

# To Our Shareholders

Since commencing business operations in 1996, Yahoo Japan Corporation and its consolidated subsidiaries and affiliates (the Group) have established an overwhelmingly dominant position in the Japanese Internet market on a triple foundation of brand power, technological prowess, and an ever-expanding user base. Guided by its mission of supplying all the services that users want, anytime and anywhere, the Group currently provides more than 100 services in the Japanese Internet market. According to a NetView AMS JP survey conducted in March 2008 by Nielsen Online, the Yahoo! JAPAN portal site boasts viewing rates of 88.0% from the home and 88.9% from the office.

In line with the ongoing expansion of the Internet-viewing population in Japan, user needs are continuously growing and diversifying. Confident that the Japanese Internet market has tremendous capacity for further growth, the Group is preparing to fully benefit by implementing four key strategies: (1) converting to user-oriented social media services, (2) making services available everywhere by increasing Internet access opportunities, (3) expanding and enhancing personalized local information services, and (4) partnering with other sites to form an

extended network with the goal of enhancing earnings opportunities arising from greatly expanded traffic over the entire network.

## ***Fiscal 2007 performance***

In fiscal 2007, the year ended March 31, 2008, the Group registered its 11th consecutive year of record-high sales and profits. On a consolidated basis, net sales climbed 23.3% year on year, to ¥262.0 billion, and operating income advanced 17.5%, to ¥124.8 billion. Net income rose 8.0%, to ¥62.6 billion.

## ***Business environment***

During the year under review, the near-term prospects for improved corporate performance and a more robust general economy in Japan were clouded by the U.S. economic slowdown, yen appreciation vis-a-vis the U.S. dollar, and skyrocketing commodities prices. Against this increasingly challenging economic backdrop, the Group made favorable progress in business expansion.

Reflecting the recent proliferation in Japan of broadband-based Internet connectivity, enjoyed by 54.7% of all Japanese households at the end of calendar year 2007, the Internet-viewing population has grown phenomenally. Supplementing the head content information generated and supplied by official information providers, tail content generated and supplied by individual

users also has seen explosive growth, effectively boosting Internet usage times across a wide range of user groups. At the same time, the means of accessing the Internet have diversified in line with the expansion of mobile phone networks and new applications of information technology (IT) to consumer electronics and the formation of related networks. We believe that these trends will persist into the future as the Internet plays an increasingly central media role in people's daily lives.

## ***Performance, by business segment***

***Advertising: Internet advertising market maintains robust growth while four traditional media markets languish***

Net sales of the Advertising segment in fiscal 2007 surged 46.9%, to ¥131.0 billion. Operating income expanded 28.7%, to ¥64.8 billion.

According to research by DENTSU INC., total advertising expenditure in Japan has expanded for four consecutive years, reaching ¥7,019.1 billion in calendar 2007. The pace of growth remained restrained, however, with major corporations curtailing advertising and sales promotion expenses, as in the previous year. As a result, total advertising spending for 2007 edged forward just 1.1%, with each of the four traditional media actually recording declines in advertising revenue. In bold contrast, the Internet advertising placement market remained strong and effectively drove the overall market forward, soaring 26.5% year on year, to ¥459.1 billion.

During the year, the Group focused on creating eye-catching advertising products able to spark user interest. Among our high-impact branding products, we renewed our Top Page Brand Panel and introduced Prime Display, a new banner product appearing on the lower section of pages. We also redoubled our sales promotion efforts for behavioral targeting advertisements, which are selectively distributed according to user attributes and Internet-usage histories. Because these types of targeted products improve the efficiency of advertising and sales promotion activities, they were particularly welcomed by advertisers during the year. Paid search advertising also expanded during the fiscal year, supported by growth in the number of search queries and advertisers as well as by the July 2007 launch of a search marketing system that ranks advertisements by quality and keyword bid price. We made Overture K.K., our paid



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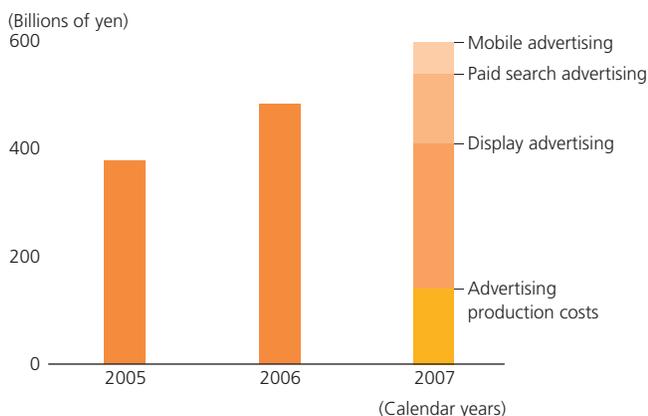
search advertising supplier, into a consolidated subsidiary in September 2007. Formerly a consolidated subsidiary of Yahoo! Inc., Overture has provided its paid search advertising services to Yahoo! JAPAN and other major tie-up partner sites in Japan since 2002, building a strong record in the market for the quality of its services. Based on this action, we are pursuing further expansion of our paid search advertising related sales.

**Business Services: Revenues from information listing and e-commerce-related services show solid growth**

Fiscal 2007 net sales of the Business Services segment climbed 20.4%, to ¥58.1 billion, and operating income rose 22.1%, to ¥23.6 billion.

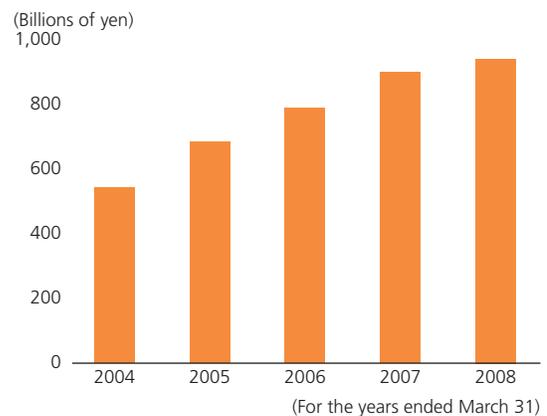
Reflecting the ongoing shift of information listing services from print media to the Internet, information listing revenues grew steadily, especially from Yahoo! Real Estate. Yahoo! Shopping and Yahoo! Auctions continued to focus on expanding

### Breakdown of Japanese Internet Advertising Expenditures



Source: 2007 Advertising Expenditure in Japan, DENTSU INC.

### Group e-Commerce Transaction Volume



(For the years ended March 31)

numbers of merchant stores. As a result, at March 31, 2008, the combined number of merchant stores registered on Yahoo! Shopping and Yahoo! Auctions totaled 31,289, up 4,245 stores, or 15.7%, from the figure one year earlier. Tenant fees and sales commissions increased in line with the growth in store numbers. Of particular note, mobile-based transaction volume on Yahoo! Shopping soared during the fiscal year. Boosted by active seasonal and other sales promotions, e-commerce transaction volume, which is the combined transaction volume of Yahoo! Auctions, Yahoo! Shopping, Yahoo! Travel, and Yahoo! Tickets, also rose, up 4.5%, to ¥940.0 billion.

*Personal Services: Yahoo! Premium membership base registers impressive growth*

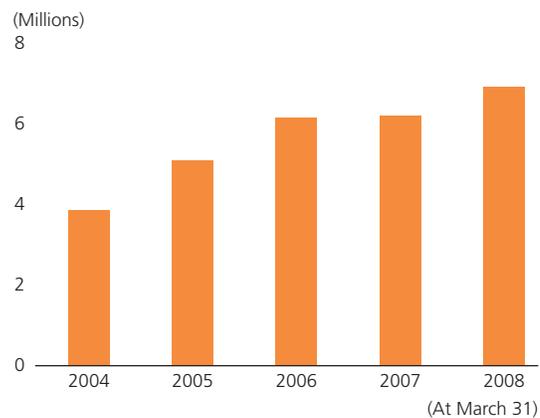
Net sales of the Personal Services segment slipped 3.0% from the previous year's result, to ¥73.1 billion. Operating income, meanwhile, advanced 1.5%, to ¥48.7 billion.

Yahoo! Auctions' system-use fees showed flat growth year on year, a result chiefly of an increase in the number of merchant stores. This increase boosted the value of BtoC transactions, which are accounted for in the Business Services segment, with a resultant negative impact on Personal Services segment revenue. In addition, total Yahoo! Auctions transaction volume struggled owing to a slump in such categories as automobiles and vehicle bodies as well as name-brand items due to the strict implementation of our policy to delete fakes. Strengthened measures designed to prevent

system abuse also had a negative impact on overall auction transaction volume.

Following a steady decline in Yahoo! Premium member IDs beginning in October 2006 resulting from Yahoo! Auctions campaigns waiving Yahoo! Premium membership as a requirement for auction participation, the number of Yahoo! Premium members turned up from June 2007 thanks to Yahoo! Premium new-member campaigns targeting the auction user base as well as to subsequent revisions to the user participation requirements for Yahoo! Auctions implemented in August 2007. As a result, the number of Yahoo! Premium member IDs rose 11.7% on the year, to 6.92 million at March 31, 2008. On the other hand, revenue from Yahoo! BB Internet service provider (ISP) fees declined substantially from the previous year's figure owing to the impact of revisions to the contract with SOFTBANK BB Corp.

Yahoo! Premium Member IDs



**Growth initiatives launched in fiscal 2007**

*Social media services*

By enabling users to generate and append tail content to more than 100 head content services offered by the Group, we aim to boost not only user satisfaction but also usage times of Yahoo! JAPAN services.

Social media services newly introduced during the year included a gold version of Yahoo! Videocast, a video posting service; a beta version of Netarika, an interactive entertainment news site; a beta version of Everybody's Topics, an interactive news service; and Yahoo! Everybody's Certification, a knowledge tests service. Among initiatives undertaken to add social media functions to existing services were the inclusions of a word-of-mouth posting function on Yahoo! Get Local and a "Restaurants I've Been to Guide" and restaurant-ranking

function on Yahoo! Gourmet.

In August 2007, we entered into a capital and business alliance with 4travel, Inc., the operator of 4travel, one of Japan's most popular word-of-mouth travel sites. Drawing upon 4travel's extensive base of user-generated travel information, we are currently transforming Yahoo! Travel into a social media services site.

*Yahoo! Everywhere*

Our Yahoo! Everywhere initiative focuses on the expansion of Internet access opportunities with the goal of boosting usage times of Yahoo! JAPAN services. Specifically, we are promoting the use of a growing range of Internet-enabled devices in addition to PCs, including mobile phones, video-game consoles, television sets, and car navigation systems.

During the year, we expanded the range and enhanced the quality of our services offered through SOFTBANK MOBILE Corp. and other mobile phone carriers. Among new services launched was a direct

display function that enables the display of search results for maps or images on the call-waiting screen of mobile handsets. We also introduced Yahoo! Mobamail Search, which utilizes mobile phone email software both to send a search keyword and to receive the search results, as well as Yahoo! MachiMoba, a service offering such information as shop and restaurant locations within a selected area. Elsewhere, we introduced Yahoo! Headline news, a service offering direct daily delivery of top news stories to users' mobile phones, which can be read without accessing the Internet. Also during the fiscal year, we began offering Yahoo! Auctions and other services accessible exclusively via Sony Corporation's BRAVIA large-screen LCD television model. Finally, we announced the joint development with Sharp Corporation of a Yahoo! JAPAN portal page accessible exclusively via the AQUOS large-screen LCD television model, actual service provision of which began in May 2008.

*Personalized local information services for all lifestyles*

To increase usage of our Internet services by each and every user, we aim to provide valuable personalized information catering to a wide



range of user lifestyles. To this end, we are in the process of creating a region-specific Internet platform for local businesses and stores.

To create this platform, we are encouraging local small and medium-sized businesses to open stores on Yahoo! JAPAN and to implement IT systems. At the same time, we are preparing to market advertising products and sales promotional tools to these businesses. As part of this process, we formed capital and business alliances with TELEWAVE, INC., in June 2007; with SCINEX CORPORATION in November 2007; and with GMO Internet, Inc., in December 2007. In our efforts to provide localized information services, we launched Yahoo! Flyer

Information, which enables users to search for and view flyers. We also introduced a pay-per-call listing service on Yahoo! Gourmet whereby fees for information listings on stores are calculated based on the number of inquiry calls made to a dedicated reservations-request telephone number.

Drawing upon the extensive map information database of consolidated subsidiary ALPS MAPPING K.K., we are planning and creating a host of map-based data and related regional information. In April 2008, the Company absorbed ALPS MAPPING via a merger with the goal of further strengthening and expanding the Group's map-based information services.

### *Toward a more open network*

The Group has begun to supply display, paid search, content-linked, and other

advertising services to partner sites with the goal of expanding mutual opportunities for earnings enhancement.

During the fiscal year under review, we made progress throughout our operations in implementing our open network initiative. In our display advertising operations, we began distributing advertising to a steadily expanding number of partner sites. In our paid search advertising business, with Overture now a consolidated subsidiary we are closely collaborating in service development and sales activities and, as a result, improving the value of our services. Elsewhere, we are offering advertisers simpler, more effective advertising methods, targeting growth both in the search-linked advertising market and in our share of that market. In content-linked advertising, we are in the process of fusing the technologies of Brainer.jp. with those of the Group in an effort to proactively develop the market. We made Brainer.jp. a consolidated subsidiary in August 2007 and then fully absorbed it through an April 2008 merger.



As part of our initiative to expand Internet access opportunities, we offer a Yahoo! JAPAN portal page accessible via Sharp Corporation's AQUOS large-screen LCD television model.

In December 2007, we began discussions with U.S.-based Internet auction site operator eBay Inc. related to providing mutual support for our respective entrances in the Japanese and U.S. markets and boosting customer acquisition capabilities. Already in Phase 1 of the agreement, we jointly launched Sekaimon, a proxy buyer site for eBay in Japan, entrusting the site's operation to Shop Airlines, a subsidiary of netprice.com Ltd. In Phase 2 and Phase 3, Yahoo! JAPAN and eBay plan to set up proxy buying services within their respective auction sites, thereby facilitating viewing of and bidding on items on both sites, no matter the location or language of the bidder.

Among other efforts to achieve greater openness, we now offer our Yahoo! JAPAN ID verification application program interface (API), our Yahoo! Wallet online fee collection system, and our Yahoo! Points

service on selected partner sites. Looking forward, our open network initiative will focus on enhancing our services' user benefits and on boosting user satisfaction, in addition to building win-win relationships with partner sites.

**In conclusion**

By swiftly and effectively responding to new challenges and opportunities, the Group aims to achieve sales and earnings growth on a par with the actual expansion in the Japanese Internet market over the medium and long term. To this end, we will accumulate retained earnings for funding future business development and strengthening our corporate structure. At the same time, management will continue to place a high priority on returning profits to shareholders, targeting a payout ratio of 10% of consolidated net income. Accordingly, for fiscal 2007 we declared cash dividends of ¥104 per share. In an effort to further enhance shareholder value, the Company resolved in May 2008 to execute a share buyback of up to two percent of all

shares outstanding, excluding treasury stock. The maximum number of shares to be repurchased is therefore 1.21 million shares, and the maximum purchase amount, ¥60 billion. All repurchased shares are to be retired.

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 continuing understanding and support.



**Masahiro Inoue**  
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June 24, 2008



Yahoo! Gourmet now offers a pay-per-call information listing service with a dedicated reservations-request telephone number, an example of our efforts to provide enhanced localized information services for all user lifestyles.