

Top Page renewal incorporating our four growth initiatives

Search window

Expanded search-related space

Advertisement box

Expanded advertisement size to increase branding impact

Personal box

Area for favorite tools and posting of customized information

Personalize function

Now possible to customize display items

Social media functions

Distribution of user-generated information

Yahoo! Everywhere

Mobile phone functions and information distribution

Local information

Distribution of personalized local information services for all lifestyles

Open network policy

Enable traffic acquisition by partner sites



Revenue diversification



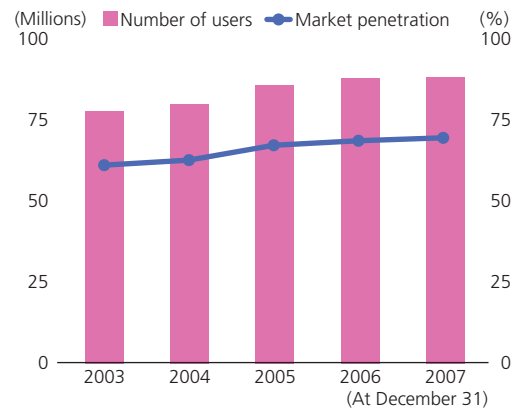
Against the backdrop of rapidly expanding Internet usage and surging popularity of the Yahoo! JAPAN portal site during the late 1990s, the Group's revenue structure remained overwhelmingly advertising based, with more than 90% of total revenues consistently deriving from banner-type display advertising. Although advertising revenues were steadily expanding, the cyclical nature of the advertising business caused an inherent instability in the Group's total revenue growth. After assessing this revenue situation, the Group set out on a course of revenue diversification with the goal of achieving both revenue expansion and enhanced revenue stability. With Version 1 as the name of our initial business model based on a single core revenue source (display advertising), we began to gradually shift to Version 2, the Group's new business model incorporating multiple revenue sources to supplement display advertising.

Yahoo! BB

An important element of our Version 2 initiative was the launching of the Yahoo! BB business, which offered a high-speed Internet connection service to individual users via residential telephone lines. Prior to the inauguration of our Yahoo! BB business, Internet access was limited almost completely to dial-up or ISDN lines, with fees based on usage times. Fixed-charge broadband services were extremely expensive and not in general use. As a result, after the Group announced its launch of Japan's first reasonably priced fixed-charge continuous-connection Internet access service in June 2001, we were overwhelmed by subscriber applications from all regions of Japan. We developed the Yahoo! BB business in collaboration with our parent company, SOFTBANK CORP., which provided infrastructure and technological support while the Group solicited new subscriptions and created an online fee-collection platform. By March 31, 2003, the number of Yahoo! BB service subscribers stood at 2.36 million, and by the same date one year later this figure had risen to 4.00 million, with concomitant growth in revenues from subscriber acquisition incentive fees and ISP fees.

In addition to contributing significantly to the diversification of Group revenues, the Yahoo! BB business laid the cornerstone for the subsequent development of the Japanese broadband Internet market and provided the stimulus for creating a fee-collection platform. Although this platform was created for collecting fees from Yahoo! BB subscribers, once in place it could be used also for collecting a variety of other fees and charges from users of other Group services.

Internet usage in Japan



Source: Ministry of Internal Affairs and Communication

Broadband service subscriptions in Japan



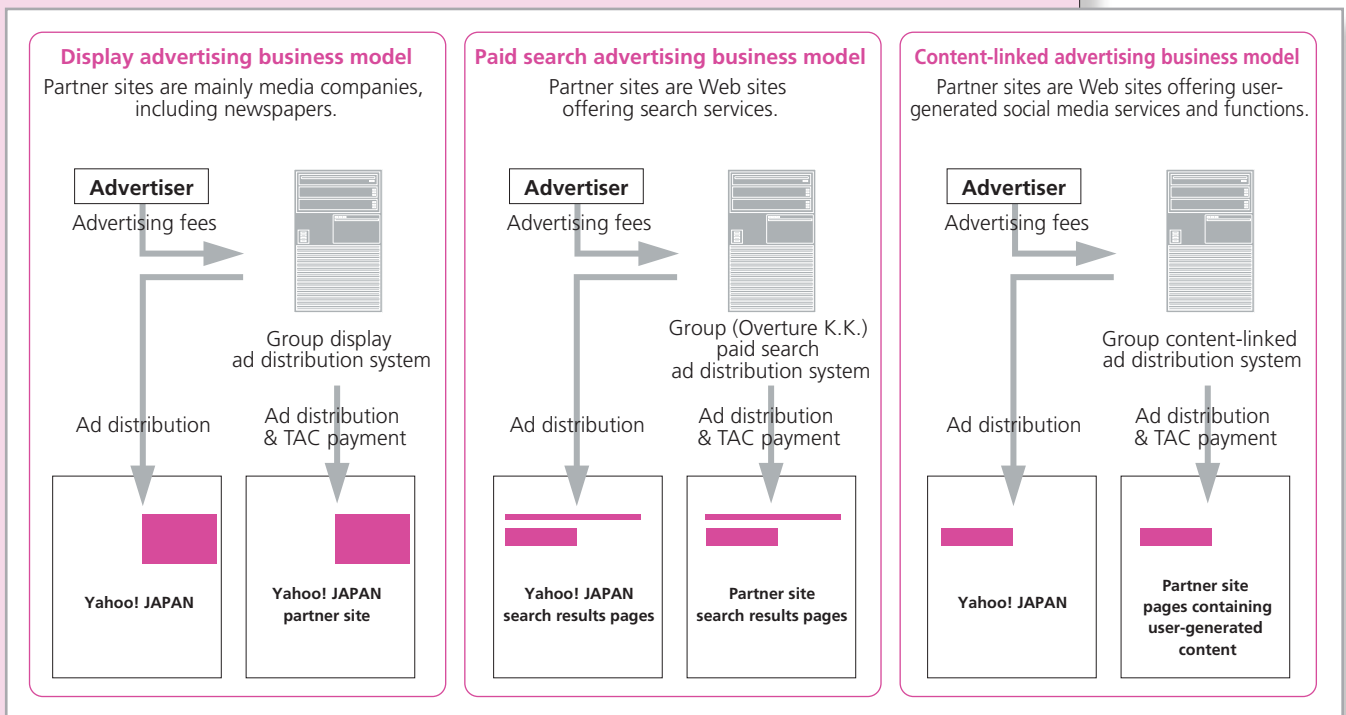
Source: Ministry of Internal Affairs and Communication

Yahoo! Shopping and Yahoo! Auctions

As an initial step toward establishing revenue sources other than display advertising, the Group in 1999 launched the Yahoo! Shopping service, which quickly began generating new revenue streams in the form of tenant fees and sales commissions. Also in 1999, we introduced Yahoo! Auctions services. In order to quickly attract sellers and bidders, Yahoo! Auctions services were initially offered entirely free of charge. After establishing a market-dominating auction user base, we introduced in 2001 a monthly personal identification fee (currently Yahoo! Premium membership fee) payable by both buyers and sellers. Then, in 2002 we introduced system-use fees, including variable listing fees and final-value fees based on a fixed percentage of auction closing prices. For the fiscal year ended March 31, 2008, Yahoo! Auctions transaction volume exceeded ¥700 billion, with auction-related revenues accounting for a significant portion of total Group revenues.

Paid search advertising

To complement our mainstay display advertising service, the Group in 2002 introduced paid search advertising, a keyword-based distribution system that links advertisements to search results. Initially, we established partnerships with the two main providers of paid search advertising distribution systems in Japan at the time, Overture and Google. In exchange for using those two companies' distribution systems, the Group received fees based on a traffic acquisition cost (TAC). Deciding to partner exclusively with Overture beginning in 2004, the Group then in September 2007 made Overture a consolidated subsidiary with the goal of collaboratively developing the paid search advertising market and maximizing Group revenues deriving therefrom. Today, display advertising and paid search advertising are approximately equal contributors to the Group's total advertising-related revenues.



Initiatives for future growth



According to the results of a survey conducted in March 2008 by Nielson Online, the Yahoo! JAPAN portal site attracted viewing rates of 88.0% from the home and 88.9% from the office, with a total user base of approximately 49.8 million, confirming that Yahoo! JAPAN remains the premier portal site in the Japanese market. Data from the same survey also showed that the average user spent three hours and 14 minutes each month on the Yahoo! JAPAN site. Although this figure was by far the highest among all sites surveyed, it represents only about 16% of the average user's total monthly Internet usage time of 20 hours and 20 minutes. In other words, while most users frequently visit the Yahoo! JAPAN site, they spend about 84% of total online time on other sites.

Against this backdrop, the Group launched four new growth initiatives in fiscal 2007 with the ultimate goal of expanding revenues. Three of those initiatives are geared to boosting user numbers and usage times by (1) converting to user-oriented social media services, (2) making services available everywhere by increasing Internet access opportunities, and (3) expanding and enhancing personalized local information services. In our open network initiative, we are partnering with other sites with the goal of achieving mutually beneficial business growth and revenue expansion.

Social media services

With the dual aim of enhancing user satisfaction and boosting usage times of Yahoo! JAPAN services, we are introducing new social media services and adding social media service functions to existing services.

In recent years, the Internet has seen explosive growth in the amount of information generated and supplied by users, known as tail content, supplementing information generated and supplied by official information providers, known as head content. In response to this trend, we have steadily introduced a range of social media services, including Yahoo! Blogs, social networking service Yahoo! Days, and video-posting service Yahoo! Videocast. In addition, we have introduced social media service functions to all existing services, thereby enabling users to generate and supply tail content to the more than 100 head content services offered by the Group. By supplementing our trusted head content with tail content distributed to individual users based on friendship networks established among users of our social networking services, including Yahoo! Days and Yahoo! Profile, we are making strides toward our goal of becoming the most popular social media provider in Japan.

Yahoo! Everywhere

Our Yahoo! Everywhere initiative, focusing on the expansion of Internet access opportunities, is another key element in our strategy to boost usage times of Yahoo! JAPAN services. Through this initiative, 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.

More than half of all persons living in Japan already access the Internet via PCs. Looking forward, we aim to foster an environment in which users, unrestricted by either time or place, can easily access Yahoo! JAPAN Internet services via a widening range of non-PC devices. As a result, usage times of Yahoo! JAPAN services are bound to increase dramatically.

Our efforts to expand mobile-based usage of the Group's services began with SOFTBANK's investment in the mobile communications business in March 2006. By expanding our mobile services and further enhancing user convenience, we have created a fully integrated mobile Internet environment incorporating the mobile services of all the major carriers. We believe that this will form the basis for the creation of a mobile Internet market on a par with the current PC Internet market.

Personalized local information services for all lifestyles

To increase usage times of our Internet services by each and every user, we are focusing on supplementing our established national information services with valuable personalized local information services catering to a wide range of user lifestyles. To that end, we are drawing upon the map information database of consolidated subsidiary ALPS MAPPING K.K.* to expand and enhance map-based regional information services, complete with tail-content functions. In a related move also aimed at boosting personalized local information services, we are creating a region-specific Internet platform for local businesses and stores. Looking further ahead, we are planning to use the global positioning systems (GPS's) embedded in mobile handsets to distribute personalized local information calibrated to the real-time location of each mobile phone user.

*The Company absorbed ALPS MAPPING through a merger, effective April 1, 2008.

Toward a more open network

Our open network initiative aims to maximize Group revenues by leveraging an extended network formed through partnerships with selected sites.

We are in the process of linking the Yahoo! JAPAN site to selected partner sites with the goal of building an extended network. As we expand the scale of the network, we expect to achieve concomitant increases in total usage time, number of page views, and number of unique browsers across the network. As a result, the network's advertising media value will also grow. By distributing advertising over the network and offering partner sites access to such business infrastructure tools as our Yahoo! JAPAN ID verification application program interface (API), our Yahoo! Wallet online fee-collection system, and our Yahoo! Points service, we intend to improve the monetization of traffic on partner sites. In building an open, extended network, therefore, we aim not only to enhance the benefits to users but also to build win-win relationships with all partner sites.