

YAHOO!

Q4'13 FINANCIAL HIGHLIGHTS

January 28, 2014

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Throughout this presentation, we have rounded numbers as appropriate. In this presentation, “year-over-year” (y/y 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.

We periodically review and refine our methodologies for monitoring, gathering, and counting paid clicks and number of ads sold, and for calculating price-per-click and price-per-ad. Based on this process, from time to time we may update such methodologies.

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Definitions and Non-GAAP Financial Measures

This presentation includes the following defined terms and non-GAAP financial measures:

- **Adjusted EBITDA** is defined as net earnings before taxes, depreciation, amortization of intangible assets, stock-based compensation expense, other income, net (which includes interest), earnings in equity interests, net income attributable to noncontrolling interests and other gains, losses, and expenses that we do not believe are indicative of our ongoing results.
- **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.
- **Free cash flow** is defined as net cash provided by (used in) 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.
- **Net earnings** is defined as GAAP net income attributable to Yahoo! Inc.
- **Non-GAAP EPS (or non-GAAP net earnings per share) – diluted** is defined as non-GAAP net earnings divided by diluted shares outstanding.
- **Non-GAAP net earnings** is defined as net earnings excluding certain gains, losses, expenses, and their related tax effects, that we do not believe are indicative of our ongoing results and further adjusted to exclude stock-based compensation expense and its related tax effects.
- **Non-GAAP operating income** is defined as GAAP income from operations excluding certain gains, losses, and expenses that we do not believe are indicative of our ongoing operating results and further adjusted to exclude stock-based compensation expense.
- **Non-GAAP total operating expenses** is defined as GAAP total operating expenses excluding TAC and certain other expenses that we do not believe are indicative of our ongoing operating expenses and further adjusted to exclude stock-based compensation expense.
- **Revenue ex-TAC** is defined as GAAP revenue less TAC.
- **TAC** refers to traffic acquisition costs. TAC consists of payments to third-party entities that have integrated Yahoo's advertising offerings into their Websites or other offerings ("Affiliates") and payments made to companies that direct consumer and business traffic to Yahoo Properties.
- **Total operating expenses less TAC** is defined as GAAP total operating expenses excluding TAC.

Commencing in Q1'13, (1) stock-based compensation expense has been excluded from non-GAAP operating income and non-GAAP total operating expenses, and (2) stock-based compensation expense and its related tax effects have been excluded from non-GAAP net earnings and non-GAAP EPS-diluted. Commencing in Q4'13, number of employees includes fixed-term contractors on payroll. Prior period amounts have been revised to conform to the current presentation.

Please refer to the Appendix for reconciliations of the 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:

- **Adjusted EBITDA margin ex-TAC** is calculated as adjusted EBITDA divided by revenue ex-TAC.
- **Income from operations margin ex-TAC** is calculated as income from operations divided by revenue ex-TAC;
- **Net margin ex-TAC** is calculated as net earnings divided by revenue ex-TAC; and
- **Non-GAAP operating income margin ex-TAC** is calculated as non-GAAP operating income divided by revenue ex-TAC.

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

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 Q4'13

- Revenue ex-TAC of \$1,200 million decreased 2% in the quarter on a YOY basis.
- Search revenue ex-TAC of \$461 million increased 8% in the quarter on a YOY basis.
- Adjusted EBITDA of \$478 million decreased 6% in the quarter on a YOY basis.
- Non-GAAP operating income of \$330 million decreased 3% in the quarter on a YOY basis.
- We repurchased 6 million shares of stock at an average price of \$36.42 for \$231 million in the fourth quarter.

Financials and Key Metrics at a Glance

\$ in millions, except per share amounts	Q4'12	Q4'13	YOY
GAAP revenue	\$1,346	\$1,266	(6%)
Revenue ex-TAC	\$1,221	\$1,200	(2%)
Adjusted EBITDA	\$509	\$478	(6%)
Income from operations <i>Income from operations margin ex-TAC</i>	\$190 16%	\$174 15%	(8%) (100bps)
Non-GAAP operating income <i>Non-GAAP operating income margin ex-TAC</i>	\$340 28%	\$330 28%	(3%) 0bps
Earnings in equity interests	\$149	\$222	49%
Net earnings <i>Net margin ex-TAC</i>	\$272 22%	\$348 29%	28% 700bps
EPS attributable to Yahoo! Inc. – diluted	\$0.23	\$0.33	40%
Non-GAAP EPS – diluted	\$0.35	\$0.46	31%
Shares used in per share calculation – diluted	1,168	1,039	(11%)
Acquisition of property and equipment, net	\$150	\$109	(27%)
Free cash flow, as adjusted ⁽¹⁾	\$221	\$256	16%
Cash and marketable securities	\$6,022	\$4,997	(17%)
Number of employees (at end of quarter)	11,700	12,200	4%

(1) See Appendix Table 7 for the reconciliation of free cash flow, as adjusted.

Financials and Key Metrics at a Glance

\$ in millions, except per share amounts	2012	2013	YOY
GAAP revenue	\$4,987	\$4,680	(6%)
Revenue ex-TAC	\$4,468	\$4,426	(1%)
Adjusted EBITDA	\$1,699	\$1,564	(8%)
Income from operations <i>Income from operations margin ex-TAC</i>	\$566 13%	\$590 13%	4% 0bps
Non-GAAP operating income <i>Non-GAAP operating income margin ex-TAC</i>	\$1,049 23%	\$935 21%	(11%) (200bps)
Earnings in equity interests	\$676	\$897	33%
Net earnings <i>Net margin ex-TAC</i>	\$3,945 88%	\$1,366 31%	(65%) N/M
EPS attributable to Yahoo! Inc. – diluted	\$3.28	\$1.26	(62%)
Non-GAAP EPS – diluted	\$1.31	\$1.52	16%
Shares used in per share calculation – diluted	1,203	1,071	(11%)
Acquisition of property and equipment, net	\$506	\$338	(33%)
Free cash flow, as adjusted ⁽¹⁾	\$1,431	\$786	(45%)

N/M – Not meaningful

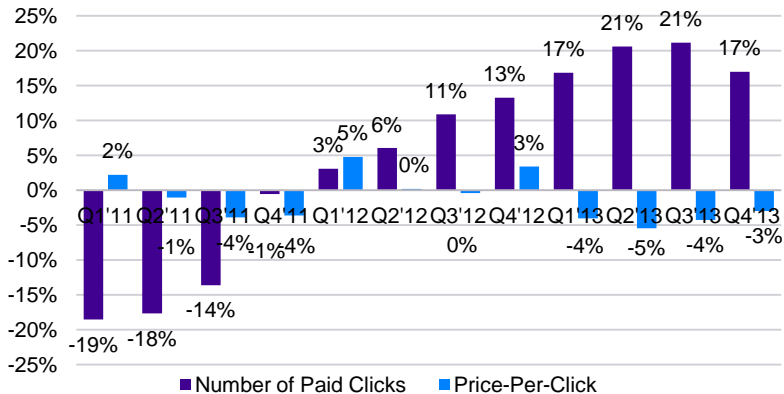
Note: Results in 2012 were positively impacted by a net gain of \$2,755 million (or \$2.29 per diluted share) related to the sale of Alibaba Group shares, and negatively impacted by \$252 million of restructuring charges, net, and costs associated with the Korea business and its closure.

(1) See Appendix Table 7 for the reconciliation of free cash flow, as adjusted.

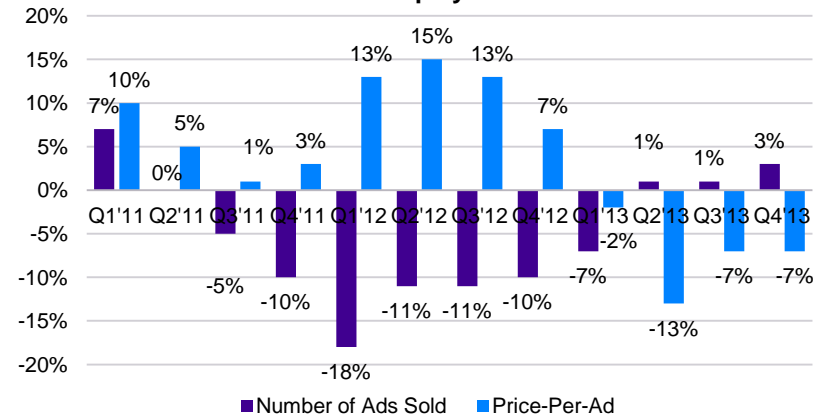
Search and Display Metrics (excluding Korea)*

YOY % Growth	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13
Global Search⁽¹⁾												
Number of Paid Clicks ⁽²⁾	(19%)	(18%)	(14%)	(1%)	3%	6%	11%	13%	17%	21%	21%	17%
Price-per-Click ("PPC") ⁽³⁾	2%	(1%)	(4%)	(4%)	5%	0%	0%	3%	(4%)	(5%)	(4%)	(3%)
Search click revenue ⁽⁴⁾	(17%)	(19%)	(17%)	(4%)	8%	6%	10%	17%	12%	14%	16%	13%
Global Display^{(1) (5)}												
Number of Ads Sold ⁽⁶⁾	7%	0%	(5%)	(10%)	(18%)	(11%)	(11%)	(10%)	(7%)	1%	1%	3%
Price-per-Ad ("PPA") ⁽⁷⁾	10%	5%	1%	3%	13%	15%	13%	7%	(2%)	(13%)	(7%)	(7%)

Global Search Trends



Global Display Trends



*Due to the closure of the Korea business in Q4'12, metrics on this page exclude the Korea market for all periods. Commencing Q3'13, a) impressions and revenue associated with our new stream ad units are included in the display metrics; b) The revenue and volume associated with other display advertisements sold on a price-per-click basis have been excluded from our search metrics (and continue to be excluded from our display metrics); and c) the Microsoft RPS guarantee has been excluded from the calculation of Price-Per-Click. Prior period amounts have been revised to conform to the current presentation.

(1) Source: Internal data excluding China and Japan (where Yahoo-branded sites are operated by third-party licensees).

(2) "Paid Clicks" are clicks by end-users on sponsored search listings on Yahoo Properties and Affiliate sites.

(3) Price-per-Click is calculated as gross search revenue (before TAC), excluding the Microsoft RPS guarantee, divided by the number of Paid Clicks.

(4) "Search click revenue" is gross search revenue (before TAC) excluding the Microsoft RPS guarantee.

(5) Display metrics include data for graphical, sponsorship, and stream ad units on Yahoo Properties (including mobile). Limited to data from the U.S., U.K., France, Germany, Spain, Italy, Taiwan, Hong Kong, Southeast Asia, and India.

(6) "Ads Sold" consist of display ad impressions for paying advertisers on Yahoo Properties.

(7) Price-per-Ad is calculated as display revenue from Yahoo Properties divided by the number of Ads Sold.

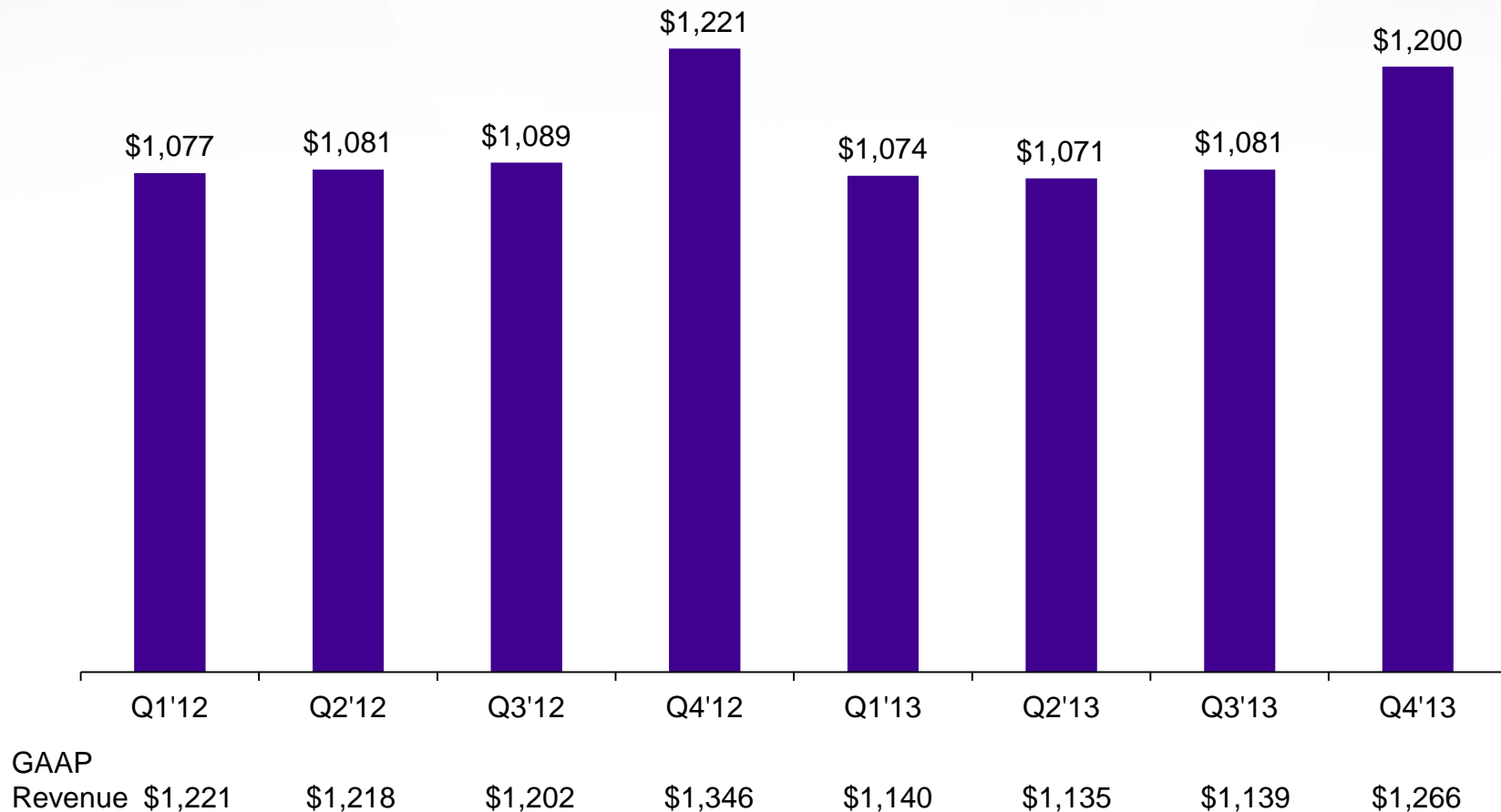
GAAP Revenue Trends

\$ in millions



Revenue ex-TAC Trends

\$ in millions



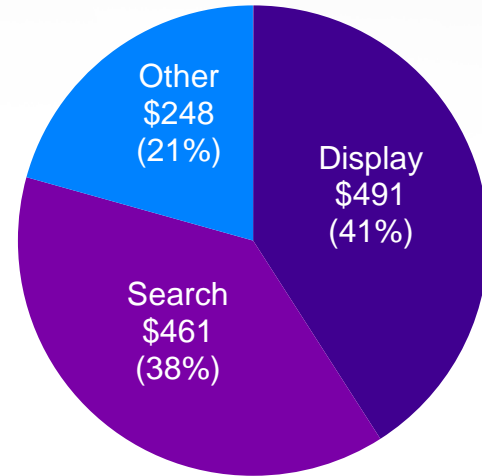
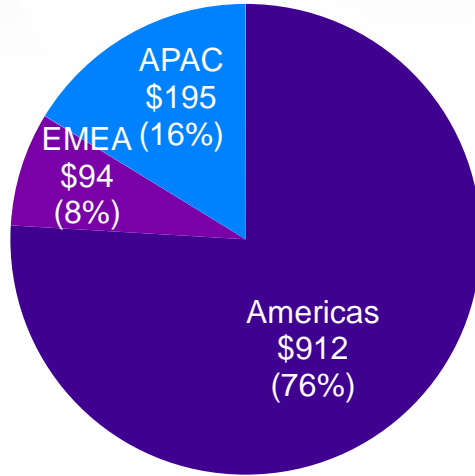
Revenue ex-TAC by Geography & Source

\$ in millions

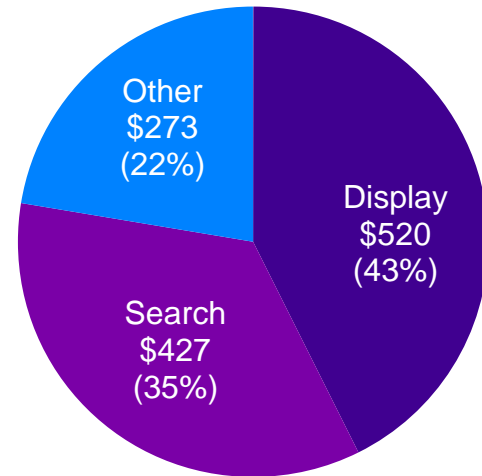
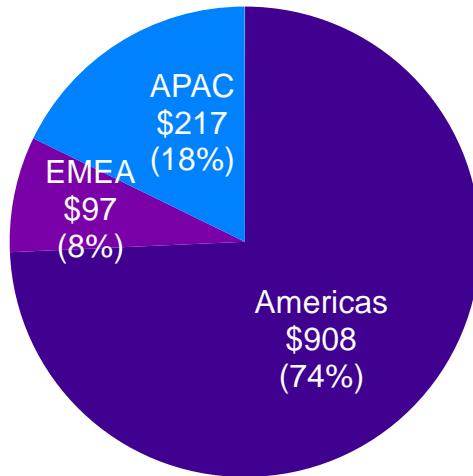
Geography

Source

Q4'13 = \$1,200



Q4'12 = \$1,221



Revenue ex-TAC by Source

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13
Display revenue ex-TAC YOY Growth	\$454 (4%)	\$473 1%	\$452 0%	\$520 (5%)	\$402 (11%)	\$423 (11%)	\$421 (7%)	\$491 (6%)
Search revenue ex-TAC YOY Growth	\$384 8%	\$385 4%	\$414 11%	\$427 14%	\$409 6%	\$403 5%	\$426 3%	\$461 8%
Other revenue ex-TAC YOY Growth	\$240 1%	\$222 (7%)	\$223 (10%)	\$273 10%	\$264 10%	\$245 10%	\$233 4%	\$248 (9%)
Total revenue ex-TAC YOY Growth	\$1,077 1%	\$1,081 0%	\$1,089 2%	\$1,221 4%	\$1,074 0%	\$1,071 (1%)	\$1,081 (1%)	\$1,200 (2%)

Geographic Segment Data

\$ in millions	Q4'12	Q4'13	YOY
Americas			
Revenue ex-TAC	\$908	\$912	0%
Direct costs ⁽¹⁾	<u>\$183</u>	<u>\$188</u>	3%
Contribution	\$725	\$724	0%
Americas contribution margin ⁽²⁾	80%	79%	(100bps)
EMEA (Europe, Middle East, and Africa)			
Revenue ex-TAC	\$97	\$94	(3%)
Direct costs ⁽¹⁾	<u>\$41</u>	<u>\$46</u>	10%
Contribution	\$55	\$48	(13%)
EMEA contribution margin ⁽²⁾	57%	51%	(600bps)
Asia Pacific (APAC)			
Revenue ex-TAC	\$217	\$195	(10%)
Direct costs ⁽¹⁾	<u>\$60</u>	<u>\$46</u>	(24%)
Contribution	\$156	\$149	(5%)
Asia Pacific contribution margin ⁽²⁾	72%	76%	400bps

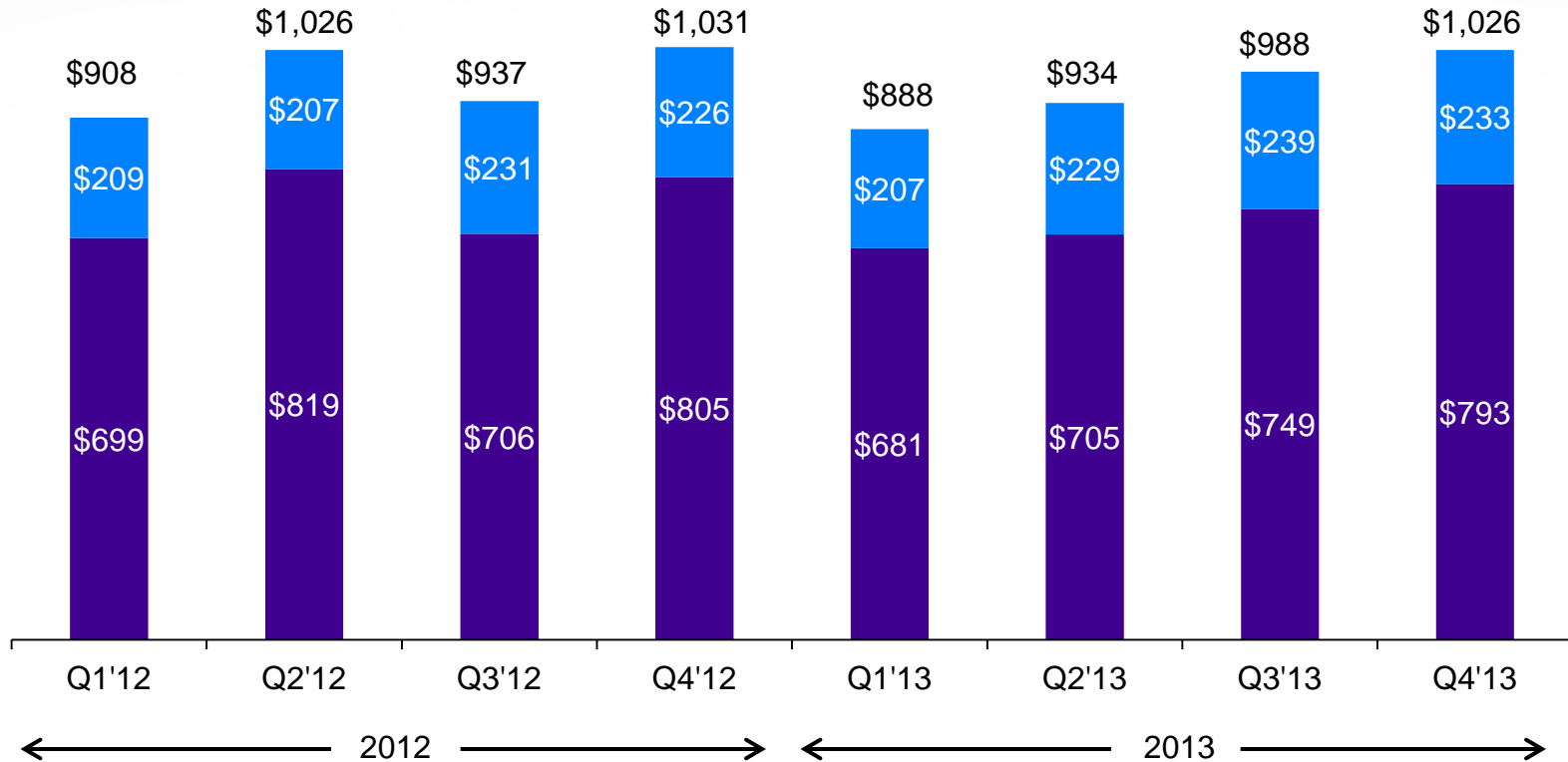
(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment.

(2) Contribution margin is calculated as contribution divided by revenue ex-TAC for each segment.

Total Operating Expenses less TAC

\$ in millions

■ Depreciation, Amortization, and Stock-based compensation

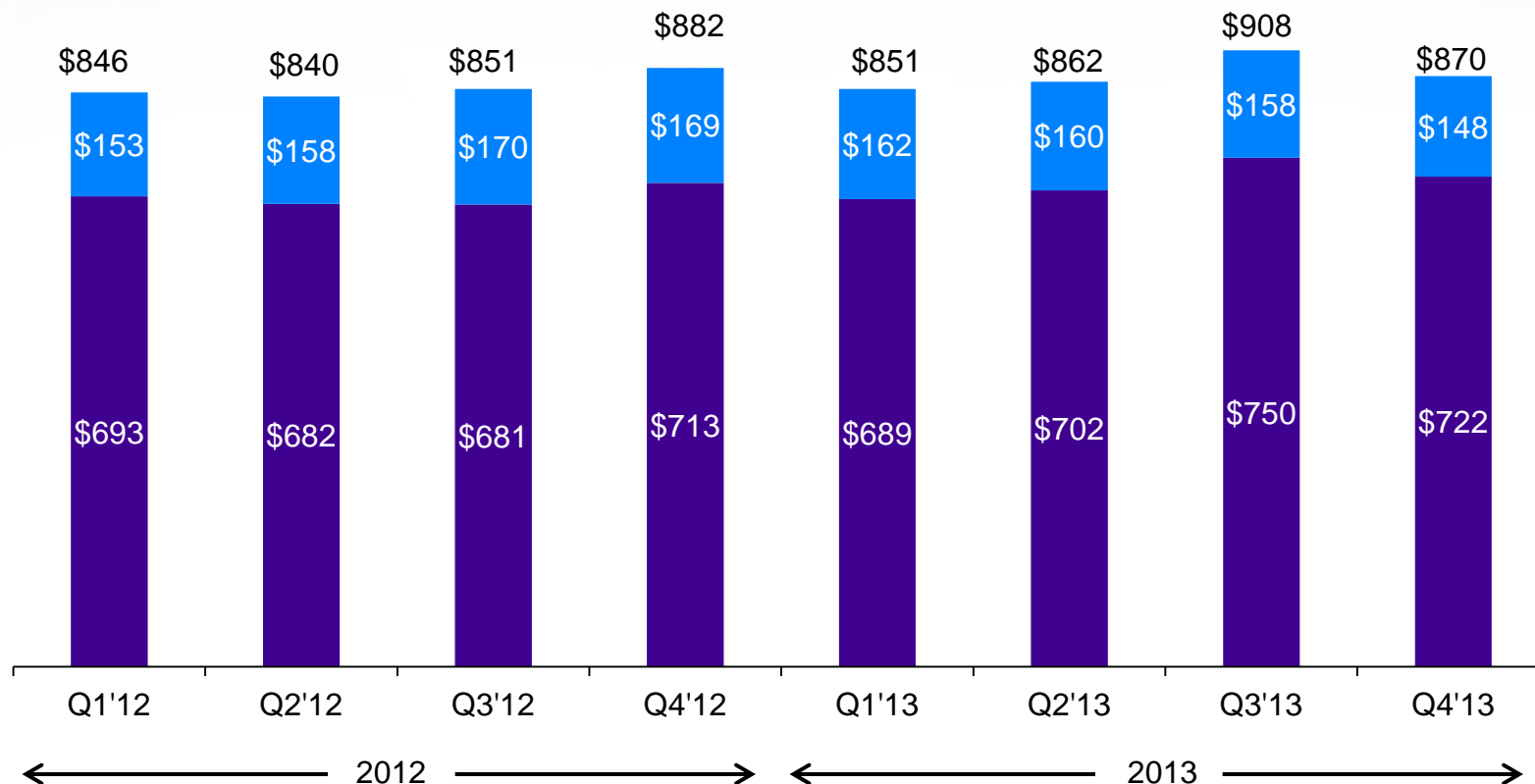


Note: Total operating expenses less TAC includes items the Company does not consider indicative of its ongoing operating expenses. Please see Appendix Table 4.

Non-GAAP Total Operating Expenses

\$ in millions

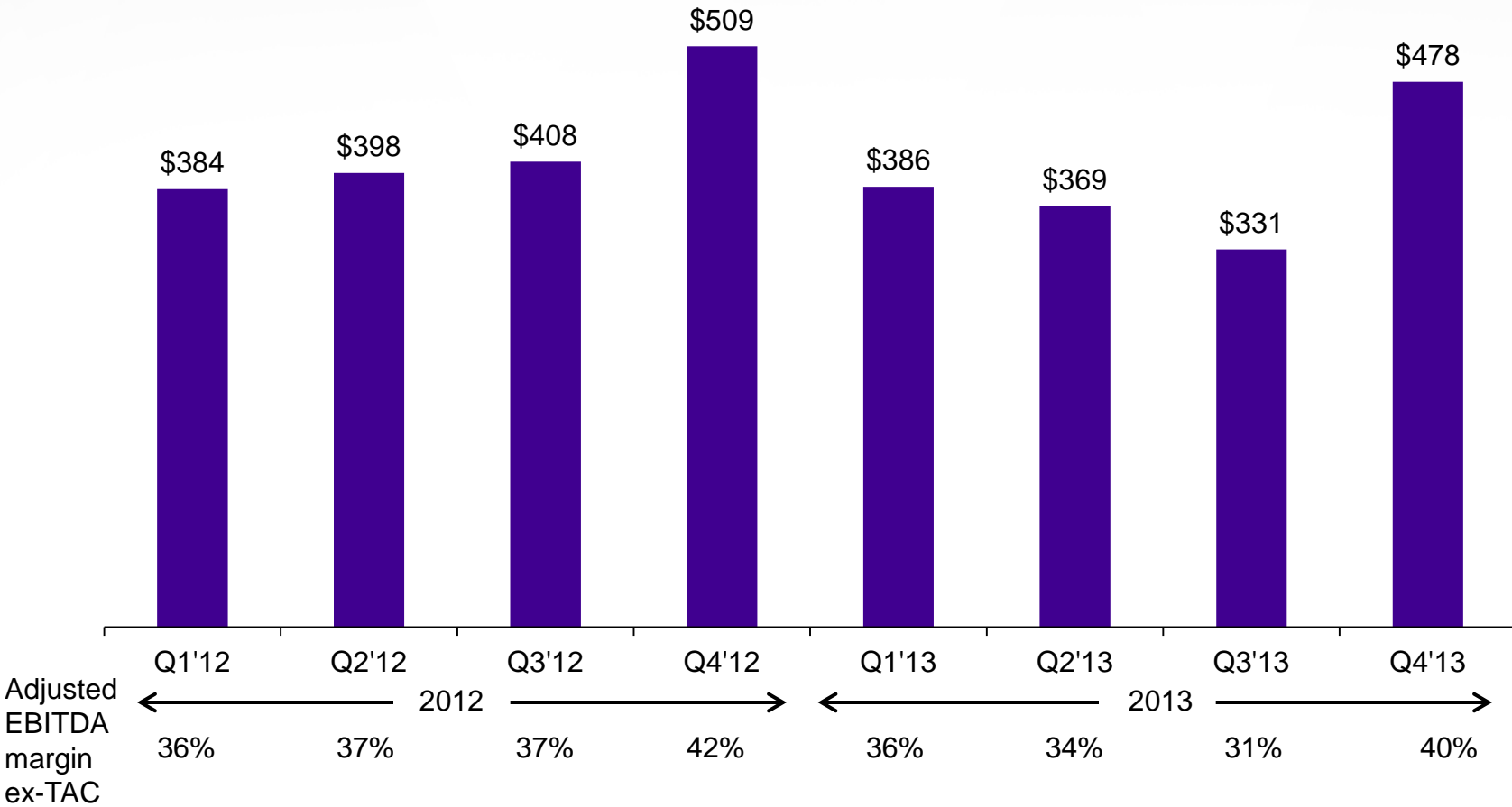
■ Depreciation and Amortization



See Appendix Table 4 for the reconciliation of total operating expenses

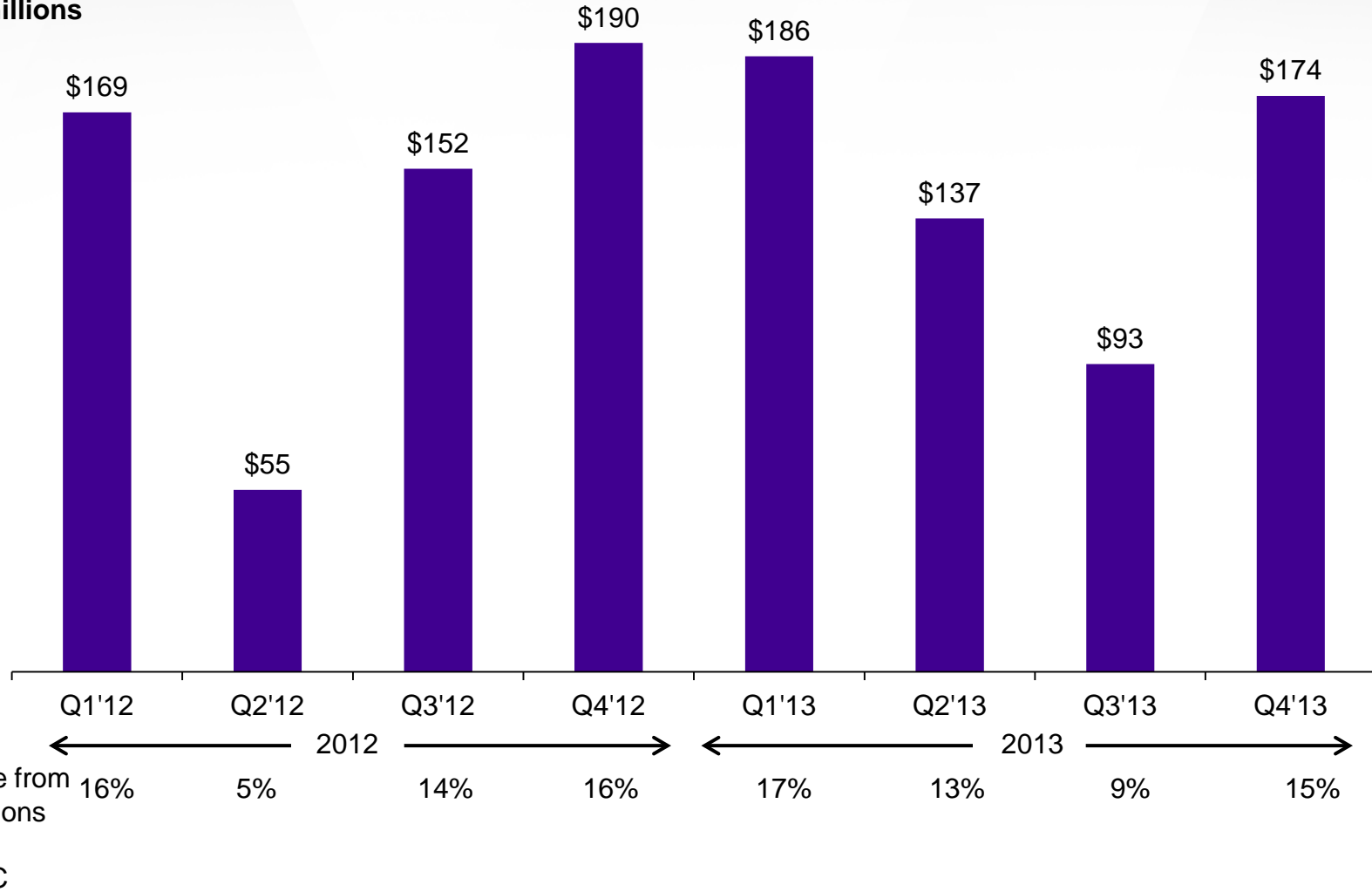
Adjusted EBITDA

\$ in millions



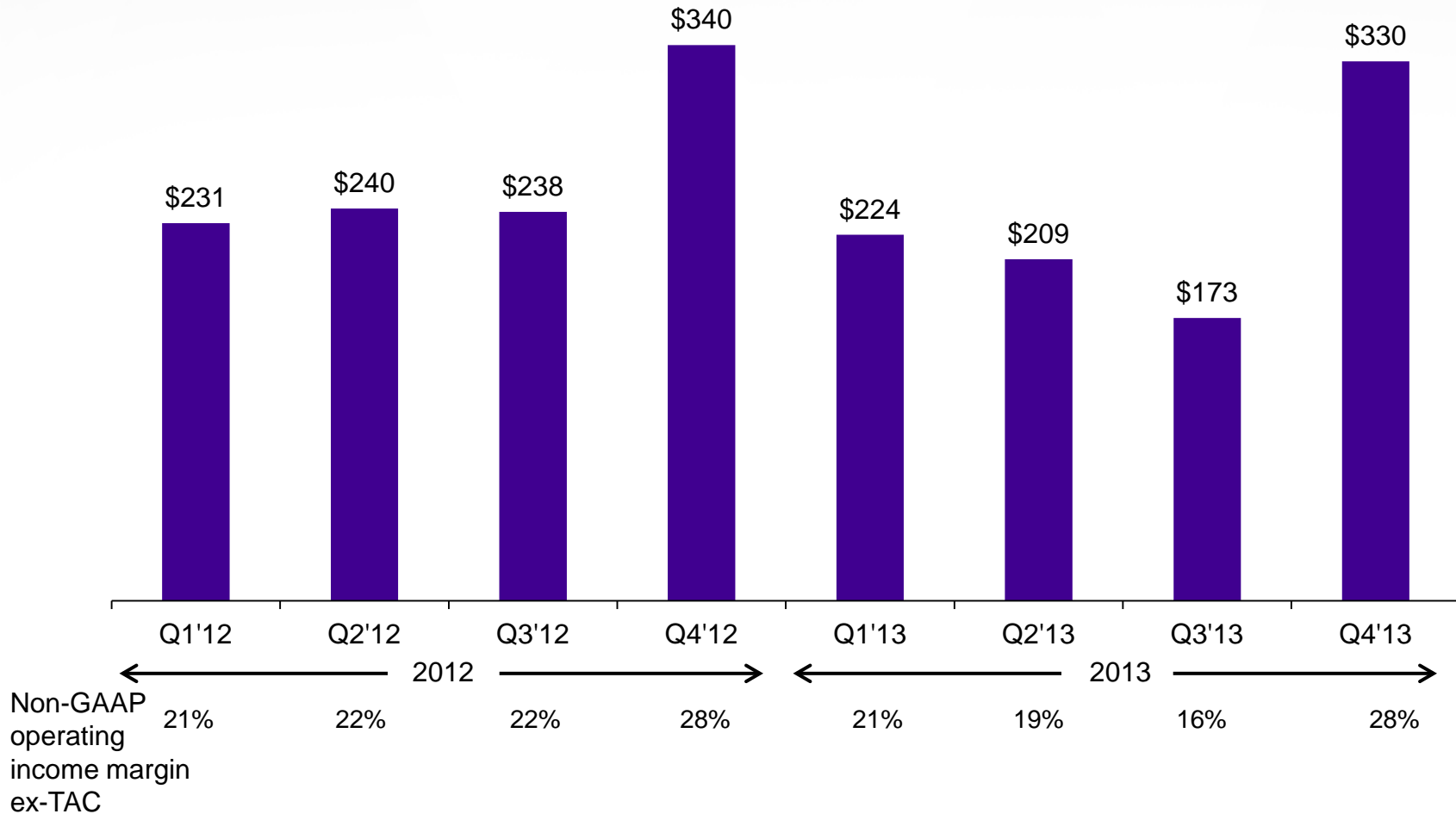
GAAP Income from Operations

\$ in millions



Non-GAAP Operating Income

\$ in millions



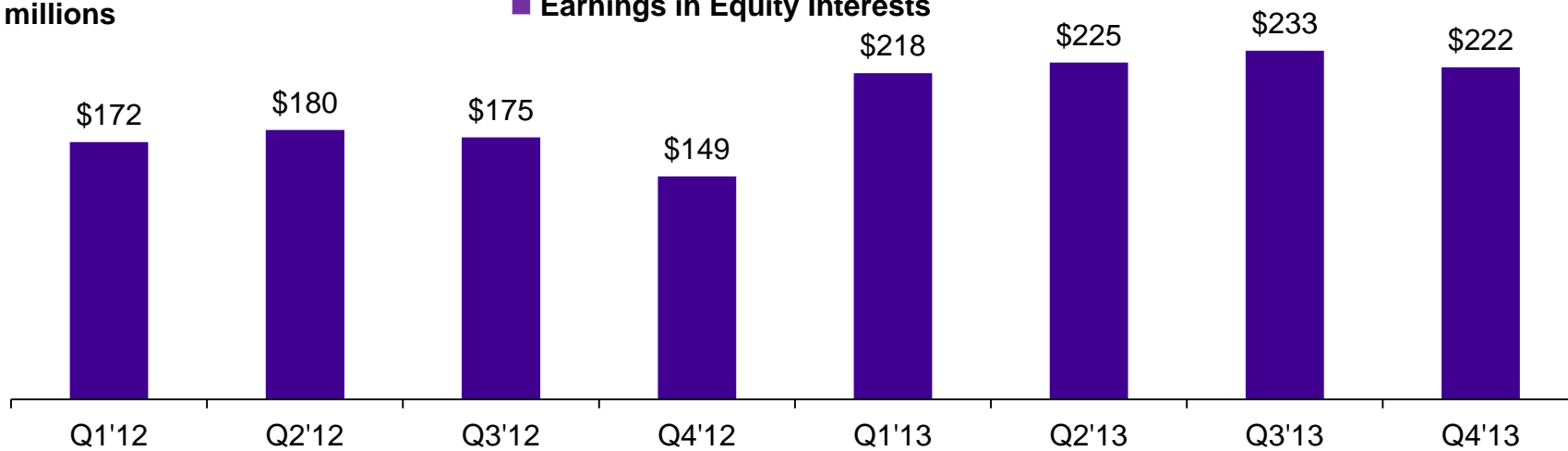
Earnings in Equity Interests*

Alibaba Group (~24% Ownership)	July - September		
\$ in millions	2012	2013	YOY
Revenue	\$1,177	\$1,776	51%
Gross profit	\$797	\$1,256	58%
Income (loss) from operations	(\$174) ⁽¹⁾	\$786	N/M
Net Income (loss)	(\$246) ⁽¹⁾	\$801	N/M
Net income (loss) attributable to ordinary shareholders of Alibaba Group	(\$246) ⁽¹⁾	\$792	N/M

Yahoo Japan (~35% Ownership)	July - September		
\$ in millions	2012	2013	YOY
Revenue	\$1,067	\$1,026	(4%)
Gross profit	\$901	\$843	(6%)
Income from operations	\$548	\$495	(10%)
Net Income	\$347	\$309	(11%)
Net income attributable to Yahoo Japan	\$346	\$307	(11%)

\$ in millions

■ Earnings in Equity Interests



N/M – Not meaningful

*The Company currently owns approximately 24% of Alibaba Group and approximately 35% of Yahoo Japan. The Company records its share of their results, any related amortization expense, and in the case of Alibaba Group any related tax impact, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income.

Note: The financial information presented in the tables above is derived from the financial statements of Alibaba Group (prepared under U.S. GAAP) and Yahoo Japan (prepared under Japanese GAAP). The Company adjusted the Yahoo Japan financial information to address differences between Japanese GAAP and U.S. GAAP that materially impact the presented amounts. Earnings from our equity interest in Yahoo Japan were recorded using an average exchange rate of 98.91 USD/JPY and 78.66 USD/JPY for the periods July-September 2013 and July-September 2012, respectively.

(1) Reflects payment of \$550 million to Yahoo in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement between Alibaba and Yahoo.

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Key Balance Sheet Metrics

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13
Assets								
Cash and marketable securities	\$2,652	\$2,401	\$9,427 ⁽¹⁾	\$6,022	\$5,395	\$4,791	\$3,215	\$4,997
Accounts receivable, net	\$942	\$1,041	\$954	\$1,008	\$944	\$942	\$844	\$980
Alibaba Group preference shares	–	–	\$803	\$816	\$831	–	–	–
Property and equipment, net	\$1,727	\$1,664	\$1,671	\$1,686	\$1,613	\$1,580	\$1,536	\$1,489
Total assets	\$14,963	\$14,658	\$20,414	\$17,103	\$16,491	\$16,226	\$14,906	\$16,805
Liabilities and Equity								
Current deferred revenue	\$179	\$177	\$309	\$297	\$308	\$295	\$294	\$294
Total current liabilities	\$1,070	\$1,077	\$3,506	\$1,290	\$1,139	\$1,178	\$1,193	\$1,340
Total equity	\$12,860	\$12,516	\$15,606	\$14,606	\$14,186	\$13,859	\$12,546	\$13,131
Total liabilities and equity	\$14,963	\$14,658	\$20,414	\$17,103	\$16,491	\$16,226	\$14,906	\$16,805
Market value of approximately 35% ownership in Yahoo Japan (at 12/31/13) ⁽²⁾								\$11,292
Value of approximately 24% ownership in Alibaba Group based on September 2012 transaction ⁽³⁾								\$8,100

(1) Cash and marketable securities was positively impacted by Yahoo's receipt of proceeds from the sale of Alibaba Group shares in Q3'12.

(2) Pre-tax market value is based on public market share price for Yahoo Japan on December 31, 2013.

(3) Pre-tax value is based on \$15.50 price per share at which Alibaba Group sold common equity to third-party purchasers in its most recent round of common equity funding (September 2012).

Key Cash Flow Highlights

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13
Net cash provided by operating activities, as adjusted	\$297	\$275	\$1,046 ⁽¹⁾	\$366 ⁽²⁾	\$219	\$331	\$298	\$348
Acquisition of property and equipment, net	\$110	\$106	\$140	\$150	\$70	\$82	\$78	\$109
Dividends received from equity investees	–	\$84	–	–	\$12	\$123	–	–
Excess tax benefits from stock-based awards	\$8	\$9	\$14	\$5	\$13	\$6	\$29	\$17
Free cash flow, as adjusted ⁽³⁾	\$196	\$93	\$920 ⁽¹⁾	\$221 ⁽⁴⁾	\$150	\$131	\$249	\$256
Acquisitions, net of cash acquired	–	–	–	\$6	\$10	\$1,014	\$163	\$60
Repurchases of common stock	\$71	\$456	\$190	\$1,451	\$775	\$653	\$1,685	\$231

(1) Includes a payment of \$550 million from Alibaba Group in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement with Alibaba Group.

(2) Including a cash tax payment of \$2.3 billion related to the sale of Alibaba Group shares, GAAP net cash provided by (used in) operating activities for Q4'12 was (\$1.9) billion.

(3) See Appendix Table 7 for calculation of free cash flow, as adjusted.

(4) Including a cash tax payment of \$2.3 billion related to the sale of Alibaba Group shares, free cash flow for Q4'12 was (\$2,045) million. See Appendix Table 7.

Business Outlook

\$ in millions	Q1'14 Current Outlook
GAAP Revenue	\$1,120 - \$1,160
Revenue ex-TAC	\$1,060 - \$1,100
Adjusted EBITDA	\$290 - \$330
Non-GAAP operating income	\$130 - \$170

Note: The above business outlook is based on information and expectations as of January 28, 2014. Yahoo does not intend, and undertakes no duty, to update this business outlook to reflect subsequent events or circumstances; however, Yahoo may update this business outlook or any portion thereof at any time at its discretion.

Appendix

Table 1 – Revenue ex-TAC by Segment

Reconciliations of GAAP Revenue to Revenue ex-TAC

	Quarterly Data								Yearly Data	
\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
Americas										
GAAP revenue	\$836	\$822	\$844	\$960	\$842	\$829	\$851	\$960	\$3,462	\$3,482
TAC	<u>(43)</u>	<u>(46)</u>	<u>(41)</u>	<u>(52)</u>	<u>(38)</u>	<u>(37)</u>	<u>(36)</u>	<u>(48)</u>	<u>(183)</u>	<u>(159)</u>
Revenue ex-TAC	\$793	\$776	\$802	\$908	\$805	\$791	\$815	\$912	\$3,279	\$3,323
EMEA										
GAAP revenue	\$134	\$128	\$96	\$114	\$95	\$97	\$89	\$104	\$472	\$385
TAC	<u>(46)</u>	<u>(34)</u>	<u>(17)</u>	<u>(17)</u>	<u>(12)</u>	<u>(11)</u>	<u>(10)</u>	<u>(10)</u>	<u>(114)</u>	<u>(43)</u>
Revenue ex-TAC	\$88	\$94	\$79	\$97	\$83	\$86	\$79	\$94	\$358	\$342
Asia Pacific										
GAAP revenue	\$251	\$268	\$262	\$272	\$203	\$209	\$199	\$202	\$1,053	\$814
TAC	<u>(55)</u>	<u>(57)</u>	<u>(54)</u>	<u>(56)</u>	<u>(17)</u>	<u>(16)</u>	<u>(12)</u>	<u>(8)</u>	<u>(222)</u>	<u>(53)</u>
Revenue ex-TAC	\$196	\$211	\$207	\$217	\$186	\$193	\$187	\$195	\$831	\$761
Worldwide										
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139	\$1,266	\$4,987	\$4,680
TAC	<u>(144)</u>	<u>(137)</u>	<u>(113)</u>	<u>(125)</u>	<u>(66)</u>	<u>(64)</u>	<u>(58)</u>	<u>(66)</u>	<u>(519)</u>	<u>(254)</u>
Revenue ex-TAC	\$1,077	\$1,081	\$1,089	\$1,221	\$1,074	\$1,071	\$1,081	\$1,200	\$4,468	\$4,426

Table 2 – Revenue Details

Reconciliations of GAAP Revenue to Revenue ex-TAC by Source

	Quarterly Data								Yearly Data	
\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
Display										
GAAP display revenue	\$511	\$535	\$506	\$591	\$455	\$472	\$470	\$553	\$2,143	\$1,950
YOY growth	(2%)	2%	1%	(3%)	(11%)	(12%)	(7%)	(6%)	(1%)	(9%)
Display TAC	<u>(57)</u>	<u>(62)</u>	<u>(54)</u>	<u>(70)</u>	<u>(53)</u>	<u>(49)</u>	<u>(49)</u>	<u>(62)</u>	<u>(244)</u>	<u>(213)</u>
Display revenue ex-TAC	\$454	\$473	\$452	\$520	\$402	\$423	\$421	\$491	\$1,899	\$1,737
Search										
GAAP search revenue	\$470	\$461	\$473	\$482	\$425	\$418	\$435	\$464	\$1,886	\$1,742
YOY growth	3%	(1%)	1%	4%	(10%)	(9%)	(8%)	(4%)	2%	(8%)
Search TAC	<u>(87)</u>	<u>(75)</u>	<u>(58)</u>	<u>(55)</u>	<u>(16)</u>	<u>(15)</u>	<u>(9)</u>	<u>(2)</u>	<u>(275)</u>	<u>(42)</u>
Search revenue ex-TAC	\$384	\$385	\$414	\$427	\$409	\$403	\$426	\$461	\$1,611	\$1,699
Other										
GAAP other revenue	\$240	\$222	\$223	\$273	\$261	\$245	\$234	\$249	\$958	\$989
YOY growth	1%	(7%)	(10%)	10%	9%	11%	5%	(9%)	(1%)	3%
Other TAC	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>3</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(0)</u>	<u>(1)</u>
Other revenue ex-TAC	\$240	\$222	\$223	\$273	\$264	\$245	\$233	\$248	\$958	\$989
Total										
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139	\$1,266	\$4,987	\$4,680
YOY growth	1%	(1%)	(1%)	2%	(7%)	(7%)	(5%)	(6%)	0%	(6%)
TAC	<u>(144)</u>	<u>(137)</u>	<u>(113)</u>	<u>(125)</u>	<u>(66)</u>	<u>(64)</u>	<u>(58)</u>	<u>(66)</u>	<u>(519)</u>	<u>(254)</u>
Revenue ex-TAC	\$1,077	\$1,081	\$1,089	\$1,221	\$1,074	\$1,071	\$1,081	\$1,200	\$4,468	\$4,426

Table 3 – Revenue and Direct Costs by Segment

\$ in millions	Q4'12	Q4'13
Revenue by segment:		
Americas	\$960	\$960
EMEA	114	104
Asia Pacific	<u>272</u>	<u>202</u>
Total revenue	1,346	\$1,266
TAC	<u>(125)</u>	<u>(66)</u>
Total revenue ex-TAC	\$1,221	\$1,200
Direct costs by segment:		
Americas	\$183	\$188
EMEA	41	46
Asia Pacific	60	46
Global operating costs ⁽¹⁾	443	442
Restructuring charges (reversals), net	77	8
Depreciation and amortization	169	148
Stock-based compensation expense	57	85
Goodwill impairment charge	<u>0</u>	<u>64</u>
Income from operations	\$190	\$174

(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.

Table 4 – Total Operating Expenses

Reconciliations of GAAP Total Operating Expenses to Total Operating Expenses less TAC, and to Non-GAAP Total Operating Expenses

	Quarterly Data								Yearly Data	
\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	FY2012	FY2013
GAAP total operating expenses	\$1,052	\$1,163	\$1,050	\$1,156	\$954	\$998	\$1,046	\$1,092	\$4,421	\$4,090
Less: Traffic acquisition costs	(144)	(137)	(113)	(125)	(66)	(64)	(58)	(66)	(519)	(254)
Total operating expenses less TAC	\$908	\$1,026	\$937	\$1,031	\$888	\$934	\$988	\$1,026	\$3,902	\$3,836
Less: Restructuring charges (reversals), net	6	129	25	(7) ⁽¹⁾	(7)	4	(1)	8	153 ⁽¹⁾	4
Less: Deal costs related to the sale of Alibaba Group shares	–	7	–	–	–	–	–	–	7	–
Less: Costs associated with the Korea business and its closure	–	–	–	99	–	–	–	–	99	–
Less: Stock-based compensation expense	56	50	61	57	45	68	81	85	224	279
Less: Goodwill impairment charge	=	=	=	=	=	=	=	64	=	64
Non-GAAP total operating expenses	\$846	\$840	\$851	\$882	\$851	\$862	\$908	\$870	\$3,419	\$3,489

(1) For Q4'12 and full year 2012, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in the line "Costs associated with the Korea business and its closure."

Table 5 – Adjusted EBITDA

Reconciliation of GAAP Net Earnings to Adjusted EBITDA

\$ in millions	Quarterly Data								Yearly Data	
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
GAAP net earnings	\$286	\$227	\$3,160	\$272	\$390	\$331	\$297	\$348	\$3,945	\$1,366
(a) Depreciation and amortization	153	158	170	169	162	160	158	148	649	629
(b) Stock-based compensation expense	56	50	61	57	45	68	81	85	224	278
(c) Restructuring charges, net	6	129	25	(7) ⁽¹⁾	(7)	4	(1)	8	153 ⁽¹⁾	4
(d) Other income, net	(2)	(20)	(4,608) ⁽²⁾	(18)	(17)	(24)	(5)	3	(4,648) ⁽²⁾	(43)
(e) Provision for income taxes	56	27	1,774	83	30	50	32	41	1,940	153
(f) Earnings in equity interests	(172)	(180)	(175)	(149)	(218)	(225)	(233)	(222)	(676)	(897)
(g) Net income attributable to noncontrolling interests	1	2	1	1	1	4	2	3	5	10
(h) Deal costs related to the sale of Alibaba Group shares	-	7	-	-	-	-	-	-	7	-
(i) Costs associated with the Korea business and its closure	-	-	-	99	-	-	-	-	99	-
(j) Goodwill impairment charge	-	-	-	-	-	-	-	64	-	64
Adjusted EBITDA	\$384	\$398	\$408	\$509	\$386	\$369	\$331	\$478	\$1,699	\$1,564
Adjusted EBITDA margin ex-TAC	36%	37%	37%	42%	36%	34%	31%	40%	38%	35%
GAAP net margin ⁽³⁾	23%	19%	N/M	20%	34%	29%	26%	28%	79%	29%

N/M – Not meaningful

(1) For Q4'12 and full year 2012, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (j).

(2) Q3'12 and full year 2012 include a \$4.6 billion gain on the sale of Alibaba Group shares.

(3) GAAP net margin is calculated as GAAP net earnings divided by GAAP revenue.

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Table 6 – Non-GAAP Operating Income

Reconciliation of GAAP Income from Operations to Non-GAAP Operating Income

\$ in millions	Quarterly Data								Yearly Data	
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
GAAP income from operations	\$169	\$55	\$152	\$190	\$186	\$137	\$93	\$174	\$566	\$590
(a) Restructuring charges, net	6	129	25	(7) ⁽¹⁾	(7)	4	(1)	8	153 ⁽¹⁾	4
(b) Deal costs related to the sale of Alibaba Group shares	–	7	–	–	–	–	–	–	7	–
(c) Costs associated with the Korea business and its closure	–	–	–	99	–	–	–	–	99	–
(d) Stock-based compensation expense	56	50	61	57	45	68	81	85	224	278
(e) Goodwill impairment charge	=	=	=	=	=	=	=	<u>64</u>	=	<u>64</u>
Non-GAAP operating income	\$231	\$240	\$238	\$340	\$224	\$209	\$173	\$330	\$1,049	\$935
GAAP operating income margin	14%	5%	13%	14%	16%	12%	8%	14%	11%	13%
Non-GAAP operating income margin ⁽²⁾	19%	20%	20%	25%	20%	18%	15%	26%	21%	20%
Non-GAAP operating income margin ex-TAC	21%	22%	22%	28%	21%	19%	16%	28%	23%	21%

(1) For Q4'12 and full year 2012, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (c).

(2) Non-GAAP operating income margin is calculated as Non-GAAP operating income divided by GAAP revenue.

Table 7 – Free Cash Flow

Reconciliation of GAAP Cash Flow from Operating Activities to Free Cash Flow and to Free Cash Flow, as adjusted

	Quarterly Data								Yearly Data	
\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
GAAP net cash provided by (used in) operating activities	\$297	\$275	\$1,046⁽¹⁾	(\$1,900)	\$219	\$331	\$298	\$348	(\$282)⁽¹⁾	\$1,195
Excess tax benefits from stock-based awards	8	9	14	5	13	6	29	17	36	64
Acquisition of property and equipment, net	(110)	(106)	(140)	(150)	(70)	(82)	(78)	(109)	(506)	(338)
Dividends received from equity investees	=	(84)	=	=	(12)	(123)	=	=	(84)	(135)
Free cash flow	\$196	\$93	\$920⁽¹⁾	(\$2,045)	\$150	\$131	\$249	\$256	(\$835)⁽¹⁾	\$786
Tax payment on sale of Alibaba Group shares	=	=	=	2,266	=	=	=	=	2,266	=
Free cash flow, as adjusted	\$196	\$93	\$920⁽¹⁾	\$221	\$150	\$131	\$249	\$256	\$1,431⁽¹⁾	\$786

(1) Includes a cash payment of \$550 million from Alibaba Group in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement with Alibaba Group.

Table 8 – Non-GAAP Net Earnings Per Share

Reconciliation of GAAP Net Earnings and GAAP Net Earnings Per Share – Diluted to Non-GAAP Net Earnings and Non-GAAP Net Earnings Per Share – Diluted

	Quarterly Data								Yearly Data	
\$ in millions; except per share amounts	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
GAAP net earnings	\$286	\$227	\$3,160	\$272	\$390	\$331	\$297	\$348	\$3,945	\$1,366
Adjustments	47	136	(2,690)	141	30	55	62	134	(2,366)	280
Non-GAAP net earnings	\$334	\$363	\$470	\$413	\$420	\$386	\$358	\$482	\$1,580	\$1,646
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139	\$1,266	\$4,987	\$4,680
GAAP net margin ⁽¹⁾	23%	19%	N/M	20%	34%	29%	26%	28%	79%	29%
Non-GAAP net margin ⁽²⁾	27%	30%	39%	31%	37%	34%	31%	38%	32%	35%
GAAP net earnings per share – diluted	\$0.23	\$0.18	\$2.64	\$0.23	\$0.35	\$0.30	\$0.28	\$0.33	\$3.28	\$1.26
Non-GAAP net earnings per share – diluted	\$0.27	\$0.30	\$0.39	\$0.35	\$0.38	\$0.35	\$0.34	\$0.46	\$1.31	\$1.52
Diluted shares outstanding	1,226	1,222	1,195	1,168	1,108	1,095	1,042	1,039	1,203	1,071

N/M – Not meaningful

(1) GAAP net margin is calculated as GAAP net earnings divided by GAAP revenue.

(2) Non-GAAP net margin is calculated as non-GAAP net earnings divided by GAAP revenue.

Note: All per share amounts are based on fully diluted share counts. Please refer to Appendix Table 9 for details on adjustments.

Table 9 – Non-GAAP Net Earnings

Reconciliation of GAAP Net Earnings to Non-GAAP Net Earnings, with Details on Adjustments

\$ in millions	Quarterly Data								Yearly Data	
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	2012	2013
GAAP net earnings	\$286	\$227	\$3,160	\$272	\$390	\$331	\$297	\$348	\$3,945	\$1,366
(a) Restructuring charges, net	6	129	25	(7) ⁽¹⁾	(7)	4	(1)	8	153 ⁽¹⁾	4
(b) Deal costs related to the sale of Alibaba Group shares	–	7	–	–	–	–	–	–	7	–
(c) Gain related to sale of Alibaba Group shares	–	–	(4,603)	–	–	–	–	–	(4,603)	–
(d) Costs associated with the Korea business and its closure	–	–	–	99	–	–	–	–	99	–
(e) Stock-based compensation expense	56	50	61	57	45	68	81	85	224	278
(f) Goodwill impairment charge	–	–	–	–	–	–	–	64	–	64
(g) To adjust the provision for income taxes to exclude the tax impact of items (a) - (f)	(14)	(49)	1,827	(9)	(8)	(17)	(18)	(22)	1,754	(65)
Non-GAAP net earnings	\$334	\$363	\$470	\$413	\$420	\$386	\$358	\$482	\$1,580	\$1,646

(1) Q4'12 and full year 2012 exclude the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (d).

Table 10 – Business Outlook Reconciliations

\$ in millions	Q1'14 Current Outlook
Revenue ex-TAC	
GAAP Revenue	\$1,120 - \$1,160
Less: TAC	<u>\$60</u>
Revenue ex-TAC	\$1,060 - \$1,100
Adjusted EBITDA⁽¹⁾:	
Depreciation and amortization	\$160
Stock-based compensation	\$100 - \$110
Non-GAAP operating income:	
GAAP income from operations	\$30 - \$60
Excluding: Stock-based compensation	<u>\$100 - \$110</u>
Non-GAAP operating income	\$130 - \$170

(1) Yahoo has not reconciled its adjusted EBITDA outlook to the comparable forward-looking GAAP financial measure, net earnings, because it is unable to provide a forward-looking estimate of certain reconciling items between net earnings and adjusted EBITDA, including: other income, net; provision for income taxes; earnings in equity interests; and net income attributable to noncontrolling interests. Certain factors that are materially significant to Yahoo's ability to estimate these items are out of the Company's control and/or cannot be reasonably predicted. Accordingly, a reconciliation to net earnings is not available without unreasonable effort.

Note: The above business outlook is based on information and expectations as of January 28, 2014. Yahoo does not intend, and undertakes no duty, to update the business outlook to reflect subsequent events or circumstances; however, Yahoo may update the business outlook or any portion thereof at any time at its discretion.

Table 11 – Additional Reconciliations

- **YOY Growth in Revenue ex-TAC adjusted to exclude certain items:** Worldwide GAAP Revenue was \$4,987 million in FY'12 and \$4,680 million in FY'13, a decrease of 6.2%. Excluding TAC of \$519 million in FY'12 and \$254 million in FY'13, and excluding the FY'12 revenue ex-TAC of our discontinued Korean business, the difference in Microsoft RPS guarantee payments year over year, and the effect of foreign exchange rate movements (which together had a net impact of \$150 million), worldwide revenue ex-TAC (adjusted) in FY'12 and FY'13 would have been \$4,278 million and \$4,385 million, respectively, an increase of 2.5% year-over-year.
- **Non-GAAP Tax Rate** – On a GAAP basis in Q4'13, provision for income taxes was \$42 million and tax rate was 24%. Excluding the effect of stock-based compensation (which lowered provision for income taxes by \$19 million), net restructuring charges (which lowered provision for income taxes by \$3 million) and the goodwill impairment charge in Q4'13 (which lowered taxable income by \$64 million), provision for income taxes, as adjusted, would have been \$64 million and tax rate, as adjusted, would have been 19.5% on a non-GAAP basis.