

To Our Shareholders



Masahiro Inoue

President and CEO
Yahoo Japan Corporation

Since commencing business operations in 1996, Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have been a key driving force behind the rapid growth of Japan's Internet market. Surveys by the Ministry of Internal Affairs and Communications indicate that the Internet penetration rate has soared from 9.2% of all individuals in Japan at the end of calendar year 1997 to 66.8% at the end of calendar year 2005. Today, the Internet plays an essential media role in our lives. With the Group's introduction of Yahoo! BB services in June 2001, the full-scale proliferation of broadband infrastructure in Japan was inaugurated and has since proceeded at a rapid pace. Japan now boasts the fastest, most economical broadband services in the world, with 65.0% of Internet-enabled Japanese households enjoying the benefits of broadband connectivity.

With the quantitative expansion of the Internet market in terms of subscriber numbers nearing completion and the infrastructure for supporting easy access to convenient services and rich content either already in place or currently being installed, the position of the Internet in people's lives is

changing. Offering a wide range of services that can be customized to suit the preferences and needs of each individual user, the Internet is now an integral part of daily life for most people in Japan. No longer simply passive recipients of information, Internet users can now interactively provide information and participate in information exchange within Internet-based communities.

Against this backdrop of changing Internet usage, the Group celebrated its 10th year of operations in April 2006. During our first 10 years, we successfully expanded our businesses by providing a growing volume of customers with an ever-widening variety of services and content, thereby firmly establishing the Group as the undisputed leader in Japan's Internet services market. Looking forward, we will continue to respond to changing market and customer needs, aiming to remain as always a familiar and trustworthy media source that users will turn to with increasing frequency. To that end, we will focus on making qualitative improvements to an ever-expanding range of "life engine" services designed to enrich the content and enhance the convenience of daily life.

Performance

In fiscal 2005, the year ended March 31, 2006, the Group achieved record-high sales and profits for the ninth consecutive year. Consolidated net sales rose 47.5%, to ¥173.7 billion, and operating income climbed 36.5%, to ¥82.1 billion. The operating margin declined 3.8 percentage points, to 47.3%.

Breaking down net sales by sales services category, advertising sales were up 75.7%, to ¥68.4 billion, accounting for approximately 39% of total Group revenues. Against the backdrop of a briskly expanding Internet advertising market, sales of branding advertisements, such as banners, were strong, particularly to National Clients, defined as major companies that advertise actively in various media. In addition, Sponsor Site, our paid search service that links advertisements to search results, enjoyed favorable sales growth.

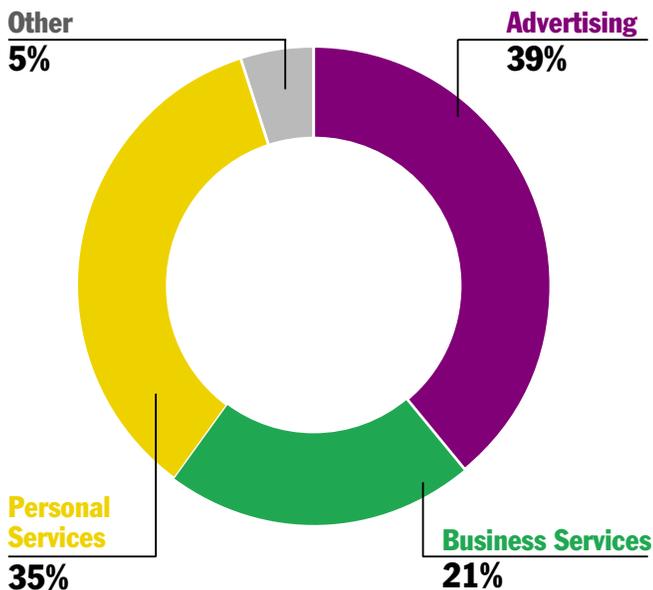
Business services sales other than advertising advanced 51.7%, to ¥35.8 billion, representing approximately 21% of total Group revenues. Higher information listing revenues from recruiting information service Yahoo! Rikunabi, which benefited from the general recovery of the Japanese economy, and a strong performance by Yahoo! Real Estate contributed to the solid improvement in business services sales.

Personal services sales increased 25.7%, to ¥60.5 billion, accounting for approximately 35% of total Group revenues. Although Yahoo! Auctions system-use revenues weakened in the first half owing to the implementation of initiatives aimed at improving site security, system-use revenues for the full fiscal year increased thanks to a higher transaction volume of winter fashion items in the second half. In addition, the number of Yahoo! Premium member IDs at the end of the fiscal year under review was up 21.2% from the figure one year earlier, to 6.15 million, thereby considerably boosting revenues from Yahoo! Premium membership fees.

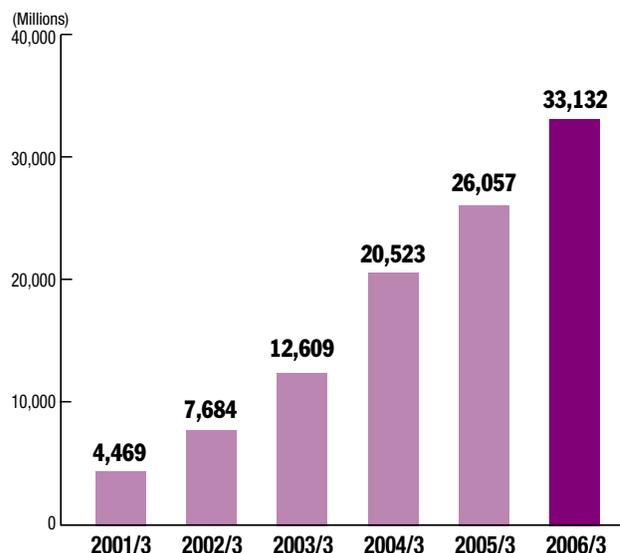
Other sales increased 26.3%, to ¥8.9 billion, representing approximately 5% of total Group revenues. Seven and Y Corp., the sales of which were previously included in the other sales category, was removed from consolidation in the fourth quarter of fiscal 2005, becoming an affiliate accounted for by the equity method.

In line with our business expansion during the period, selling, general and administrative (SG&A) expenses jumped 61.8%, to ¥78.7 billion. Personnel expenses rose 54.5%, to ¥14.7 billion, reflecting a net increase of 821 employees during the fiscal year under review. Business commissions climbed 68.2%, to ¥10.9 billion, owing largely to additional temporary

Net Sales Breakdown, by Sales Services Category (Fiscal 2005)



Monthly Page Views



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and contract employees as well as to higher settlement operations costs related to personal services sales. Sales commissions also soared, up 75.3%, to ¥8.4 billion.

Net income increased 28.9%, to ¥47.1 billion. Because we undertook a two-for-one stock split in both May and November of 2005, the average number of shares outstanding during the fiscal year was 30,541,230, approximately four times the corresponding fiscal 2004 figure of 7,629,257 shares. Adjusted net income per share stood at ¥1,536.40, up 27.5% from the previous fiscal year's ¥1,204.57. Fully diluted net income per share was ¥1,532.38.

Among other highlights during the period, the Group's total monthly page views in March 2006 increased 27.2% over the corresponding figure in March 2005, to 33.13 billion. Daily page views, meanwhile, surpassed the 1.2 billion mark for the first time on January 18, 2006.

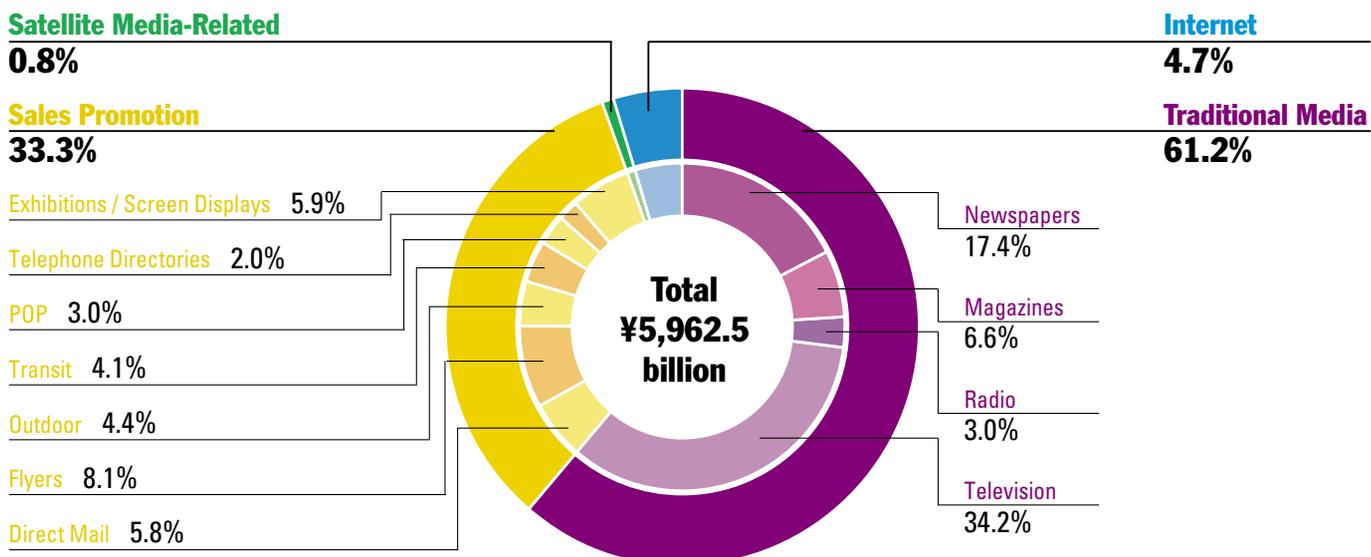
Positioning in Growth Markets and Recent Activities

Internet advertising market growth expected to continue

According to a recent report by DENTSU INC., the Internet advertising market in Japan expanded 54.8% in calendar year 2005, to ¥280.8 billion, accounting for 4.7% of the total ¥5,962.5 billion advertising market. In line with an expected recovery in the total advertising market based on a turnaround in corporate performance in Japan, Dentsu Communication Institute Inc. predicts that Internet advertising sales will maintain a growth rate of about 20% for some time to come. Moreover, expansion in the Internet advertising market is expected to drive growth in the total advertising market.

The Group enjoys a position of unrivaled leadership in the Internet advertising market. According to a survey conducted by NetRatings Japan, Inc., the reach of our Web site in March 2006 was 86.4%, far ahead of competitor sites. Taking advantage of this competitive edge, we aggressively marketed such core advertising products as our Brand Panels for top pages to National Clients. These high-profile advertising products effectively enable our clients to boost product brand

Advertising Expenditures Breakdown, by Medium (Calendar Year 2005)



Source: 2005 Advertising Expenditures in Japan, DENTSU INC.

name and corporate name recognition among consumers. In collaboration with Overture K.K., we also strongly promoted our Sponsor Site paid search service, which links users' searches with advertisements.

In April 2005, we took an investment stake in ValueCommerce Co., Ltd., with an eye to upgrading our capacity in affiliate marketing, a form of results-based advertising that has increased recently in line with the growing popularity of blogs and other user-generated content. Moreover, in April 2006 we established a joint venture with CLARIA CORPORATION with the goal of offering user-specific content and advertising based on an analysis of each user's past Internet behavior.

Fully leveraging the specific strengths of Internet advertising, such as sales promotion benefits and user-specific targeting capabilities, as well as the capability to raise brand name recognition of advertisers, we plan to develop advertising products that are beneficial not only to advertisers but also to Internet users.

Expanding e-commerce business

A recent Japanese government survey estimates that domestic

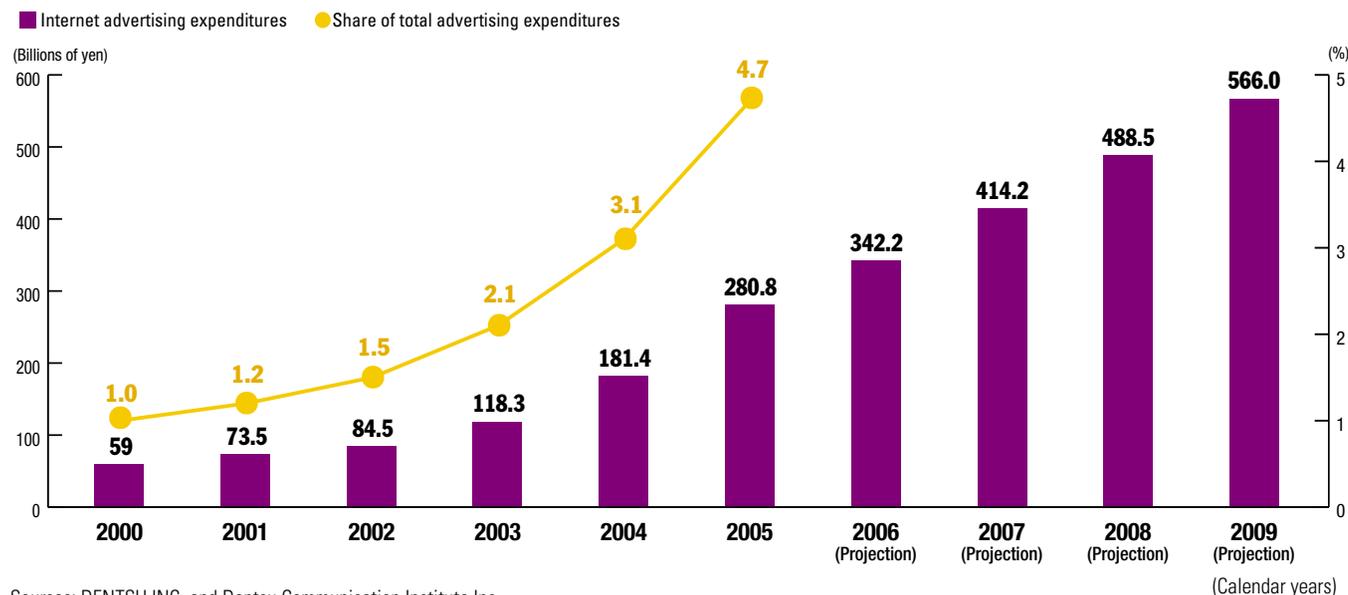
BtoC e-commerce transactions accounted for 1.2%, or ¥3.5 trillion*, of the total consumption by Japanese households in calendar year 2005. In view of the expected pace of expansion in the Internet advertising market and the likelihood of increasing Internet access times by consumers, including those using Internet-enabled mobile devices, the growth potential of the e-commerce market is clearly immense.

The Group commenced its online Auction and Shopping businesses in September 1999. For the fiscal year under review, the total e-commerce transaction volume recorded by these two businesses amounted to approximately ¥780 billion, with a total of 16,323 stores registered at the end of the fiscal year under review. These figures clearly demonstrate the Group's leading presence in the Japanese e-commerce market.

Yahoo! Auctions is particularly noteworthy. During the fourth quarter of the fiscal year ended March 31, 2006, our Auction business achieved an average daily transaction volume of ¥1.91 billion. At March 31, 2006, a total of 6,878 Auction Stores were registered on the site. As the unrivaled market leader among online auction sites in Japan, Yahoo! Auctions enjoys a self-perpetuating virtuous cycle: an ever-expanding volume of participants guarantees an increasingly

* This figure excludes transactions that were initiated online but executed offline, such as requests for cost estimates of automobiles and real estate.

Internet Advertising Expenditures and Share of Total Advertising Expenditures



Sources: DENTSU INC. and Dentsu Communication Institute Inc.

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rich assortment of items for sale, which entices users to spend more and more time cruising the site, which in turn results in larger transaction volumes.

Since commencing services on our auction Web site, there have been occasional incidents of fraud victimization and other abuses of the system. To ensure that all users can participate in our auctions with ease and confidence, we have implemented various security measures, including the introduction of a fraud-detection model in the auction system, and have worked to develop security enhancement technologies in collaboration with administrative authorities.

In addition to security measures, we have stepped up promotional activities aimed at increasing the number of auction participants. For example, in February 2006 we lowered the minimum age requirement for participation in Yahoo! Auctions from 20 to 18 years in recognition of younger people's growing desire to participate in online auctions. During the fiscal year currently under way, we plan to implement several measures to attract occasional Internet users. In addition to running traditional mass-media advertising and promotional campaigns, we also plan to carry out a campaign effectively waiving the requirement for participants to have a Premium member ID and granting the right of participation to users possessing only a Yahoo! JAPAN ID. In order to fund the above measures, in May 2006 we increased system-use fees from 3% to 5% of auction closing prices. Auction Stores and certain item categories, such as automotive bodies, are exempt from this increase.

Our Shopping business also turned in an exceptional performance. Average daily transaction volume during the fourth quarter of the fiscal year under review was approximately ¥400 million, and the number of stores at March 31, 2006, totaled 9,445. The Shopping business is expanding at annual growth rates of over 60% in transaction volume and about 2.8 times in store numbers.

In March 2006, the Company decided to tie up with Sumitomo Mitsui Banking Corporation and the Japan Net Bank, Limited, to develop online settlement and other financial services. By the end of calendar year 2006, we plan to launch a service that will enable Yahoo! Auctions participants to make

online settlements simply by exchanging their Yahoo! JAPAN IDs. With the inauguration of this service, Yahoo! Auctions settlements, most of which have been executed outside the Group's system to date, will be handled increasingly within the Group. By enhancing the security and convenience of our auction services, this service is expected to further stimulate our e-commerce business, which will in turn eventually spur further expansion in the entire Japanese e-commerce market.

Strategies for the Next 10 Years

In April 2006, the Group implemented organizational revisions. These revisions sought to subdivide our organization, which has grown substantially in size over the past few years, into segments of a size suited to accelerating decision-making and optimizing resource allocation. In addition, we added three new businesses—Social Net, Mobile, and Regional Services. Finally, to further strengthen our legal compliance and corporate governance and to maximize the security and sustainability of our businesses, we established an Internal Control Office.

Under this new organizational structure, the Group plans to address the following issues over the next 10 years.

Converting to Web 2.0

In contrast to the mass-media-style use of the Internet, where a specific information provider publishes information (head content) on the Internet that is viewed by users, users can now interactively utilize the Internet as a communication tool to provide a variety of information (tail content). This new type of Internet use is termed Web 2.0. In line with this trend, the Group has already introduced such services as Yahoo! Blogs and Yahoo! 360° (beta version)*. Our new Social Net business will take the lead in expanding and improving user-generated content. By effectively linking tail content to our rich selection of head content, we aim to become the No. 1 social media company in Japan.

* The Yahoo! 360° service was renamed Yahoo! Days in July 2006.



Strengthening the streaming content business

In December 2005, the Group established TV Bank Corporation, a joint venture with our parent company, SOFTBANK CORP., to further strengthen the streaming content services of Yahoo! Streaming. In line with the rapid proliferation of broadband infrastructure, traditional text-based information is being supplemented by strong growth in the video and audio components of Internet content. Yahoo! Streaming already has a library of approximately 100,000 searchable content items, including its own paid and free content. In the future, we plan to establish a revenue-sharing business model for streaming content services that will enable us to provide superior free content based on revenues received from advertisers.

Toward genuine mobile Internet services

Following SOFTBANK's March 2006 announcement of its acquisition of Vodafone K.K.*, Japan's third largest mobile phone service provider, the Company invested ¥120 billion in the form of preferred shares in SOFTBANK's mobile communications business and agreed to provide a portal site for users of SOFTBANK's mobile terminals by the end of the fiscal year currently under way.

Today's mobile Internet market resembles the personal computer Internet market of 10 years ago. Each carrier has its own official Web site through which it provides services to its subscribers in a closed environment that can hardly be called the Internet. As a result, most mobile phone subscribers use the mobile Internet service only for sending and receiving e-mail. While providing enhanced services to SOFTBANK's subscribers in our role as a portal site, we also intend to continue to offer our services to carriers other than SOFTBANK. By providing a platform that enables SOFTBANK's mobile users to easily access a diverse range of services over the Internet, we plan to achieve genuine mobile Internet services that are not limited to the designated services of individual carriers.

The Group's mobile site, Yahoo! Mobile, has achieved steady growth in monthly page views of approximately 20% each quarter and accounted for 4.4% of the Group's total page views in March 2006, or approximately 1,449 million page

views. More concretely, e-commerce transactions on our mobile version of Yahoo! Auctions and other sites generated nearly 10% of the Group's total e-commerce transaction volume in the fourth quarter of the fiscal year under review. Under the leadership of our new Mobile business, we will pursue expanded and enhanced mobile services and content, increased use of e-commerce services over mobile, and the development of mobile-oriented advertising products. Through these efforts, we will seek to provide all mobile users with a seamless PC and mobile Internet environment.

* From October 1, 2006, Vodafone will change its name to SOFTBANK MOBILE Corp. and market its mobile phone services under the SOFTBANK brand name.

In Conclusion

The Group plans to draw upon internal resources to fund the aforementioned business development activities, thereby strengthening our corporate structure. Recognizing the importance of returning profits to shareholders, management will continue to focus on its goal of producing a profit each year while at the same time flexibly paying dividends based on the Group's performance. For the fiscal year under review, we achieved our target of a 10% payout ratio of consolidated net income, declaring a cash dividend of ¥156 per share.

We believe that a spotless corporate reputation will be a key factor in the Group's future success. Retaining the trust not only of the users of our services but also of our business partners, service vendors, shareholders, and society as a whole is essential to the achievement of sustainable growth. To that end, we will focus keenly over the next 10 years on strengthening the quality of our services and enhancing our reputation as an influential media source. In all of our efforts to further enhance the Group's presence and reputation in the Internet market, we look forward to the continued support of our shareholders.



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