

# Advertising

*The Advertising segment comprises Internet-based advertising-related services. Main sources of revenue for this segment include sales of banner and text advertisements on the Yahoo! JAPAN Web site, the Sponsor Site paid search service, and advertisement planning and production services.*

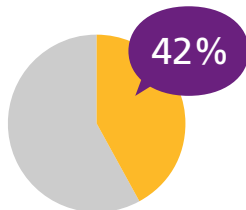
## Fiscal 2006 segment overview

Net sales of the Advertising segment in fiscal 2006 increased 30.5%, to ¥89.2 billion, while operating income rose 35.0%, to ¥50.3 billion.

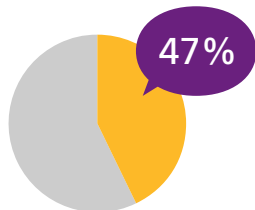
The Japanese advertising market recorded growth of just 0.6% in calendar year 2006. Market sluggishness reflected general concerns about higher oil prices and stock market weakness in Japan, which prompted many companies to curtail advertising expenditures from the start of the fiscal year in April 2006. 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, testifying to challenging business conditions in the overall Japanese advertising market. In bold contrast, the Internet advertising market demonstrated persistent strength in calendar year 2006, expanding 29.3%, to ¥363.0 billion, or 6.0% of total advertising expenditures in Japan, compared with 4.7% in calendar year 2005. The Group’s advertising-related sales, meanwhile, grew more than 40% in the same period, thus outpacing the growth rate of the entire Japanese Internet advertising market.

Against this market backdrop, the Group focused on capturing new demand for and boosting per-client spending on branding advertisements during the fiscal year. To this end, we tightened relationships with advertising agencies and offered a wide range of products and plans, all the while concentrating our creative efforts on developing innovative, high-appeal advertising

Share of Net Sales



Share of Operating Income



products aimed at building brand awareness among users. For advertisers desiring multi-media solutions, we carried out the Internet component of multi-media campaigns also including related TV commercials and magazine advertisements. Through these and other activities during the year, we worked to extend the reach of Internet advertising and, as a result, boost the Internet’s advertising media value.

The Group also emphasized products leveraging online advertising’s unique targeting capabilities, which give the Internet a distinct advertising advantage vis-à-vis the traditional mass media. Specifically, in fiscal 2006 we introduced behavioral targeting advertisements, which are particularly effective for advertisers wanting to reach select audiences based on user attributes and Internet-usage histories. Demand for behavioral targeting advertisements was particularly strong from National Clients—defined as major companies that advertise actively in various media—in such sectors as automobiles, entertainment, and real estate. In addition, rising demand from advertisers desiring exposure in specific regional markets contributed to higher segment sales during the year.

Sponsor Site, the Group’s paid search service that links advertisements to search results, also registered solid sales growth in fiscal 2006. Growth-boosting factors included a smaller-than-normal drop-off in user activity during the year-end holiday period as well as unusually high demand from advertisers in certain sectors toward the March 31 fiscal year-end.

## Breakdown of Advertising Sales, by Industry, of Yahoo! JAPAN and Traditional Mass Media

Industry categories	2004	Yahoo! JAPAN		(Calendar years)
		2005	2006	Traditional Mass Media 2006
Cosmetics/Toiletries	3.9%	6.7%	7.0%	10.0%
Foodstuffs	1.7	2.4	3.3	8.2
Finance/Insurance	21.4	21.6	20.4	8.0
Transportation/Leisure	4.9	4.9	6.0	7.9
Beverages/Cigarettes	3.4	5.3	4.3	7.6
Information/Communications	18.3	13.3	14.4	7.4
Distribution/Retailing	0.6	1.3	0.9	6.4
Automobiles/Related Products	7.1	10.0	9.0	6.4
Pharmaceuticals/Medical Supplies	1.5	1.1	1.5	4.9
Real Estate/Housing Facilities	7.0	8.4	9.5	4.5
Hobbies/Sporting Goods	2.8	3.1	2.9	4.0
Publications	1.4	1.3	1.0	4.0
Food Services/Other Services	17.0	11.8	9.6	3.6
Education/Medical Services/Religion	4.0	3.1	1.7	3.5
Others	5.0	5.7	8.5	13.6
Total	100.0%	100.0%	100.0%	100.0%

### Notes:

- Traditional mass media include television, radio, newspapers, and magazines.
- Sponsor Site revenues are not included in Yahoo! JAPAN breakdown.
- Traditional mass media breakdown taken from 2006 Advertising Expenditures in Japan, DENTSU INC.

## Business outlook and strategy

According to data published in April 2007 by Dentsu Communication Institute, the Japanese Internet advertising market is set to more than double in size over the next five years, reaching ¥755.8 billion in calendar year 2011. To maximize sales growth in this promising market environment, the Group is aggressively developing and implementing a series of initiatives, including the following:

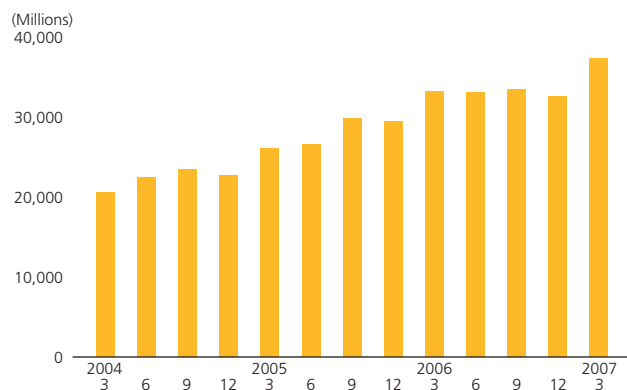
- Through our Yahoo! Everywhere concept, focus on the expansion of Internet access opportunities by encouraging the use of a growing range of Internet-enabled devices other than PCs, including mobile phones, video-game consoles, televisions, and car navigation systems;
- introduce more effective methods of cooperating with advertising agencies;
- leverage online advertising's unique targeting capabilities to boost the value-added component of Internet advertising products; and
- incorporate greater creativity into our advertising products to enhance their value.

Looking forward, the Group plans to promote third-party distribution of branding and other types of advertisements over an extended advertising network in Japan. Also, we intend to rein-

force our paid search advertising services through the acquisition of Overture. For further details, please refer to a related discussion appearing on page 13 of this report.

In addition to the above initiatives, the Group is working in cooperation with other Internet-related companies, advertisers, and advertising agencies to promote the development and adoption of criteria for quantitatively assessing the effectiveness of online advertising. The ultimate goal of these efforts is to raise the advertising media value of the Japanese Internet.

## Monthly Page Views



### Note:

Beginning from January 2007, the method for calculating page views is based on users' browser exposures calculated using CSC (Client Side Counting), whereas previously it was based on distributions from Web servers.

# Business Services

*The Business Services segment mainly consists of non-advertising-related services for corporations. This segment derives revenue from fees and commissions for various information listing services, tenant fees and sales commissions from stores listed on the Yahoo! Auctions and Yahoo! Shopping sites, incentive fees for acquiring new subscribers to the Yahoo! BB broadband service, and fees for other information services.*

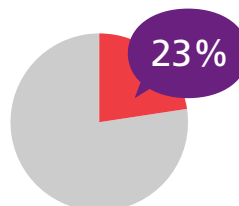
## Fiscal 2006 segment overview

Net sales of the Business Services segment in fiscal 2006 rose 36.4%, to ¥48.2 billion, while operating income increased 28.7%, to ¥19.3 billion.

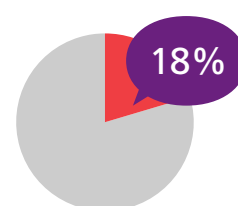
Reflecting the ongoing shift of information listing services from print media to the Internet, fee-based revenues from our information listing services, particularly recruitment-related Yahoo! Rikunabi and Yahoo! Real Estate, showed strong growth in fiscal 2006 and contributed significantly to the overall increase in Business Services segment sales.

During the year, the Group worked to attract new stores to both the Yahoo! Auctions and the Yahoo! Shopping sites. To this end, we waived initial set-up fees and monthly tenant fees for a specified period, offered upgraded incentives as part of promotional campaigns, and enhanced user access to our store-opening guidelines page. As a result, the total number of registered stores on these two sites stood at 27,044 as of March 31, 2007, 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 moved in line with the surge in store numbers. Reflecting our efforts to generate increased mobile-based e-commerce activity, the mobile-based transaction volume on Yahoo! Shopping in fiscal 2006 was 2.6 times higher than in the previous year. Various seasonal sales promotions, in particular, 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% over the previous year's result.

Share of Net Sales



Share of Operating Income



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

## Business outlook and strategy

Alongside our nationwide information services provided to date, the Group plans to offer a growing range of regional information services with enhanced usefulness to individual users in specific locations. As part of this initiative, in August 2006 Yahoo! Maps became the first online map service in Japan to be updated on a daily basis, thereby benefiting users with improved map accuracy. In the mobile version of regional information services, GPS-based tracking will enable the delivery of relevant information automatically calibrated to the real-time location of each GPS-installed mobile phone user. By offering a broadening range of upgraded regional information services, the Group expects to forge a new advertising market serving the many small- and medium-sized local advertisers for whom online advertising opportunities have been limited to date. In addition, we believe that service usage times will rise in line with the Group's increasing provision of regional information services.

In the business-to-consumer arena, the Group intends to increase e-commerce transaction volume not only by attracting new store registrations but also by boosting the average per-store transaction volume. To this end, we will offer site development

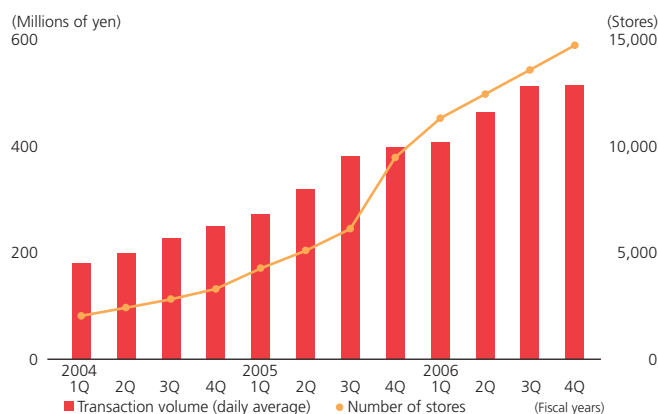


and other consulting services to help storeowners build a more effective online presence, in addition to organizing various sales promotion activities.

Elsewhere in the segment, the Group aims to cultivate the customer base for corporate solution services by expanding and upgrading service offerings with an eye to promoting cross-selling

opportunities. Currently, the Group's corporate solution services include Yahoo! Business Express, which assesses the suitability of independent business sites for registration on the Yahoo! Category site; Yahoo! Research, which undertakes online surveys of registered monitors; and Yahoo! WebHosting, which offers Web-hosting services on rental servers.

Yahoo! Shopping Transaction Volume (Daily Average) and Number of Stores



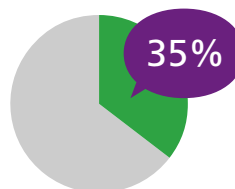
**Notes:**

- Transaction volume is the total of sales transaction volumes of Yahoo! Shopping, Yahoo! Travel, and Yahoo! Ticket, excluding fraudulent orders and cancellations.
- 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.

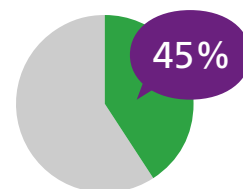
# Personal Services

*The Personal Services segment consists of services to individual Internet users. Main revenue sources for this segment include Yahoo! Auctions system-use fees, Yahoo! Premium membership fees, ISP fees from Yahoo! BB subscribers, and sales of various kinds of content.*

Share of Net Sales



Share of Operating Income



## Fiscal 2006 segment overview

Net sales of the Personal Services segment in fiscal 2006 rose 23.2%, to ¥75.3 billion, while operating income increased 26.3%, to ¥48.0 billion.

Following upon a series of measures taken to relax the requirements for participation in Yahoo! Auctions, in October 2006 the Group kicked off a final campaign that effectively waived the requirement that Yahoo! Auctions bidders have a Yahoo! Premium member ID by granting the right to bid in auctions 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 Group also carried out various promotions to expand Yahoo! Auctions site usage, including a limited-duration free-listing campaign. 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, the Group successfully forestalled 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, an increase of 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 ISP fees was buoyant. Meanwhile, the Group continued to focus on sales of paid content services such as Yahoo! Streaming, Yahoo! Comics, and Yahoo! Fortune Telling. The July 2006 launch of Yahoo! Partner, with full-scale paid content services commencing in December 2006, resulted in a steady increase in subscriber numbers.

The terms of the alliance agreement between the Group and SOFTBANK BB Corp. (SBB) governing services offered by the Group under the Yahoo! BB brand and related compensation have been revised as of March 31, 2007. Under the terms of the previous agreement, SBB paid the Group a fee of ¥200 per month for each Yahoo! BB subscriber receiving the Group's ISP services. The revised agreement specifies a monthly fee of ¥100, payable from April 2007, for each subscriber acquired by March 31, 2005, and from April 1, 2007. For each subscriber acquired during the two-year period from April 1, 2005, to March 31, 2007, the revised agreement stipulates that the monthly fee of ¥200 be reduced to ¥100 once the subscription period exceeds three years. The revised agreement also cancels a provision in force since April 2005 obligating the Group to pay SBB ¥2,400 for each new subscriber acquired.

## Business outlook and strategy

The Group intends to persist with various initiatives to attract new users to Yahoo! Auctions. In familiarizing more and more users with the enjoyment of online auctions, we are preparing the



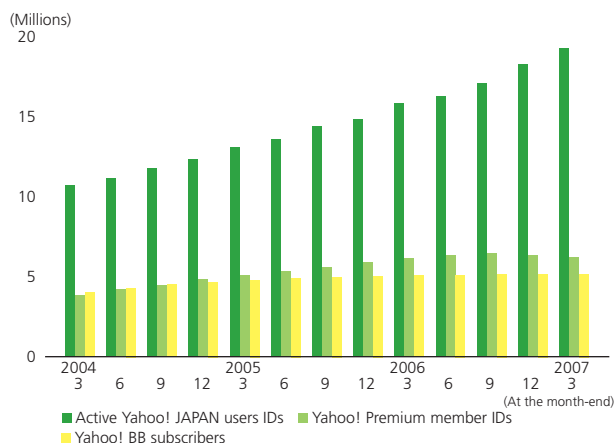
ground for a steady increase in regular users of Yahoo! Auctions looking forward. Meanwhile, to encourage increased participation by existing Yahoo! Auctions users, the Group will carry out various incentive campaigns and special promotional events.

To boost e-commerce transaction volume, we are focusing on the provision of secure and convenient settlement systems. Currently, we offer the Yahoo! ezPay service, which facilitates Yahoo! Auctions transaction settlement via either credit card or online bank account; Yahoo! NetBanking, started in September 2006, which allows users with a Yahoo! JAPAN ID to use the settlement and financial services of the Japan Net Bank, Limited; and

the Mobile Suica Net Settlement service, introduced in March 2007, which enables customers to make electronic payments for Yahoo! Shopping transactions via mobile phones.

Group efforts to acquire new Yahoo! Premium members and Yahoo! BB subscribers, and as a result expand related revenue streams, will focus on promotions that enhance the attractiveness of services offered exclusively to members, thereby boosting the value of membership and promoting customer satisfaction. In an effort to raise content-generated revenue, the Group intends to concentrate additional resources on developing and expanding paid content services with proven popularity among users.

Yahoo! JAPAN Users



Yahoo! Auctions Transaction Volume (Daily Average) and Number of Stores

