

To Our Shareholders

It gives me great pleasure to report on Yahoo Japan Corporation and its consolidated subsidiaries and affiliates' results for the fiscal year ended March 31, 2003.

During the fiscal year under review, we again took steps to strengthen our business base, aggressively pursuing the diversification of our earnings. In addition, we reorganized our businesses into business divisions in January 2002, aiming to create a structure that will maximize organizational benefits. Some of those benefits include the creation of business plans and budgets by individual business divisions, clearly defined profit centers and responsibility for them, speedy decision making, and the optimum allocation of resources.

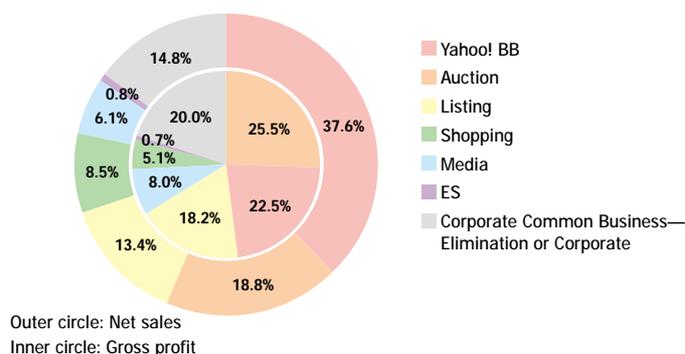
Our organization now comprises the six business divisions of Yahoo! BB, Auction, Listing, Shopping, Media, and ES (Enterprise Solutions) in addition to our Corporate Common Business. All of these businesses achieved profits for the fiscal year. While pursuing further expansion in the earnings of these six divisions, we plan to develop bases for other new businesses to further diversify our income sources.

Performance

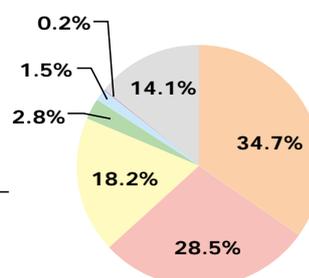
In the fiscal year ended March 31, 2003, net sales climbed 87.6%, to ¥59,095 million. The growth in net sales can be mainly attributed to sales expansion in the Yahoo! BB Business Division and in the Auction Business Division, in which we introduced system-use fees in April 2002. In addition, the advertising business that we carry out in our divisions, particularly in the Listing and the Media Business Divisions, also posted a record high in sales during the fiscal year. Yahoo! BB's performance was especially notable. Despite converting its business model for acquiring subscribers to an incentive-based method as of April 2002, Internet service provider (ISP) sales and incentive-based sales grew substantially. Similarly, in our Auction Business Division, despite the introduction of system-use fees in April 2002, the volume of transactions and the number of unique users continued to expand. Moreover, system-use fees now provide an important source of earnings for the Group.

As a result, operating income grew 131.3%, to ¥24,073 million, and net income increased 106.1%, to ¥12,096 million.

 Net Sales and Gross Profit by Business Division



 Operating Income Contribution by Business Division



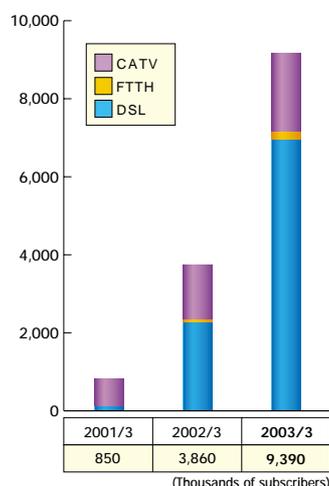
Operating Environment

In a Web audience survey conducted by Nippon Research Center Ltd., the number of Internet users in Japan was approximately 40 million as of March 2003, with Web users accounting for approximately 34 million of this total. There also has been a sharp increase in broadband users. According to a survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, the number of digital subscriber line (DSL) subscribers at the end of March 2003 had risen to approximately 7.0 million, up about three times from a year ago. Including cable television (CATV) and fiber to the home (FTTH) services, the number of broadband subscribers has expanded to approximately 9.4 million.

Not only does the spread of broadband service boost the value of the Internet as a media, it also has a substantial impact on people's lives. Because broadband allows people to access the Internet continuously at low, fixed rates, the number of people viewing Internet sites while watching or listening to TV, radio, and other media is on the rise. Moreover, the number of people using the Internet in conjunction with other media, such as viewing news that they missed on TV or searching information on topics that caught their eye on TV or in a magazine, is increasing. People's reasons for using the Internet also have greatly diversified to include using IP telephone services and other communication tools, and using it for practical consumer activities, such as purchasing and booking a range of goods and services, participating in auctions, paying bills, and other activities. Moreover, the use of wireless local area networks (LANs) is growing in popularity in homes. And hot spots—public areas where Internet access is available—are also expanding, as the so-called ubiquitous computing environment becomes a reality.

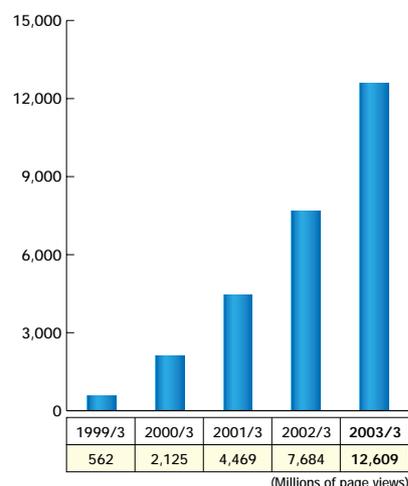
With the further spread of broadband services and the emergence of a ubiquitous computing environment, the influence of the Internet will grow in leaps and bounds.

Broadband Subscribers



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

Monthly Page Views



Operational Review

The Group monthly page views for March 2003 reached 12,609 million. In a Web audience survey of Japan conducted by Nippon Research Center Ltd. in March 2003, Yahoo! JAPAN was named most often by respondents as a site they access at least once every four weeks. Yahoo! JAPAN continues to hold the dominant position with 88.7% of the respondents. By multiplying the above percentage by the approximately 34 million Web users in Japan as of March 2003, we estimate that there were 30 million unique users accessing Yahoo! JAPAN at least once every four weeks.

We are proud of the high rating our services have received from our users and 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 the “Yahoo! brand,” “technology,” and “high reach rate to users,” since our founding. With these assets as a base, the Group continued to strive to improve and expand the services of our individual business divisions and to expand earnings during the fiscal year under review.

The Yahoo! BB Business Division carried out a variety of campaigns during the fiscal year to acquire new subscribers. In addition, the division upgraded its services by launching BB Phone, a broadband phone service, and a packaged cable-less LAN with Yahoo! BB 12M service, among other services. As a result of these efforts, the number of Yahoo! BB subscribers grew to approximately 2.36 million at the end of March 2003, representing 33.6% of total DSL subscribers in Japan.

One of the reasons for the introduction of system-use fees in our auction business was to try and rid the auction system of items that were actually only advertisements parading as auction items. Following the implementation of these system-use fees, the number of items listed fell temporarily but then began to expand steadily. In March 2003, the number of listed items rose to about 3.35 million and the transaction rate ranged from 42% to 53%, which is considerably higher than the figure before the introduction of system-use fees. Among other measures to improve services during the fiscal year, we began our Yahoo! Payment service, which increases the convenience of settlement for auction users by allowing them to make payments for items with just a credit card and their Yahoo! JAPAN ID. We also took steps to improve the safety of auction transactions by beginning to announce bank accounts about which we had received multiple complaints, urging users to be cautious.

Advertising sales—carried out by all our business divisions, but particularly by the Listing and the Media Business Divisions—faced challenging conditions during the fiscal year. Despite the overall decline in advertising expenditures by corporations, the Group strengthened its cooperative sales organization with advertising agencies, targeting advertising from National Clients by aggressively marketing broad reach products with a high reach to Internet users. Moreover, in November 2002 we launched a paid search service, which is called Sponsor Site, by cooperating with Overture and Google, which serve search results to Sponsor Site in the key word search result of Yahoo! JAPAN for a fee. The new service began contributing fully to sales in the fourth quarter.

Business Strategies

In our Yahoo! BB Business Division, the phase of rapid acquisition of subscribers interested in leading-edge services has ended, and we are now focusing on adding new subscribers based mainly on trend followers. At the same time, we are aggressively introducing high-speed asymmetric digital subscriber

line (ADSL) and other new technologies to maintain our leading-edge subscribers. As an ISP, we are planning to differentiate our services from those of competitors by expanding our broadband services to keep our subscriber base and attract new subscribers.

Commencing April 2003, we have changed our method of accounting for ISP fees. Under the old method, we booked the ¥1,290 monthly subscriber fee as sales and recorded ¥1,090 of that fee as cost of sales, earning a net amount of ¥200. Under the new system, we are just booking net sales of ¥200. This adjustment will more accurately reflect Yahoo! BB's business in the financial statements.

To provide even more stable auction services to users, the Auction Business Division is planning to convert to a new computer system that will be able to host a massive amount of auction items. After the introduction of the new system, the business division will undertake an active promotion campaign to attract new users. It will also work to further increase the level of user satisfaction with the system by maintaining its reliability, establishing a preferential system for heavy users, and upgrading its support system.

The Shopping Business Division is also introducing something new. To strengthen its lineup of stores, the division is creating a two-tier system of select stores, which are the popular brand stores with sophisticated services offered in the past, and new stores that the business division intends to develop. The division expects this expanded merchandise lineup to further boost its reputation with customers.

The Group believes that Internet advertising, over the medium to long term, will steadily grow in value as an advertising medium in accordance with the spread of broadband and growth in the number of Internet users and eventually it will stand on a par with the other four major advertising medias. For that reason, we intend to continue to seek expansion in the advertising sales of our business divisions, of which the Listing and the Media Business Divisions have the largest components. Our main targets will be National Clients, which we are targeting by using methods that measure the effectiveness of Internet advertising and by offering advertising products that appeal to advertisers.

To develop new business outside our business divisions, we have established a specialized organization, that is already in operation. Using its capabilities, we intend to focus on creating new sources of earnings and developing them into businesses.

Based on these various measures, we are committed to maintaining our position as the No. 1 Internet services brand in Japan, diversifying our sources of earnings and strengthening our business base.

Dividends

Since its foundation, the 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 seven times since our initial public stock offering.

We will make our best efforts to meet the expectations of our shareholders by targeting the further growth and diversification of earnings. In pursuing these goals, we look forward to the continued support of our shareholders.

Masahiro Inoue
President and CEO
June 2003

