

Board of Directors
Yahoo! Inc.
701 First Avenue
Sunnyvale, CA 94089
Attention: Roy Bostock, Chairman
Attention: Jerry Yang, Chief Executive Officer

Dear Members of the Board:

I am writing on behalf of the Board of Directors of Microsoft to make a proposal for a business combination of Microsoft and Yahoo!. Under our proposal, Microsoft would acquire all of the outstanding shares of Yahoo! common stock for per share consideration of \$31 based on Microsoft's closing share price on January 31, 2008, payable in the form of \$31 in cash or 0.9509 of a share of Microsoft common stock. Microsoft would provide each Yahoo! shareholder with the ability to choose whether to receive the consideration in cash or Microsoft common stock, subject to pro-ration so that in the aggregate one-half of the Yahoo! common shares will be exchanged for shares of Microsoft common stock and one-half of the Yahoo! common shares will be converted into the right to receive cash. Our proposal is not subject to any financing condition.

Our proposal represents a 62% premium above the closing price of Yahoo! common stock of \$19.18 on January 31, 2008. The implied premium for the operating assets of the company clearly is considerably greater when adjusted for the minority, non-controlled assets and cash. By whatever financial measure you use - EBITDA, free cash flow, operating cash flow, net income, or analyst target prices - this proposal represents a compelling value realization event for your shareholders.

We believe that Microsoft common stock represents a very attractive investment opportunity for Yahoo!'s shareholders. Microsoft has generated revenue growth of 15%, earnings growth of 26%, and a return on equity of 35% on average for the last three years. Microsoft's share price has generated shareholder returns of 8% during the last one year period and 28% during the last three year period, significantly outperforming the S&P 500. It is our view that Microsoft has significant potential upside given the continued solid growth in our core businesses, the recent launch of Windows Vista, and other strategic initiatives.

Microsoft's consistent belief has been that the combination of Microsoft and Yahoo! clearly represents the best way to deliver maximum value to our respective shareholders, as well as create a more efficient and competitive company that would provide greater value and service to our customers. In late 2006 and early 2007, we jointly explored a broad range of ways in which our two companies might work together. These discussions were based on a vision that the online businesses of Microsoft and Yahoo! should be aligned in some way to create a more effective competitor in the online marketplace. We discussed a number of alternatives ranging from commercial partnerships to a merger proposal, which you rejected. While a

commercial partnership may have made sense at one time, Microsoft believes that the only alternative now is the combination of Microsoft and Yahoo! that we are proposing.

In February 2007, I received a letter from your Chairman indicating the view of the Yahoo! Board that "now is not the right time from the perspective of our shareholders to enter into discussions regarding an acquisition transaction." According to that letter, the principal reason for this view was the Yahoo! Board's confidence in the "potential upside" if management successfully executed on a reformulated strategy based on certain operational initiatives, such as Project Panama, and a significant organizational realignment. A year has gone by, and the competitive situation has not improved.

While online advertising growth continues, there are significant benefits of scale in advertising platform economics, in capital costs for search index build-out, and in research and development, making this a time of industry consolidation and convergence. Today, the market is increasingly dominated by one player who is consolidating its dominance through acquisition. Together, Microsoft and Yahoo! can offer a credible alternative for consumers, advertisers, and publishers. Synergies of this combination fall into four areas:

- Scale economics: This combination enables synergies related to scale economics of the advertising platform where today there is only one competitor at scale. This includes synergies across both search and non-search related advertising that will strengthen the value proposition to both advertisers and publishers. Additionally, the combination allows us to consolidate capital spending.
- Expanded R&D capacity: The combined talent of our engineering resources can be focused on R&D priorities such as a single search index and single advertising platform. Together we can unleash new levels of innovation, delivering enhanced user experiences, breakthroughs in search, and new advertising platform capabilities. Many of these breakthroughs are a function of an engineering scale that today neither of our companies has on its own.
- Operational efficiencies: Eliminating redundant infrastructure and duplicative operating costs will improve the financial performance of the combined entity.
- Emerging user experiences: Our combined ability to focus engineering resources that drive innovation in emerging scenarios such as video, mobile services, online commerce, social media, and social platforms is greatly enhanced.

We would value the opportunity to further discuss with you how to optimize the integration of our respective businesses to create a leading global technology company with exceptional display and search advertising capabilities. You should also be aware that we intend to offer significant retention packages to your engineers, key leaders and employees across all

disciplines.

We have dedicated considerable time and resources to an analysis of a potential transaction and are confident that the combination will receive all necessary regulatory approvals. We look forward to discussing this with you, and both our internal legal team and outside counsel are available to meet with your counsel at their earliest convenience.

Our proposal is subject to the negotiation of a definitive merger agreement and our having the opportunity to conduct certain limited and confirmatory due diligence. In addition, because a portion of the aggregate merger consideration would consist of Microsoft common stock, we would provide Yahoo! the opportunity to conduct appropriate limited due diligence with respect to Microsoft. We are prepared to deliver a draft merger agreement to you and begin discussions immediately.

In light of the significance of this proposal to your shareholders and ours, as well as the potential for selective disclosures, our intention is to publicly release the text of this letter tomorrow morning.

Due to the importance of these discussions and the value represented by our proposal, we expect the Yahoo! Board to engage in a full review of our proposal. My leadership team and I would be happy to make ourselves available to meet with you and your Board at your earliest convenience. Depending on the nature of your response, Microsoft reserves the right to pursue all necessary steps to ensure that Yahoo!'s shareholders are provided with the opportunity to realize the value inherent in our proposal.

We believe this proposal represents a unique opportunity to create significant value for Yahoo!'s shareholders and employees, and the combined company will be better positioned to provide an enhanced value proposition to users and advertisers. We hope that you and your Board share our enthusiasm, and we look forward to a prompt and favorable reply.

Sincerely yours,

/s/ Steven A. Ballmer
Steven A. Ballmer
Chief Executive Officer
Microsoft Corporation