

To Our Shareholders

It is my great pleasure to report on the performance of Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the "Group") for fiscal 2004, the year ended March 31, 2005.

As the leading Internet services company in the Japanese market, we aimed during the fiscal year under review to attract an increasing number of Internet users by offering "life engine" services that enhance the convenience of daily life. Fully leveraging the brand power, technological capabilities, and user reach that we have built up since our establishment in 1996, we took steps in fiscal 2004 to diversify the sources of our earnings, thereby strengthening our business structure.

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

While working to achieve further sales growth in each of these businesses based on existing strengths, we are also developing new businesses that, by diversifying our earnings sources, will enable us to achieve steadily higher profits.

Performance

In the fiscal year ended March 31, 2005, net sales jumped 55.4%, to ¥117,779 million. Breaking down net sales by sales services category, advertising sales, which comprise banner and e-mail advertising sales and Sponsor Site sales and others, amounted to ¥38,941 million, up 74.8%. Business services sales, which comprise corporate sales but exclude advertising, totaled ¥23,619 million, up 74.4% from the previous fiscal year's result. Personal services sales, which comprise business sales to individuals, increased 35.8%, to ¥48,154 million. Finally, other sales, comprising the sales of Seven and Y Corp. (formerly e-Shopping! Books CORP.), climbed 57.3%, to ¥7,065 million.

For the fiscal year, operating income advanced 46.0%, to ¥60,187 million, and net income surged 47.1%, to ¥36,521 million.

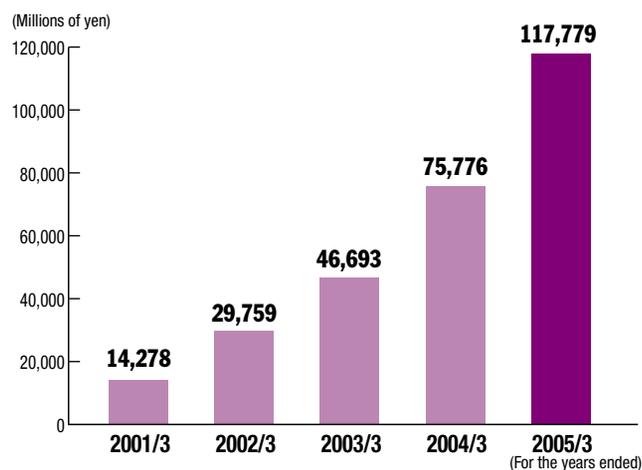
Net income per share amounted to ¥4,766.03, a 45.5% increase over the prior fiscal year's figure after retroactively adjusting to reflect two-for-one stock splits carried out in fiscal 2004. Fully diluted net income per share was ¥4,750.62.

Operating Environment

With the growth of broadband services in Japan continuing apace, the country now boasts some of the world's highest Internet-related proliferation rates. According to a survey conducted by Japan's Ministry of Internal Affairs and

Communications, Japan ranks No.3 in the world in terms of total number of broadband service subscribers. In terms of Internet-enabled mobile phones as a percentage of total mobile phones, the same survey ranks Japan No. 1. In addition, broadband services in Japan are not only cheaper but also more technologically advanced than those of any other country. These world-beating broadband and Internet-enabled mobile phone proliferation rates help to explain the recent sharp increase in Internet usage in Japan. Against the backdrop of this surge in broadband services and Internet usage, Internet advertising sales in calendar year 2004 rose 53.3% from the previous year's figure, to ¥181.4 billion,

Net Sales



overtaking radio advertising sales for the first time, according to a Dentsu Inc. report, "Japanese Advertising Expenses in 2004." The Internet's value as a new mass media is growing by leaps and bounds.

Internet proliferation in Japan is no longer characterized by individual companies and schools taking hesitant first steps toward gaining connectivity. Rather, Internet proliferation today is at the stage where nearly everyone, from teenagers to their great-grandparents, is either already online or waiting in line to get there. The Internet is now an integral part of daily life, both at school and in the home, while either working or playing, and even while on the move. As the market heads toward ubiquitous broadband networks providing Internet access to anyone, anywhere, anytime, and for any reason, the Internet is becoming an increasingly important and fundamental part of daily life.

Operational Review

The Group's monthly page views for March 2005 reached 26,057 million. Based on data from a March 2005 survey conducted by NetRatings Japan, Inc., we estimate that Yahoo! JAPAN had approximately 37.81 million unique customers at the end of the fiscal year under review, a clearly dominant share of the domestic market.

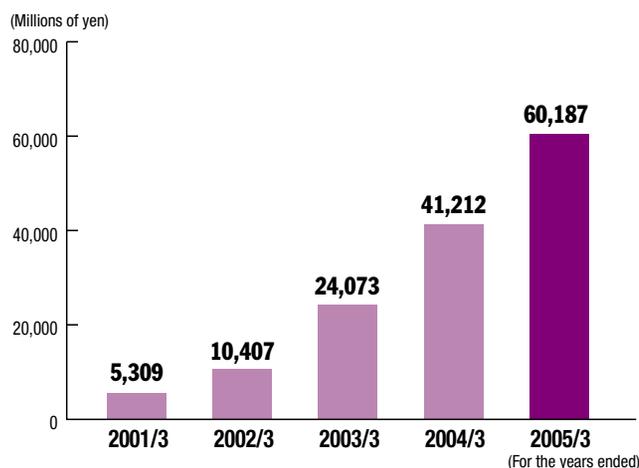
In calendar year 2004, Japan's overall advertising market

turned upward for the first time in four years. As mentioned above, Dentsu Inc. research indicates that Internet advertising sales for the same period expanded to ¥181.4 billion, exceeding radio advertising sales for the first time. In this supportive environment, the Group aggressively marketed its Brand Panels for top pages and other core products to National Clients, defined as major companies that advertise actively in various media. Sales from Sponsor Site, our paid search service offered in conjunction with Overture K.K., were also strong. As a result, advertising sales for the fiscal year reached a record-high ¥38,941 million, up 74.8% from the previous fiscal year's figure.

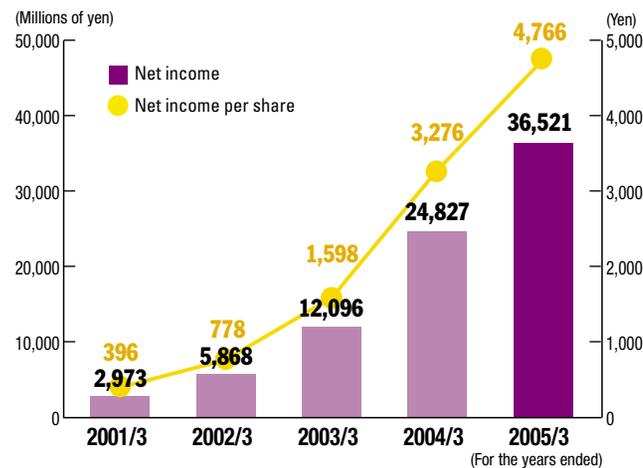
In business services, excluding advertising, sales were favorable for Yahoo! Rikunabi, our employment information site launched in April 2004. Moreover, the number of merchant stores registered on Yahoo! Auctions stood at 3,556 at the end of March 2005, an increase of 1,145 stores, or 47.5%, within the space of one year. Yahoo! Shopping also brought on board many new stores during the fiscal year, ramping up its total number of stores to 3,298, a gain of 1,674 stores, or 103.1%. During the fiscal year, Yahoo! Shopping conducted a variety of sales promotions based on Yahoo! Points to encourage wider usage of its services. Yahoo! Research and other business-oriented services also performed well. As a result, business services sales rose sharply to ¥23,619 million, up 74.4%.

In the Group's personal services sales category, the number of Yahoo! Premium member IDs stood at more than 5 million in

Operating Income



Net Income and Net Income per Share



Note: Figures for net income per share have been retroactively adjusted to reflect stock splits.

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February 2005, while the number of registered Yahoo! Wallet member IDs exceeded 10 million in January 2005. Although Yahoo! Auctions' transaction volume showed restrained growth in the first half owing to the implementation of initiatives aimed at improving site security, it rose sharply in the second half thanks to surging year-end demand and various sales campaigns. Strong growth in Yahoo! BB's ISP revenues also contributed to a 35.8% increase in personal services sales, to ¥48,154 million.

Business Strategies

In line with the rapid proliferation of broadband services and the surging number of Internet users, Internet-based content is expanding to include not only information and services catering to specific recreational pursuits and interests but also information and services of a more general and practical nature, such as political, economic, and administrative information and services. Concomitantly, the Internet is increasingly being used for acquiring all types of information, for communicating, and for shopping for goods and services. We believe that consumers already view the Internet as a viable and necessary form of mass media for convenient, modern living. Accordingly, we have set our sights on establishing a corporate brand image as an essential "life engine" that provides users access to the Internet and its

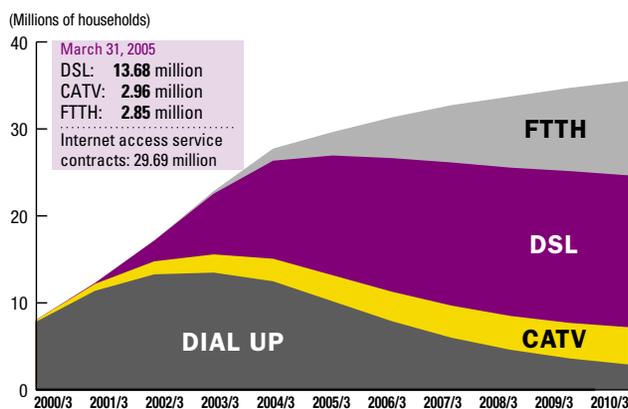
myriad goods and services for the enhancement of daily life.

The value of the Internet as a mass media is expected to continue to rise in the future. As it gains an equal footing with the four traditional mass media as an advertising platform, we anticipate continued growth in the Group's total advertising sales. Led by our Media and Listing businesses, the Group plans to expand and improve services and content in an effort to further boost customer satisfaction. At the same time, the Group will target expanded advertising opportunities through page view growth arising naturally from greater customer satisfaction. We will continue our efforts to build advertising sales revenue, especially from National Clients, by strengthening our sales capabilities and creating products that appeal to advertisers. In our Sponsor Site service, we will work to expand sales by further reinforcing our cooperation with Overture K.K.

In the business services sales category, excluding advertising, we are linking the content of our listing services more directly to regional lifestyles, centered on our Listing business. In addition, we are shifting to a new business model that enables us to take a deeper stake in each service. With Yahoo! Auctions and Yahoo! Shopping, we are implementing several measures to promote sales growth. For example, we are expanding the number of stores registered on these sites, upgrading support services and adding new tools for stores, and conducting a variety of sales promotion campaigns. In addition, we are preparing the ground for expanded corporate business sales by cultivating the customer base of Firstserver, Inc., a Web-hosting service company that became a Group subsidiary in November 2004.

To foster growth in personal services sales, we are seeking to increase the number of Yahoo! Premium members by offering expanded membership benefits. In the Auction business, we are focusing on increasing user satisfaction by raising the convenience and security of our services, maintaining the stability of our system, and providing a preferential system for high-volume users. In addition to our energetic promotions targeting new customers, we are implementing anti-fraud mechanisms and expanding our compensation system in cases where fraud does occur to

Broadband Penetration in Japan



Note: Figures before FY2003 are past estimates, and after FY2004 are projections.

Sources: Nomura Research Institute and Ministry of Internal Affairs and Communications

make users feel safer and more confident in using our auction system. Meanwhile, the Yahoo! BB business is working to maintain its customer base by differentiating itself from competitors, focusing particularly on quickly responding to the shift to broadband Internet services by aggressively introducing new technologies, such as high-speed ADSL and optical-fiber services. Finally, the Media business is focusing on improving paid content, including video.

Looking at future business development, in cooperation with ValueCommerce Co., Ltd., in which the Company took an equity stake in April 2005, we are planning to employ the affiliate marketing method to stimulate the Shopping and Auction businesses as well as to realize potential advertising revenues from unused pages of the Yahoo! JAPAN site. Moreover, we intend to employ the affiliate marketing method throughout the Group's businesses with a view to developing it into a major source of earnings. In addition, in April 2005 we signed an agreement with Aozora Bank, Ltd., to start an Internet banking business, using Aozora Trust Bank, Ltd., as the principal platform. This Internet banking business, with a targeted launch date in the spring of 2006, will initially be based mainly on the provision of settlement services to Yahoo! Auctions users.

Throughout the Group's operations, we have always placed high priority on maintaining systems security. In response to the leak of Yahoo! BB subscribers' personal information by

SOFTBANK BB Corp. in February 2004, we have escalated our efforts to prevent leaks of both personal and sensitive in-house information. After the Yahoo! BB incident, we established fundamental policies regarding information management. Based on those policies, we have continuously revised our information management organization and implemented control measures gauged to the security levels of various types of information. We also acquired Information Security Management Systems (ISMS) certifications* to implement a neutral, third-party check of the Group's operations. As a Group, we intend to strictly and continuously manage personal information in an effort to maximize customer confidence in our services.

*In August 2004, the Group acquired international-standard ISMS certification under BS 7799-2:2002 from BSI British Standards, as well as Japanese domestic-standard ISMS Certification Standards Version 2.0. As of March 31, 2005, 12 Group companies, including the parent company and 11 subsidiaries, had received certification under both of these standards.

Dividends

Shareholder return has been a crucial management issue since the Company's founding. Up until the fiscal year under review, we had decided against paying dividends, instead opting to reinvest earnings in strengthening our corporate structure and building up our internal reserves for future business development. For fiscal 2004, however, we decided to begin flexibly paying dividends in accordance with our business performance while continuing to accumulate internal reserves, as mentioned above. Targeting a 10% dividend payout ratio, we decided to pay shareholders ¥484 per share for the fiscal year.

Fully committed to meeting the expectations of our shareholders, we are targeting further business expansion and heightened corporate performance. As we work to attain these goals, we look forward to the continued support of our shareholders.



Masahiro Inoue

President and CEO
Yahoo Japan Corporation

Monthly Page Views

