

ZAPPALLAS

Financial Results of Operations for the First Quarter
of the Year Ending April 30, 2014

(2013.5.1 - 2013.7.31 The 15th term)

TSE 1st Section:3770 <http://www.zappallas.com/>

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I. Overview of Results for the First Quarter of the Year Ending April 30, 2014

01 Topics for the First Quarter of the Year Ending April 30, 2014

Topic1

Creating media for attracting customers that is not dependent on specific devices

- *i-Muryo Uranai*, Facebook, cocoloniPROLO

* For details, see p20, 21.

Topic2

Using CRM to increase smartphone subscribers

- New FP CRM subscribers exceed new SP CRM subscribers. (*1)

Topic3

Provision of DL fee-based divination apps

- Introduction of package-type products with a per-use fee menu

(*1): FP: Feature Phone, SP: Smartphone

02 Consolidated P/L Summary

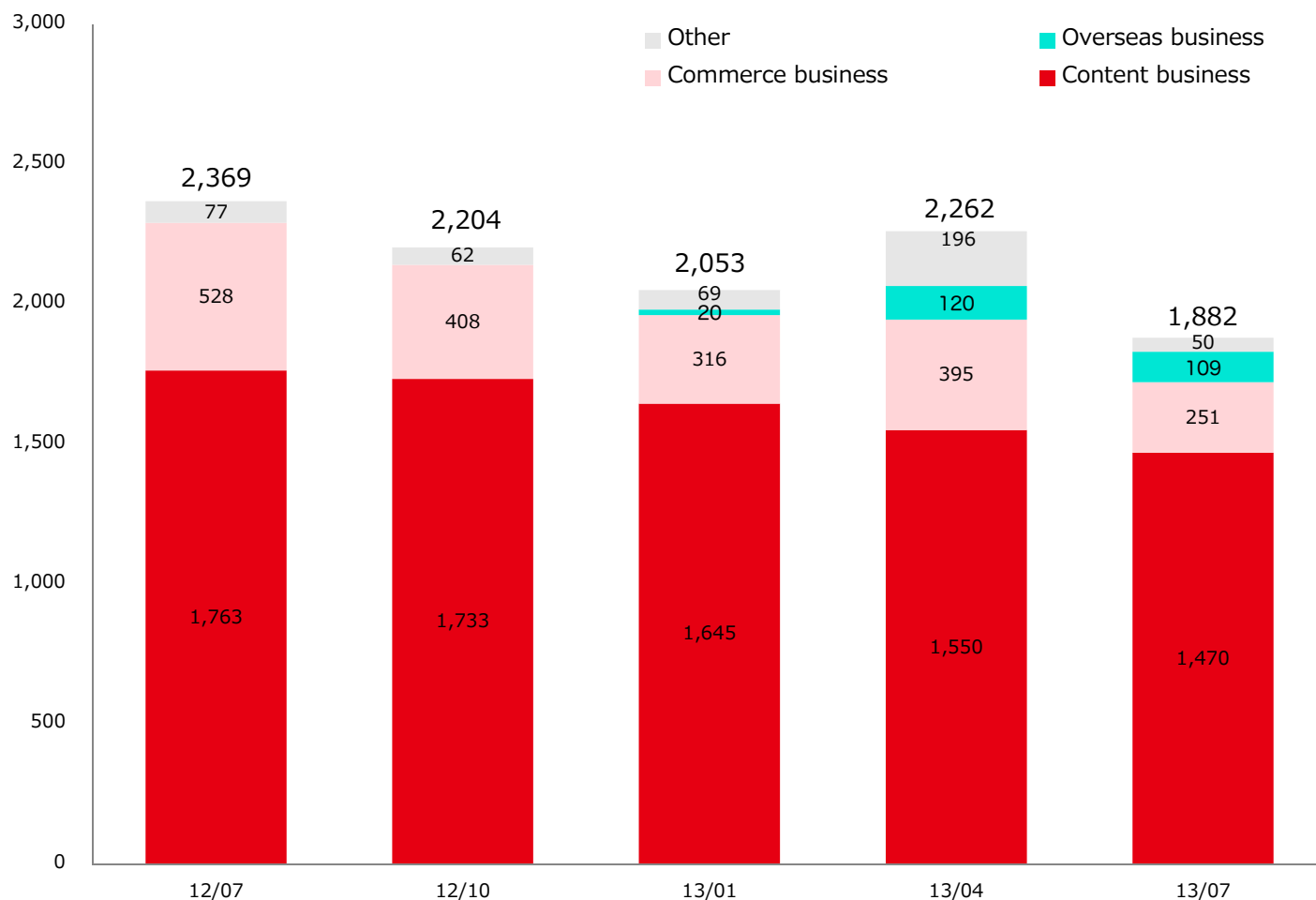
(Units: Millions yen)	4Q of year ended April 30, 2013		1Q of year ending April 30, 2014		Change from previous year
	Amount	% of sales	Amount	% of sales	
Sales	2,262	100.0%	1,882	100.0%	-16.8%
Net Gross Profit	1,529	67.6%	1,295	68.8%	-15.3%
SG&A	1,305	57.7%	1,119	59.5%	-14.3%
Operating income	223	9.9%	175	9.3%	-21.5%
Ordinary income	314	13.9%	152	8.1%	-51.6%
Net income	22	1.0%	86	4.6%	290.9%

Points

- Despite the addition of new overseas business, changes in the business environment continued to result in declining income.
- In the content business which is our primary business area, a decline in FP sales, combined with a decline in BxE sales, resulted in a decline in sales compared with the previous quarter as planned.

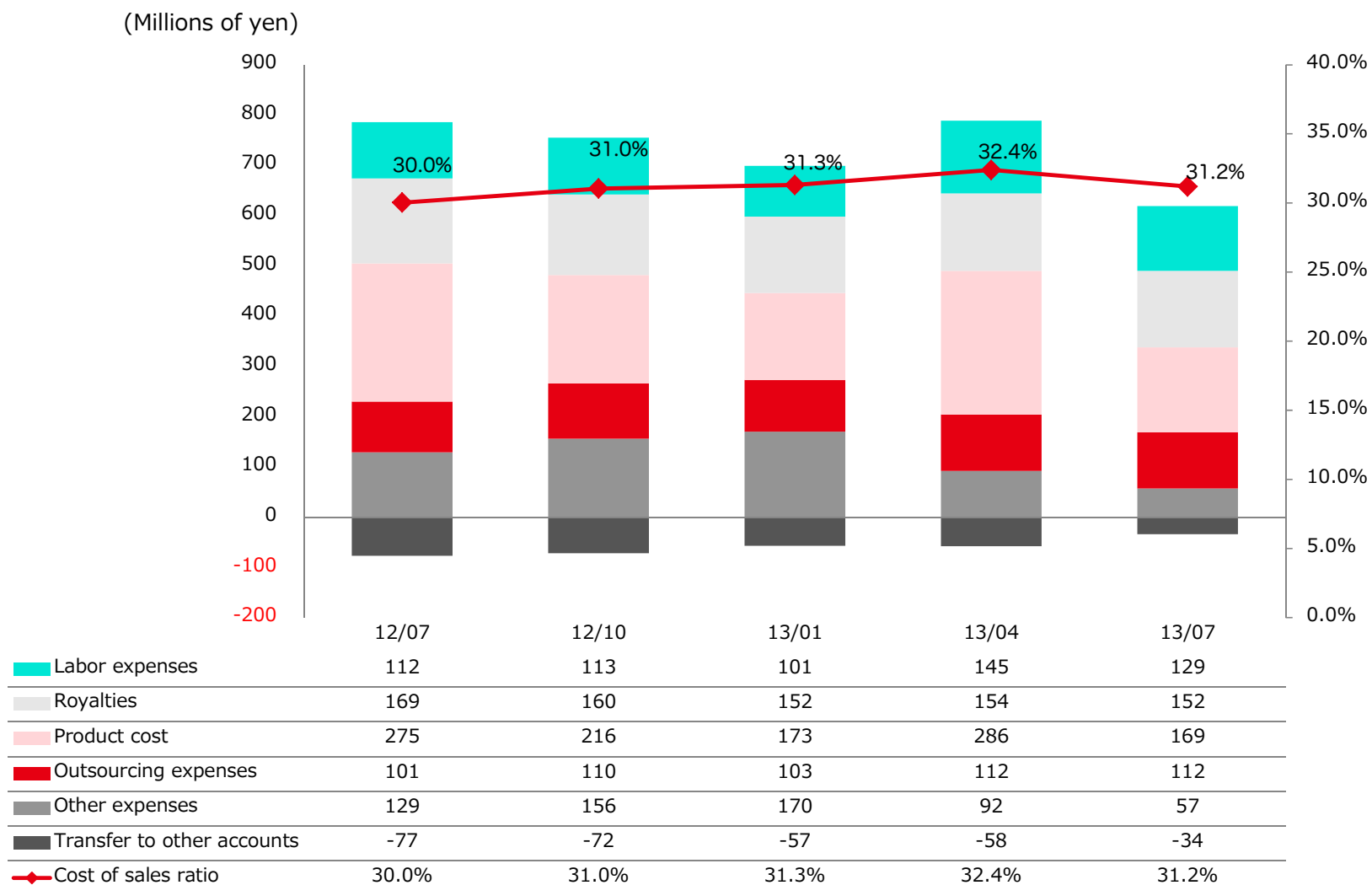
03 Consolidated Sales by Quarter

(Millions of yen)



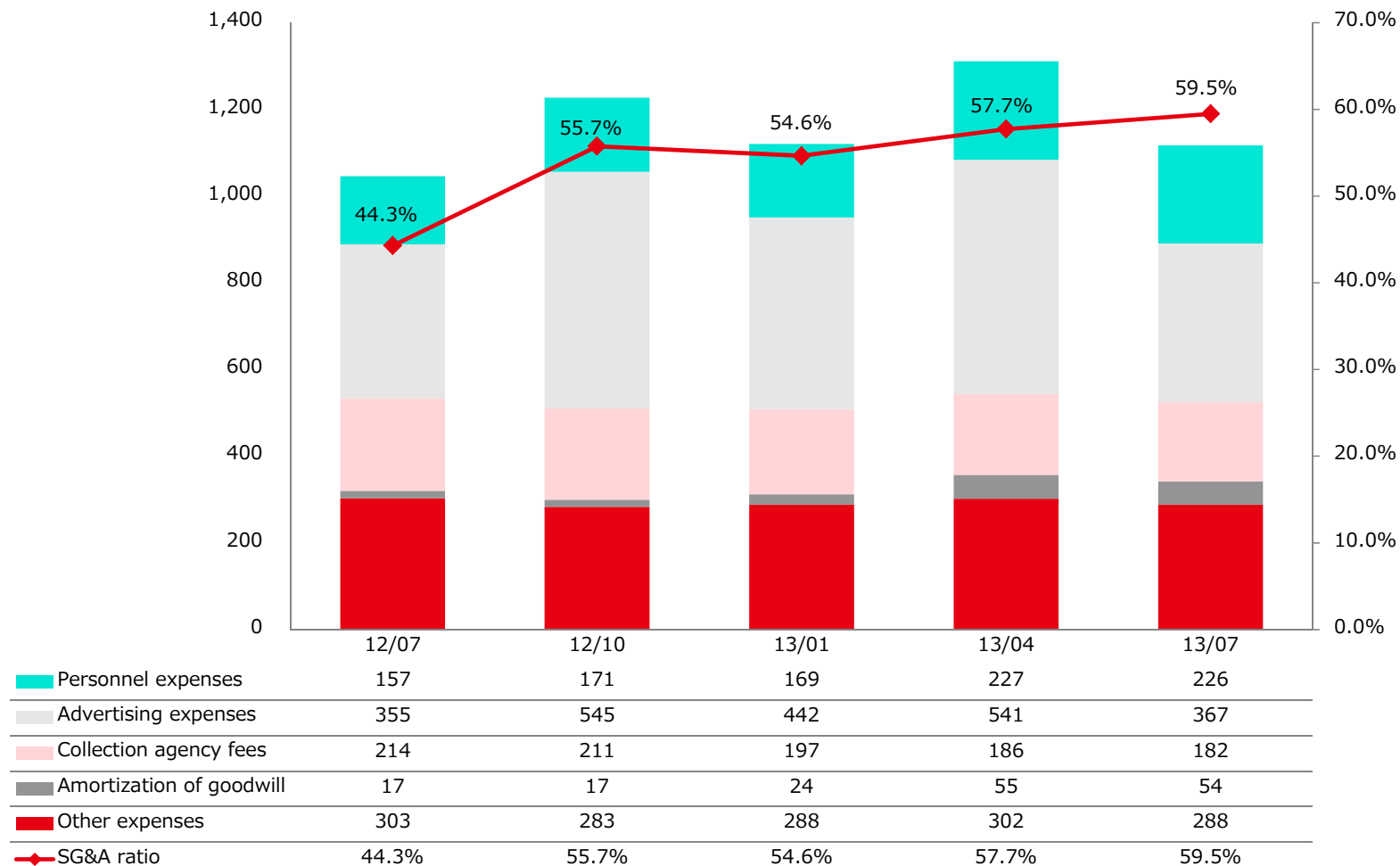
(*1): The business segments were changed beginning from this consolidated first quarter. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

04 Consolidated Cost of Sales by Quarter

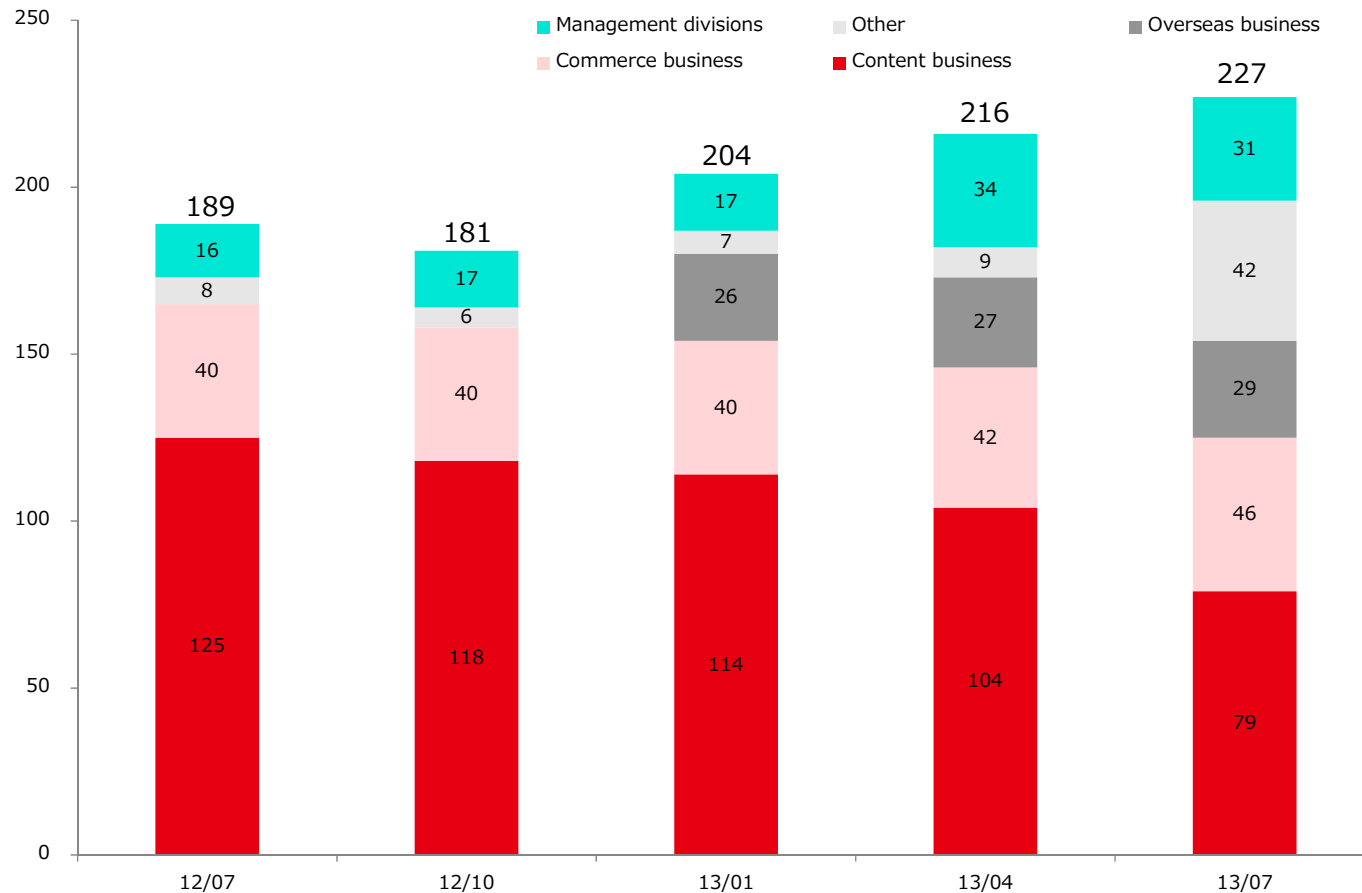


05 Consolidated SG&A by Quarter

(Millions of yen)



06 Consolidated Numbers of Employees by Quarter

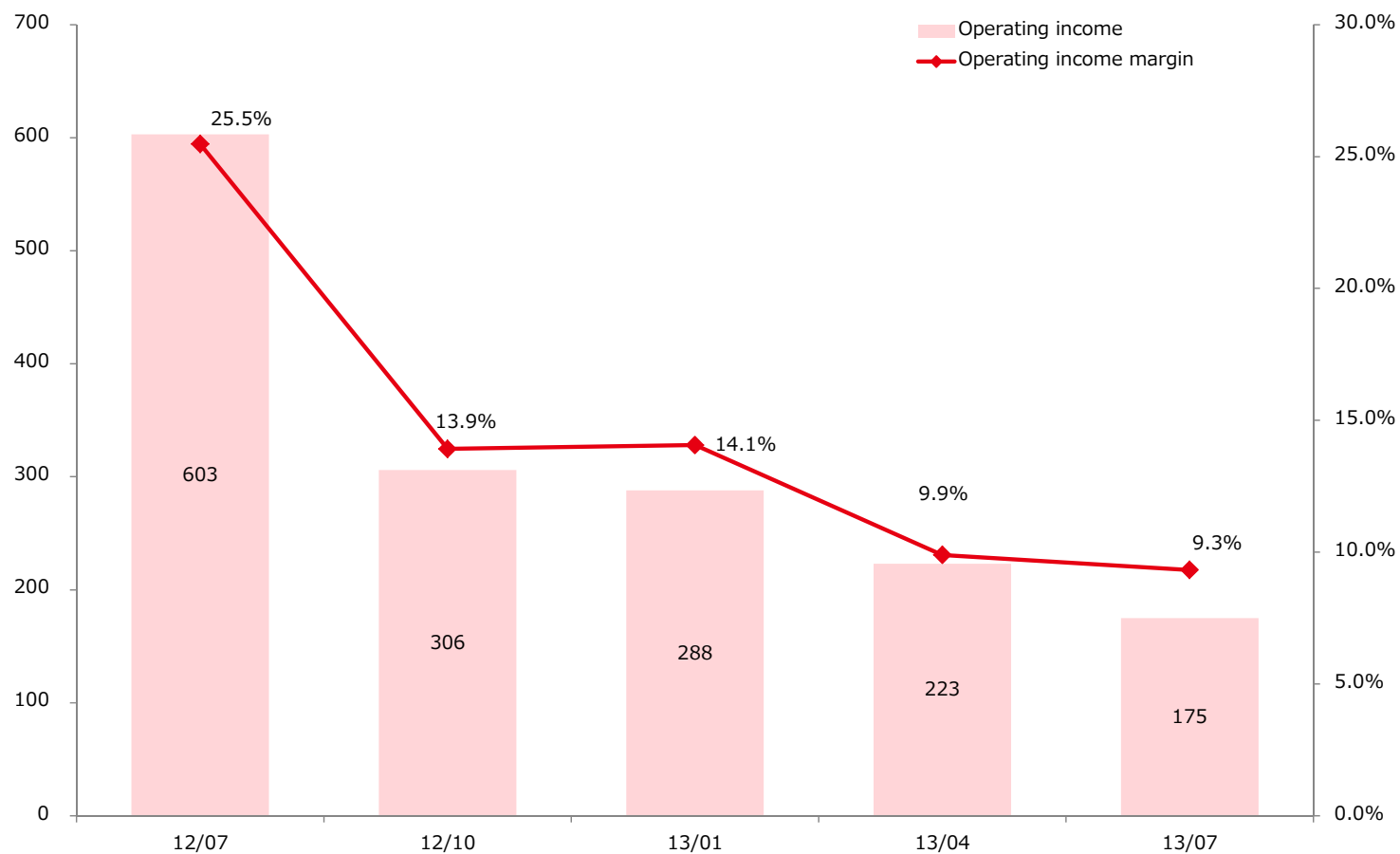


(*1): The above numbers of employees indicate full-time employees and contract employees only. It does not include part-time employees.

The number of employees is growing centered on new media business and mobile commerce. Due to the change in business segments, a portion of employees who were included in "Content business" in the previous quarter have been changed to "Other".

07 Consolidated Operating Income by Quarter

(Millions of yen)



08 Consolidated B/S Summary

<Assets>

(Units: Millions yen)	End of year ended April 30, 2013 ① (April 30, 2013)	End of 1Q for year ending April 30, 2014 ② (July 31, 2013)	Amount of change (② - ①)
Cash and cash equivalents	4,188	4,181	-7
Accounts receivable	1,696	1,373	-323
Marketable securities	503	503	0
Merchandise and products	67	86	+19
Other	270	271	+1
Total current assets	6,724	6,416	-308
Total tangible fixed assets	137	171	34
Software	369	330	-39
Goodwill	1,991	2,010	+19
Other	53	54	+1
Total intangible fixed assets	2,414	2,395	-19
Investment securities	500	500	0
Other	350	377	+27
Total investments and other assets	850	877	+27
Total fixed assets	3,401	3,445	+44

Point1

- Declined due to a decline in sales.

<Liabilities and net assets>

(Units: Millions yen)	End of year ended April 30, 2013 ① (April 30, 2013)	End of 1Q for year ending April 30, 2014 ② (July 31, 2013)	増減額 (②-①)
Accounts payable - trade	304	262	-42
Accounts payable - other	454	526	+72
Corporate tax payable	0	90	+90
Provision for web-point certificates	10	9	-1
Long-term loans payable scheduled for repayment within 1 year	190	186	-4
Others	124	158	+34
Total current liabilities	1,084	1,234	150
Long-term loans payable	630	586	-44
Others	1	0	-1
Total fixed liabilities	631	587	-44
Total liabilities	1,716	1,822	+106
Capital stock	1,464	1,464	0
Capital surplus	1,389	1,389	0
Retained earnings	6,952	6,509	-443
Treasury stock	-1,418	-1,418	0
Total shareholders' assets	8,388	7,945	-443
Net unrealized holding gains on other securities	-1	-1	+0
Foreign currency translation adjustments	-39	38	+77
Minority interests	62	57	-5
Total net assets	8,409	8,038	-371
Total liabilities and net assets	10,126	9,861	-265

Point2

- Declined primarily due to payment of dividends.

II. Overview of Main Business Areas

09 Change to Business Segments

Previous year

Other business	<ul style="list-style-type: none">• Zenryaku Profile• Contracted development of mobile sites• New business
-----------------------	--

Current year

Other business	<ul style="list-style-type: none">• Zenryaku Profile• Contracted development of mobile sites• New business• Media business (new)
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The reporting segments were changed somewhat due to the establishment of a new division aimed at directing customers to fee-based content and at acquiring advertising revenue as one part of our measures to attract smartphone customers.

Specifically, a portion of the content that was previously included in "Content business" was transferred to "Other business."

10 Content Business (1): Comparison with Previous Quarter

(Millions of yen)		4Q of year ended April 30, 2013	% of sales	1Q of year ending April 30, 2014	% of sales
Sales		1,550	100.0%	1,470	100.0%
Costs	Labor expenses	82	5.9%	77	5.2%
	Royalties	145	9.3%	145	9.9%
	Outsourcing expenses	82	5.3%	87	5.9%
	Other	98	4.5%	60	4.1%
SG&A	Personnel expenses	30	1.5%	23	1.6%
	Advertising expenses	469	24.1%	278	18.9%
	Collection agency fees	184	12.0%	182	12.4%
	Other	60	2.6%	31	2.1%
Operating income		396	34.8%	588	40.0%

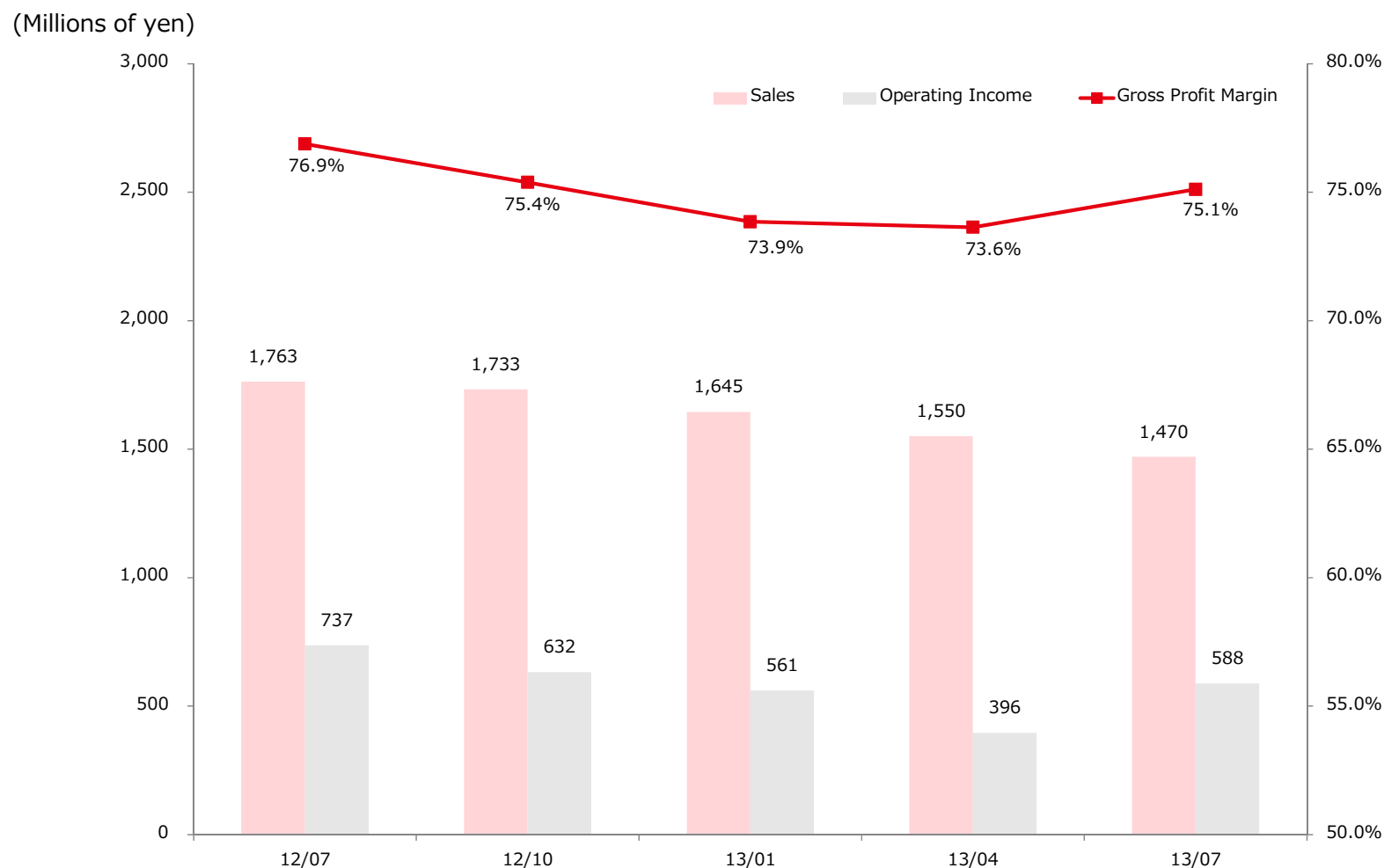
(*1): The business segments were changed beginning from this consolidated first quarter. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

(*2): Comparison is of figures before consolidation adjustments.

Although sales of services for SP grew, the growth was not sufficient to make up for the decline due to fewer numbers of FP subscribers, and overall sales continued to decline.

Compared with 4Q of the previous year when advertising expenses were increased, advertising expenses this quarter were lower and operating income increased.

11 Content Business (2): Quarterly Results

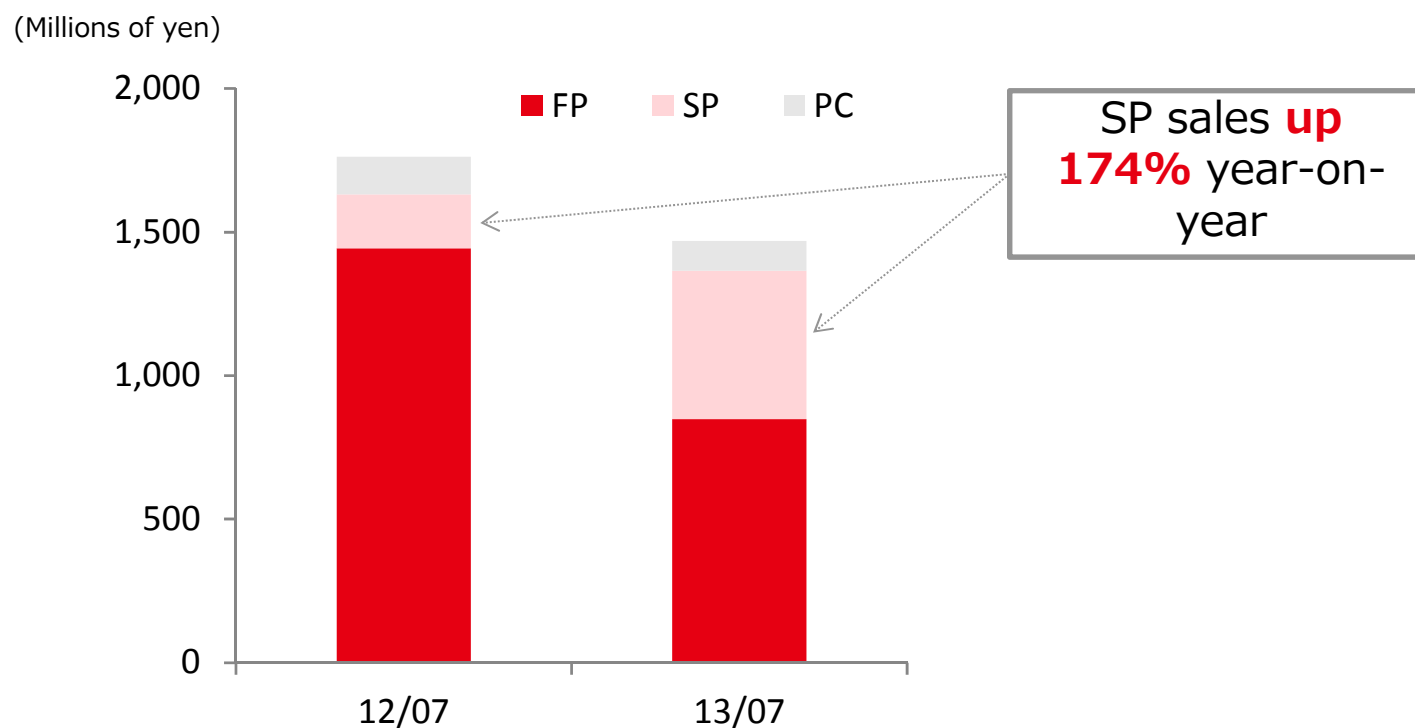


(*1): The business segments were changed beginning from this consolidated first quarter. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

12 Content Business Sales by Device

SP sales are steadily increasing, and grew to **35%** of the total content business.

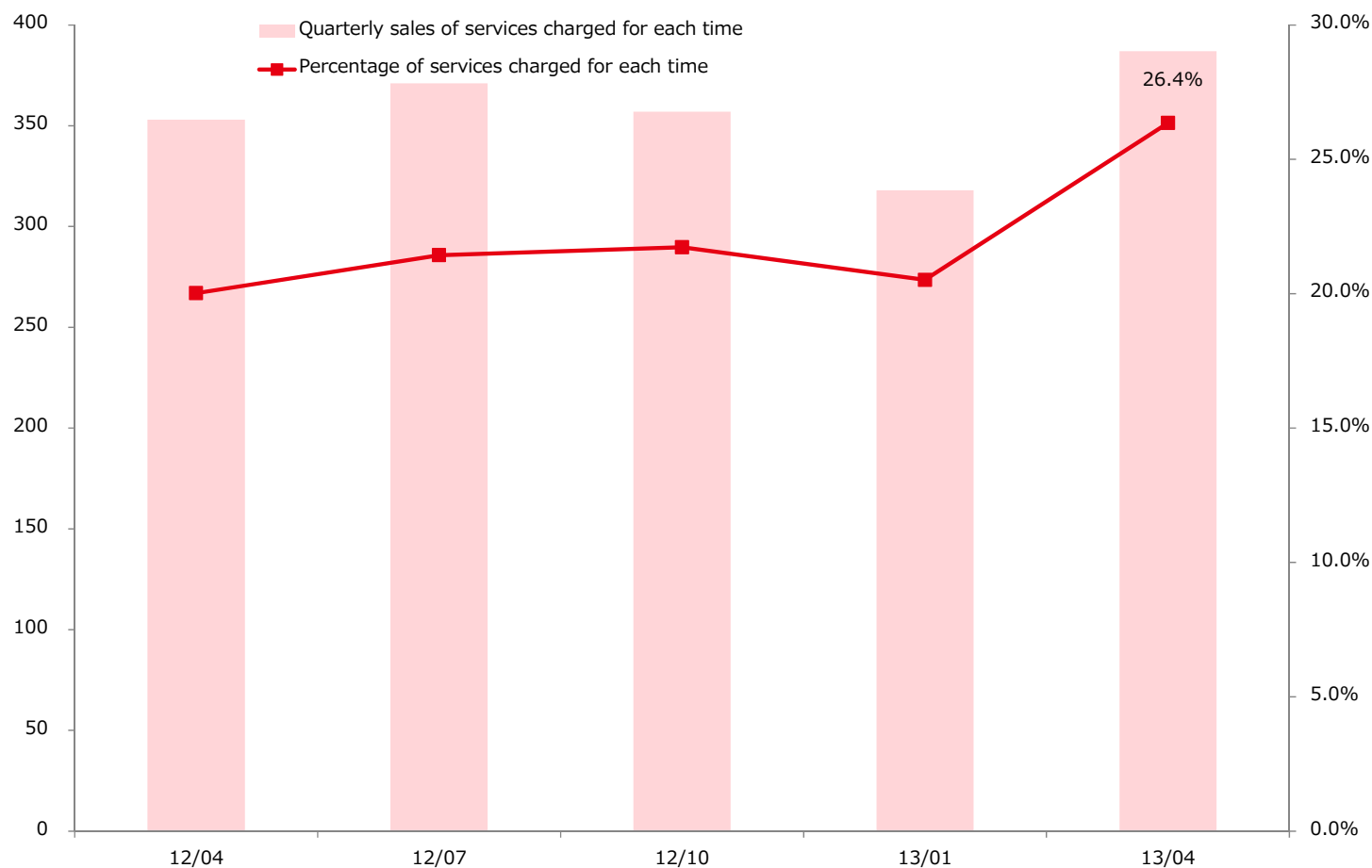
FP sales are decreasing due to changes in the market environment as users switch to SP.



13 Quarterly Per-use Fee Sales

The percentage of per-use fee sales grew to 26.4% of total sales.

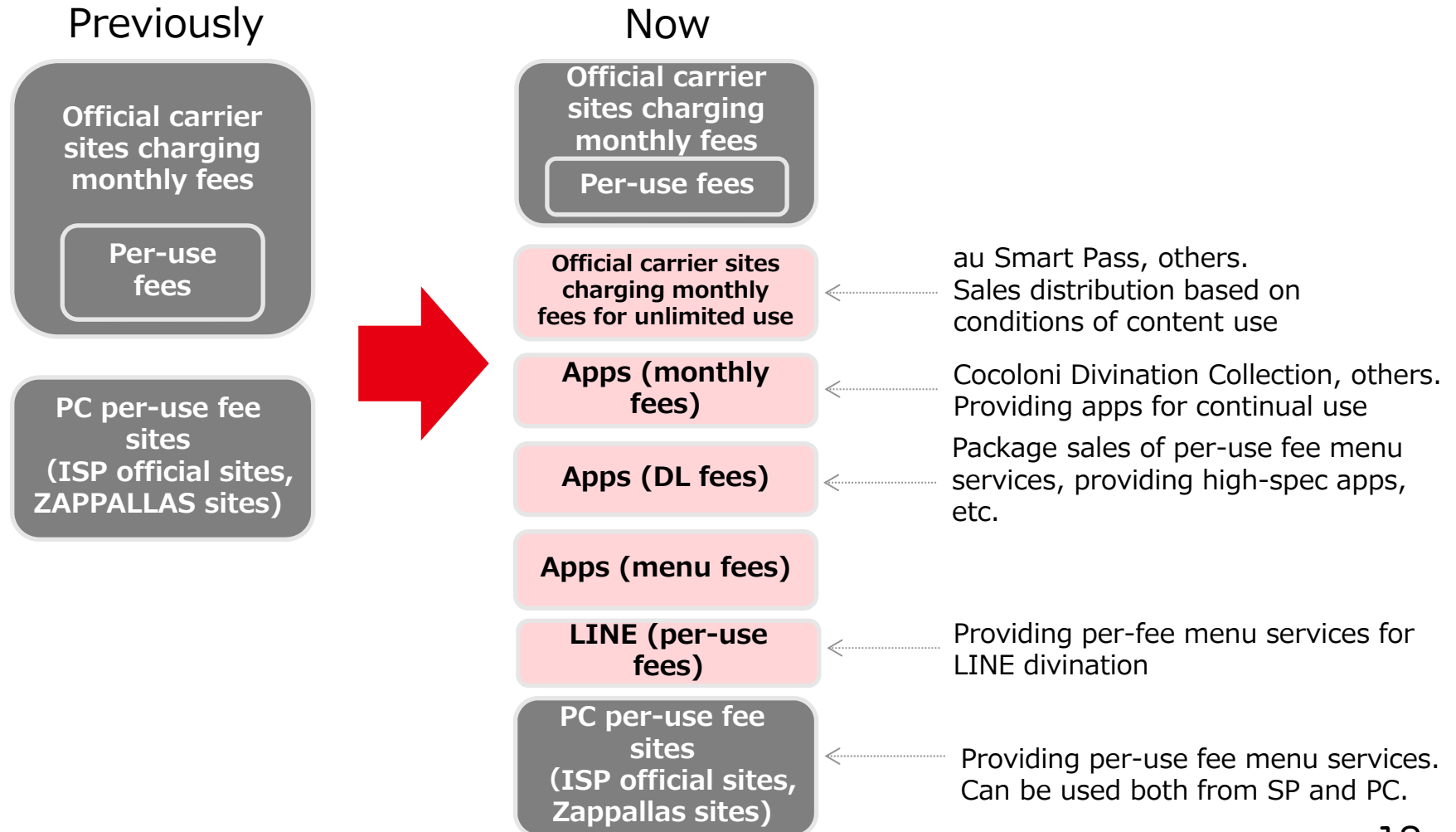
(Millions of yen)



14 Changes in the Market Environment **ZAPPALLAS**

(1): Diversification of Services

Providing a diverse range of services in addition to the previous official carrier sites



15 Changes in the Market Environment **ZAPPALLAS** (2): Customer Inflow Routes

The primary FP income channels are shrinking when used with SP, and it is necessary to develop new routes of customer inflow.

FP primary inflow sources

Advertising



During the FP age, the carrier top menus were a powerful type of media, however with SP their ability to attract customers is less. With other media as well, there are **fewer effective advertising media** compared to during the FP age.

Natural inflow
(Carrier menus)



In the closed world of the FP age, nearly all natural inflow was through the carrier menu rankings. With the spread of SP, this world has opened up, and **inflow routes have diversified.**

CRM
(Links, mail magazines, etc.)

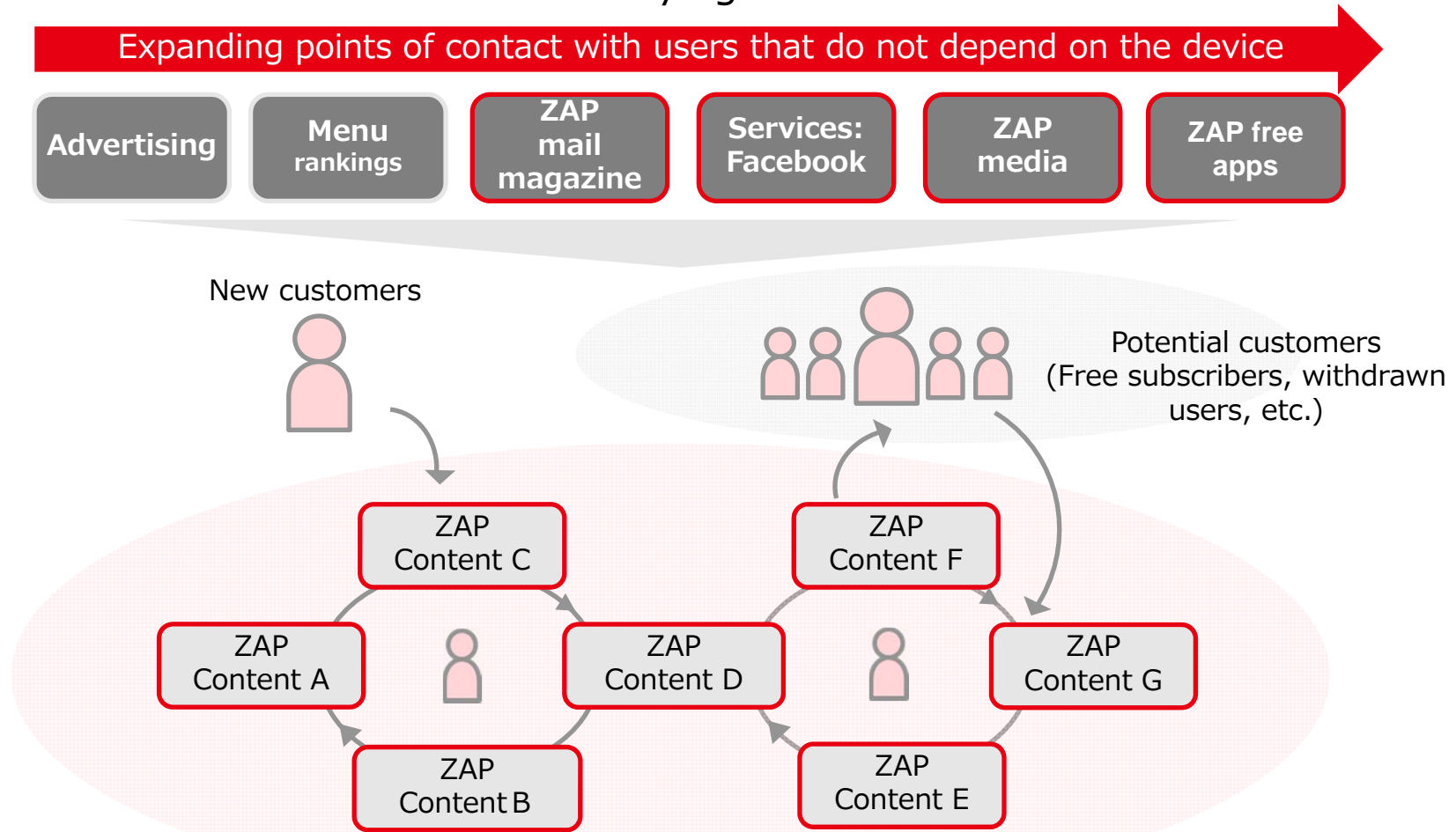


The number of SP sites and number of subscribers are growing steadily. Further increases of those are expected to increase the inflow through CRM.

Aim to increase inflow by expanding points of contact with users.

16 Improvement of the Original ZAPPALLAS **ZAPPALLAS** Content Circulation Model

Increase the inflow of new customers and construct CRM to support diversifying services.



Constructing wide-ranging CRM that is not limited by the device or the fee format

17 Expanding Points of Contact

Creating original media that will serve as new points of contact

■ *i-Muryo Uranai*



The Facebook version of the FP free divination site *i-Muryo Uranai* opened in April 2013. The Facebook version introduces a large number of free divination services that users will want to share with others.

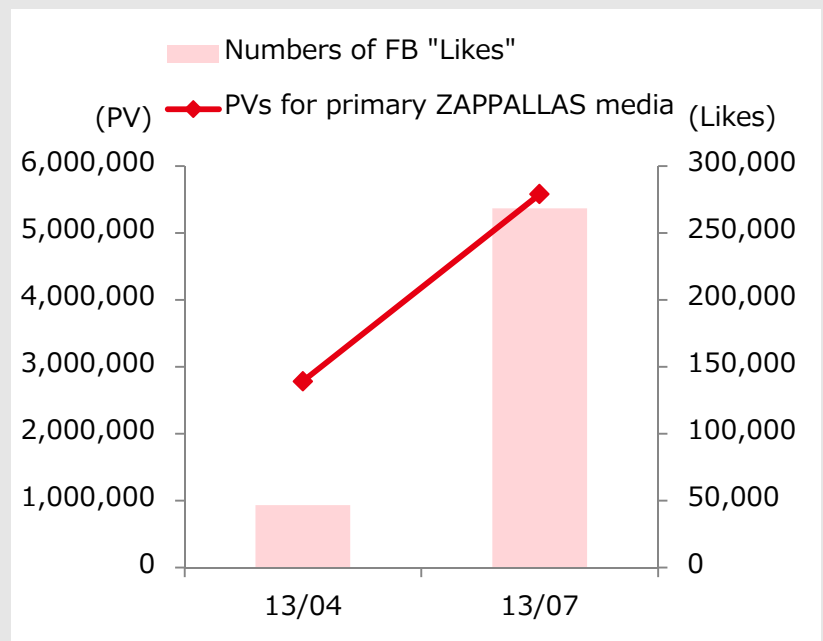
■ *cocoloni PROLO*

恋する心に寄り添うサイト[ココロニプロロ]



The PC version and Facebook version opened in August 2012. This information portal site focuses on themes of *love* and *divination*, targeting primarily women in their 20s and 30s.

PVs for primary ZAPPALLAS media, Numbers of FB "Likes"



(*1): PVs are the total for *i-Muryo Uranai* (PC/SP) and *cocoloniPROLO* (PC/SP).

18 Commerce business (1): Comparison with Previous Quarter

(Millions of yen)		4Q of year ended April 30, 2013	% of sales	1Q of year ending April 30, 2014	% of sales
Sales		395	100.0%	251	100.0%
Costs	Product cost	207	52.4%	128	51.0%
	Packaging and transport expenses	8	2.0%	8	3.2%
	Other	-9	-	0	0.0%
SG&A	Personnel expenses	67	17.0%	65	25.9%
	Advertising expenses	38	9.6%	42	16.7%
	Commission fees	15	3.8%	14	5.6%
	Rents	15	3.8%	15	6.0%
	Other	76	19.2%	56	22.3%
Operating income		-36	-9.1%	-92	-36.7%

(*1): The business segments were changed beginning from this consolidated first quarter. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

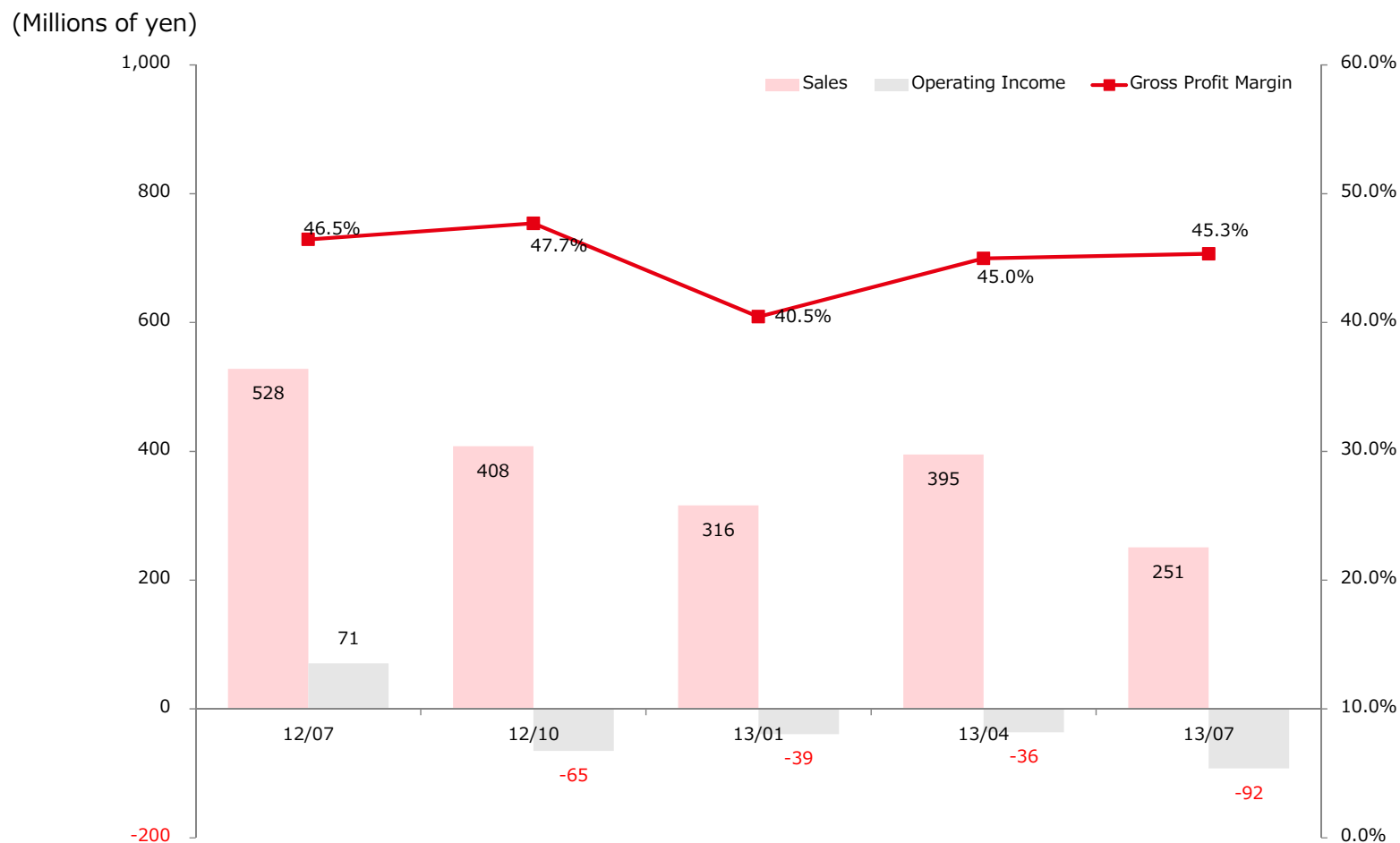
(*2): Comparison is of figures before consolidation adjustments.

At BxE, because there were no plans to introduce new products during this consolidated first quarter, sales were down from the previous quarter, however the results were approximately as planned.

In the e-commerce business, "Fujimaki Department Store" successfully used Facebook for sales promotion and expanded its sales, however because of declining sales at existing mobile commerce sites, sales in the e-commerce business as a whole continued to decline.

For SG&A, advertising expenses increased due to active promotion of our new e-commerce sites.

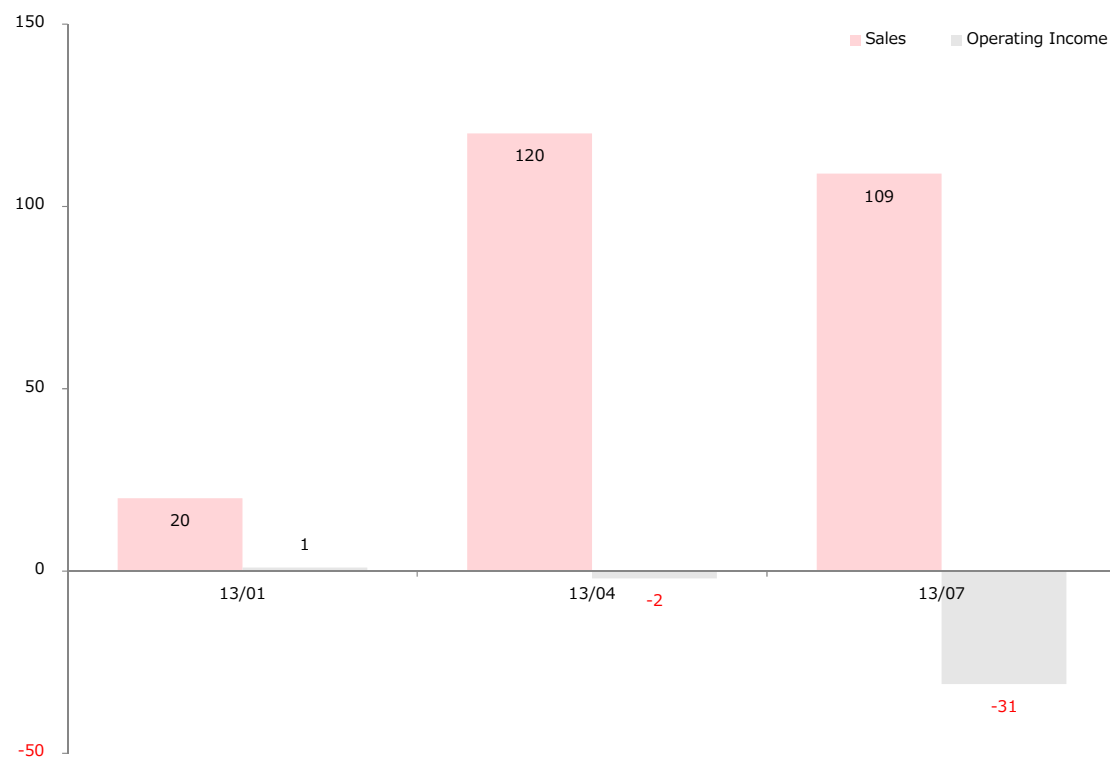
19 Commerce Business (2): Quarterly Results



(*1): The business segments were changed beginning from this consolidated first quarter. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

20 Overseas Business

(Millions of yen)



We continued to add staff in order to reinforce our system foundations, and also worked to improve our marketing and management operations. Although the U.S. divination business model relies primarily on advertising revenue, we have begun new trials including providing a portion of for-fee content from Japan to customers in the United States.

III. Forecasts for the Year Ending April 30, 2014

21 Progress with Regards to Forecasts for the Year Ending April 30, 2014

(Units: Millions yen)	Year ending April 30, 2014 (first 2Q forecast)		Year ending April 30, 2014 (year-end forecast)		Year ending April 30, 2014 (1Q results)		Progress relative to 2Q forecast	Progress relative to year-end forecast
	Amount	% of sales	Amount	% of sales	Amount	% of sales		
Sales	4,080	100.0%	10,100	100.0%	1,882	100.0%	46.1%	18.6%
Operating income	140	3.4%	1,000	9.9%	175	9.3%	125.0%	17.5%
Ordinary income	140	3.4%	1,000	9.9%	152	8.1%	108.6%	15.2%
Net income	80	2.0%	620	6.1%	86	4.6%	107.5%	13.9%

IV. Reference Materials

01 Company Profile

- Company name ZAPPALLAS, Inc.
- Head office Token International Bldg., 2-12-19 Shibuya, Shibuya-ku, Tokyo
- Established March 2000
- Capital 1,464,340,000 yen (as of April 30, 2013)
- No. of employees 216 (as of April 2013)
- Officials
 - President & CEO Mari Tamaki (Kawashima)
 - Director Hirohiko Ogusu
 - Director Sachio Shibata
 - Director Akira Nakamura
 - Director Masato Kobayashi
 - Director (outside) Shinichi Mizawa
 - Standing auditor (outside) Toyoyoshi Yamaguchi
 - Auditor Hirofumi Yamazaki
 - Auditor (outside) Masaharu Inoue (attorney)

02 Shareholders (as of April 30, 2013)

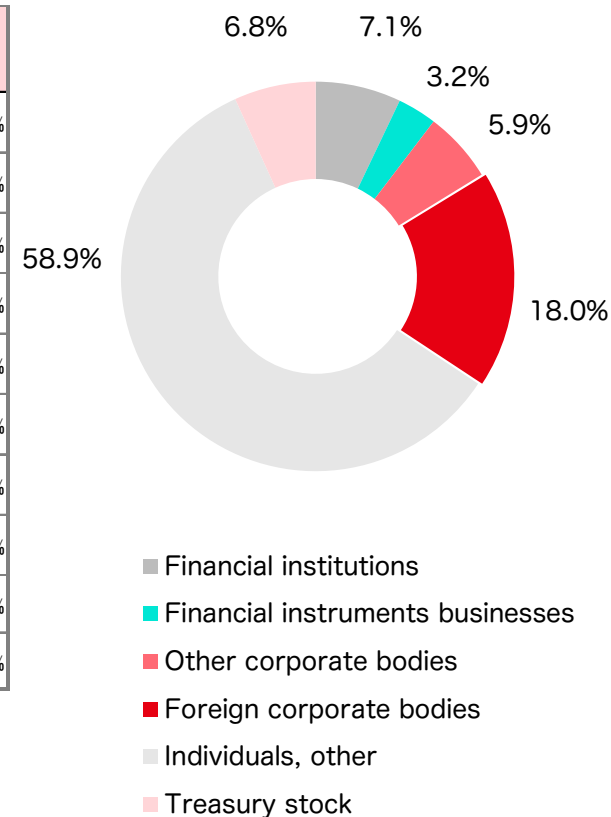
Shares issued: 135,310

Shareholders: 8,663

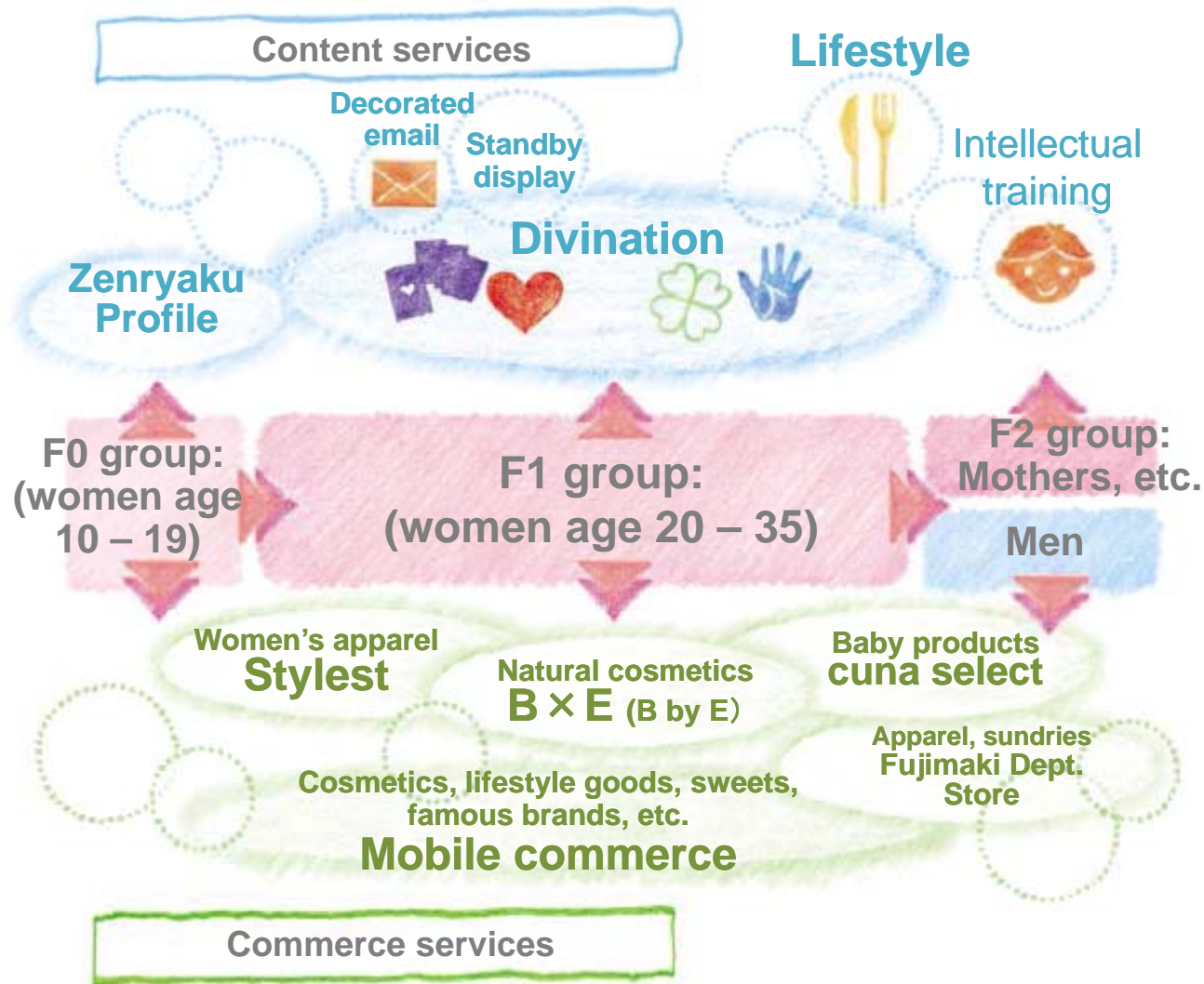
■ Major shareholders

	Number of stocks	Ratio of stocks (%)
Mari Kawashima	27,920	20.63%
BBH for Fidelity Puritan, Fidelity Series, Intrinsic Opportunities Fund	9,000	6.65%
Crimsongroup LLC	6,682	4.93%
BARCLAYS CAPITAL SECURITIES LIMITED	1,925	1.42%
JPMorgan Chase Bank 385093	1,784	1.31%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,478	1.09%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,398	1.03%
The Chase Manhattan Bank NA London	1,309	0.96%
Japan Trustee Services Bank, Ltd. (Trust Account1)	1,126	0.83%
Japan Trustee Services Bank, Ltd. (Trust Account6)	965	0.71%

■ Shareholder distribution (percentage ownership)

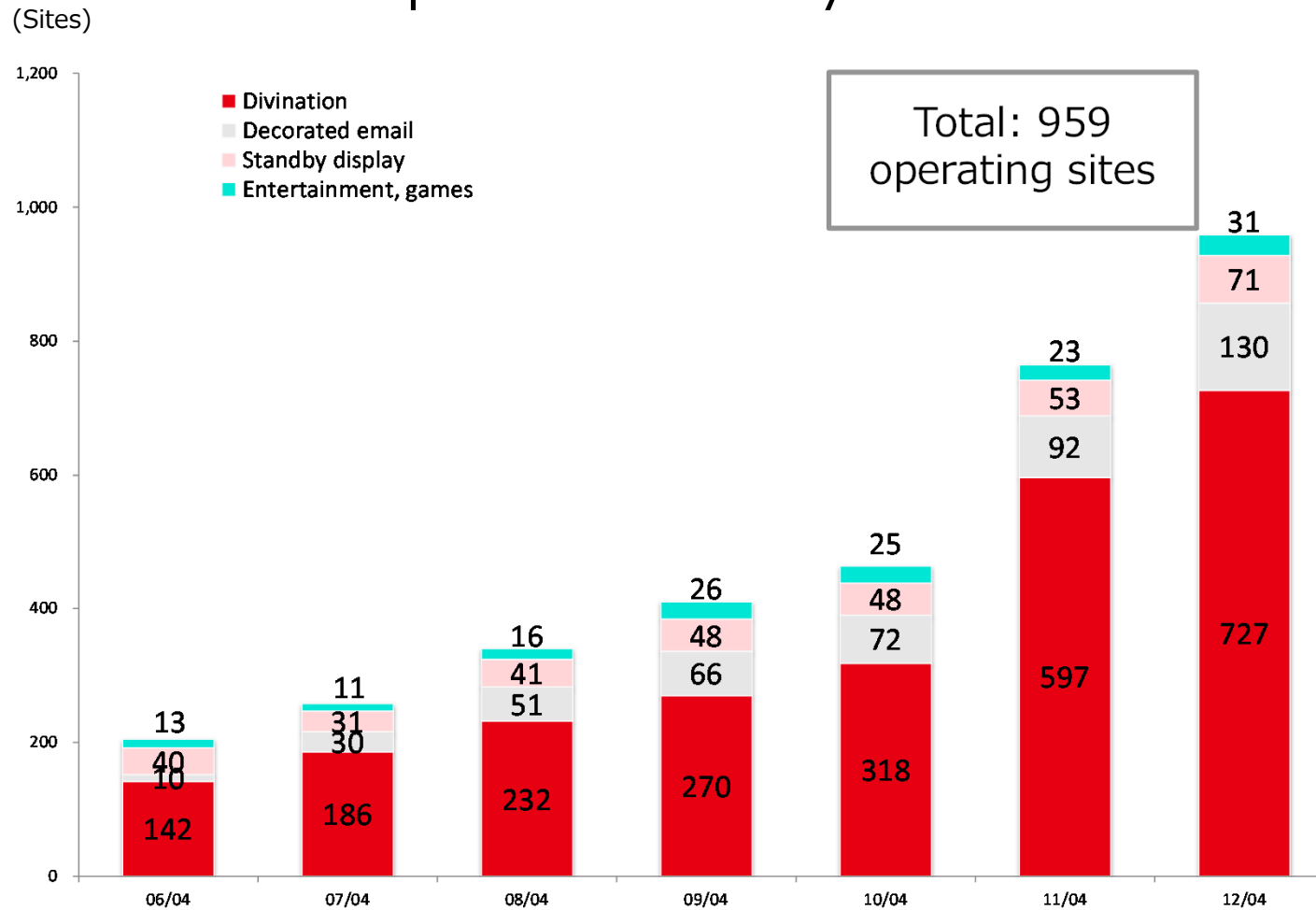


03 Zappallas Services



04 Numbers of Provided Sites

Large numbers of sites are planned and produced each year.



05 Top Share of the Mobile Divination Market

■ DoCoMo menu rankings

FP/Western divination	FP/Eastern divination
1. Renai-no-kamisama DX	1. Hosoki Kazuko Rookusei Senjutsu
2. <u>365 Tanjoubi Daisensenjutsu</u>	2. <u>Kyukyoku no name divination</u>
3. ★ Kagami Ryuji ★	3. <u>Anzairyu Kaiun kantei</u>
4. <u>Blood type uranai</u>	4. <u>Shichiyo seimei kantei</u>
5. <u>Ishii Yukari-no Hoshiyomi</u>	5. <u>Shimada Shuhei Tesou uranai</u>
6. <u>Syukumei to yogen</u>	6. Shinjuku no haha
7. Unmeino koiuranai	7. <u>Kiseki no chikara ♦ Kazumi Ueji</u>
8. Karin 1 million kanrui salon	8. Hashimoto Kyomei, the last Onlyoji
9. <u>John Hayes Eikoku-Senseijutsu</u>	9. Shimo Yoshio Seimei
10. <u>3kagetsu go no mirai</u>	10. <u>Kaiun ★ seimei</u>

SP/Western divination	SP/Eastern divination
1. Today's Unsei DX	1. Hosoki Kazuko Rookusei Senjutsu
2. <u>Ishii Yukari-no Hoshiyomi</u>	2. <u>Shichiyo seimei kantei</u>
3. <u>365 Tanjoubi Daisensenjutsu</u>	3. <u>Kiseki no chikara ♦ Kazumi Ueji</u>
4. Renai-no-kamisama	4. Smart uranai DX
5. Kagami Ryuji Senseijutsu	5. <u>Shimada Shuhei Tesou uranai</u>
6. <u>Blood type uranai</u>	6. Getters lida
7. <u>John Hayes Eikoku-Senseijutsu</u>	7. <u>Anzai Kaiun kantei</u>
8. H A P P Y ! Uranai	8. Shinjuku no haha
9. <u>Unmeibi</u>	9. Ginza no haha ♦ Toshie Yokoata
10. Unmeino koiuranai	10. Hashimoto Kyomei, the last Onlyoji

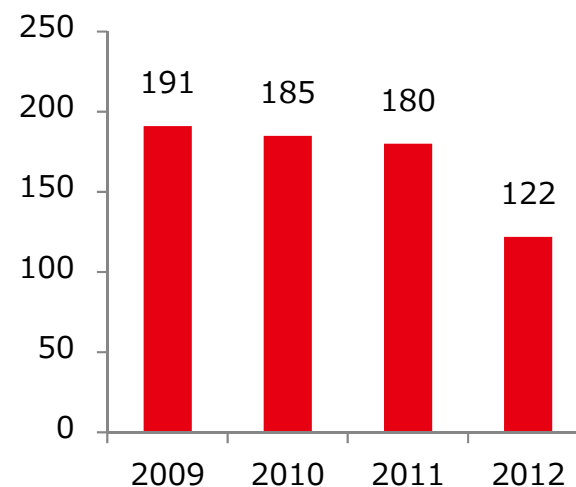
Source: NTT DoCoMo menu list (i-mode, dmenu) (as of July 2013)

Underlining indicates content provided by Zappallas.

■ FP divination content market

Market share: Approx. 30%
Industry top share

(100 Millions of yen) ■ FP divination content market



Source: Investigation of 2012 Mobile Content Market Sizes
Mobile Media Forum, media materials released
August 9, 2013

Forecasts and other information contained in these materials which are not past results are based on our company's confidential business plan, available information, postulations regarding uncertain factors that may influence future results, and other information which is current as of the date of announcement. Actual results may differ as a result of various future factors.

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