



June 13, 2013

Summary of Earnings Report for the Fiscal Year Ended April 30, 2013

Name of listed company	ZAPPALLAS Inc.	Listed stock exchange: TSE first section
Code	3770	(URL http://www.zappallas.com)
Representative:	Mari Kawashima, Chairperson and CEO	
Contact:	Masato Kobayashi, Director	TEL +81-(0) 3-6434-1036
Scheduled date for shareholders' meeting:	July 26, 2013	Scheduled date of payment of cash dividends: July 29, 2013
Scheduled date of filing Financial Reports:	July 29, 2013	Additional material of financial result Yes Result meeting Yes

1. Consolidated Results for the fiscal year ended April 30, 2013 (from May 1, 2012 to April 30, 2013) (Millions of Yen, rounded down)

(1) Consolidated Business Results (%: compare with the previous period)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Year ended April 30, 2013	8,889	△ 11.9	1,422	△ 44.9	1,655	△ 36.2	917	△ 41.9
Year ended April 30, 2012	10,088	△ 14.6	2,583	△ 15.9	2,594	△ 16.0	1,579	△ 2.9

	Net Income per Share	Diluted Net Income per Share	Net Income on Equity	Ordinary Income on Total Assets	Operating Income Margin
	Yen	Yen	%	%	%
Year ended April 30, 2013	7,295.42	7,227.02	11.3	16.9	16.0
Year ended April 30, 2012	12,669.27	12,457.22	21.3	28.5	25.6

(Notes) Investment gain or loss on equity method: April 30, 2013 0 million yen, April 30, 2012 3 million yen

(2) Consolidated Financial Conditions

	Total Assets	Net Assets	Shareholders' equity ratio	Net Assets per Share
	¥ million	¥ million	%	Yen
Year ended April 30, 2013	10,126	8,409	82.4	66,182.87
Year ended April 30, 2012	9,417	8,032	84.4	63,558.81

(Notes) Shareholders' Equity: April 30, 2013 8,347 million yen, April 30, 2012 7,946 million yen

(3) Consolidated Cash Flow

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	¥ million	¥ million	¥ million	¥ million
Year ended April 30, 2013	1,474	△ 2,125	212	4,492
Year ended April 30, 2012	1,637	△ 840	△ 583	4,799

2. Dividends Information

Record Date	Dividend per Share					Yearly Dividend	Dividend Payout Ratio (Consolidated)	Dividend on Equity (Consolidated)
	Q1	Interim	Q3	Year end	Yearly			
Year ended April 30, 2013	Yen -	Yen 0.00	Yen -	Yen 4,200.00	Yen 4,200.00	¥ million 525	% 33.2	% 7.1
Year ended April 30, 2012	Yen -	Yen 0.00	Yen -	Yen 4,200.00	Yen 4,200.00	¥ million 529	% 57.6	% 6.5
Year Ending April 30, 2014 (Forecast)	Yen -	Yen 0.00	Yen -	Yen 2,200.00	Yen 2,200.00	-	44.8	-

3. Forecast of Consolidated Financial Results for the Year Ending April 30, 2014 (from May 1, 2013 to April 30, 2014)

(%: comparison with the previous period)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	Yen
Interim	4,080	△ 10.8	140	△ 84.6	140	△ 84.8	80	△ 86.6	634.29
Full Year	10,100	13.6	1,000	△ 29.7	1,000	△ 39.6	620	△ 32.4	4,915.76

(1) Consolidated Management Analysis Report

In terms of the environment surrounding our mobile business, the size of the mobile content market, comprising the mobile content market and mobile commerce market, was 1.906 trillion yen in fiscal year 2011 (growth of 15.2% from the previous fiscal year), and mobile markets continued to grow (*1). Of the 734.5 billion yen mobile content market (growth of 13.6% from the previous fiscal year), the feature phone (*2) market remained mostly unchanged and accounted for 653.9 billion yen (growth of 1.1% from the previous fiscal year). In addition, the 80.6 billion yen smartphone (*3) market was added beginning the same year, and its explosive rise drove the growth for the entire mobile content market. Investigation of the smartphone market size began from fiscal year 2011.

Large changes are taking place in the environment surrounding the mobile content market. It is forecast that the percentage of smartphone contracts will grow from 37.2% at the end of March 2013 to 49.3% by the end of March 2014 (*4).

In this kind of environment, as mobile users continue to transition from feature phones to smart phones, the Zappallas Group has in response taken a variety of steps in our content business for both feature phone users and smartphone users.

In our commerce business, we worked to expand our product lineup to ensure a full lineup of original, high value-added products, and also focused on growing the new commerce sites that were launched during this consolidated fiscal year.

In addition, in December 2012 we established a subsidiary in the United States. Through this subsidiary we acquired the divination site operations from a U.S. company, and have started full-scale business operations overseas.

During this consolidated fiscal year, we incurred an extraordinary loss that included an impairment loss of 270.971 million yen and a loss on disposal of inventory of 21.398 million yen for some business assets including the profile site (*5) "Zenryaku Profile" aimed at junior high and high school students, and other content and commerce-related assets.

As a result of the above, net sales during this consolidated fiscal year were 8,889.734 million yen (down 11.9% from the previous fiscal year). Operating income was 1,422.633 million yen (down 44.9% from the previous fiscal year). Ordinary income was 1,655.285 million yen (down 36.2% from the previous fiscal year), and net income was 917.281 million yen (down 41.9% from the previous fiscal year).

*1: *Size of Mobile Content Markets in 2011*, from media materials released by the Mobile Media Forum on July 20, 2012.

*2: These are conventional types of mobile phones which are centered primarily on communication functions, but which also incorporate other functions such as a camera and one-segment television reception.

*3: These are multifunction portable information terminals such as the iPhone and Android devices, and functions equivalent to a personal computer.

*4: According to a study by MM Research Institute.

*5: This service allows the user to create a page introducing himself/herself on the Internet simply by answering some easy questions.

An overview of the business conditions by segment is as follows.

1) Content business

In the content business, we worked actively to incorporate the needs of the growing numbers of smartphone users, and also continued to invest in new content and expand our menu of services with per-use fees.

During this consolidated fiscal year, we added 194 sites of official content for mobile devices, including both feature phones and smartphones, and introduced 110 new sites (*6) for PC content. In addition, we expanded the systems of charging for content in order to meet a diverse range of user needs.

As the switch from feature phones to smartphones continues, the number of subscribers paying monthly fees for official feature phone content declined. On the other hand, the programs which we carried out aimed at strengthening smartphone sites and increasing the number of placed advertisements paid off, resulting in a steady increase in subscribers paying monthly fees for official smartphone content, and as a result the total number of mobile device subscribers paying monthly fees grew to 1.376 million.

As a result of the above, net sales for this consolidated fiscal year were 6,693.718 million yen (down 15.4% from the previous fiscal year), and segment income was 2,327.935 million yen (down 28.0% from the previous fiscal year).

*6: PC content sites include official content for ISP, as well as sites providing content for our company's original website "Cocoloni divination hall".

2) Commerce business

The commerce business of the Zappallas Group includes the e-commerce business (mobile device and PC) and B×E Inc. (acquired as a consolidated subsidiary on November 30, 2011), a company engaged in wholesale and retail sales of organic and natural cosmetics.

For the e-commerce business, in keeping with the basic policy of the Zappallas Group of focusing on LTV (*7) as the most important coefficient, our policy in this business is to "offer highly original and high added-value products." In line with this policy, among the new commerce sites that were started during the first quarter of the consolidated fiscal year, we made active efforts to improve name recognition and expand the product lineup at "Fujimaki Department Store," which were successful and resulted in steady growth. However due to launch delays at other new commerce sites such as the baby goods site "cuna select," e-commerce sales have continued to decline.

Responding to the growth in the market for organic and natural cosmetics, B×E Inc. renovated its product lineup, however it was unable to keep up with the changes in the business environment and there was little growth in sales. In addition, the costs of advertising measures conducted at the time of the renovation were a burden that contributed to the poor results.

As a result of the above, net sales for this consolidated fiscal year were 1,648.672 million yen (down 8.9% from the previous fiscal year), and the segment loss was 71.146 million yen (down 16.2% from the previous fiscal year).

*7: Abbreviation for "lifetime value". Refers to future benefit that the customers bring to the company.

3) Overseas business

The overseas business of the Zappallas Group is now included in the business results after our wholly-owned subsidiary in the United States Zappallas, Inc. (founded December 7, 2012) acquired the divination business operator Daily Insight Group (hereafter, "DIG").

Business has continued to be strong after the acquisition of DIG, and during the fourth quarter of this consolidated fiscal year, we began adding staff and taking other steps to reinforce the system foundation in preparation for future growth.

Because this US subsidiary ends its fiscal year in March, only the results up to March 31, 2013 are within the range of consolidation for this consolidated fiscal year.

As a result of the above, net sales for this consolidated fiscal year were 141.278 million yen, and the segment loss was 1.042 million yen.

4) Other business

In other business, we continued to focus on sales of advertising for "Zenryaku Profile," our profile site aimed at junior high and high school students, and also on contracted mobile site development and operation of "Y! Suica" and other sites. In addition, we were actively involved in developing new sites and new services.

As a result of the above, net sales for this consolidated fiscal year were 406.065 million yen (up 10.9% from the previous fiscal year) and the segment loss was 70.149 million yen (compared to a segment income of 127.910 million yen in the previous fiscal year).

(Forecast for the next fiscal year)

As users continue to shift from feature phones to smartphones, large changes are taking place in the environment surrounding our mobile business. In this kind of environment, the policy of the Zappallas Group is to carry out a "lifetime platform" strategy for providing a diverse range of service to meet the needs of many different age groups, aiming to ensure that our major customer segments continue to use our group's services as they age. Specifically, we will meet a diverse range of user needs by focusing on identifying and growing new content and services that will form the second business base after divination, and on creating mechanisms for attracting customers that is not dependent on a particular device. Based on this policy, we will dedicate

ourselves to optimizing SG&A expenses and other cost management as we carry out a multifaceted business, investin advertising and publicity aimed at developing and growing new areas of business, and take other active steps to strengthen our business foundation.

As a result of the above, our forecast for the next fiscal year is the following: net sales of 10.1 billion yen (up 13.6% from this fiscal year), operating income of 1 billion yen (down 29.7% from this fiscal year), ordinary income of 1 billion yen (down 39.6% from this fiscal year), and net income of 620 million yen (down 32.4% from this fiscal year).

(2) Basic income distribution policy and dividends for the current and next fiscal years

Zappallas recognizes that the return of profits to shareholders is an important issue for our company, and our basic policy is to pay steady dividends while ensuring the internal reserves necessary to strengthen our financial standing and actively develop our business. We have in the past decided the dividend amount with overall consideration for factors including expansion of internal reserves, business investment, and the business results for each year, aiming for a dividend payout ratio of 30% of net income for each year. Based on this policy, at the 14th regular general meeting of shareholders scheduled for July 26, 2013 we are planning to propose an ordinary dividend of 4,200 yen per share to be paid to the shareholders who were registered as of April 30, 2013. This represents a dividend payout ratio (consolidated) of 57.6%.

For the dividend to be paid in the next fiscal year, as a result of our focus on group management due to the increase in subsidiaries, we will partially revise our income distribution policy so that dividends are reviewed each year, aiming for a dividend payout ratio of 30% or more of consolidated net income for the year. Based on this policy, we expect that income distribution for the next fiscal year will be a per-share dividend of 2,200 yen.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2012)	Current consolidated fiscal year (ended April 30, 2013)
Assets		
Current assets		
Cash and savings	4,296,316	4,188,950
Accounts receivable	2,091,595	1,696,899
Marketable securities	503,535	503,856
Merchandise and products	26,644	67,658
Income taxes receivable	—	88,167
Deferred tax assets	132,133	79,958
Other	77,820	114,065
Allowance for doubtful accounts	(30,498)	(15,240)
Total current assets	7,097,546	6,724,317
Fixed assets		
Tangible fixed assets		
Buildings and structures	153,011	103,947
Accumulated depreciation	(86,958)	(45,291)
Buildings and structures (net)	66,053	58,656
Tools, appliances, and fixtures	343,224	331,286
Accumulated depreciation	(234,229)	(252,676)
Tools, appliances, and fixtures (net)	108,994	78,610
Total tangible fixed assets	175,048	137,266
Intangible fixed assets		
Software	467,590	369,462
Goodwill	585,811	1,991,846
Other	38,274	53,416
Total intangible fixed assets	1,091,676	2,414,726
Investments and other assets		
Investment securities	*1 608,471	500,152
Deferred tax assets	193,980	225,668
Other	250,439	124,180
Total investments and other assets	1,052,891	850,001
Total fixed assets	2,319,615	3,401,994
Total assets	9,417,162	10,126,311

(Units: 1,000s yen)

	Previous consolidated fiscal year (ended April 30, 2012)	Current consolidated fiscal year (ended April 30, 2013)
Liabilities		
Current liabilities		
Accounts payable - trade	332,167	304,100
Accounts payable - other	485,419	454,311
Long-term loans payable scheduled for repayment within 1 year	31,956	190,643
Corporate tax payable	348,684	384
Provision for web-point certificates	14,736	10,685
Provision for sales returns	31,754	—
Other	75,336	124,434

当連結会
(平成25年)

Total current liabilities	1,320,055	1,084,557
Fixed liabilities		
Long-term loans payable	62,763	630,790
Other	1,440	1,008
Total fixed liabilities	64,203	631,798
Total liabilities	1,384,258	1,716,355
Net assets		
Shareholders' equity		
Capital stock	1,458,343	1,464,343
Capital surplus	1,383,718	1,389,718
Retained earnings	6,599,800	6,952,913
Treasury stock	(1,495,870)	(1,418,644)
Total shareholders' equity	7,945,992	8,388,331
Accumulated other comprehensive income		
Net unrealized holding gains on other securities	448	(1,804)
Foreign currency translation adjustments	—	(39,212)
Total accumulated other comprehensive income	448	(41,016)
Share warrants	38,161	—
Minority interests	48,301	62,641
Total net assets	8,032,903	8,409,955
Total liabilities and net assets	9,417,162	10,126,311

(2) Consolidated Profit and Loss Statement and Consolidated Comprehensive Income Statement
(Consolidated Profit and Loss Statement)

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Sales	10,088,128	8,889,734
Cost of sales	3,227,597	2,771,345
Gross profit on sales	6,860,531	6,118,389
Reversal of allowance for sales returns	31,754	—
Provision of allowance for sales returns	14,342	10,476
Net gross profit	6,843,118	6,128,865
Sales, general, and administrative expenses	*1 4,259,459	*1 4,706,231
Operating income	2,583,659	1,422,633
Non-operating income		
Interest income	1,508	1,560
Foreign exchange profit	—	217,957
Equity in earnings of affiliates	3,852	—
Technical support fees	2,185	—
Reversal of allowance for doubtful accounts	5,831	15,257
Other	4,508	4,441
Total non-operating income	17,885	239,218
Non-operating expenses		
Interest paid	2,885	4,436
Stock issuance cost	82	82
Loss on investment partnership	4,101	1,952
Equity in investment losses	—	18
Other	195	76
Total non-operating expenses	7,264	6,566
Ordinary income	2,594,280	1,655,285
Extraordinary income		
Compensation for cancellation of consignment contract	55,346	—
Other	190	—
Total extraordinary income	55,537	—
Extraordinary loss		
Loss on retirement and sales of fixed assets	*2 3,905	*2 3,619
Impairment loss	*3 69,625	*3 270,971
Loss on valuation of investment securities	24,683	—
Loss on disposal of inventory	—	21,398
Total extraordinary loss	98,214	295,989
Net income before income taxes and minority interest	2,551,602	1,359,296
Income taxes – current	998,266	407,139
Income taxes – deferred	(28,597)	20,535
Total income taxes	969,668	427,674
Net income before minority interests	1,581,934	931,621
Minority interests in income	2,532	14,339
Net income	1,579,401	917,281

(Consolidated Comprehensive Income Statement)

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Income before minority interests	1,581,934	931,621
Other comprehensive income		
Unrealized holding gains on other securities	2,168	(2,252)
Foreign currency translation adjustments	—	(39,212)
Total other comprehensive income	2,168	(41,465)
Comprehensive income	1,584,102	890,156
(attributable to)		
Owners of the parent company	1,581,570	875,816
Minority interests	2,532	14,339

(3) Consolidated Statement of Changes in Shareholders' Equity

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Shareholder's equity		
Capital stock		
Balance at beginning of fiscal year	1,452,343	1,458,343
Changes during fiscal year		
Issue of new stock	6,000	6,000
Total changes during fiscal year	6,000	6,000
Balance at end of fiscal year	1,458,343	1,464,343
Capital surplus		
Balance at beginning of fiscal year	1,377,718	1,383,718
Changes during fiscal year		
Issue of new stock	6,000	6,000
Total changes during fiscal year	6,000	6,000
Balance at end of fiscal year	1,383,718	1,389,718
Retained earnings		
Balance at beginning of fiscal year	5,542,983	6,599,800
Changes during fiscal year		
Dividends paid	(522,585)	(525,105)
Net income	1,579,401	917,281
Disposal of treasury stock	—	(39,064)
Total changes during fiscal year	1,056,816	353,112
Balance at end of fiscal year	6,599,800	6,952,913
Treasury stock		
Balance at beginning of fiscal year	(1,495,870)	(1,495,870)
Changes during fiscal year		
Disposal of treasury stock	—	77,226
Total changes during fiscal year	—	77,226
Balance at end of fiscal year	(1,495,870)	(1,418,644)
Total shareholders' equity		
Balance at beginning of fiscal year	6,877,175	7,945,992
Changes during fiscal year		
Issue of new stock	12,000	12,000
Dividends paid	(522,585)	(525,105)
Net income	1,579,401	917,281
Disposal of treasury stock	—	38,162
Total changes during fiscal year	1,068,816	442,338
Balance at end of fiscal year	7,945,992	8,388,331

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Accumulated other comprehensive income		
Unrealized holding gains on other securities		
Balance at beginning of fiscal year	(1,720)	448
Changes during fiscal year		
Net change in items other than shareholders' equity	2,168	(2,252)
Total changes during fiscal year	2,168	(2,252)
Balance at end of fiscal year	448	(1,804)
Foreign currency translation adjustments		
Balance at beginning of fiscal year	—	—
Changes during fiscal year		
Net change in items other than shareholders' equity	—	(39,212)
Total changes during fiscal year	—	(39,212)
Balance at end of fiscal year	—	(39,212)
Total accumulated other comprehensive income		
Balance at beginning of fiscal year	(1,720)	448
Changes during fiscal year		
Net change in items other than shareholders' equity	2,168	(41,465)
Total changes during fiscal year	2,168	(41,465)
Balance at end of fiscal year	448	(41,016)
Share warrants		
Balance at beginning of fiscal year	—	38,161
Changes during fiscal year		
Net change in items other than shareholders' equity	38,161	(38,161)
Total changes during fiscal year	38,161	(38,161)
Balance at end of fiscal year	38,161	—
Minority interests		
Balance at beginning of fiscal year	52,391	48,301
Changes during fiscal year		
Net change in items other than shareholders' equity	(4,089)	14,339
Total changes during fiscal year	(4,089)	14,339
Balance at end of fiscal year	48,301	62,641

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Total net assets		
Balance at beginning of fiscal year	6,927,846	8,032,903
Changes during fiscal year		
Issue of new stock	12,000	12,000
Dividends paid	(522,585)	(525,105)
Net income	1,579,401	917,281
Disposal of treasury stock	–	38,162
Net change in items other than shareholders' equity	36,240	(65,287)
Total changes during fiscal year	1,105,057	377,051
Balance at end of fiscal year	8,032,903	8,409,955

(4) Consolidated Statement of Cash Flows

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Cash flows from operating activities		
Net income before income taxes	2,551,602	1,359,296
Depreciation and amortization	295,620	461,130
Amortization of goodwill	29,820	113,896
Amortization of long-term prepaid expenses	4,363	11,535
Stock issuance cost	82	82
Increase(decrease) in allowance for doubtful accounts	(5,831)	(15,257)
Increase (decrease) in provision for sales returns	17,412	(31,754)
Increase (decrease) in provision for point card certificates	(1,052)	(4,051)
Interest income	(1,508)	(1,560)
Interest paid	2,885	4,436
Foreign exchange loss (gain)	—	(217,082)
Loss (gain) on retirement and sales of fixed assets	3,715	3,619
Loss (gain)on valuation of investment securities	24,683	—
Loss (gain)on investment partnership	4,101	1,952
Impairment loss	69,625	270,971
Stock-based compensation expense	38,161	—
Compensation for cancellation of consignment contract	(55,346)	—
Equity in losses (earnings) of affiliates	(3,852)	18
Decrease (increase) in notes and accounts receivable	380,330	429,512
Decrease (increase) in inventory assets	2,559	(41,088)
Increase (decrease) in notes and accounts payable	(183,152)	(23,766)
Increase (decrease) in accrued expenses	(105,778)	(1,173)
Increase (decrease) in accrued consumption taxes	(44,032)	398
Other	(87,033)	(8,848)
Subtotal	2,937,379	2,312,267
Interest income	1,815	1,263
Interest paid	(2,742)	(2,856)
Income taxes paid	(1,299,312)	(835,993)
Cash flow from operating activities	1,637,139	1,474,680

(Units: 1,000s yen)

	Previous consolidated fiscal year (May 1, 2011 – April 30, 2012)	Current consolidated fiscal year (May 1, 2012 – April 30, 2013)
Cash flow from investing activities		
Payments for purchase of time deposits	—	(200,000)
Payments for acquisition of tangible fixed assets	(72,031)	(134,300)
Payments for acquisition of intangible fixed assets	(554,575)	(295,140)
Proceeds from redemption of securities	100,000	—
Proceeds from liquidation of investment securities	—	102,570
Payments for guarantee deposits	(2,827)	(71,112)
Proceeds from collection of guarantee deposits	156	160,206
Payments for acquisition of subsidiary stock resulting in a change to the range of consolidation	* ₂ (437,617)	—
Proceeds from cancellation of consignment contract	120,180	—
Payments for business transfer	—	* ₃ (1,688,474)
Proceeds from collection of long-term loans receivable	6,024	504
Cash flow from investing activities	(840,691)	(2,125,746)
Cash flow from financing activities		
Proceeds from long-term loans payable	—	800,000
Repayment of long-term loans	(11,985)	(73,286)
Proceeds from issue of stock	11,918	11,918
Dividends paid	(521,678)	(525,447)
Dividends paid to minority shareholders	(61,827)	—
Other	(180)	(431)
Cash flow from financing activities	(583,752)	212,753
Effect of exchange rate on cash and cash equivalents	—	131,107
Increase (decrease) in cash and cash equivalents	212,695	(307,204)
Cash and cash equivalents at beginning of year	4,587,155	4,799,851
Cash and cash equivalents at end of year	* ₁ 4,799,851	* ₁ 4,492,646

