



Masahiro Inoue
President & CEO
Yahoo Japan Corporation

Introduction

More than a decade has passed since Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) first began providing Internet services in the Japanese market. In the space of less than a decade, the Internet penetration rate has soared to 68.5% of all persons in Japan at the end of calendar year 2006, according to surveys by the Ministry of Internal Affairs and Communications. Now an indispensable element of daily life for most people in Japan, the Internet has become a mainstream advertising medium, already attracting higher advertising expenditures than radio, on a par with magazines, and moving steadily in the direction of newspapers and television.

Leveraging the vanguard position of the Yahoo! JAPAN portal site, we have achieved phenomenal growth by providing an ever-widening range of services and content to a steadily expanding volume of users, effectively driving the growth of the entire Japanese Internet market. Looking forward, we still view the Internet as an exciting new market poised on the edge of dramatic change and explosive growth. Currently, the Internet is evolving into a super-convenient media form easily accessible by anyone, anytime, and anywhere via both personal computer (PC) and, increasingly, other Internet-enabled devices. Offering a growing

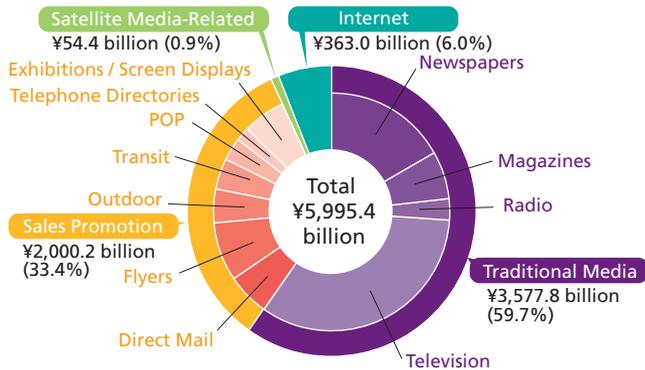
range of services and content customizable to suit the preferences and needs of each individual user, the Internet is quickly becoming the preferred media choice for a growing portion of the population. These trends clearly imply significant growth in the Internet advertising and e-commerce markets moving forward, which in turn promises new and abundant profit-making opportunities for the Group.

Our services function as a “life engine” to enrich the content and enhance the convenience of daily life. By supplying the services and content that people want to as broad an audience as possible, we are dedicated to the ongoing development of Internet services in Japan.

Fiscal 2006 performance

In fiscal 2006, the year ended March 31, 2007, the Group achieved its 10th consecutive year of record-high sales and profits. On a consolidated basis, net sales rose 22.4% year-on-year, to ¥212.6 billion, and operating income climbed 29.3% from the previous year, to ¥106.2 billion. Net income expanded 23.1% year-on-year, to ¥58.0 billion. The operating margin also improved, up 2.7 percentage points from the previous year’s result, to 50.0%.

Advertising Expenditures Breakdown, by Medium
(Calendar Year 2006)



Source: 2006 Advertising Expenditures in Japan, DENTSU INC.

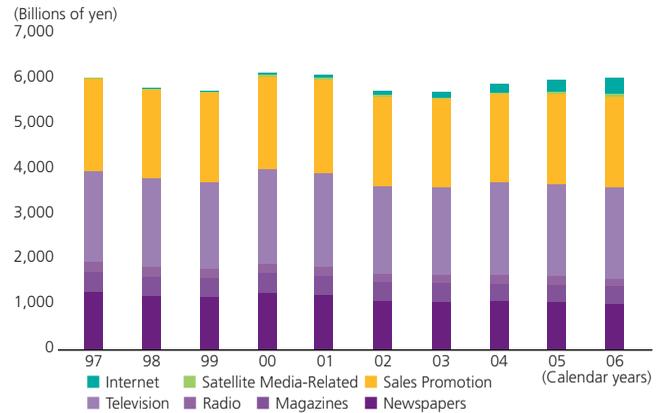
1. Advertising: Internet advertising the fastest growing segment in an overall stagnant market

During the year under review, net sales of the Advertising segment increased 30.5%, to ¥89.2 billion. Operating income rose 35.0%, to ¥50.3 billion.

According to a recent report by DENTSU INC., calendar year 2006 marked the third consecutive year of expansion in the Japanese advertising market. Growth was hardly robust, however, with total advertising spending up just 0.6% from the previous year, to ¥5,995.4 billion. Sluggish growth was due to several factors, including a curtailment of advertising expenditures by many Japanese companies from the start of the fiscal year in April 2006. In addition, several prominent companies embroiled in recent scandals adopted relatively low media profiles during the year. The aggregate amount of advertising spending allocated during calendar year 2006 to the four traditional media—television, radio, newspapers, and magazines—actually dropped from the previous year, a clear sign of challenging business conditions in the overall advertising market. Bucking this general trend, the Internet advertising market demonstrated persistent strength in calendar year 2006, expanding 29.3%, to ¥363.0 billion. The Group’s advertising-related sales, meanwhile, increased more than 40%, thus outpacing the growth rate of the Japanese Internet advertising market as a whole in calendar year 2006.

During the year under review, the Group focused on securing new demand and on expanding advertising placement opportunities. We intently applied our creativity to the develop-

Advertising Expenditures Breakdown, by Medium
(10-Year Trend)



Source: 2006 Advertising Expenditures in Japan, DENTSU INC.

ment of innovative, high-appeal advertising products aimed at building brand awareness among users. We also introduced behavioral targeting advertisements, which are particularly effective for advertisers wanting to reach select audiences based on user attributes and Internet-usage histories. Sponsor Site, our paid search service that links advertisements to search results, posted solid sales growth, contributing a higher proportion of total advertising revenues than in the previous year.

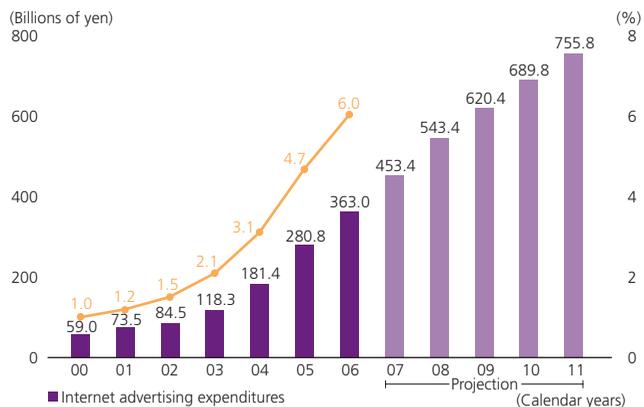
2. Business Services: Sharply higher revenues from information listing services and e-commerce

Net sales of the Business Services segment rose 36.4%, to ¥48.2 billion. Operating income increased 28.7%, to ¥19.3 billion.

Reflecting the ongoing shift of information listing services from print media to the Internet, fee-based revenues from our information listing services, particularly recruitment-related Yahoo! Rikunabi and Yahoo! Real Estate, showed strong growth and contributed significantly to the overall increase in segment sales.

During the year, we worked to attract new stores to both the Yahoo! Auctions and Yahoo! Shopping sites by offering upgraded incentives as part of our promotional campaigns and by enhancing access to our store-opening guidelines page. As of March 31, 2007, the total number of registered stores on these two sites stood at 27,044, an increase of 10,721 stores, or 65.7%, over the figure at the previous year-end. Growth in revenues from tenant fees and sales commissions paralleled the surge in store numbers during the year. As a result of our efforts

Internet Advertising Expenditures and Share of Total Advertising Expenditures



Sources: DENTSU INC. and Dentsu Communication Institute Inc.

to generate increased mobile-based e-commerce activity, the mobile-based transaction volume on Yahoo! Shopping was 2.6 times higher than in the previous year. Our various seasonal promotional sales campaigns, meanwhile, proved highly effective. Total e-commerce transaction volume on Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets amounted to ¥899.9 billion in fiscal 2006, an increase of 14.4%.

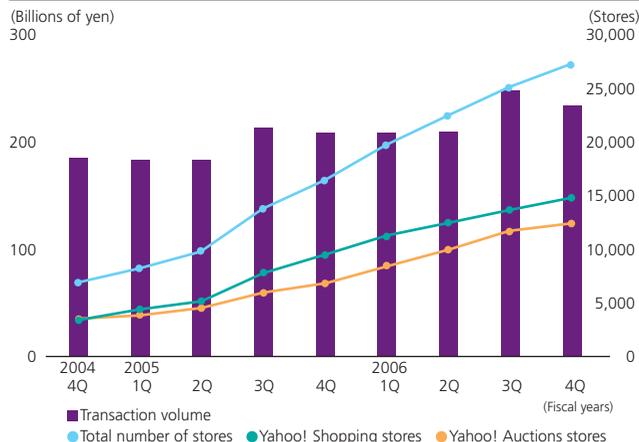
Led by INFO PLANT CO., LTD., and INTAGE Interactive Inc., revenues from research-related services grew favorably. In a move to expand our Internet research business further, we made Interscope Inc. a consolidated subsidiary in February 2007. INFO PLANT and Interscope are scheduled to merge in July 2007 to form Yahoo Japan Value Insight Corporation.

3. Personal Services: Expanding the auction user base while maintaining the Yahoo! Premium membership base

Net sales of the Personal Services segment rose 23.2%, to ¥75.3 billion. Operating income was up 26.3%, to ¥48.0 billion.

During the year, we continued to focus on expanding the user base for Yahoo! Auctions. Following upon a series of measures taken to relax the requirements for participation in Yahoo! Auctions, in October 2006 we kicked off a final campaign that effectively waived the requirement that Yahoo! Auctions bidders have a Yahoo! Premium member ID by granting the right of bidding to all users possessing a Yahoo! JAPAN ID. In addition, in July 2006 we ran an inaugural series of television commercials promoting Yahoo! Auctions. The result of these activities was a

e-Commerce Transaction Volume and Number of Stores



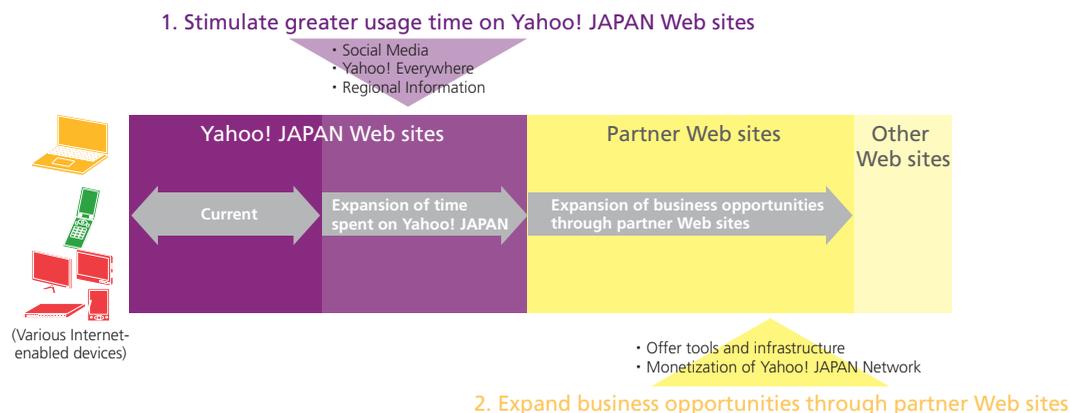
- Notes:
- Because former consolidated subsidiary Seven and Y Corp. became an affiliate accounted for by the equity method in February 2006, transaction volume on the Seven and Y site is eliminated beginning from that month.
 - Beginning from the third quarter of fiscal 2005, new stores have been added to the total number of stores upon making the initial tenant fee payment. For prior periods, new stores were added to the total number of stores at the time of opening on the site.
 - Transaction volume does not include fraudulent orders.

considerable increase in the number of Yahoo! Auctions bidders. Also during the year, we implemented enhanced security measures in an effort to further boost the confidence of all participants in our online auctions. Security initiatives undertaken during the year included a reinforcement of personal identification procedures for persons listing items for the first time and the implementation of comprehensive measures to remove illegal listings. In May 2006, we raised system-use fees only for items listed by individuals, but not for items listed on stores, from 3% to 5% of auction closing prices. Reflecting this hike, segment revenues generated by auction system-use fees in fiscal 2006 increased more than 30%.

Although new applications for Yahoo! Premium memberships decreased as a result of the relaxation of requirements for participation in Yahoo! Auctions, we managed to forestall an anticipated increase in churn rate and effectively maintained the size of the Yahoo! Premium membership base through campaigns offering a greater amount of value-added content to members, including exclusive discounts and online previews. The number of Yahoo! Premium member IDs totaled 6.19 million as of March 31, 2007, up 0.6% from the figure one year earlier.

The number of Yahoo! BB subscribers as of March 31, 2007, stood at 5.16 million, an increase of 2.3% from the figure at the previous fiscal year-end. Revenue from Internet service provider (ISP) fees was buoyant. Elsewhere, we continued to focus on sales of paid content services such as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling.

Long-term Group Strategies



Market shifts and long-term Group strategies

With Web 2.0 on nearly everyone's lips during the past year, the recent rise of user-generated content undeniably marks a fundamental change in the Internet usage modality. Meanwhile, a May 2006 Ministry of Internal Affairs and Communications survey of communications usage trends in Japan reveals that users accessing the Internet via mobile phones and other mobile devices outnumbered for the first time in calendar year 2005 users gaining access via PCs. At the end of calendar year 2005, the former group numbered 69.23 million, up 18.8% from the figure one year earlier, while the latter group totaled 66.01 million, up 2.9%.

Although the rate of mobile-based Internet access now exceeds that of PC access, the number of mobile Internet services actually used remains low, reflecting the fact that the large majority of mobile users in Japan access the Internet only to send and receive e-mail. Our launch during the year of Yahoo! Keitai services targeted at SOFTBANK mobile subscribers therefore focused on enhancing the convenience of using mobile phones to access a widening range of Internet services. Looking ahead, we see mobile phones becoming the device of choice for on-the-move access of the full range of Internet services.

Clearly, therefore, major shifts are under way in the Internet environment, both in the way that Internet services are actually utilized and in the devices that are employed to access them. In response, we are developing and implementing strategies with an eye to fully leveraging these shifts to the Group's business advantage in the coming decade.

1. Japan's No. 1 social media provider

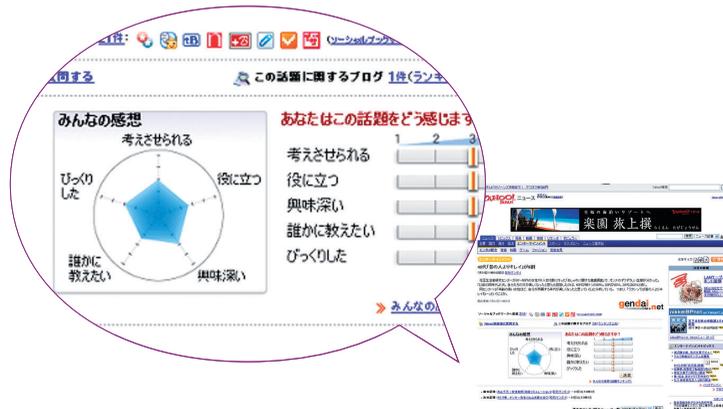
As a central element of our strategy to boost Yahoo! JAPAN service usage times across the board, we are promoting the Group's evolution into the top social media provider in Japan.

To date, the Internet has primarily adopted a mass-media usage paradigm whereby specified information providers publish information (head content) on the Internet for user viewing. At the moment, we are witnessing the proliferation of an entirely different usage style, referred to as Web 2.0, whereby users interactively utilize the Internet as a communication tool to provide a variety of information (tail content). In response to the Web 2.0 phenomenon, our Social Net business has already made significant progress toward expanding and improving user-generated content services. In January 2007, just two years after the launch of Yahoo! Blogs, the number of blogs established on the site surpassed the one million mark. In February 2006, we launched Yahoo! Days (beta version), our social networking service. Most recently, in April 2007 we introduced Yahoo! Videocast (beta version), which enables users to upload and share video clips.

In providing an expanding array of Social Net services, the Group is focused strategically on enhancing user satisfaction and thus extending service usage times. To this end, we are encouraging users of the more than 100 head content services offered by the Group to actively provide tail content for those services. As a result, we are able to supplement our trusted, high-quality head content with tail content individualized to match user attributes and according to relationships among users of our social net

Supplementing head content with tail content

A Yahoo! News screen shot, including a readers' comment chart — an example of trusted head content supplemented with user-generated tail content



services. By offering each user individualized tail content in this way, the Group will advance significantly toward its goal of becoming the No. 1 social media provider in Japan.

Applying the same method of individualizing content according to user attributes and relationships with other users, we are able to provide valuable new information services. For example, in March 2007 we launched Wai Wai Map (beta version), a new community-type service that enables users to create original maps as well as to share and exchange map information with other users. In the example of Wai Wai Map, users generate information, which is then distributed to and utilized by other users. We plan to provide additional information services based on the same conceptual framework.

2. Yahoo! Everywhere

Our Yahoo! Everywhere concept, focusing on the expansion of Internet access opportunities, is a second key element of our strategy to boost usage times of Yahoo! JAPAN services. Yahoo! Everywhere emphasizes the use of a growing range of Internet-enabled devices other than PCs, including mobile phones, video-game consoles, televisions, and car navigation systems.

Slightly more than half of all persons living in Japan can already access the full range of Internet services via PCs. Looking ahead, our goal is to foster an environment in which users, unrestricted by either time or place, can easily access all Yahoo! JAPAN Internet services via a widening variety of non-PC devices. In such an environment, average daily Internet usage times per user are

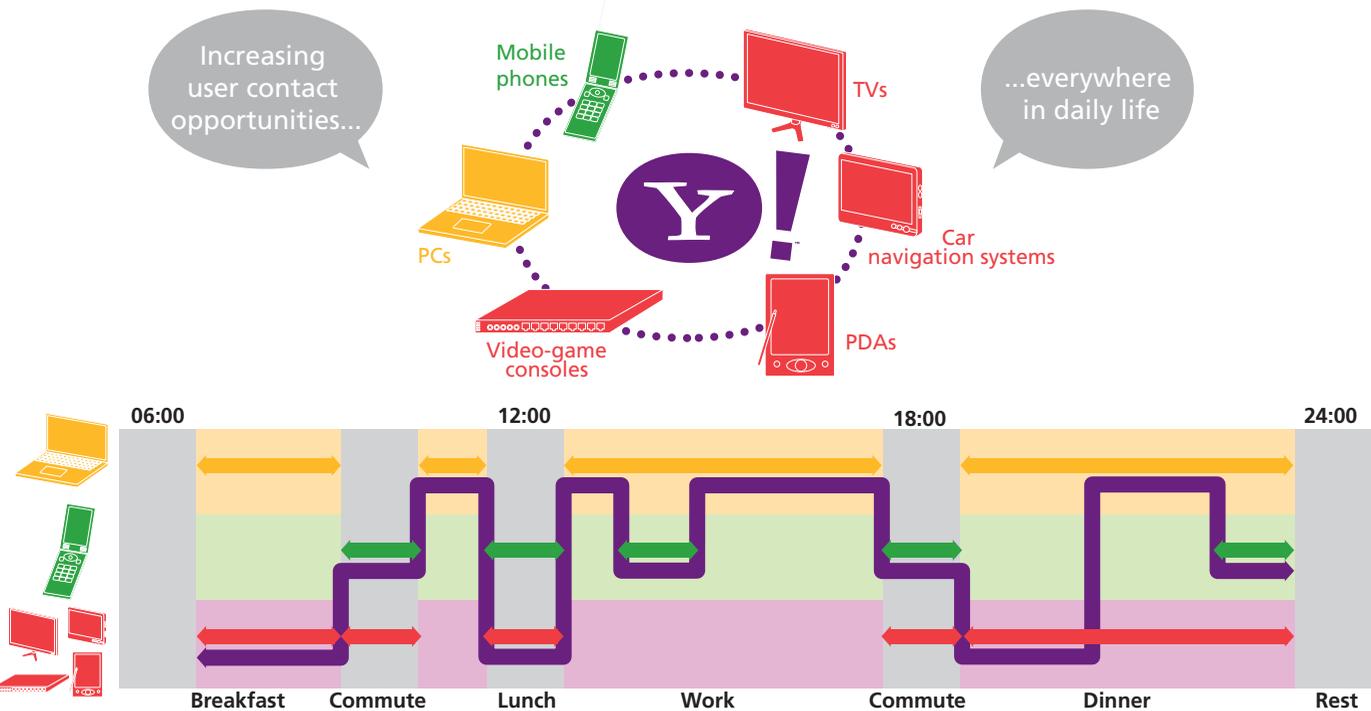
bound to increase, implying a dramatic rise in the overall usage of Group services.

Our Yahoo! Keitai mobile Internet services, a key element of the Yahoo! Everywhere concept, trace their roots to the entry into the mobile phone business of our parent company, SOFTBANK CORP., via its April 2006 acquisition of the former Vodafone Japan operations and subsequent formation of SOFTBANK MOBILE Corp. In October 2006, we started supplying Yahoo! Keitai mobile Internet services to SOFTBANK mobile subscribers. Since then, we have created an environment in which SOFTBANK mobile users can easily access a full range of Internet services comparable to those accessible via PC. To enhance access convenience, we have incorporated a mobile phone registration function that allows SOFTBANK subscribers who register for a Yahoo! JAPAN ID and password to be permanently logged in for instant access to Yahoo! Keitai services. In addition, some SOFTBANK mobile phones feature an exclusive "Y!" function key to facilitate quick and convenient access to our services.

While mobile phones have in recent years quickly become a widely used device for accessing the Internet in Japan, mobile-based Internet usage is still limited largely to e-mail and specialized services provided on the official Web site of each mobile carrier. Moreover, mobile Internet usage is concentrated among user groups that tend to access a delimited set of services, such as games or social network services, for extended time periods. In other words, the mobile Internet market differs significantly from

Yahoo! Everywhere Concept

Increased user access via various Internet-enabled devices will enhance the media value of the Internet.



the current PC-accessible Internet world, where many different types of users take full advantage of the entire range of Internet services.

Our investment in SOFTBANK's mobile communications business in April 2006 gives us a strong foothold in this key sector. In delivering a full range of mobile Internet services and at the same time enhancing the convenience of mobile Internet usage, we aim to forge a seamless mobile Internet environment encompassing not only SOFTBANK's services but also those offered by other carriers. Ultimately, we intend to forge an entirely new mobile Internet market comparable in size to the current PC-accessible Internet universe.

In addition to services for the mobile phone sector, we have already begun to supply services for other types of non-PC devices. In March 2007, we began providing data from Yahoo! Gourmet to Nissan Motor Co., Ltd., for information services linked to Carwings vehicle navigation systems. Also, in April 2007 we started to provide content-based services for Nintendo Co., Ltd.'s Wii video-game consoles and Sony Corporation's BRAVIA large-screen LCD television sets.

With their world-leading technological capabilities, Japanese manufacturers of mobile communications devices and home information appliances are well-positioned to take the lead in incorporating Internet connectivity into their products. By continuing to establish cooperative relationships with Japanese device and electronics manufacturers, the Group remains strategically aligned to secure a dominant position in the market for Internet services accessible via such products, comparable to the position we enjoy in the PC-accessible Internet market.

3. Regional information services

A third element in our strategy to boost usage times of our services focuses on offering regional information services alongside our nationwide information services provided to date. We are developing such regional information services based on mapping information supplied by Group subsidiary ALPS MAPPING K.K.

By supplying a region-specific Internet usage platform ideal for local businesses within each specified region, we expect to forge a new advertising market serving the many small- and medium-sized local advertisers for whom online advertising

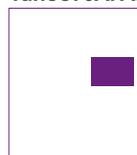
AD Network

Creating an extended network of advertising space on partner Web sites and on Yahoo! JAPAN will boost the advertising media value of AD Network.

Main Features of AD Network

1. Distribution of branding advertising to an increased number of targeted customers
2. Utilization of Yahoo! JAPAN's proprietary advertising distribution technologies

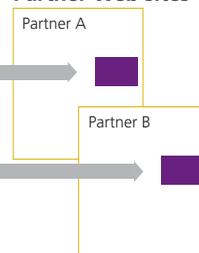
Yahoo! JAPAN



Yahoo! JAPAN AD System



Partner Web sites



Yahoo! JAPAN's function

- Planning and development of Network ad products
- Inventory control
- Ad placement
- Ad distribution
- Reporting
- System development

Benefits to partner Web sites

- Revenue increase by selling more ad space
- Reduction of ad sales costs and operating costs

opportunities have been limited to date. Given the nature of this regional Internet platform, in particular, the physical proximity of users and business advertisers within a specific region, we expect it to be a highly effective advertising vehicle.

Meanwhile, a new legal requirement that all new 3G mobile phone models sold in Japan from April 2007 be fitted with global positioning system (GPS) locators represents an opportunity to fully leverage this technology to the benefit of our regional information services. GPS mobile phone tracking will enable the delivery of relevant information, including related advertising, automatically calibrated to the real-time location of each mobile phone user.

4. Yahoo! JAPAN Network

As another element of our overall strategy, we are making ongoing efforts to link Yahoo! JAPAN sites to partner Web sites with the goal of making contact with users visiting sites other than Yahoo! JAPAN. In building an extended Yahoo! JAPAN Network, we expect to achieve greatly expanded usage rates across the entire network, including all partner Web sites.

According to survey data published by NetRatings Japan, Inc., the reach of the Group's portal site in March 2007 was 87.3%, far ahead of competitor sites. The same survey also showed that while many users who access the Yahoo! JAPAN site actually remain on the site for significant periods of time, a large number are only light users. In cooperation with partner Web sites, we are pursuing a number of initiatives to create and maximize profit-making

opportunities based on users' time spent on non-Group Web sites.

(1) AD Network

The Group is teaming up with other Web site operators to create an extended network of advertising space, marketed in Japan as AD Network, with potentially significant appeal to advertisers. Linking up in this way with sites that have a smaller reach boosts their advertising media value because advertisers can reach more potential customers over the entire Network. In January 2007, we began distributing advertisements to 21 of the roughly 70 companies that provide stories for Yahoo! News. In February 2007, we began distributing behavioral targeting advertisements over the Network. Because the analysis of Internet-usage histories is a critical factor in behavioral targeting advertising, we intend to leverage the Internet-usage data accumulated by the various Yahoo! JAPAN services. By applying the Group's proprietary online advertising technologies in an effort to refine behavioral targeting advertising, we expect to boost AD Network's advertising media value.

(2) Acquisition of Overture K.K.

In April 2007, we reached an agreement to exchange a non-binding memorandum of understanding with Yahoo! Inc. prior to acquiring shares in Yahoo! Inc. subsidiary Overture K.K. with the intention of making Overture a subsidiary of the Company. Posting excellent results since it began supplying paid search services in Japan in 2002, Overture has secured a dominant share of the paid search market by offering services in collaboration with

the Group and other Overture partner sites. By making Overture a subsidiary of the Company, we will be able to join forces in service development and sales activities. As a result, we expect to offer advertisers in the Japanese market a highly effective online ad placement service.

Through AD Network and the acquisition of Overture, we aim to further reinforce our advertising business by fully leveraging an extended advertising distribution network spanning not only paid search but also banners and other advertisements.

In conclusion

By responding swiftly and effectively to the ongoing changes in the expanding Japanese Internet market, the Group aims to achieve continuous sales and earnings growth over the medium and long term. We will accumulate retained earnings to fund investments for strengthening the corporate structure and undertaking activities to promote future business development. Recognizing the importance of returning profits to shareholders, management also will continue to focus on the goal of producing a profit each year while at the same time paying dividends commensurate with the Group's financial performance. For fiscal 2006, we declared a cash dividend of ¥96 per share, thereby achieving our target of a 10% payout ratio of consolidated net income. Taking into account the 2-for-1 stock split on April 1, 2006, this figure represents year-on-year dividend growth of 23%.

The Group's shares were listed on the First Section of the Tokyo Stock Exchange in October 2003. In February 2007, we

successfully dual listed on the Nasdaq Securities Exchange. This dual listing represents not only expanded trading opportunities but also a diversification of the risk that trading become excessively concentrated on one security exchange. We therefore expect that our JASDAQ listing will support investors' positive assessments of the Group's stock as a stable, attractive issue.

In faithfully carrying out the Group's primary mission of providing useful and valuable Internet services and content accessible by anyone, anytime, and anywhere, we hope to earn the trust of all stakeholders, including our users, affiliated business partners, suppliers, and shareholders. On the strength of that trust, we can be certain of achieving sustained growth in the years to come. Moving confidently ahead, we look forward to your continued understanding and support.



Masahiro Inoue

President & CEO

June 21, 2007