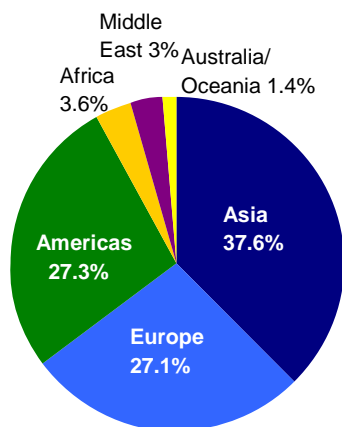


Online Advertisement

The New Face of Internet Brands

Regional Split of Internet Users



Source: www.internetworldstats.com

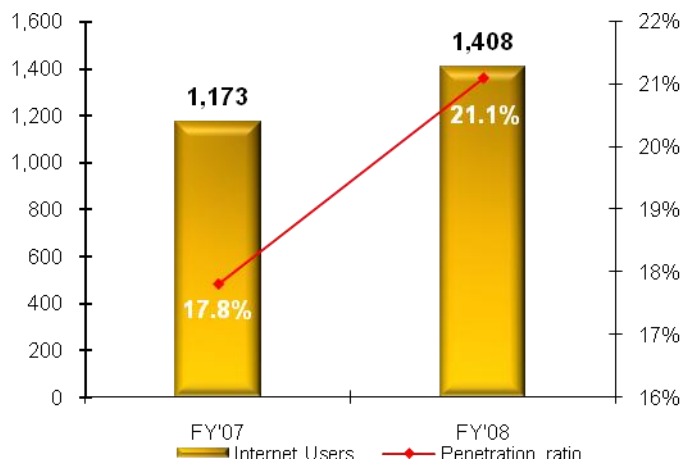
After the Radio and Television, the Internet has wildly pervaded across the globe resulting in huge business and marketing benefits. The Internet continues to grow at strong rates globally as improvements in access, services, and content drive more users to spend more time and money online. The declining cost of broadband over time should also help spur greater Internet penetration and use globally. There are more than 1.41bn internet users at end of March'08, representing a usage increase of 290% from FY'00, with a penetration rate of 21.1%.

Asia is world's largest internet market contributing about 38% of the total internet users in the world; China having more than 210MM internet users (2000 - 2007 CAGR of 833%) and India being the 3rd biggest internet user region of Asia with 60MM users (2000 - 2007 CAGR of 1,100%). Improving penetration level at 5.3% in India (3.7% in 2006) and 15.9% in China (12.3% in 2006) offers the huge opportunity. These rapidly growing economies of Asia are expected to provide large internet audience with attractive opportunities to monetize the internet through advertising and e-commerce.

Internet is becoming an increasingly attractive medium for vendors to sell or promote to enable sale of their products and services.

Growing penetration of internet users

Global Internet Users



Source: ARC Research, Industry Data

Online Advertising

Online advertising is a form of advertising that uses the Internet and World Wide Web in order to deliver marketing messages and attract customers. Examples of online advertising include contextual ads on search engine results pages, banner ads, Social network advertising, advertising networks and e-mail marketing. A major result of online advertising is information and content that is not limited by geography or time

Online advertising is advertising on internet

Online advertisement and Emerging Markets

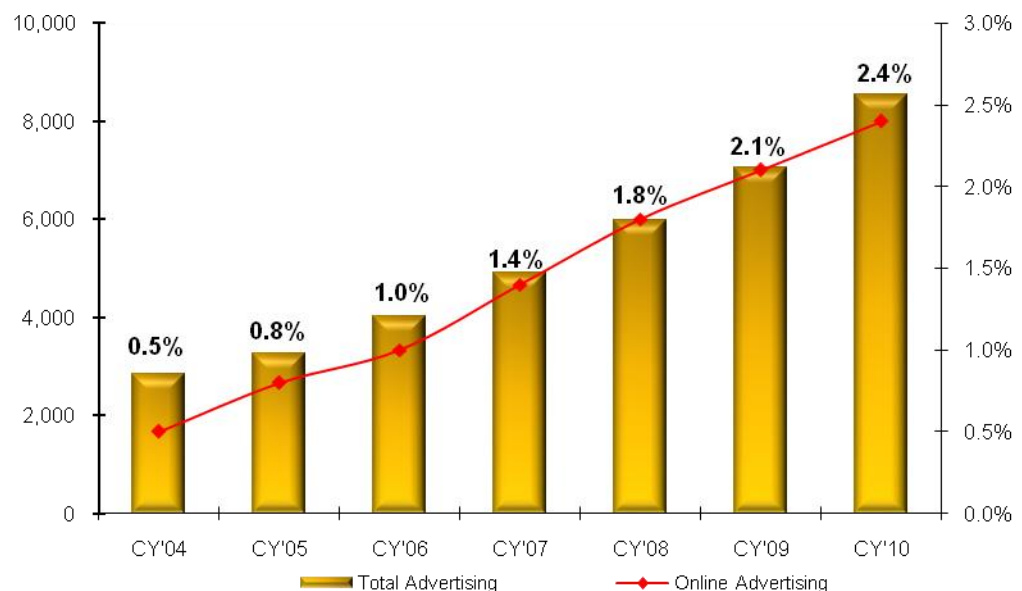
India and China are the two fastest growing internet markets in terms of no. of users and in terms of real size (users and online advertisement spending). China (210MM) is number one in Asia in terms of numbers of internet users followed by Japan (88MM) and India (60MM). Excluding Hong Kong, China's penetration ratio (Internet users/total population) nears 16% while India has very low penetration of just 5.3%, compared to Japan (69%), South Korea (71%), Malaysia (60%), Singapore (53%) and Asia average of 13.7%

India

Internet growth lead by youth - Over 60% of internet users in India are between the age of 15 to 30, which is the core target growth for companies in online advertising industry. Active internet users have increased by more than 50% in 1 year. Low cost broadband has triggered growth in broadband subscriber base. There were about 2,520,000 broadband subscribers at the end of FY'07 making it the 19th in world rankings based on highest number of subscribers. The penetration for broadband subscribers was just 0.2% of total population of India. Broadband subscribers' base is growing at 15% per month.

Online advertisement and India - Online advertising is one of the most happening and growing sectors in India. It achieved the highest growth rate in 2007 amongst all type of advertisements (Radio, Television, Print and Out of Home) at 69%. Online advertisement market in India is estimated to be around \$68MM contributing just 1.4% of the advertising market size of \$4,900MM. Online advertisement is expected to be around \$275MM by end of CY'12 with penetration increasing to 2.4% by CY'10.

Online advertising penetration in India is on a rise



Key Players in the industry

Google	<ul style="list-style-type: none"> ✓ Specializes in Internet search engines and related services with around 99% of revenues from advertising through its programmes- Adword and Adsense, under which it deals with more than 150,000 advertisers. ✓ Maintains over 450,000 servers, arranged in racks located in clusters in cities around the world, and spends approximately 13% of revenues on R&D every year
Yahoo! Inc	<ul style="list-style-type: none"> ✓ Internet and media communications company generating most of its revenues from banner advertising sales and sponsorship advertisements. ✓ Relies on private third-party providers for the principal Internet connections, co-location of a significant portion of the data servers and network access.
Rediff	<ul style="list-style-type: none"> ✓ Offers Internet destinations focused on India and the global Indian community. The Company's Web site consists of various interest specific channels, community features, local language editions, search capabilities, and online shopping. ✓ Uses Apache and IIS servers located in India and which run on Linux, and Windows platforms. Servers in India are maintained mainly at Videsh Sanchar Nigam Limited and the Reliance Data Centre in Mumbai. Rediff has about 59MM registered users
Infoedge	<ul style="list-style-type: none"> ✓ Provides recruitment classifieds and related services through Naukri.com and Quadrangle business divisions..It also provides matrimonial and property related classifieds & related services through Jeevansathi.com and 99acres .com divisions respectively
Northgate	<ul style="list-style-type: none"> ✓ Leading Indian Internet Advertising company with strong presence in the ad aggregation space through its in-house developed ad serving engine Axill, under which it deals with over 15,000 advertisers and 7,300 publishers ✓ Core strength lies in its server farms located in London and Hong Kong, with a capacity to serve 25mn users ✓ Successful foray into social networking and education consultancy (bharatstudent.com), online gaming (egglad.com), online file sharing (Ziddu.com) and VoIP services (Globe7)
Tencent	<ul style="list-style-type: none"> ✓ Leading provider of Internet service and mobile value-added services in China. Three principal lines of business are: Internet value-added services, mobile and telecommunications value-added services and online advertising. Tencent has about 300MM registered users
Baidu	<ul style="list-style-type: none"> ✓ Provides Chinese language Internet search services primarily in China. It offers a Chinese language search platform, which consists of Web sites and online application software; and Baidu Union, a network of third-party Web sites and software applications ✓ Baidu spends about 8% of revenues on R&D every year with 15% of total employees in R&D department

Source: ARC Research and Company data

Financials of Key Players

	Revenue	Sales	EBITDA		Net Margin		ROE	
	US\$ MM	Growth	FY'07	FY'08	FY'07	FY'08	FY'07	FY'08
Google	16,594	56%	38%	36%	29%	25%	23%	21%
Yahoo	6,969	8%	19%	16%	12%	9%	8%	7%
Rediff	32	12%	21%	14%	24%	16%	10%	NA
Info Edge	51	57%	27%	29%	19%	25%	23%	23%
Northgate	130	87%	20%	18%	19%	13%	34%	22%
Tencent	554	36%	42%	45%	38%	41%	32%	35%
Baidu	239	123%	39%	41%	35%	36%	26%	38%

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