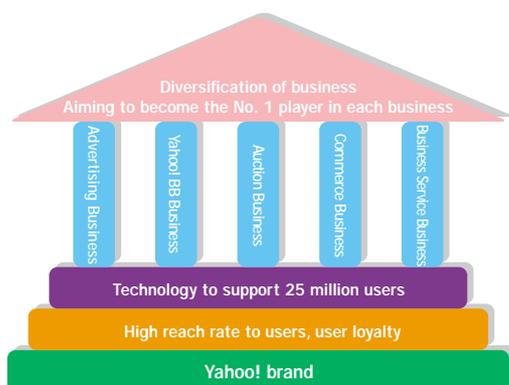
In a Web audience survey of Japan conducted by Nippon Research Center, Ltd. in March 2002, Yahoo! Japan was named most often by respondents as a site they access at least once every four weeks. (unique user) Yahoo! Japan continues to hold the dominant position with 86.9% of the respondents, a wide margin over goo, which ranked second at 54.4%.

By multiplying the above percentage by the approximately 29 million Web users in Japan as of the end of March 2002, we estimate that there were about 25 million unique users accessing the services of the Yahoo! Japan Group.

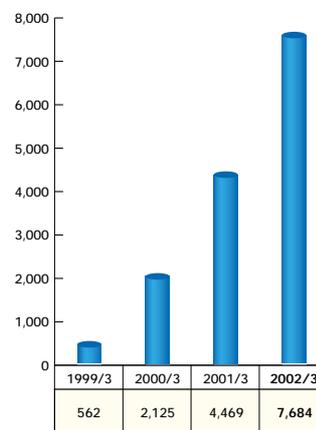
We are proud of the high rating our services have received from our users, and we are committed to providing services that will maintain their patronage in future.

As indicated by these outstanding figures, as one of the major Internet services companies in Japan, we have worked steadily to build assets, in terms of "yahoo! brand," "high reach rate to users," and "technology," since our founding. Our sales formerly depended strongly on advertising business sales, but we are now actively taking steps to firm up our business base by diversifying our earnings. In doing so, we are leveraging our assets to the maximum.

### Yahoo! Japan's Business Pillars



### Monthly Page Views (Millions of Page Views)



As part of this strategy, the Group launched a Yahoo! BB business in June 2001. Yahoo! BB is a comprehensive broadband service, offering a high-speed Internet connection service using ordinary telephone lines as well as a portal site for broadband content for Yahoo! BB members. The service represents a pioneering effort to offer Japanese Internet users a continuous connection, high-speed (8 megabits) Internet broadband service at a low, fixed rate. As of the end of March 2002, Yahoo! BB had connected approximately 490 thousand lines to its service, on a number of jumper installations completed basis.

In May 2001, we introduced a fee-based personal identification system to Yahoo! Auctions to help us provide a more reliable and safer service. At the end of March 2002, the number of users registered using our personal identification system totaled approximately 1.65 million, contributing significantly to the revenues of our auction business.

## Business Strategies

We believe that, along with the increase in the number of Internet users, Internet advertising will eventually be on an equal footing with the present four major media. However, Internet advertising is still a young business, and many advertisers still do not understand its effectiveness. To rectify this problem, we are planning to further introduce methods of measuring advertising effectiveness and verifying banner creativeness to provide proof of the effectiveness of this form of advertising. At the same time, we will be working to win more National Clients, which are a source of stable revenues, and to increase the value of Internet advertising and its use in the advertising industry by launching products that serve the needs of advertisers.

As of April 2002, we implemented some changes in our revenue model for Yahoo! BB business. Instead of Yahoo! Japan selling Starter Kits to BB Technologies, Corp. (BTT), the Yahoo! Japan Group now receives a commission for subscriber signups and a monthly subscriber continuing fee from BBT as one of the marketing partners. This step has been taken because the subscription route has been expanded to signups through consumer electronics outlets and other store routes in addition to the Internet route. Furthermore, it has become necessary to actively expand subscriptions from corporations as a result of the start-up of BB Phone, a broadband telephone service offered by Yahoo! Japan and BBT and other companies in the Softbank Group that was announced in December 2001. We will continue our efforts to expand the subscriber base, aiming to expand sales of this segment by providing a high-quality ISP service.

In our auction business, we began charging fees for listing and selling items during the current fiscal year. Although it is possible that these system-use fees will result in lower volume in terms of number of items listed, number of items contracted, and transaction volume, the income will allow us to provide better-quality systems and services. Our strategy will be to pursue solid expansion of revenues based on such quality service.

Among our other businesses, we intend to continue expanding our shopping business and other services. In our shopping business, we are considering entering the retail business as a Group in a field that is highly profitable and requires no inventories. Consequently, as a first step in this process, we converted e-Shopping! Books Corp. into a subsidiary in December 2001. We will expand this business based on careful planning of strategies for category of goods. In our business services, we are improving our services for corporations, such as Yahoo! Portal Solutions (Corporate Yahoo!), and ramping up our sales activities.

Based on these various measures, we are committed to maintaining our position as the No. 1 Internet services brand in Japan and to continuing to expand earnings.

## Dividends

Since its foundation, the Yahoo! Japan Group has recognized maximizing shareholder return as a crucial management issue. Our decision of whether or not to pay dividends is taken after considering business results and appropriating adequate retained earnings for future business development. To date, no dividends have been paid under this policy. On the other hand, we have instituted two-for-one stock splits five times since our initial public stock offering.

We are fully committed to meeting the expectations of our shareholders by targeting further growth and diversification of earnings. In pursuing these goals, we look forward to the continued support of our shareholders.



Masahiro Inoue  
President & CEO  
June 20, 2002