Yahoo! Inc.

Q3’12 Financial Highlights

10.22.2012

This presentation contains forward-looking statements concerning Yahoo!'s strategic, financial and operational plans. Risks and uncertainties may cause actual results to differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, the impact of changes to our management and organizational structure and strategic business plan; Yahoo!'s ability to compete with new or existing competitors; reduction in spending by, or loss of, advertising customers; risks associated with the Search and Advertising Services and Sales Agreement (the "Search Agreement") between Yahoo! and Microsoft Corporation ("Microsoft"); risks related to Yahoo!'s regulatory environment; interruptions or delays in the provision of Yahoo!'s services; security breaches; acceptance by users of new products and services; risks related to joint ventures and the integration of acquisitions; risks related to Yahoo!'s international operations; adverse results in litigation, including intellectual property infringement claims and derivative and class actions; Yahoo!'s ability to protect its intellectual property and the value of its brands; dependence on third parties for technology, services, content, and distribution; and general economic conditions. All information in this presentation is as of October 22, 2012. Yahoo! does not intend, and undertakes no duty, to update this information to reflect subsequent events or circumstances. More information about potential risk factors that could affect Yahoo!'s business and financial results is included in Yahoo!'s filings with the Securities and Exchange Commission ("SEC") including its Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, which is available on the SEC's web site at www.sec.gov.

Throughout this presentation, we have rounded numbers as appropriate. In this presentation, "year-over-year" (or YOY) refers to the change from the corresponding period in the prior fiscal year to the specified period in the specified year; and "quarter-over-quarter" (or QOQ) refers to the change from the immediately preceding fiscal quarter to the specified quarter.

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Definitions and Non-GAAP Financial Measures

This presentation includes the following non-GAAP financial measures:

- **Revenue ex-TAC** is defined as GAAP Revenue less Traffic acquisition costs (TAC). TAC consists of payments to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo! Properties.

- **Display revenue ex-TAC** is defined as GAAP Display revenue less Display TAC. **Search revenue ex-TAC** is defined as GAAP Search revenue less Search TAC. **Other revenue ex-TAC** is defined as GAAP Other revenue less Other TAC.

- **Total operating expenses less TAC** is defined as GAAP Total operating expenses excluding TAC.

- **Free cash flow** is defined as Cash flow from operating activities (adjusted to include Excess tax benefits from stock-based awards), less Acquisition of property and equipment, net and Dividends received from equity investees.

- **Non-GAAP Operating income** is defined as Operating income excluding certain gains, losses, and expenses that we do not believe are indicative of our ongoing operating results.

- **Non-GAAP Net income** is defined as Net income attributable to Yahoo! Inc. excluding certain gains, losses, expenses, and their related tax effects that we do not believe are indicative of our ongoing results.

Please refer to the Appendix for reconciliations of these non-GAAP financial measures to the GAAP financial measures the Company considers most comparable.

In addition, certain margin information is presented on a non-GAAP basis:

- **Operating margin ex-TAC** is calculated as Operating income divided by Revenue ex-TAC; and

- **Non-GAAP Operating margin ex-TAC** is calculated as Non-GAAP operating income divided by Revenue ex-TAC.

- **Net margin ex-TAC** is calculated as Net income attributable to Yahoo! Inc. divided by Revenue ex-TAC.

Please refer to the Appendix for presentations of the most comparable margins calculated on a GAAP basis.

Return on invested capital (ROIC) is calculated as: (Operating income x (1- Effective tax rate))/(average Stockholder's equity + average Net debt – average Investments in equity interests), where the average of such items is calculated as the average of the amounts at the beginning and ending of the 12-month period. Effective tax rate for the period is calculated as (Provision for income taxes)/(Income before income taxes and earnings in equity interests). Net debt is calculated as (Total debt) – ((Cash & cash equivalents) + (Short term and Long term marketable debt securities)).

Please refer to the Company's earnings release for definitions of other terms appearing in this presentation, and for more information regarding the Company's non-GAAP financial measures.

Key Takeaways From Q3’12

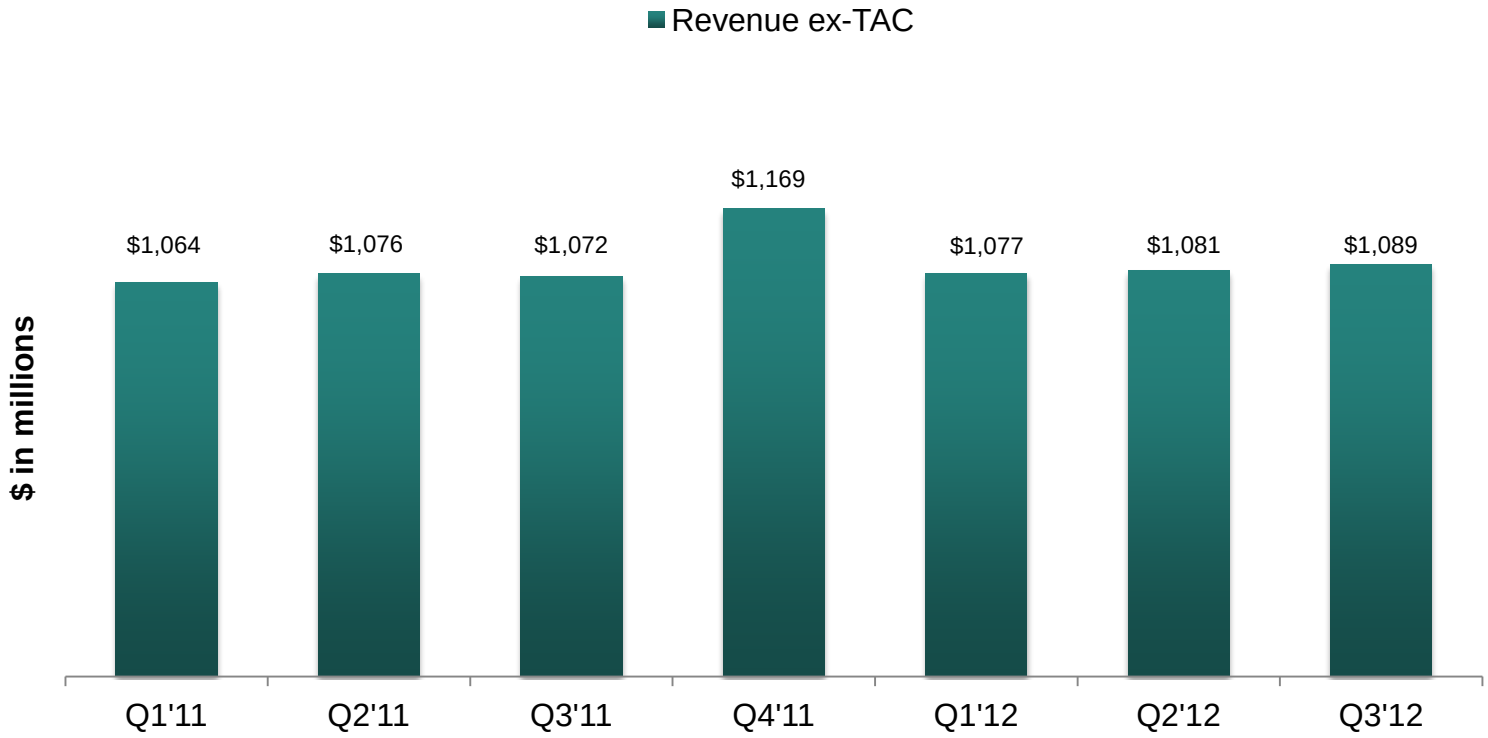
- Revenue ex-TAC of $1,089 million grew 2% in the quarter on a YOY basis.
- Display revenue ex-TAC of $452 million was roughly flat YOY.
- Non-GAAP Operating income, which excludes restructuring charges, increased 1% YOY to $177 million.
- We repurchased $190 million of stock in Q3, bringing total repurchase amount to over $4 billion since 2009.

Financials and Key Metrics at a Glance

$ in millions, except per share amounts	Q3'11	Q3'12	YOY
GAAP Revenue	$1,217	**$1,202**	**-1%**
Revenue ex-TAC	$1,072	**$1,089**	**2%**
Operating income *Operating margin ex-TAC*	$177 *17%*	**$152** *14%*	**-14%** *-300bps*
Non-GAAP Operating income *Non-GAAP Operating margin ex-TAC*	$175 *16%*	$177 *16%*	1% *(0bps)*
Net income attributable to Yahoo! Inc. *Net margin ex-TAC*	$293 *27%*	**$3,160** *N/M*	**N/M** *N/M*
EPS attributable to Yahoo! Inc. – diluted	$0.23	**$2.64**	**N/M**
Non-GAAP EPS – diluted	$0.21	**$0.35**	**66%**
Shares used in per share calculation – diluted	1,260	**1,195**	**-5%**
ROIC – last 12 months	11.9%	**8.8%**	**(314bps)**
Ending employees	13,700	**12,000**	**-12%**

N/M – Not meaningful

Revenue ex-TAC Trends



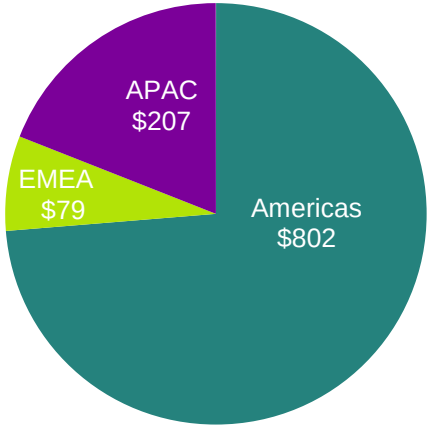
GAAP Revenue :	$1,214	$1,229	$1,217	$1,324	$1,221	$1,218	$1,202

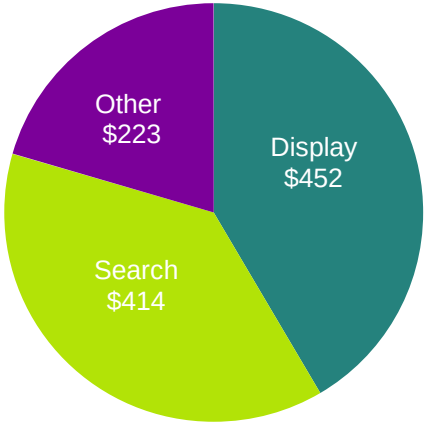
Revenue ex-TAC by Geography & Source

$ in millions

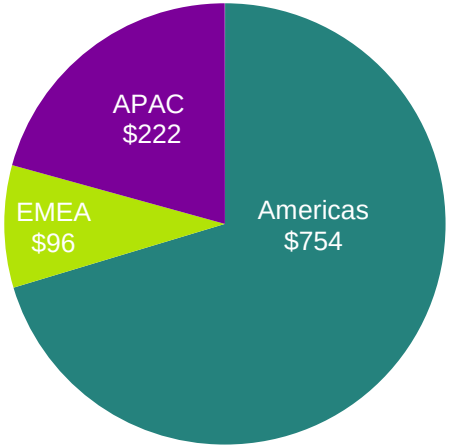
Geography | **Source**

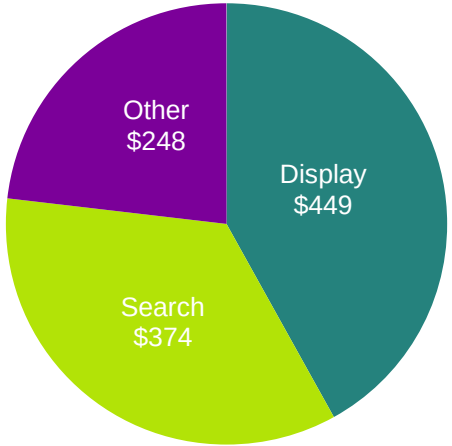
3Q'12 = $1,089





3Q'11 = $1,072





Revenue ex-TAC by Source

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Display revenue ex-TAC	$471	$467	$449	$546	$454	$473	**$452**
YOY Growth	10% (1)	5%	0%	(4%)	(4%)	1%	**0%**
Search revenue ex-TAC	$357	$371	$374	$376	$384	$385	**$414**
YOY Growth	(19%) (2)	(15%) (2)	(13%) (2)	(3%) (2)	8%	4%	**11%**
Other revenue ex-TAC	$237	$239	$248	$248	$240	$222	**$223**
YOY Growth	(10%)	(3%)	0%	(1%)	1%	(7%)	**(10%)**
Total revenue ex-TAC	$1,064	$1,076	$1,072	$1,169	$1,077	$1,081	**$1,089**
YOY Growth	(6%) (1)(2)	(5%) (2)	(5%) (2)	(3%) (2)	1%	0%	**2%**

(1) YOY Growth in Display revenue ex-TAC and Total revenue ex-TAC were negatively impacted by a one-time benefit in Q1'10 from transitioning some large customers from cash-basis accounting to accrual accounting.

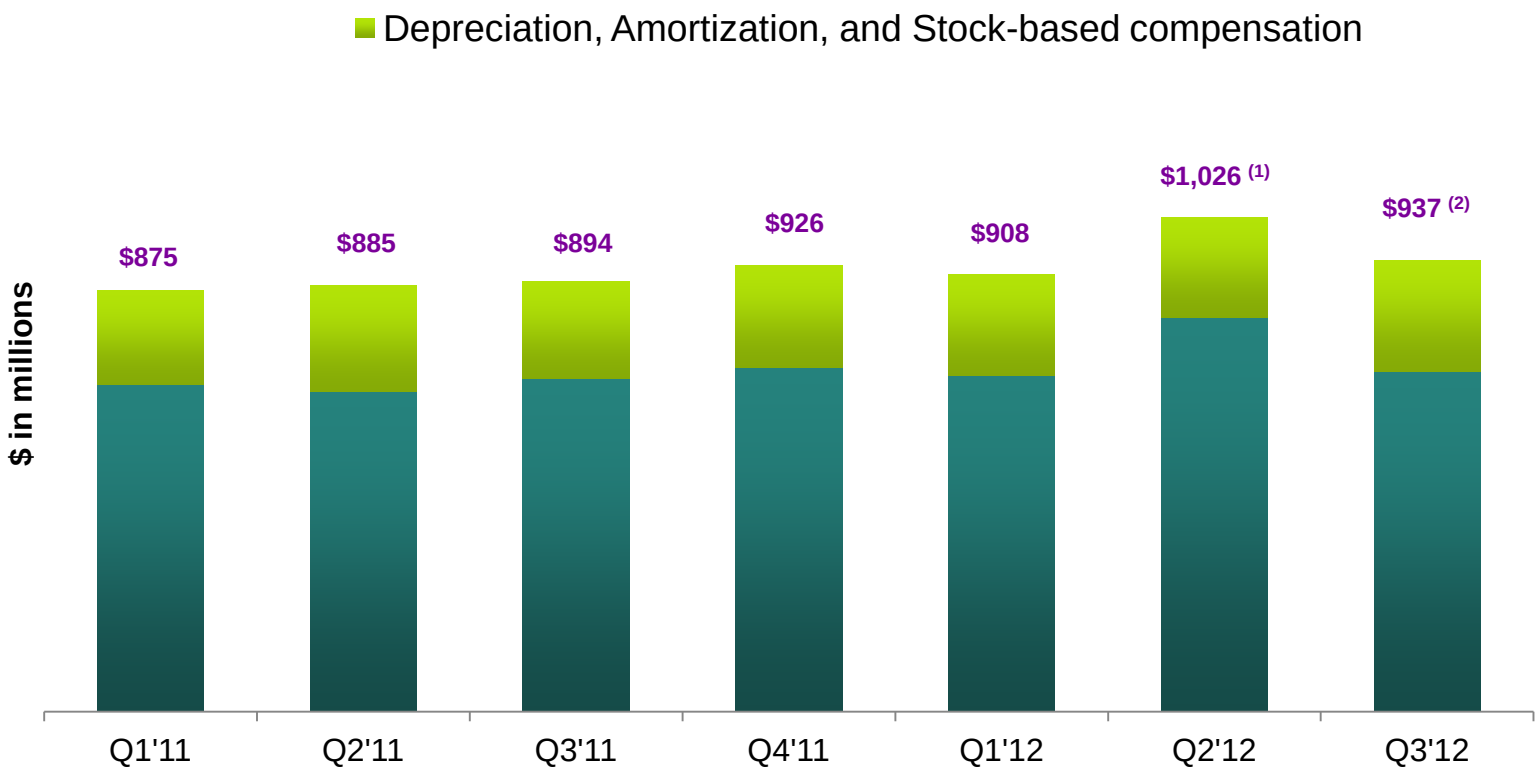
(2) YOY Growth in Search revenue ex-TAC and Total revenue ex-TAC were negatively impacted by headwinds in Q4'11 of $6M and $18M, in Q3'11 of $37M and $58M, in Q2'11 of $37M and $61M, and in Q1'11 of $36M and $63M, respectively.

Geographic Segment Data

$ in millions	Q3'11	Q3'12	YOY
Americas			
Revenue ex-TAC	$754	**$802**	6%
Direct costs[1]	(175)	**(189)**	8%
Contribution	**$579**	**$613**	**6%**
Americas contribution margin[2]	77%	**76%**	(40bps)
EMEA			
Revenue ex-TAC	$96	**$79**	(18%)
Direct costs[1]	(43)	**(39)**	(8%)
Contribution	**$53**	**$40**	**(25%)**
EMEA contribution margin[2]	56%	**50%**	(515bps)
Asia Pacific			
Revenue ex-TAC	$222	**$207**	(6%)
Direct costs[1]	(61)	**(56)**	(8%)
Contribution	**$161**	**$151**	**(6%)**
Asia Pacific contribution margin[2]	72%	**73%**	35bps

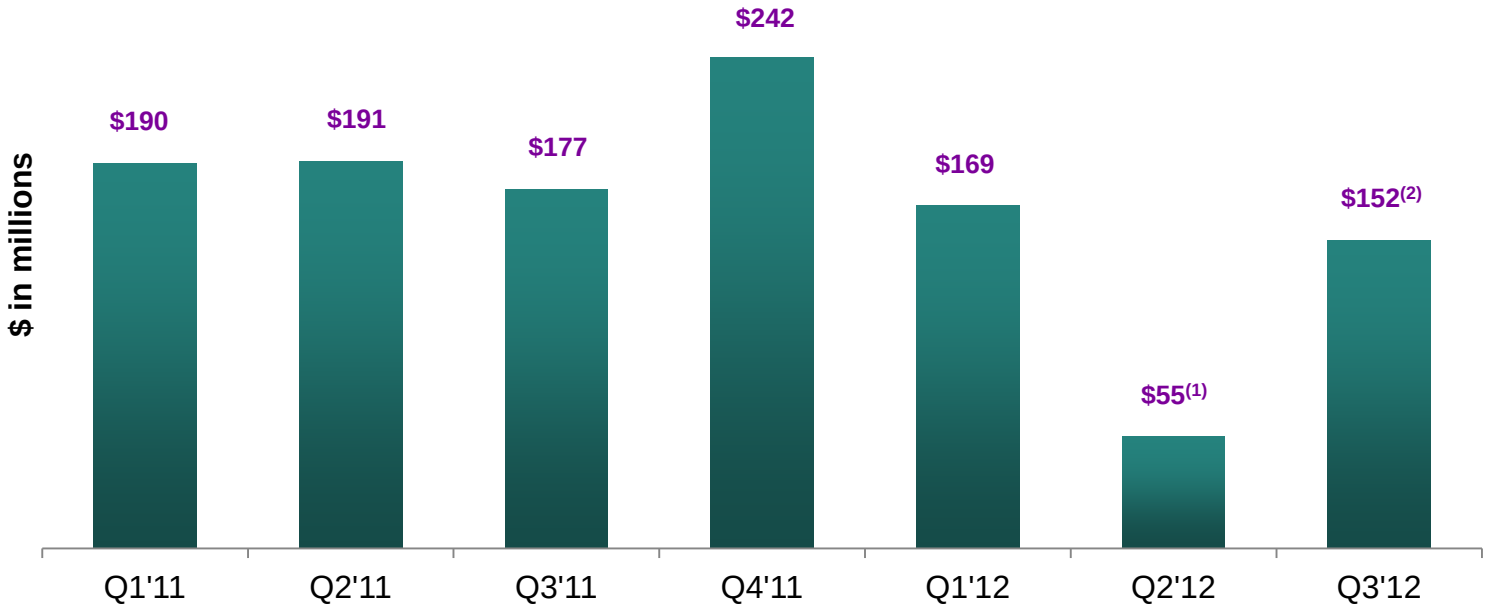
(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment. Beginning in 2012, marketing and customer advocacy costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.
(2) Contribution margin is calculated as Contribution divided by Revenue ex-TAC for each segment.

Total Operating Expenses less TAC



(1) Total Operating expenses less TAC in Q2'12 was negatively impacted by a total of $136 million of restructuring charges and deal-related expenses.
(2) Total Operating expenses less TAC in Q3'12 was negatively impacted by a total of $25 million of restructuring charges.

GAAP Operating Income



Op. margin ex-TAC :	18%	18%	17%	21%	16%	5%	14%

(1) Operating income in Q2'12 was negatively impacted by a total of $136 million of restructuring charges and deal-related expenses. Please see slide 20.
(2) Operating income in Q3'12 was negatively impacted by a total of $25 million of restructuring charges. Please see slide 20.

Key Balance Sheet Metrics

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Cash & marketable debt securities[1]	$3,528	$3,255	$2,870	$2,530	$2,652	$2,401	**$9,427**
Accounts receivable, net	$933	$957	$873	$1,037	$942	$1,041	**$954**
Current deferred revenue	$247	$240	$206	$195	$179	$177	**$309**
Market value of 35% ownership in Yahoo Japan (at 9/30/12) [2]							**$7,740**
Value of approximately 24% ownership in Alibaba based on recent transaction [3]							**$8,100**

(1) Cash & marketable debt securities is comprised of Cash and cash equivalents, Short-term marketable debt securities, and Long-term marketable debt securities.
(2) Pre-tax market value is based on public market share price for Yahoo Japan on September 30, 2012.
(3) Pre-tax value is based on $15.50 price per share at which Alibaba sold common equity to third-party purchasers in its most recent round of funding; does not include $800 million in Alibaba preference shares held by Yahoo!.

Key Cash Flow Highlights

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Share repurchases	$137	$472	$593	$416	$71	$456	**$190**
Net cash provided by operating activities	$206	$331	$356	$431	$297	$275	**$1,046**[(1)]
Acquisition of property and equipment, net	$168	$172	$124	$130	$110	$106	**$140**
Free cash flow	$56	$96	$247	$327	$196	$93	**$920**[(2)]

(1) Excluding a payment of $550 million from Alibaba related to a technology and intellectual property license agreement, Net cash provided by operating activities for Q3'12 was $496 million.
(2) Excluding a payment of $550 million from Alibaba related to a technology and intellectual property license agreement, Free cash flow for Q3'12 was $370 million.

Example – Impact of change in GAAP revenue presentation and revenue share related to the Yahoo! Bing Network[1]

Pre Transition GAAP Revenue Presentation – "Gross" basis			
	Yahoo! Properties	Affiliate (70% TAC)	Total
GAAP Revenue	$100	$100	$200
Less: TAC	($5)	($70)	($75)
Revenue ex-TAC	$95	$30	$125

Post Transition GAAP Revenue Presentation – "Net" basis			
	Yahoo! Properties	Affiliate (70% TAC)	Total
Search transactions in AdCenter[2]	$100	$100	$200
Less: TAC	($5)	($70)	($75)
Less: 12% MSFT revenue share[3]	($11)	($4)	($15)
GAAP Revenue	$84	$26	$110

(1) The numbers presented in this slide are for illustration purposes only and do not reflect actual amounts or actual average TAC rates.
(2) Represents dollar value of search transactions in Microsoft's AdCenter platform attributed to Yahoo! Properties and Affiliate sites.
(3) Under the Search Agreement, Yahoo! is entitled to an 88% post-TAC revenue share and Microsoft is entitled to a 12% post-TAC revenue share in transitioned markets.

Appendix

Table 1 – Revenue ex-TAC Calculation by Segment

Reconciliations of GAAP Revenue to Revenue ex-TAC

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Americas							
GAAP Revenue	$819	$808	$791	$885	$836	$822	**$844**
TAC	(38)	(39)	(37)	(45)	(43)	(46)	**(41)**
Revenue ex-TAC	**$781**	**$769**	**$754**	**$840**	**$793**	**$776**	**$802**
EMEA							
GAAP Revenue	$154	$163	$148	$164	$134	$128	**$96**
TAC	(58)	(58)	(52)	(55)	(46)	(34)	**(17)**
Revenue ex-TAC	**$97**	**$105**	**$96**	**$110**	**$88**	**$94**	**$79**
Asia Pacific							
GAAP Revenue	$241	$258	$277	$275	$251	$268	**$262**
TAC	(54)	(56)	(55)	(56)	(55)	(57)	**(54)**
Revenue ex-TAC	**$187**	**$203**	**$222**	**$219**	**$196**	**$211**	**$207**
Worldwide							
GAAP Revenue	$1,214	$1,229	$1,217	$1,324	$1,221	$1,218	**$1,202**
TAC	(150)	(153)	(145)	(155)	(144)	(137)	**(113)**
Revenue ex-TAC	**$1,064**	**$1,076**	**$1,072**	**$1,169**	**$1,077**	**$1,081**	**$1,089**

Table 2 – Revenue Details

Reconciliations of GAAP Revenue to Revenue ex-TAC by Source

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Display							
GAAP Display revenue	$523	$524	$502	$612	$511	$535	**$506**
YOY Growth	6%	2%	(2%)	(4%)	(2%)	2%	**1%**
Display TAC	(52)	(57)	(53)	(66)	(57)	(62)	**(54)**
Display revenue ex-TAC	**$471**	**$467**	**$449**	**$546**	**$454**	**$473**	**$452**
Search							
GAAP Search revenue	$455	$467	$467	$465	$470	$461	**$473**
YOY Growth	(46%)	(45%)	(44%)	(27%)	3%	(1%)	**1%**
Search TAC	(98)	(96)	(92)	(89)	(87)	(75)	**(58)**
Search revenue ex-TAC	**$357**	**$371**	**$374**	**$376**	**$384**	**$385**	**$414**
Other							
GAAP Other revenue	$237	$239	$248	$248	$240	$222	**$223**
YOY Growth	(11%)	(3%)	0%	(1%)	1%	(7%)	**(10%)**
Other TAC	(0)	(0)	(0)	(0)	(0)	(0)	**(0)**
Other revenue ex-TAC	**$237**	**$239**	**$248**	**$248**	**$240**	**$222**	**$223**
Total							
GAAP Revenue	$1,214	$1,229	$1,217	$1,324	$1,221	$1,218	**$1,202**
YOY Growth	(24%)	(23%)	(24%)	(13%)	1%	(1%)	**(1%)**
TAC	(150)	(153)	(145)	(155)	(144)	(137)	**(113)**
Revenue ex-TAC	**$1,064**	**$1,076**	**$1,072**	**$1,169**	**$1,077**	**$1,081**	**$1,089**

Table 3 – Revenue and Direct Costs by Segment

$ in millions	Q3'11	Q3'12
Revenue by segment:		
Americas	$791	**$844**
EMEA	148	**96**
Asia Pacific	277	**262**
Total revenue	1,217	**1,202**
TAC	(145)	**(113)**
Total revenue ex-TAC	**$1,072**	**$1,089**
Direct costs by segment:		
Americas	$175	**$189**
EMEA	43	**39**
Asia Pacific	61	**56**
Global operating costs(1)	416	**396**
Restructuring charges, net	(3)	**25**
Depreciation and amortization	152	**170**
Stock-based compensation expense	51	**61**
Income from operations	**$177**	**$152**

(1) Global operating costs include product development, service engineering and operations, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment. Prior to 2012, marketing and customer advocacy costs were managed on a global basis and included as global operating costs. Prior period amounts have been revised to conform to the current presentation.

Table 4 – Total Operating Expenses

Reconciliations of Total Operating Expenses to Total Operating Expenses less TAC

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Total operating expenses less TAC:							
Total operating expenses	$1,025	$1,038	$1,039	$1,082	$1,052	$1,163	**$1,050**
Less: Traffic acquisition costs	(150)	(153)	(145)	(155)	(144)	(137)	**(113)**
Total operating expenses less TAC	**$875**	**$885**	**$894**	**$926**	**$908**	**$1,026**	**$937**

Table 5 – Non-GAAP Operating Income Calculation

Reconciliation of GAAP Operating Income to Non-GAAP Operating Income, with Details on Adjustments

	Quarterly Data							Year Ended	
$ in thousands	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	12/31/10	12/31/11
GAAP Operating income	**$189,745**	**$190,895**	**$177,254**	**$242,447**	**$169,376**	**$54,813**	**$152,189**	**$772,524**	**$800,341**
(a) Reimbursements from Microsoft for transition costs incurred in prior periods[1]	–	–	–	–	–	–	–	(43,300)	–
(b) Restructuring charges, net	10,575	237	(2,721)	16,329	5,717	129,092	24,727	57,957	24,420
(c) Deal-related expenses[2]	–	–	–	–	–	6,500	–	–	–
Non-GAAP Operating income	**$200,320**	**$191,132**	**$174,533**	**$258,776**	**$175,093**	**$190,405**	**$176,916**	**$787,181**	**$824,761**
GAAP Operating margin	**16%**	**16%**	**15%**	**18%**	**14%**	**5%**	**13%**	**12%**	**16%**
Non-GAAP Operating margin[3]	**16%**	**16%**	**14%**	**20%**	**14%**	**16%**	**15%**	**12%**	**17%**
Non-GAAP Operating margin ex-TAC	**19%**	**18%**	**16%**	**22%**	**16%**	**18%**	**16%**	**17%**	**19%**

(1) Non-GAAP Operating income excludes reimbursements for costs incurred in prior periods. The net reimbursement adjustment of $43 million in Q1'10 is equal to the transition costs of $11 million and $32 million incurred in Q3'09 and Q4'09, respectively, in connection with the Search Agreement.
(2) Deal-related expenses relate to, among other matters, the agreement Yahoo! entered into with Alibaba regarding Yahoo!'s stake in Alibaba.
(3) Non-GAAP Operating margin is calculated as Non-GAAP Operating income divided by GAAP Revenue.

Table 6 – Free Cash Flow Calculation

Reconciliation of GAAP Cash Flow from Operating Activities to Free Cash Flow

$ in millions	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
Free cash flow:							
Net cash provided by operating activities	$206	$331	$356	$431	$297	$275	**$1,046** (1)
Excess tax benefits from stock-based awards	18	12	14	26	8	9	**14**
Acquisition of property & equipment, net	(168)	(172)	(124)	(130)	(110)	(106)	**(140)**
Dividends received from equity investees	–	(75)	–	–	–	(84)	–
Free cash flow	**$56**	**$96**	**$247**	**$327**	**$196**	**$93**	**$920**(2)

(1) Excluding a payment of $550 million from Alibaba related to a technology and intellectual property license agreement, Net cash provided by operating activities for Q3'12 was $496 million.

(2) Excluding a payment of $550 million from Alibaba related to a technology and intellectual property license agreement, Free cash flow for Q3'12 was $370 million.

Table 7 – Non-GAAP Net Income Per Share Calculation

Reconciliation of GAAP Net Income Attributable to Yahoo! Inc. and GAAP Net Income Attributable to Yahoo! Inc. Common Stockholders Per Share – Diluted to Non-GAAP Net Income and Non-GAAP Net Income Per Share – Diluted

$ in millions, except per share amounts	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
GAAP Net income attributable to Yahoo! Inc.	$223	$237	$293	$296	$286	$227	**$3,160**
Adjustments	7	0	(27)	11	4	100	**(2,740)**
Non-GAAP Net income	**$230**	**$237**	**$266**	**$307**	**$290**	**$327**	**$421**
GAAP Revenue	**$1,214**	**$1,229**	**$1,217**	**$1,324**	**$1,221**	**$1,218**	**$1,202**
GAAP Net margin	18%	19%	24%	22%	23%	19%	**NM**
Non-GAAP Net margin(1)	19%	19%	22%	23%	24%	27%	**35%**
GAAP Net income attributable to Yahoo! Inc. common Stockholders per share – diluted	$0.17	$0.18	$0.23	$0.24	$0.23	$0.18	**$2.64**
Non-GAAP Net income per share – diluted	**$0.17**	**$0.18**	**$0.21**	**$0.25**	**$0.24**	**$0.27**	**$0.35**
Diluted shares outstanding	1,320	1,308	1,260	1,241	1,226	1,222	**1,195**

(1) Non-GAAP Net margin is calculated as Non-GAAP Net income divided by GAAP Revenue.

Note: All per share amounts are based on fully diluted share counts. Please refer to Appendix Table 8 for details on Adjustments.

Table 8 - Non-GAAP Net Income Calculation

Reconciliation of GAAP Net Income Attributable to Yahoo! Inc. to Non-GAAP Net Income, with Details on Adjustments

$ in thousands	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12
GAAP Net income attributable to Yahoo! Inc.	**$222,992**	**$236,972**	**$293,291**	**$295,572**	**$286,343**	**$226,631**	**$3,160,238**
(a) Restructuring charges, net	10,575	237	(2,721)	16,329	5,717	129,092	24,727
(b) Non-cash gain related to the dilution of the Company's ownership interest in Alibaba Group, which is included in earnings in equity interests	–	–	(25,083)	–	–	–	–
(c) Deal-related expenses[(1)]	–	–	–	–	–	6,500	–
(d) Gain related to sale of Alibaba shares	–	–	–	–	–	–	(4,603,322)
(e) To adjust the provision for income taxes to exclude the tax impact of items (a), (c) and (d)	(3,362)	(75)	865	(5,192)	(2,047)	(35,674)	1,839,035
(f) Non-cash gain related to the dilution of the Company's ownership interest in Alibaba Group, which is included in earnings in equity interest	–	–	(25,083)	–	–	–	–
Non-GAAP Net income	**$230,205**	**$237,134**	**$266,352**	**$306,709**	**$290,013**	**$326,549**	**$420,678**

(1) Deal-related expenses relate to, among other matters, the agreement Yahoo! entered into with Alibaba regarding Yahoo!'s stake in Alibaba.

Table 9 – Additional Reconciliations

- **Total operating expenses less TAC, adjusted for restructuring charges.** On a GAAP basis, Total operating expenses in Q3'12 were $1,050 million. Adjusting for TAC of $113 million and restructuring charges of $25 million, Total operating expenses less TAC, adjusted for restructuring charges, were $912 million in Q3'12.