

# To Our Shareholders

It gives me great pleasure to report on the performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (“the Group”) for the fiscal year ended March 31, 2004.

During the fiscal year under review, we sought to gain the overwhelming support of Internet users by offering them *ONLY ONE* services that cannot be substituted with the services of our competitors. Leveraging to the maximum such of our assets as the brand power, technological capabilities, and user reach that we have accumulated since our establishment, we took steps in fiscal 2003 to strengthen our business structure by diversifying our sources of and expanding our profits.

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

We continue to pursue further expansion in the earnings of our divisions based on existing business strengths. But we also seek to develop new businesses to further diversify and enlarge our profits.

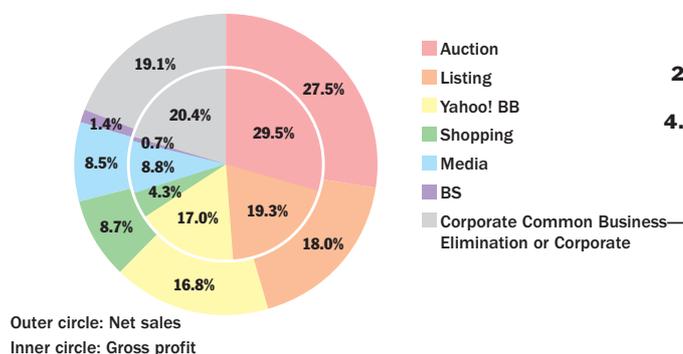
## Performance

In the fiscal year ended March 31, 2004, net sales surged 62.3%, to ¥75,776 million. The principal contributors to the growth in net sales were increased system-use fees in the Auction Business Division resulting from greater transaction volume, increased member income because of growth in the number of Yahoo! Premium members, and higher Internet service provider (ISP) sales owing to an expanded Yahoo! BB subscriber base. Other contributors to sales growth included an increase in the Listing Business Division’s Sponsor Site income and a rise in the Listing and the Media business divisions’ advertising sales.

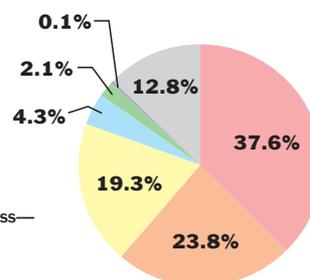
As a result of the strong business performances of various of our divisions, operating income climbed 71.2%, to ¥41,212 million, and net income jumped 105.2%, to ¥24,827 million.

Net income per share amounted to ¥12,892.72, representing a 101.7% up from the prior fiscal year, if retroactively adjusted to reflect the stock splits. Fully diluted net income per share was ¥12,851.03

Net Sales and Gross Profit by Business Division



Operating Income Contribution by Business Division



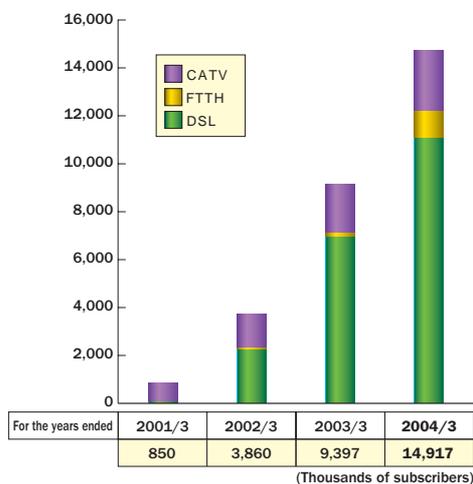
## Operating Environment

According to a survey by Japan's Ministry of Public Management, Home Affairs, Posts and Telecommunications, Internet users at the end of December 2003 numbered 77.3 million people and, at 60.6%, exceeded 60% of Japan's population for the first time. That same survey revealed that the number of broadband users had also increased: the number of DSL subscribers at the end of March 2004 had risen to 11.2 million people, up 59.4% from a year ago. Add cable television (CATV) and fiber-to-the-home (FTTH) services, and the number of broadband subscribers actually expanded to 14.9 million users.

The spread of broadband services boosts the value of the Internet as a communications medium and, moreover, has a substantial impact on people's lives. Broadband allows people to access the Internet continuously at low, fixed rates, heightening the popularity of Internet access in private homes and among a wide range of users regardless of gender or age. It also encourages people to spend more time on the Internet. A March 2004 survey by NetRatings Japan shows that individual users spend on average more than 17 hours a month on the Internet.

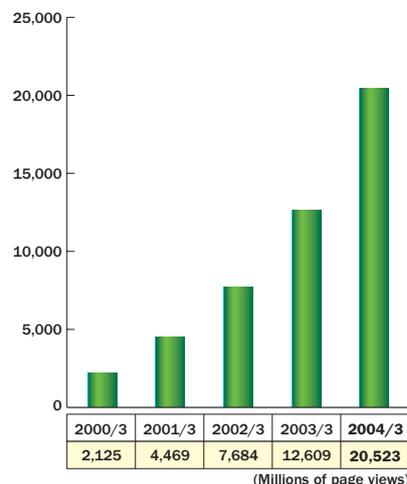
In addition, the functionality of broadband Internet has expanded to encompass a full complement of daily applications. The uses of the Internet have diversified beyond e-mail and information searches to include purchasing or booking a wide range of goods and services; participating in auctions; paying bills and engaging in numerous other practical consumer activities; and communicating through a variety of tools, including Internet-protocol (IP) phones. Because of its rising usefulness in virtually all aspects of our daily lives, the Internet is becoming an increasingly familiar and indispensable lifestyle tool. Its influence and its ubiquitousness, therefore, are expected to grow in leaps and bounds.

### Broadband Subscribers



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

### Monthly Page Views



## Operational Review

The monthly page views for the Group in March 2004 hit 20,523 million. Using figures from a March 2004 survey by NetRatings Japan to eliminate duplication, we estimate that Yahoo! JAPAN had 36.68 million unique users at the end of the fiscal year under review. This represents a clearly dominant share of the market.

Our Auction Business Division brought a new system onstream during fiscal 2003 that enables it to handle large volumes of 10 million or more auction items. In preparation for higher user access levels, the division also bolstered its complement of servers and other equipment. And to encourage greater use of its services the division conducted free item listing day and fourth anniversary commemoration sales and other marketing campaigns during the year under review.

Our Auction Business Division's March 2004 transaction value was ¥46.7 billion, and its average number of listed items was 6.07 million—both substantially up from March 2003. The division's transaction rate, moreover, remained at a high level, ranging from 34% to 50%. The Auction Business Division's fiscal 2003 net sales rose to ¥20,839 million, generating 27.5% of consolidated net sales.

The Yahoo! BB Business Division carried out a variety of campaigns during the fiscal year to acquire new subscribers. The division also upgraded its services by launching Yahoo! BB 45M, which offers a maximum download speed of 45 million bits per second (Mbps). Subscribers, in turn, realized more than heightened convenience; they also welcomed improved content. We offered exclusive showings of live performance videos of popular music artists, and on Yahoo! GeoCities launched GeoCreator, which makes it easy even for beginners to create home pages.

The number of Yahoo! BB subscribers at the end of March 2004 had risen to approximately 4 million people, and the division's cumulative DSL share was 35.8%. Reflecting its growth in subscriptions, Yahoo! BB's fiscal 2003 net sales were ¥12,760 million, accounting for 16.8% of our consolidated net sales.

Overall, we worked actively in fiscal 2003 to market our full range of advertising services. Advertising sales, which are carried out by all our business divisions, but particularly by our Listing and Media business divisions, showed signs of recovery, and we capitalized on the trend. We targeted National Clients—companies that advertise extensively in other media—for sales of our Brand Panel product for top pages and of our Superbanners, Yahoo! Billboards, and other products with high visual impact. We also promoted sales to National Clients of our V-Banner service, which enables them to send large volumes of very visually effective banners. Among our sales promotion successes for the year was the favorable sales growth of our Sponsor Site advertising service.

Our efforts during fiscal 2003 pushed advertising sales to a record high. We realized ¥22,276 million in advertising sales, up 63.6% from the previous fiscal year.

## Business Strategies

Underlying the popularization of broadband services and the surge in the number of Internet users are the increasingly diverse uses to which the Internet is being put. Today's Internet user's applications for the Internet span acquiring information, communicating, and shopping for goods and services. The services and goods available over the Internet have greatly expanded and diversified. And the Group believes that the convenience and the potential of the Internet as a viable and necessary medium for modern living have been widely recognized by consumers.

For this reason, we have our sights on becoming a brand that is essential to people's lifestyles as the engine through which they access the Internet and its myriad goods and services for the betterment of their daily lives. The content and the services that we offer are more than a response to the growth and the diversification of the Internet and broadband services and their users. Our offerings contribute to that growth and diversification with an increasing array of content and services to fulfill every user need. We are committed, therefore, not merely to maintaining our competitive advantage in the market but to furthering it with additional sources of earnings gained through developing new markets to serve users.

The Group has always given high priority to protecting the personal information of its users and to maintaining the security of its systems throughout its operations. Our response to the leak of a large volume of the personal information of our Yahoo! BB subscribers by Softbank BB Corporation in February 2004 sees us aggressively strengthening our security measures groupwide.

We have set up an Information Management Headquarters to thoroughly reinforce our security systems and to continuously monitor whether those systems are operating properly. We also have revised our rules and regulations regarding the management and the managers of sensitive information. Through these and other activities, we are raising our priority on the safe handling of personal information beyond even our past emphasis. We will spare nothing in working to ensure that our customers can use our services with confidence.

## Dividends

Maximizing shareholder return has been a crucial management issue at Yahoo Japan Corporation since the Company's founding. The decision of whether or not to pay dividends is made only after considering our business results and appropriating adequate retained earnings for our business development. To date, no dividends have been paid. Nevertheless, shareholders have benefited from our growth: we have instituted two-for-one stock splits nine times since our initial public stock offering in November 1997.

We are fully committed to meeting the expectations of our shareholders by targeting the further expansion of our business and heightened business performance. In pursuing these goals, we look forward to the continued support of our shareholders.

Masahiro Inoue  
President and CEO

