

# Segment Report by Business Division

Effective January 2002, the Group reorganized itself into a business division system. This change was made to optimize the allocation of human, physical, and financial resources and speed up decisions, thus maximizing results. Business that is not related to any one business division but common to all business divisions is termed Corporate Common Business.

Beginning with the fiscal year under review, we have changed our classifications for reporting on our operations from the old format of advertising, Yahoo! BB, Auction, and others to one that reflects the new business divisions and our Corporate Common Business.

Business Divisions	Major Business	Advertising Sales
Yahoo! BB	The Yahoo! BB business revolves around comprehensive broadband services branded as Yahoo! BB, provided jointly with SOFTBANK BB Corp. (SBB). The business provides ISP service using mainly Yahoo! BB 8M, Yahoo! BB 12M and others to individual subscribers whom the Company or SBB has acquired at electronic wholesalers and by other means. The ISP service also includes e-mail, homepage creation, calendar functions, etc.	444
Auction	Auction business provides, for a charge, an Internet platform on which a number of individuals can freely sell or buy through an auction process. It also provides, for a fee, support services to entities in relation to corporate shops called Premium Auctions.	697
Listing	Listing business publishes various providers' information for users through the Company's Web site. It comprises directory and mobile services on the Web site, listing services of information and community services. It has also started a paid search service, which is called Sponsor Site, by cooperating with two commercial search services; Overture and Google. These two companies serve search results to Sponsor Site in the key word search result of Yahoo! JAPAN for a fee.	6,336
Shopping	Shopping business operates the Yahoo! Shopping site, which provides a high-quality, online-based shopping site with stores selected based on the number of goods available and high levels of customer support and satisfaction. It also supplies goods and services relating to travel, such as domestic or overseas accommodation, airline tickets, etc. and provides various travel information for travel arrangement or preparation.	522
Media	Media business provides various content and services, with or without charges, to users in order to stimulate the number of page views and increase the volume of advertising sales. It comprises four services; information services, entertainment services, community services, and mailing services.	3,406
ES (Enterprise Solutions)	ES business provides the Company's solutions, know-how and technologies to corporations or government bodies. It includes support services relating to development of such entities' own portal sites, Web designing consulting services, online presentation services such as NetRoadshow services, and Internet-based inquiry services known as Yahoo! Research, etc.	65
Corporate Common Business— Elimination or Corporate	Corporate Common Business represents sales of advertisements on the top page, and admission fees as a personal identification. These revenues are characterized as Corporate Common Business, as they create the corporate brand of the Group and therefore are not allocated to each of the above businesses. It also includes revenues and expenses relating to the Company's headquarters.	2,144
Total		13,614

(Millions of yen)

Business Service Sales	Personal Service Sales	Other Sales	Net Sales	Cost of Sales	Gross Profit	SG&A Expenses	Operating Income	Operating Margin
7,481	14,320	—	22,245	12,492	9,753	2,899	6,854	30.8%
527	9,857	—	11,081	1	11,080	2,729	8,351	75.4%
1,575	12	—	7,923	7	7,916	3,531	4,385	55.3%
892	—	3,621	5,035	2,833	2,202	1,528	674	13.4%
133	54	—	3,593	115	3,478	3,120	358	10.0%
386	—	—	451	166	285	233	52	11.5%
6	6,617	(0)	8,767	68	8,699	5,300	3,399	38.8%
11,000	30,860	3,621	59,095	15,682	43,413	19,340	24,073	40.7%

Note: Advertising sales comprise banner and e-mail advertising sales, Sponsor Site sales, and others. Business service sales comprise corporate sales excluding advertising. Personal service sales comprise business sales to individuals.

## Yahoo! BB Business Division

In the fiscal year ended March 31, 2003, sales of the Yahoo! BB Business Division amounted to ¥22,245 million, generating 37.6% of consolidated net sales. The business division's sales comprise incentive commissions for acquiring Yahoo! BB subscribers and ISP fees. Operating income totaled ¥6,854 million, and the operating margin was 30.8%.

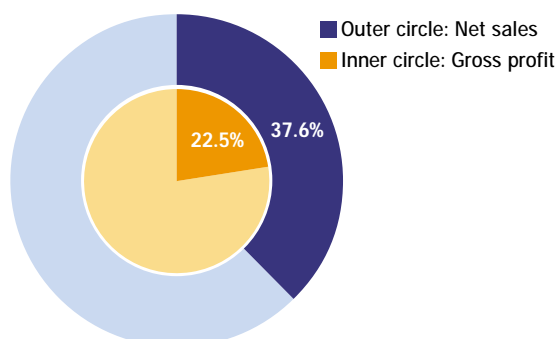
### Operational Review

In June 2001, the Group began offering Yahoo! BB, a comprehensive broadband service, in collaboration with SOFTBANK BB Corp. (SBB), a wholly owned subsidiary of SOFTBANK CORP. Until March 2002, the Group acquired modems from SOFTBANK CORP. and modem manufacturers and packaged them into Yahoo! BB Starter Kits, which were then sold to SBB. Beginning April 2002, however, the Group no longer acquires modems or sells the starter kits. It has shifted to a new business model wherein it receives incentive fees from SBB for acquiring subscribers. Based on the number of subscribers acquired by the Group through its own promotional campaigns, SBB pays the Group incentive fees for new subscribers and incentive fees for subscribers that continue to use the service. This step was taken because Yahoo! BB expanded the sales route for its services to include consumer electronics chain store outlets and others as well as the traditional Internet route. In addition, along with the start of BB Phone, a broadband phone service, it became necessary to aggressively acquire corporate subscribers.

During the fiscal year, Yahoo! BB initiated a variety of campaigns to attract new subscribers. Among other active efforts to build our subscriber base, we leveraged our existing infrastructure to introduce new services and improve existing ones.

Among the major promotional campaigns of the fiscal year, we conducted a Yahoo! BB Free Trial Campaign, which offered up to two months of basic charges free. We also beefed up our regular Introduce-a-Friend Campaign, conducting a One Million Subscribers Commemoration Introduction Campaign. Other campaigns included the Three Zero Yen Campaign, which offered free of charge home installation of ADSL service and up to two months of basic charges for ADSL services and BB Phone dial charges. For existing subscribers, we worked to increase convenience by offering exclusive online events and on-demand video of live shows and by improving the functions of Yahoo! Mail.

### Net Sales and Gross Profit Composition



### Yahoo! BB Income Statement

(Millions of yen)	
	2003/3
Net sales:	
Advertising	444
Business service	7,481
Personal service	14,320
Other	—
Total	22,245
Cost of sales	12,492
Gross profit	9,753
SG&A expenses	2,899
Operating income	6,854
Operating margin	30.8%

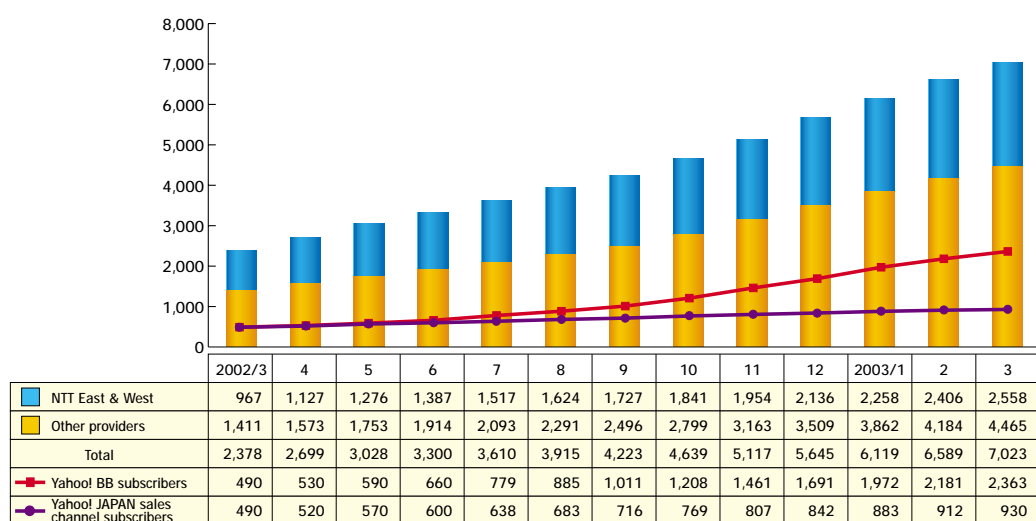
We launched several new and improved commercial services during the fiscal year. In April 2002, we began offering BB Phone services. This service was followed in August by the start of our Yahoo! BB 12M, an ADSL connection service with maximum downloading speed of 12 megabits per second and superior resistance to falloffs in speed due to long distances and communication interference. In December 2002, we began a packaged cable-less LAN with Yahoo! BB 12M service.

As a result of these efforts, the number of subscribers totaled 2.36 million at the end of March 2003, a gain of 1.88 million subscribers compared with the figure of the previous year. This represents 33.6% of total DSL subscribers in Japan.

## Outlook

The initial development period of the ADSL services market is over, with the acquisition phase for subscribers interested in leading-edge services having gone full circle. Moreover, expanding sales channels outside the Group has resulted in lower subscriber acquisition rates for subscribers acquired through the Yahoo! JAPAN Web site. The Yahoo! BB Business Division will continue to carry out promotional campaigns to try to acquire new subscribers, focusing on trend followers. At the same time, the division will actively introduce new technologies, such as high-speed ADSL services, to maintain its leading-edge subscriber base. By further expanding exclusive free and pay content for subscribers and by supplying content that appeals to subscribers, the business division is targeting earnings growth.

## DSL Subscribers in Japan



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications and Yahoo Japan Corporation

(Thousands of lines)

## Auction Business Division

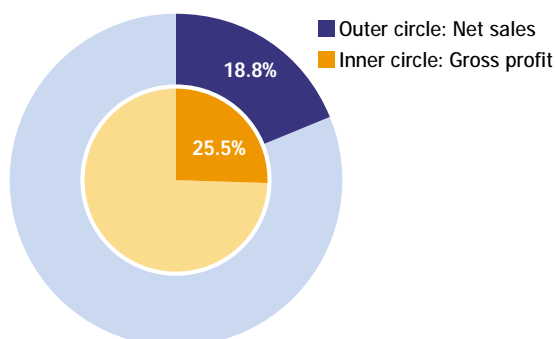
Sales of the Auction Business Division totaled ¥11,081 million, accounting for 18.8% of consolidated net sales. Sales primarily comprised system-use, merchant shop registration, basic, and commission fees. Operating income was ¥8,351 million, and the operating margin was 75.4%.

### Operational Review

From April 2002, we began introducing system-use fees for our auction system in a bid to eliminate advertising items that were masquerading as auction items and to increase the stability of our services. We imposed a listing fee of ¥10 per item on items put up for auction and a cancellation fee of ¥500 per item canceled after it has been bid on. For items in special categories, such as automobiles, motorcycles, real estate, and others, the listing fee is ¥500 per item. At the same time, we introduced a pay option for listed items that allow Special, Gift or Buy-it-now icons to be displayed in the auction items list. In May 2002, we began charging a transaction fee of 3% of the auction proceeds. For items in special categories, the transaction fee is ¥3,000 regardless of the final auction price. Although the number of listed items dipped temporarily after the introduction of system-use fees, it then started to steadily expand. The transaction rate has also improved substantially compared with the pre-system-use fee period.

In January 2003, we introduced Yahoo! Payment, a new service aimed at increasing user convenience in making settlements on auctions. The new service enables users to make payments for auctioned items with only a credit card and their Yahoo! JAPAN ID. This service is a first in Japan and represents a major breakthrough by enabling the seller and buyer to settle a transaction without ever leaving their homes. In the same month, we began to announce information about bank accounts for which we had received multiple complaints, urging users to be cautious. Among other steps taken to further improve the security of transactions, we introduced the new system that the bank accounts being registered on Yahoo! Payment to receive transference of money has to be examined before registration.

### Net Sales and Gross Profit Composition



### Auction Income Statement

	(Millions of yen)
	2003/3
Net sales:	
Advertising	697
Business service	527
Personal service	9,857
Other	—
Total	11,081
Cost of sales	1
Gross profit	11,080
SG&A expenses	2,729
Operating income	8,351
Operating margin	75.4%

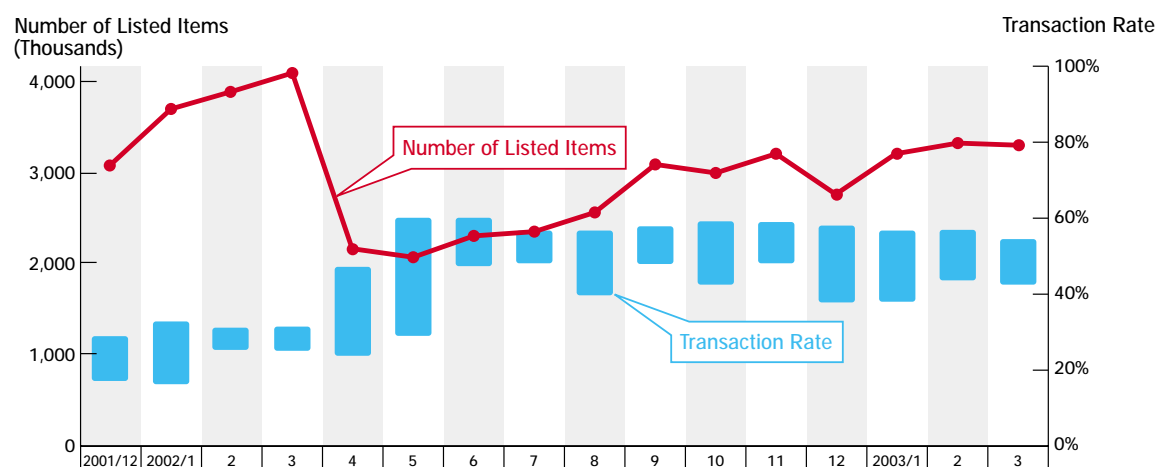
In February 2003, we commenced a Used Car Premium Auction service in collaboration with Recruit Co., Ltd. Japan's first genuine B-to-C used car auction involving car dealers, the service had 645 selected car dealers registered as merchant shops and aims to provide the same broad selection and support services as car dealers.

In March 2003, as a result of our efforts, the number of unique users of Yahoo! Auctions amounted to approximately 10.34 million browsers on a monthly basis. The number of merchant stores reached 1,174, and the number of listed items rose to about 3.35 million. The transaction rate for the fiscal year under review ranged from 23% to 59%, representing significant increases compared with those before the introduction of system-use fees.

## Outlook

By continuing to expand and improve its services, the Auction Business Division is aiming to attract new users and increase transaction volume. To enable it to provide even more stable auction services to users, the business division is planning to convert to a new computer system during the current fiscal year that will be able to host a large amount of auction items. After the introduction of the new system, the business division will undertake an active promotion campaign to attract new users. At the same time, it will also work to further increase the level of user satisfaction by maintaining its system's reliability, establishing a preferential system for heavy users, and upgrading its compensation system. Furthermore, by soliciting the participation of more corporate merchant shops the business division plans to further expand the scope of auction items.

### Yahoo! Auctions' Number of Listed Items and Transaction Rate



## Listing Business Division

The Listing Business Division posted sales of ¥7,923 million for the fiscal year, accounting for 13.4% of consolidated net sales. Sales were contributed mainly by advertising, Business Express service and information listing services. Operating income was ¥4,385 million, and the operating margin was 55.3%.

### Operational Review

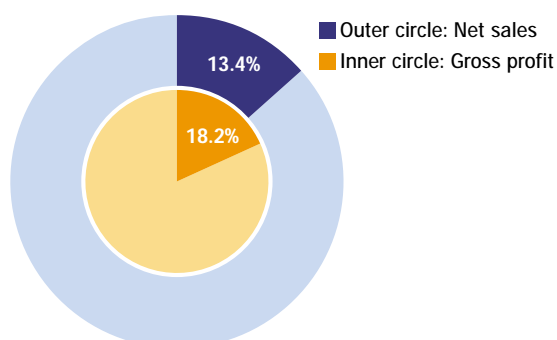
During the fiscal year, we continued to focus on further improving our information listing services. In April 2002, we launched Yahoo! Personals, a new communications support service that enables people to search for new friends or for people with the same interests based on personal criteria. In October 2002, we introduced Yahoo! Phone Book, an easy-to-use search service for the telephone number or address of approximately 11 million companies and commercial outlets throughout Japan. Utilizing the regional characteristics of Japan, this new mega service aims to be a nationwide information service. In December 2002, we launched Yahoo! JAPAN's first women's content site, Yahoo! Beauty. The site aims to achieve a reputation as a site that is appealing to cosmetics and other companies to post advertisements targeting women.

Among business alliances formed during the fiscal year, in October 2002 we reached an agreement with Recruit Co., Ltd., to develop a joint Internet business. We have decided to explore possible businesses that would involve greater collaboration and maximize the strengths of each partner. And in November, we concluded business agreements with Overture and Google. Aiming to diversify our earnings sources, we introduced a paid search service, Sponsor Site, that links Overture and Google with Yahoo! JAPAN's key word search services.

### Outlook

The Listing Business Division remains committed to launching new services and to improving existing services to attract information providers who post information for a fee. At the same time, to increase earnings the business division intends to introduce optimum payment models for each of its information listing services, with a view to expanding information listing sales. In regional advertising, the business division plans to increase its online pay services, to develop regional sales channels, and to promote advertising products that focus on select targets. In the directory search field, the business division will be aiming to provide users with easier-to-use directory search services, to energize its Sponsor Site services, and to boost its role as the hub for the many services that Yahoo! JAPAN offers.

#### Net Sales and Gross Profit Composition



#### Listing Income Statement

(Millions of yen)	
	2003/3
Net sales:	
Advertising	6,336
Business service	1,575
Personal service	12
Other	—
Total	7,923
Cost of sales	7
Gross profit	7,916
SG&A expenses	3,531
Operating income	4,385
Operating margin	55.3%

## Shopping Business Division

Shopping Business Division sales were ¥5,035 million in the fiscal year under review, contributing 8.5% of consolidated net sales. Sales principally came from the sales of e-Shopping! Books CORP. and tenant fees and sales commissions from Yahoo! Shopping. Operating income amounted to ¥674 million, and the operating margin was 13.4%.

### Operational Review

During the fiscal year, we solicited the participation in Yahoo! Shopping of major companies with strong brand power and of Internet shopping stores with strong performance records. We also targeted improved performance based on trying to improve on four performance indices at each store: the number of customers approached, purchase rate, average amount spent per customer, and repeat rate. Specifically, we made efforts to attract customers to stores from Yahoo! JAPAN's top page, revised Yahoo! Shopping's top page to improve its usability, and introduced special features and campaigns to support the store sales. We also worked to improve the services of Yahoo! Travel by starting to offer reservation services for international flights and undertook a major renewal of its domestic tourism information.

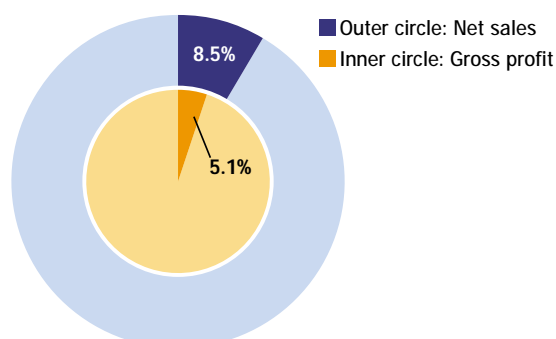
Consequently, at the end of March 2003 the number of stores listed on Yahoo! Shopping totaled 227, an increase of 45 stores or 24.7% year on year. Sales commissions and tenant fees amounted to ¥721 million, a gain of ¥303 million or 72.5% from the previous fiscal year. Shopping transaction value, including the transaction volumes of Yahoo! Travel and e-Shopping! Books, for the entire fiscal period came to ¥34,651 million.

### Outlook

Yahoo! Shopping is preparing to make a full-fledged drive to substantially expand the scale of items offered. Specifically, to strengthen the lineup of stores it plans to establish a category for new stores, creating a two-tier system of select stores—the existing popular brand stores with sophisticated services are included here—and of new stores to be developed. The Shopping Business Division expects this expanded merchandise lineup to further boost its reputation with customers. We aim to be the nation's largest Internet shopping site in number of users as well as transaction volumes by further cultivating new stores.

With Yahoo! Travel, the business division is aiming to become a comprehensive travel manager, providing services to support users in all aspects of their travel plans and actual trips. Concurrently, the business division plans to expand its lineup of travel products.

### Net Sales and Gross Profit Composition



### Shopping Income Statement

	(Millions of yen)
	2003/3
Net sales:	
Advertising	522
Business service	892
Personal service	—
Other	3,621
Total	5,035
Cost of sales	2,833
Gross profit	2,202
SG&A expenses	1,528
Operating income	674
Operating margin	13.4%



## Media Business Division

The Media Business Division recorded sales of ¥3,593 million in the fiscal year under review, which accounted for 6.1% of consolidated net sales. Sales mainly comprised advertising sales and pay content revenues. Operating income amounted to ¥358 million, and the operating margin was 10.0%.

### Operational Review

During the fiscal year, the Media Business Division devoted its efforts to adding user-appealing services and content to stimulate further growth in page views and in advertising sales.

During May 2002, we upgraded our content based on being the official site of the FIFA World Cup™, offering such fee-based services as on-the-spot photographs and video on demand. In August, we acquired a portion of the assets of Sports Navigation Inc., which operates the highly popular comprehensive sports site sportsnavi.com. By bringing its content under the Group's umbrella and merging it with that of Yahoo! Sports, we aim to become Japan's largest provider of comprehensive sports content on the Internet.

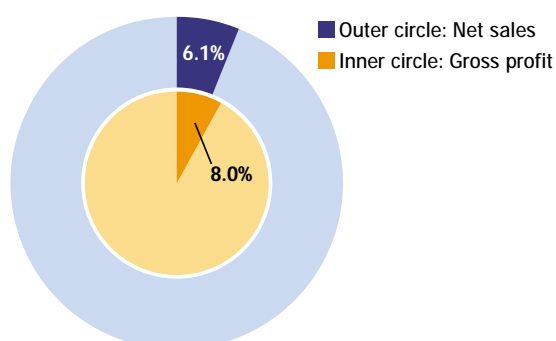
Our broadband content efforts also got fully under way in the fiscal year. We expanded our pay content by adding online animation video and the distribution of comic book content. Among the other new services launched for the rapidly increasing number of broadband users were Fantasy Soccer, a new type of game linked to actual results of J1 League soccer matches, and video functionality for Yahoo! Chat. Through these and other measures, we strive to provide appropriate services for the longer access time of broadband users.

### Outlook

In April 2003, the Group introduced Yahoo! Avatar, a service that allows users to represent themselves on the Internet as original characters. The Media Business Division intends to develop Yahoo! Avatar into one of the pillars of its business and plans to expand content by introducing additional items.

The business division is working to further strengthen the power of its media by achieving substantial increases in the number of page views and unique users and the length of access time. Based on its overwhelming media power, the business division will pursue the development of its core advertising business, of the pay content of its personal service, and of its business service.

### Net Sales and Gross Profit Composition



### Media Income Statement

(Millions of yen)	
	2003/3
Net sales:	
Advertising	3,406
Business service	133
Personal service	54
Other	—
Total	3,593
Cost of sales	115
Gross profit	3,478
SG&A expenses	3,120
Operating income	358
Operating margin	10.0%

## ES (Enterprise Solutions) Business Division

Sales of the ES Business Division amounted to ¥451 million, accounting for 0.8% of consolidated net sales. Sales primarily comprised the sales of Yahoo! Research, Yahoo! Portal Solutions, and Yahoo! NetRoadshow. Operating income was ¥52 million, and the operating margin was 11.5%.

### Operational Review

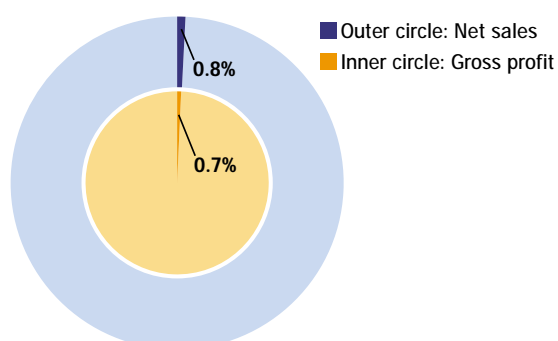
During the fiscal year, we worked with TIBCO Software Inc., IBM Japan, Ltd., Hewlett-Packard Japan, Ltd., and SOFTBANK BB Corp. in aggressively marketing our corporate portal site development support service Yahoo! Portal Solutions. We continued to receive orders for our corporate portal site development services from such major companies as Panasonic Mobile Communications Co., Ltd., (formerly Matsushita Communication Industrial Co., Ltd.) and adidas Japan K.K. In addition, we received an order from Mitsui Fudosan Co., Ltd., to create a portal site linking at the company with its customers. With government bodies, which are introducing IT on a large scale against the backdrop of the government's e-Japan Project, the motto of which is "Become a leading IT country by 2005," our active marketing efforts resulted in our first orders from Gifu Prefecture and others.

In October 2002, we established INTAGE Interactive Inc., a joint venture with INTAGE Inc., to conduct Internet research business. As a result of an aggressive sales campaign, the new company received orders from many major companies during the fiscal year.

### Outlook

The ES Business Division is pursuing individual sales strategies for each of its products by industry and segment. In addition, the business division is developing portal solution packages for small and medium-size businesses, aiming to expand its business scope. At the same time, the business division is concentrating on developing new products for corporations to expand its earnings.

#### Net Sales and Gross Profit Composition



#### ES Income Statement

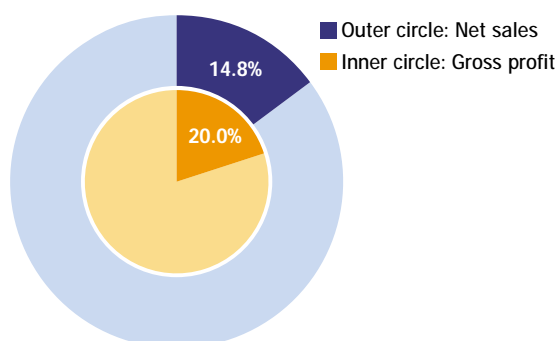
	(Millions of yen)
	2003/3
Net sales:	
Advertising	65
Business service	386
Personal service	—
Other	—
Total	451
Cost of sales	166
Gross profit	285
SG&A expenses	233
Operating income	52
Operating margin	11.5%

## Corporate Common Business—Elimination or Corporate

The Group does not recognize revenues and expenses related to advertisements on the top page of Yahoo! JAPAN and personal identification fees for the array of services offered on Yahoo! JAPAN as sales or expenses of business divisions. The Group considers them to be sales and expenses of the Corporate Common Business that develops its corporate brand and combines them with the Elimination or corporate profits and losses.

Corporate Common Businesses—Elimination or corporate sales totaled ¥8,767 million, accounting for 14.8% of consolidated net sales. Sales were primarily advertising sales for Yahoo! JAPAN Top Page and personal identification fees for services. Operating income amounted to ¥3,399 million, and the operating margin was 38.8%.

### Net Sales and Gross Profit Composition

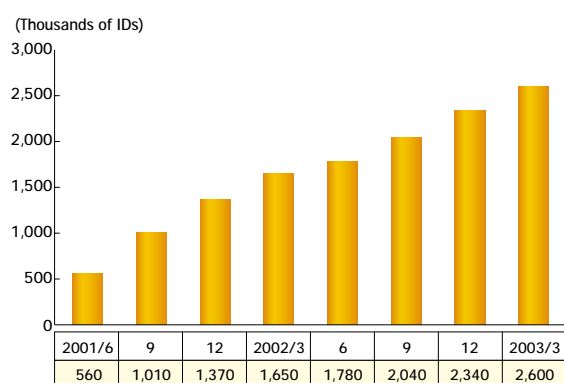


### Corporate Common Business—Elimination or Corporate Income Statement

(Millions of yen)

	2003/3
Net sales:	
Advertising	2,144
Business service	6
Personal service	6,617
Other	(0)
Total	8,767
Cost of sales	68
Gross profit	8,699
SG&A expenses	5,300
Operating income	3,399
Operating margin	38.8%

### Users Paying Personal Identification Fees



Note: The services for which personal identification fee—a monthly charge of ¥280—is required are Yahoo! Auctions, Yahoo! Personals, and Yahoo! Avatar.

### Environmental Protection Activities

As a company in the service industry, we do not have any operations that produce industrial waste. However, we take environmental protection very seriously and are contributing in terms of conserving natural resources. To reduce the burden on the environment, we are undertaking the following recycling activities for natural resources. We intend to remain actively involved in tackling the issue of environmental protection.

- Eco Mark (envelopes, paper shopping bags, and others)
- Recycling resources (use of *Mamoru-kun*, a system of recycling confidential documents, and the distribution of eco paper plates to Eco League participating universities for campus festivals)

## Advertising Business

The Group is made up of the six business divisions of Yahoo! BB, Auction, Listing, Shopping, Media, and ES and of our Corporate Common Business. Sales of these divisions and one business segment are accounted for under the four categories of advertising, business services, personal services, and others. Of those categories, advertising sales comprise banner, e-mail advertising sales, Sponsor Site, and others. Business services sales cover corporate sales excluding advertising, while personal service sales include sales to individuals.

Combining the advertising sales of the Group's businesses, total advertising sales during the fiscal year under review amounted to ¥13,614 million, up 10.7% year on year for a record high.

## Operational Review

During the period under review, amid successive failures of major corporations and further deterioration in the economy under the impact of the war in Iraq the advertising market continued to face difficult conditions. With advertising expenditures falling overall, the Group also struggled as advertisers became increasingly cautious about Internet advertising. Despite these conditions, the Group strengthened its cooperative sales organization with advertising agencies, targeting advertising from National Clients by aggressively marketing Yahoo! Pilot Seat, Yahoo! Billboard, and other broad-reach products with a high reach to Internet users. In response to the advertising needs of advertisers, we introduced larger versions of our eye-catching type of products one after the other. We also conducted various campaigns to acquire a portion of companies' fiscal advertising budgets. One of the major trends during the fiscal year was the increased use of cross-media promotions. Along with the rising number of Internet users and the spread of broadband, there is a growing recognition among advertisers of Internet advertising as a media that is on par with traditional media, such as television. Accordingly, cross-media promotions, where television and other media advertising is run simultaneously with Internet advertising, have increased for a variety of products.

In November 2002, we launched a Sponsor Site advertising service through business alliances with Overture and Google. The new service began contributing fully to sales in the fourth quarter.

Based on our sales efforts, the Group's advertising business sales registered a record high during the fiscal year under review despite the difficult conditions in the overall advertising market.

## Outlook

Over the medium to long term, the Group believes that the value of Internet advertising will grow along with the spread of broadband and the increase in the number of Internet users. Consequently, we expect that Internet advertising, as a new media, will remain a growth market. The Group will continue to target increased advertising, particularly from National Clients, by finding ways to evidence the effectiveness of Internet advertising and by offering attractive advertising products.

### Advertising Sales

