

ZAPPALLAS

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

(2013.5.1 – 2013.10.31 The 15th term)

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

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

01 Consolidated P/L Summary (Comparison with Previous Quarter)

(Units: Millions yen)	1Q (May - July), year ending April 30, 2014		2Q (Aug. - Oct.), year ending April 30, 2014		Percentage change
	Amount	% of sales	Amount	% of sales	
Sales	1,882	100.0%	2,017	100.0%	7.2%
Net gross profit	1,295	68.8%	1,367	67.8%	5.6%
SG&A	1,119	59.5%	1,274	63.2%	13.9%
Operating income	175	9.3%	93	4.6%	-46.9%
Ordinary income	152	8.1%	100	5.0%	-34.2%
Net income	86	4.6%	71	3.5%	-17.4%

Points

- Sales increased over the previous quarter due to an increase in commerce business sales and to the end of the decline in content business sales that had continued for some time.
- In the content business, operating income decreased as a result of active advertising and an increase in personnel expenditures.

02 Difference between Previous Forecast and Actual Result

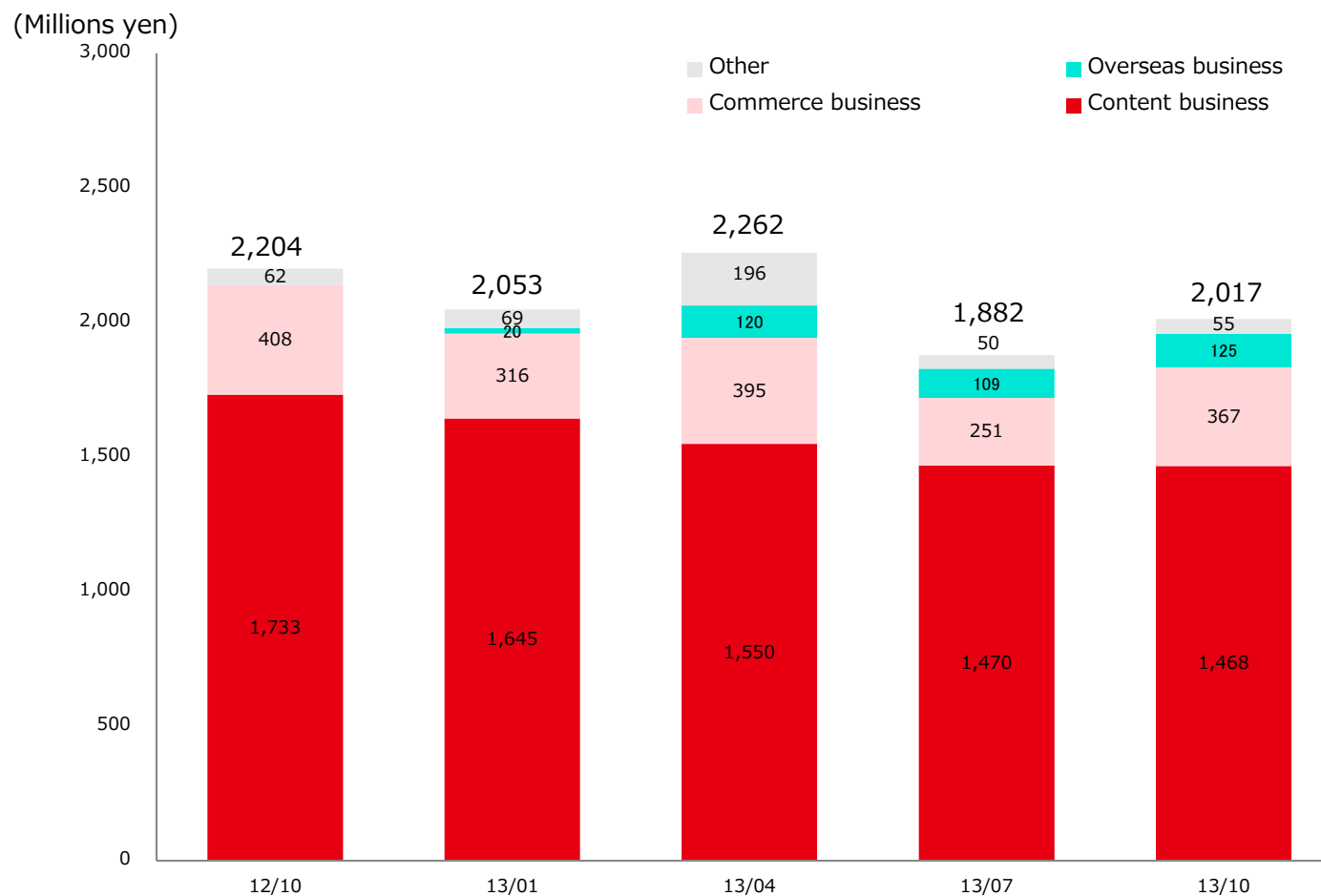
(Units: Millions yen)	Year ending April 30, 2014 (first 2Q forecast)		Year ending April 30, 2014 (year-end forecast)		Year ending April 30, 2014 (first 2Q results)		Progress relative to 2Q forecast	Progress relative to year-end forecast
	Amount	% of sales	Amount	% of sales	Amount	% of sales		
Sales	4,080	100.0%	10,100	100.0%	3,899	100.0%	-4.4%	38.6%
Operating income	140	3.4%	1,000	9.9%	268	6.9%	91.4%	26.8%
Ordinary income	140	3.4%	1,000	9.9%	252	6.5%	80.0%	25.2%
Net income	80	2.0%	620	6.1%	158	4.1%	97.5%	25.5%

Points

- The sales result was below the forecast level due to e-commerce sales that were less than the sales plan.
- The income result was higher than the forecast because a portion of the expenses involved in creating mechanisms for attracting new customers in order to capture smartphone users was lower than expected.
- The results forecast for the full year remains unchanged from the previous announcement.

03 Consolidated Sales by Quarter

2Q sales increased due to an increase in commerce business sales and to the end of the decline of content business sales.

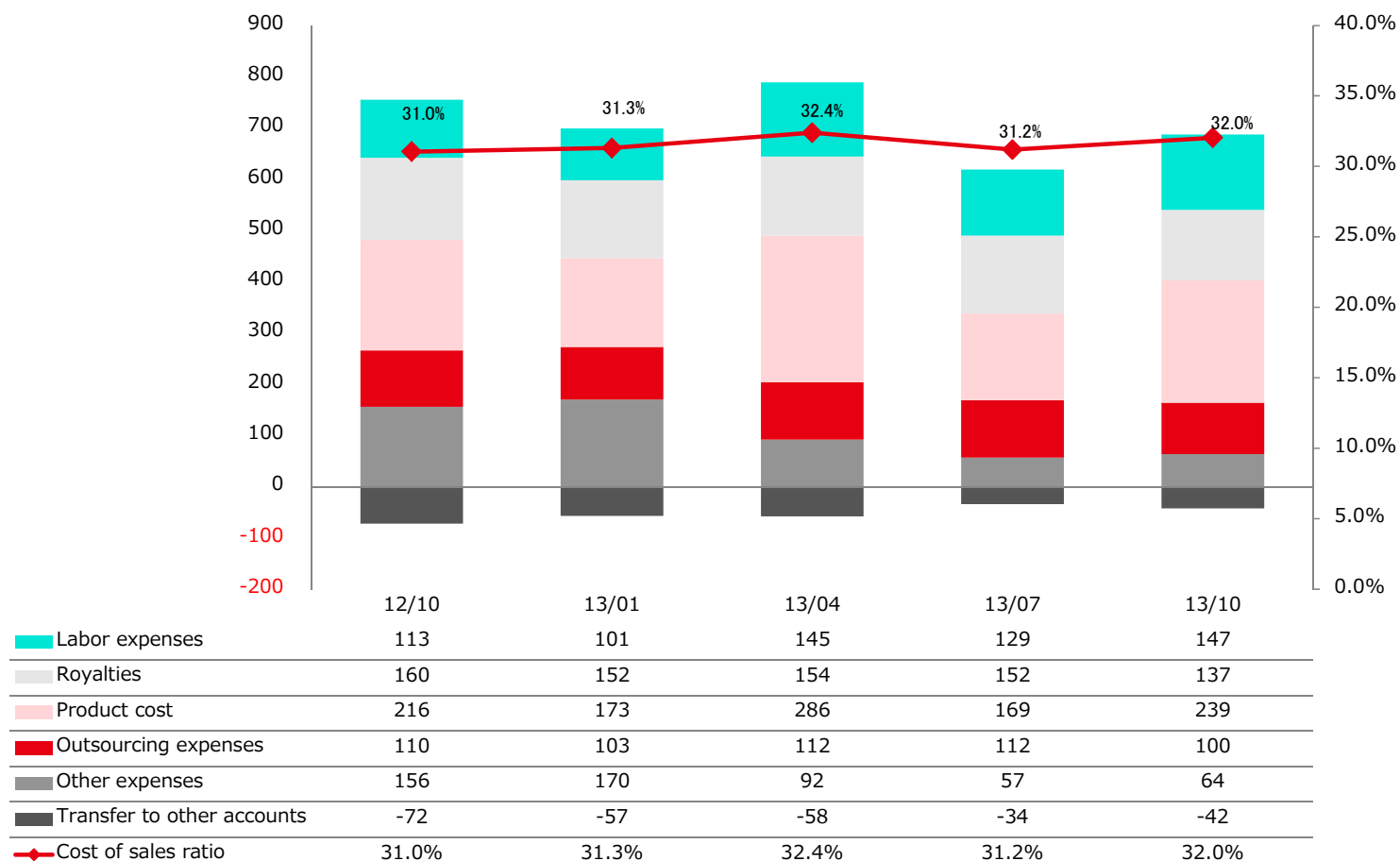


(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

04 Consolidated Cost of Sales by Quarter

Product costs increased due to the increase in commerce business sales.

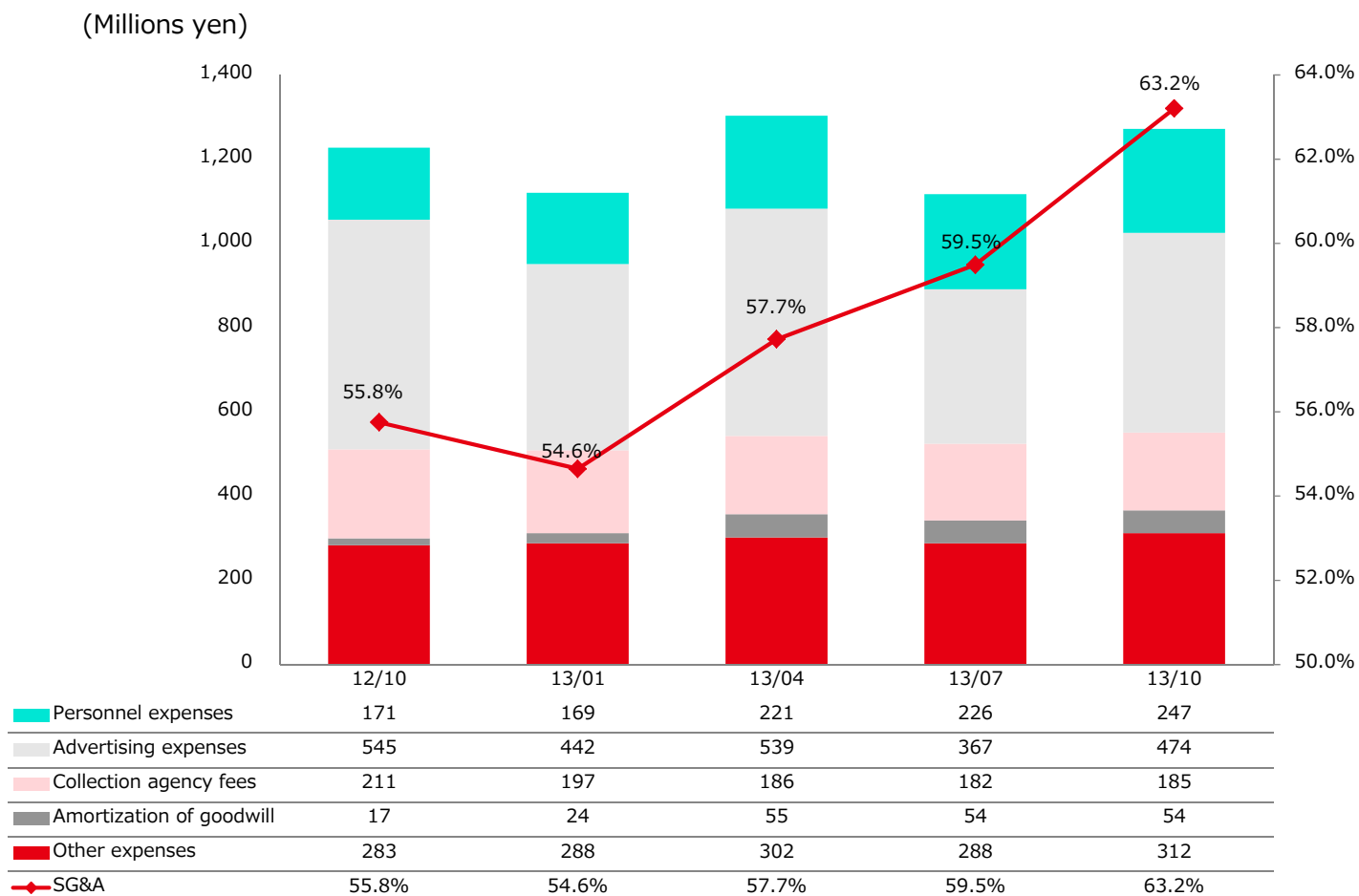
(Millions yen)



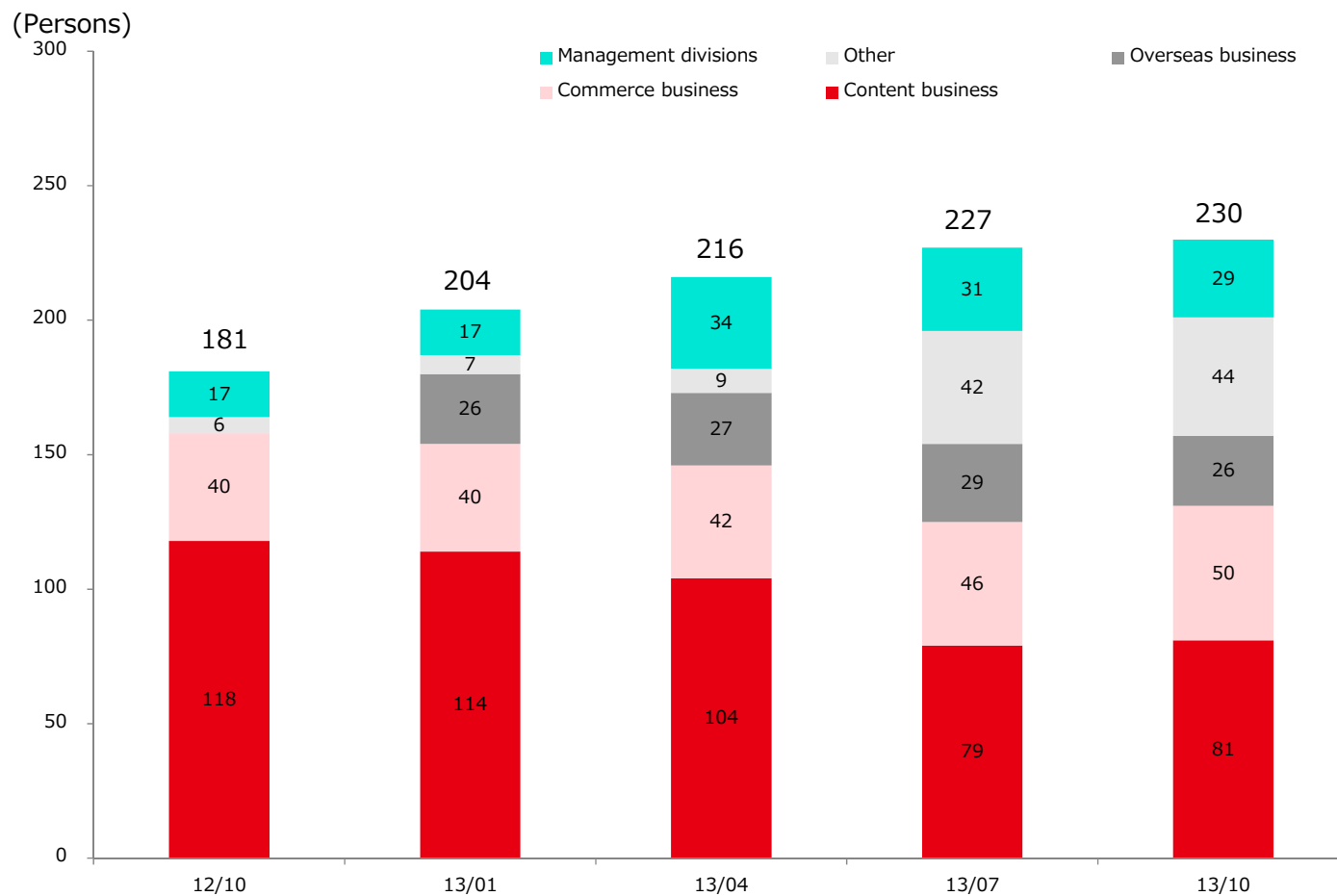
(*1) : Including Reversal of allowance for sales returns

05 Consolidated SG&A by Quarter

SG&A increased due to active advertising in the content business and to an increase in personnel expenses.



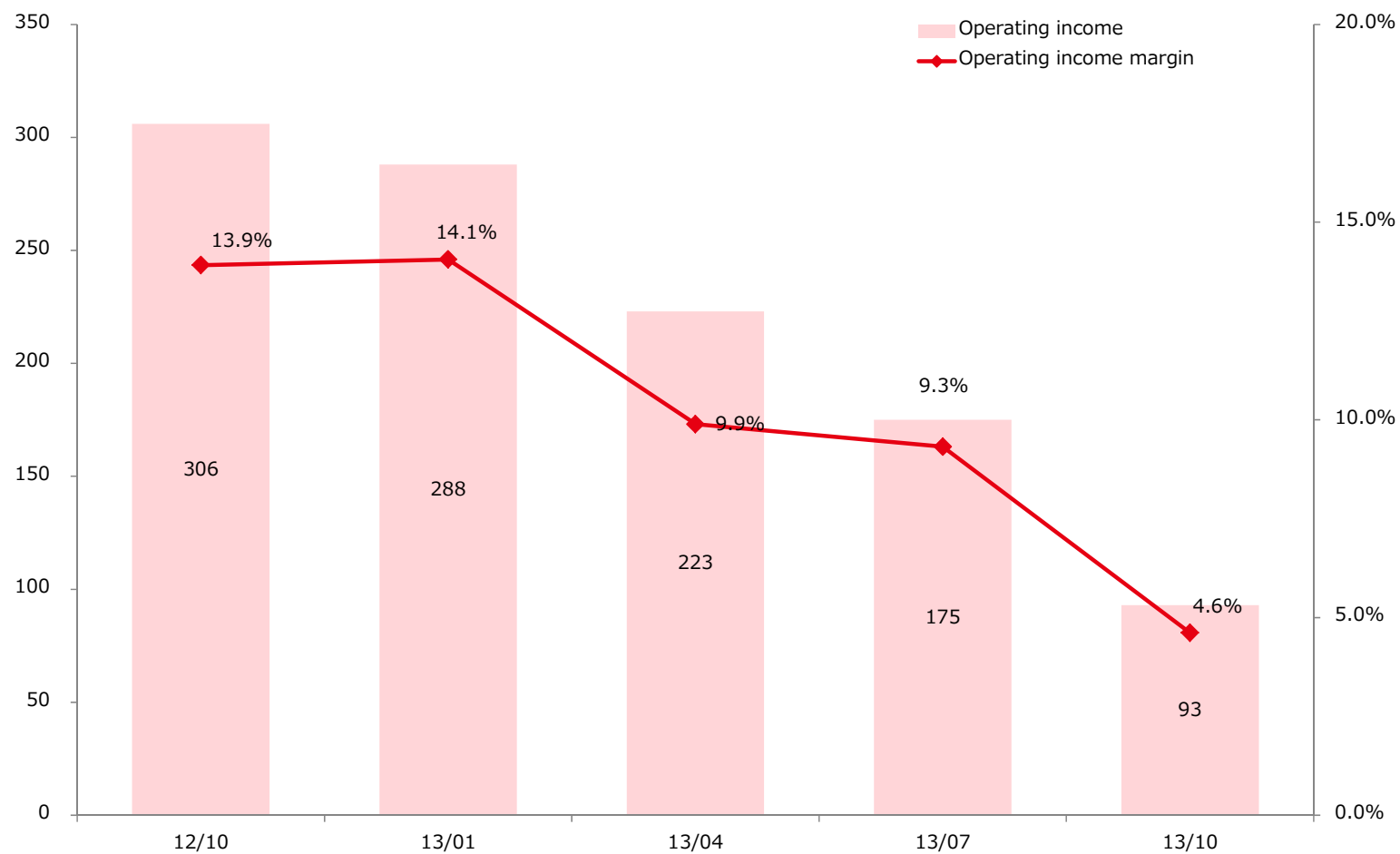
06 Consolidated Numbers of Employees by Quarter



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

07 Consolidated Operating Income by Quarter

(Millions yen)



08 Consolidated B/S Summary

<Assets>				<Liabilities and net assets>			
	End of year ended April 30, 2013 ①	End of 2Q for year ending April 30, 2014 ②	Amount of change (② - ①)		End of year ended April 30, 2013 ①	End of 2Q for year ending April 30, 2014 ②	Amount of change (② - ①)
(Units: Millions yen)	(April 30, 2013)	(Oct. 31, 2013)	(② - ①)	(Units: Millions yen)	(April 30, 2013)	(Oct. 31, 2013)	
Cash and cash equivalents	4,188	4,248	60	Accounts payable - trade	304	260	-44
Accounts receivable	1,696	1,389	-307	Accounts payable - other	454	363	-91
Marketable securities	503	503	0	Corporate tax payable	0	148	+148
Merchandise and products	67	105	+38	Long-term loans payable scheduled for repayment within 1 year	190	182	-8
Other	270	167	-103	Others	134	146	+12
Total current assets	6,724	6,412	-312	Total current liabilities	1,084	1,099	15
Total tangible fixed assets	137	153	16	Long-term loans payable	630	542	-88
Software	369	294	-75	Others	1	1	0
Goodwill	1,991	1,942	-49	Total fixed liabilities	631	543	-88
Other	53	53	+0	Total liabilities	1,716	1,643	-73
Total intangible fixed assets	2,414	2,289	-125	Capital stock	1,464	1,464	0
Investment securities	500	499	-1	Capital surplus	1,389	1,389	0
Other	350	379	+29	Retained earnings	6,952	6,581	-371
Total investments and other ass	850	878	+28	Treasury stock	-1,418	-1,418	0
Total fixed assets	3,401	3,321	-80	Total shareholders' assets	8,388	8,016	-372
Total assets	10,126	9,733	-393	Net unrealized holding gains on	-1	1	+2
				Foreign currency translation	-39	17	+56
				Minority interests	62	56	-6
				Total net assets	8,409	8,090	-319
				Total liabilities and net assets	10,126	9,733	-393

Point1

- Declined due to a decline in sales.

Point2

- Declined due to payment of dividends.

II. Overview of Main Business Areas

09 Content Business (1): Comparison with Previous Quarter

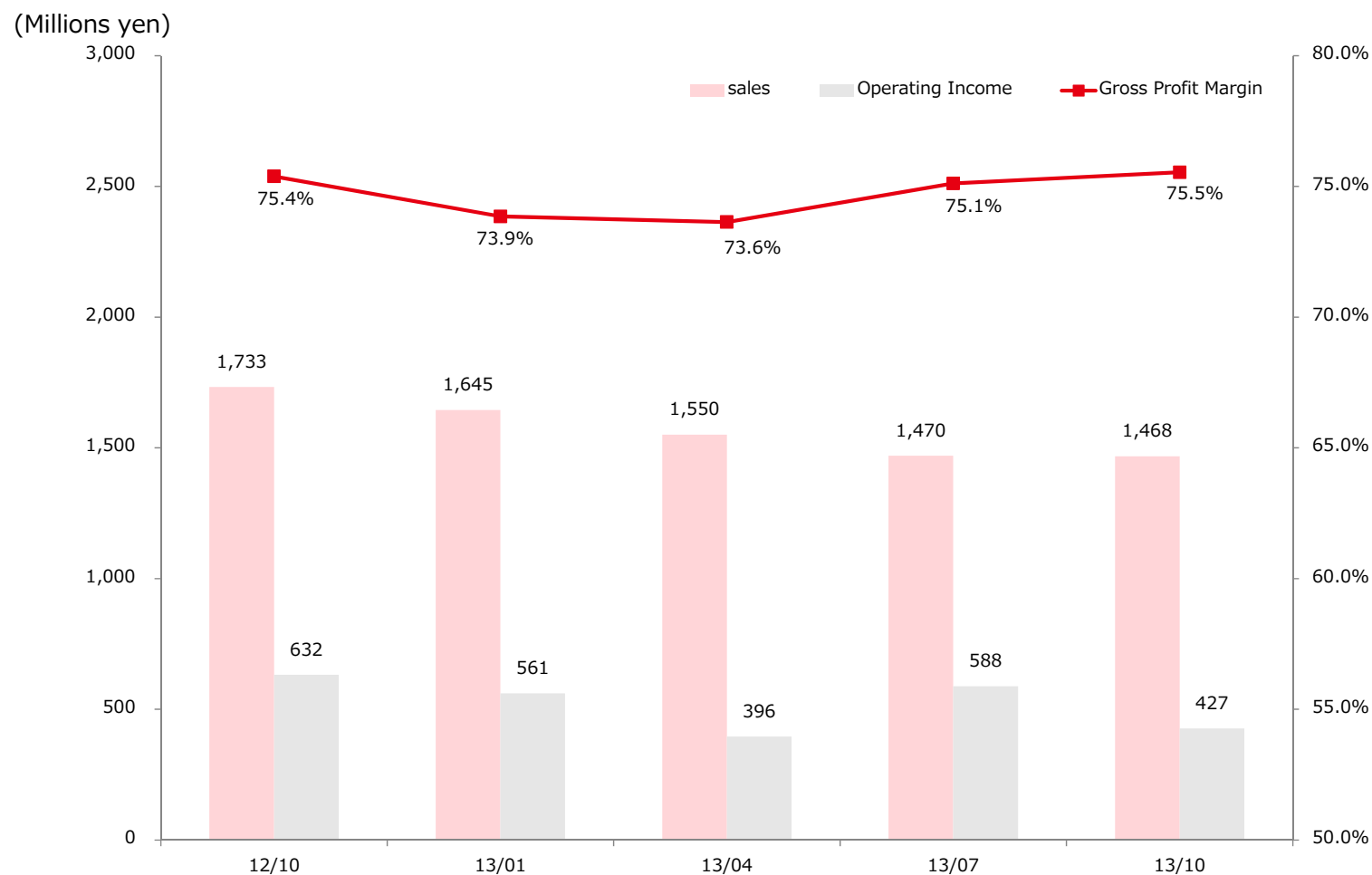
(Units: Millions yen)		1Q of year ending April 30, 2014 (May - July)	% of sales	2Q of year ending April 30, 2014 (Aug. - Oct.)	% of sales
Sales		1,470	100.0%	1,468	100.0%
Costs	Labor expenses	77	5.2%	91	6.2%
	Royalties	145	9.9%	131	8.9%
	Outsourcing expenses	87	5.9%	75	5.1%
	Other	60	4.1%	54	3.7%
SG&A	Personnel expenses	23	1.6%	34	2.3%
	Advertising expenses	278	18.9%	415	28.3%
	Collection agency fees	182	12.4%	184	12.5%
	Other	31	2.1%	47	3.2%
Operating income		588	40.0%	427	29.1%

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

Points

- Sales remained on approximately the same level, with the increase in SP subscribers and sales of au Smart Pass, LINE divination, and other services making up for the decline in FP sales.
- Operating income decreased due to an increase in 2Q advertising expenses.

10 Content Business (2): Quarterly Results

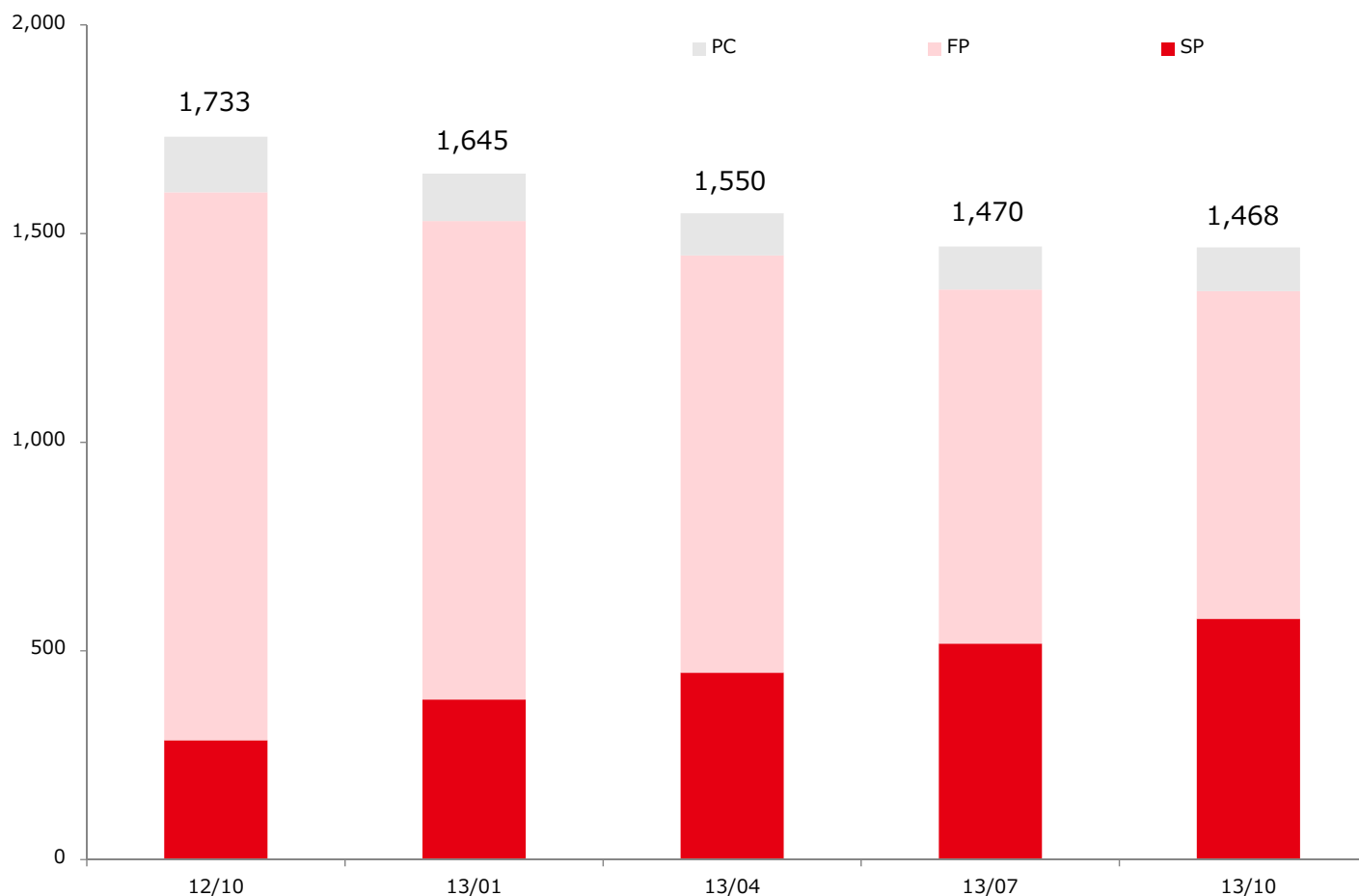


(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

11 Content Business Sales by Device

SP sales are steadily growing, and although FP sales continue to decline, the rate of decline is gradually slowing.

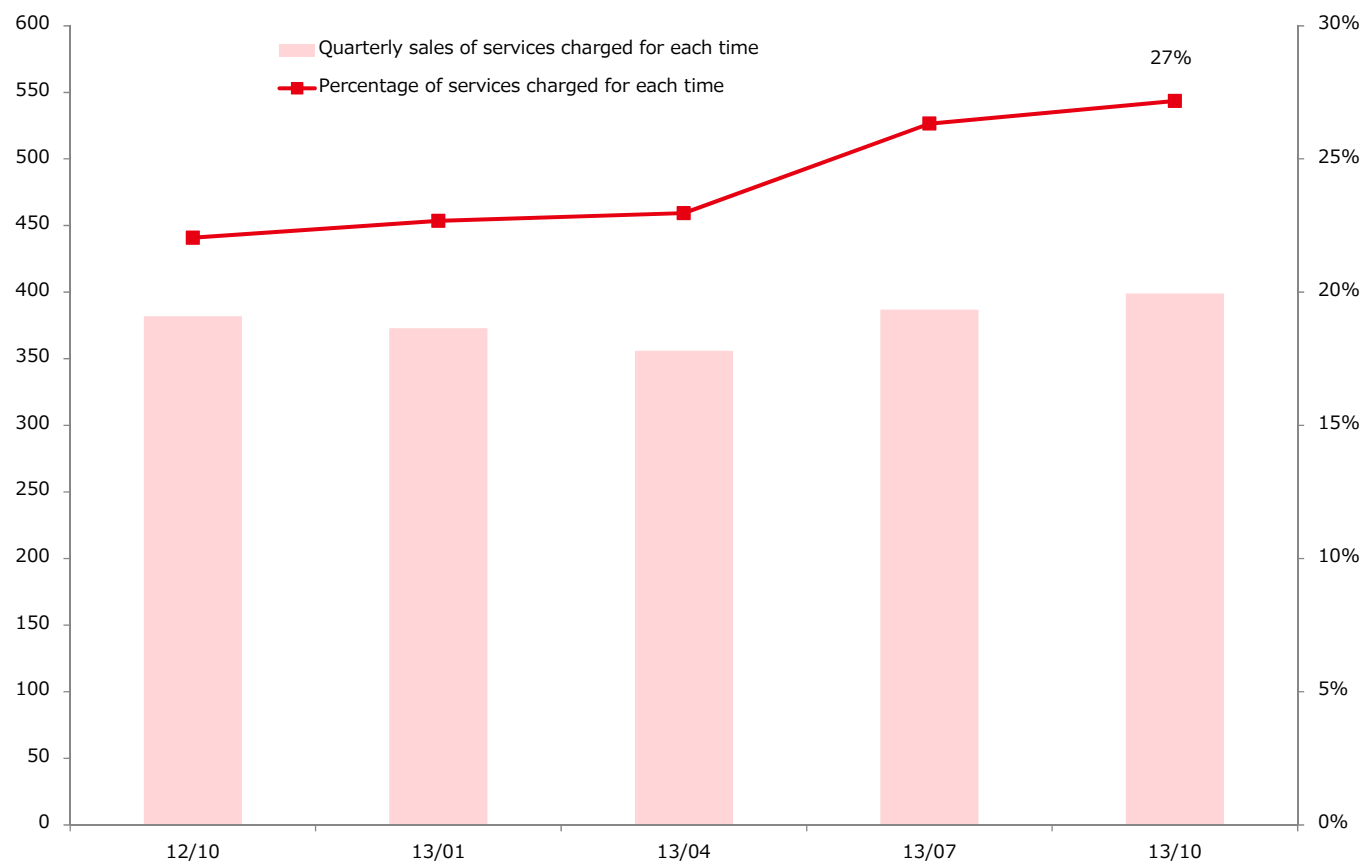
(Millions yen)



12 Quarterly Per-use Fee Sales

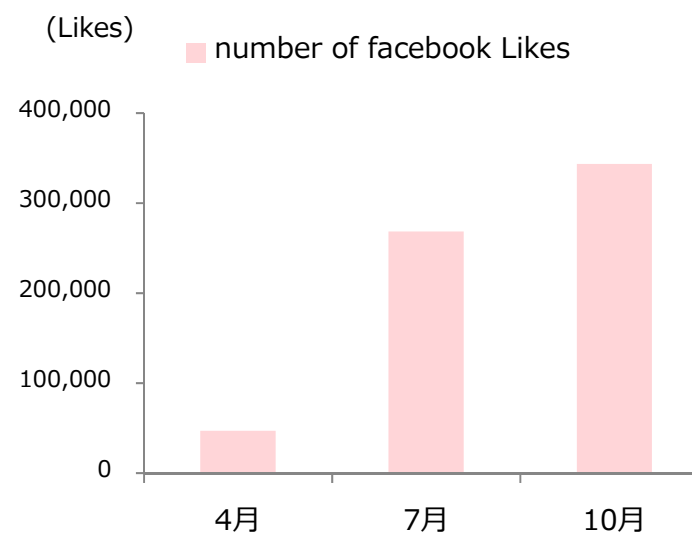
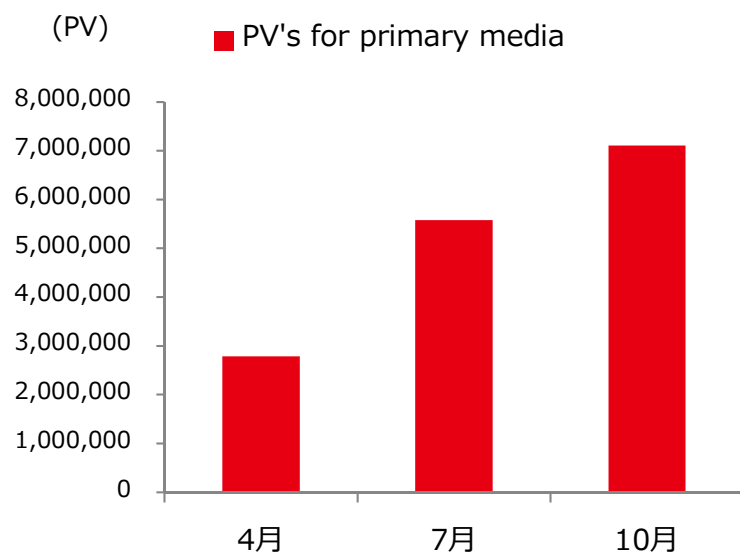
Due to the increase in the SP share, the ratio of per-use fee sales is also gradually increasing.

(Millions yen)



13 Expanding Points of Contact

Numbers of PV and "Likes" are growing steadily as we are constructing a foundation for attracting SP customers.



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

(*2): The number of Facebook "Likes" is the total for *i-Muryo Uranai* and *cocoloniPROLO*.

14 Commerce Business (1): Comparison with Previous Quarter

(Units: Millions yen)		1Q of year ending April 30, 2014 (May - July)	% of sales	2Q of year ending April 30, 2014 (Aug. - Oct.)	% of sales
Sales		251	100.0%	367	100.0%
Costs	Product cost	128	51.0%	191	52.0%
	Packaging and transport e	8	3.2%	7	1.9%
	Other	0	0.0%	2	1%
	Personnel expenses	65	25.9%	75	29.9%
SG&A	Advertising expenses	42	16.7%	38	15.1%
	Commission fees	14	5.6%	14	5.6%
	Rents	15	6.0%	17	6.8%
	Other	56	22.3%	80	31.9%
Operating income		-92	-36.7%	-68	-27.1%

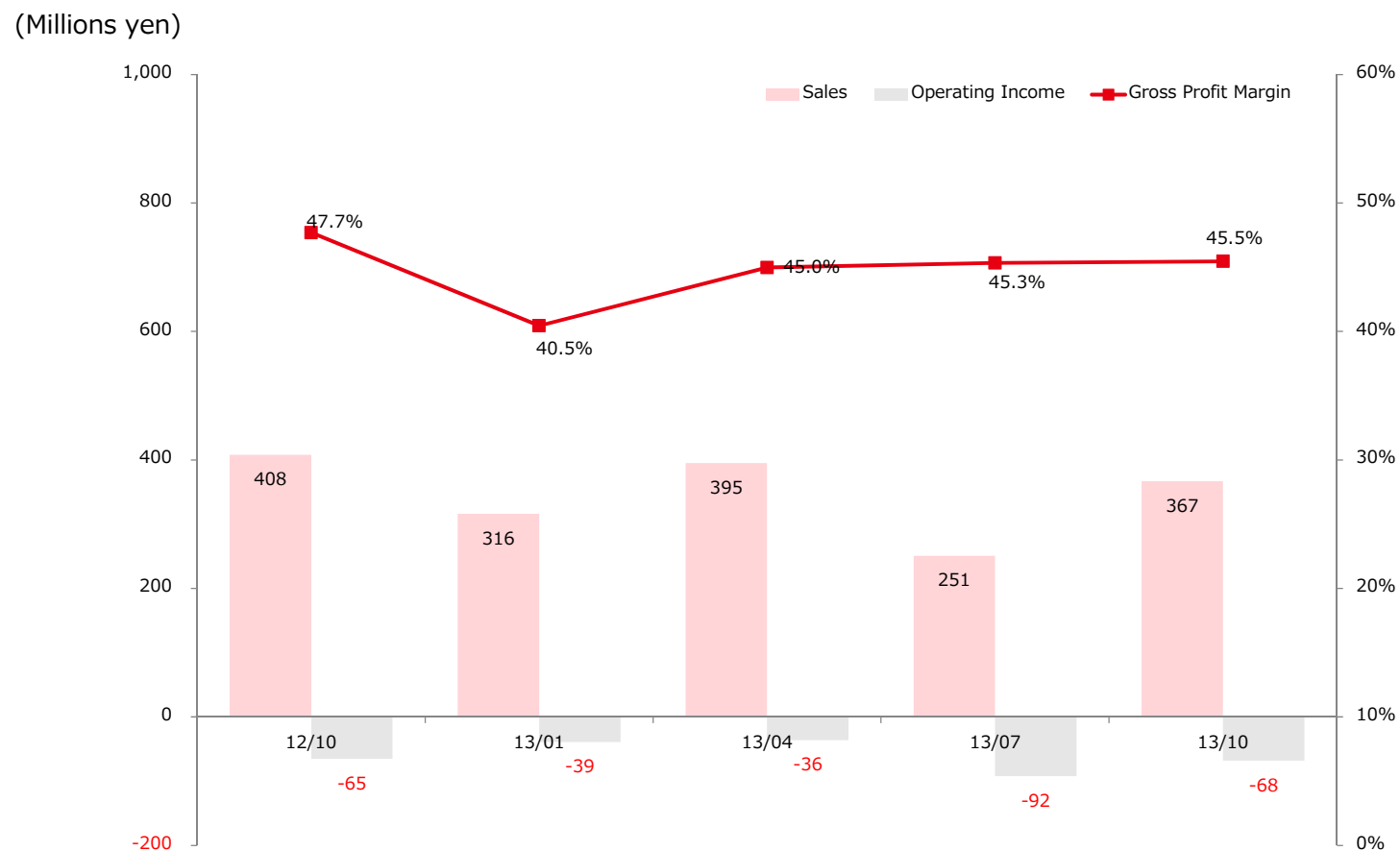
(*1): Comparison is of figures before consolidation adjustments.

(*2): Costs include Reversal of allowance for sales returns (subsidiary BxE)

Points

- At BxE, a company engaged in wholesale and retail sales of organic and natural cosmetics, sales were higher due to an increase in wholesale results resulting from the release of new products and repeat sales.
- In the e-commerce business, sales continued to decline due to the decline in sales at existing mobile commerce sites.
- SG&A increased due to an increase in personnel expenses.

15 Commerce Business (2): Quarterly Results

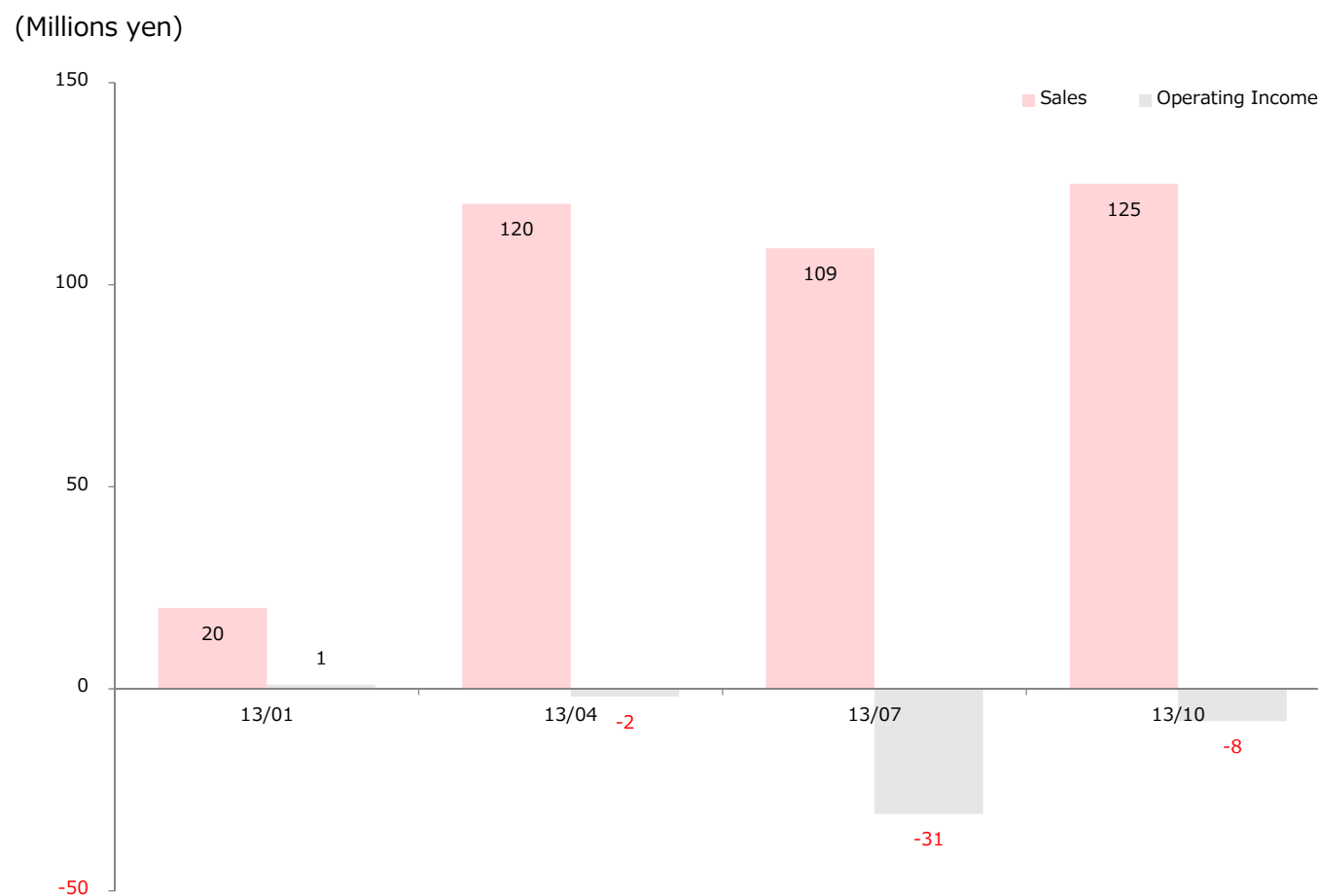


(*1): The business segments were changed beginning from the consolidated first quarter of this fiscal year. However because the effects of the segment change are minor, the change has not been applied to the numbers for the quarter ended April 30, 2013 and earlier quarters.

(*2) : Costs include Reversal of allowance for sales returns (subsidiary BxE)

16 Overseas Business

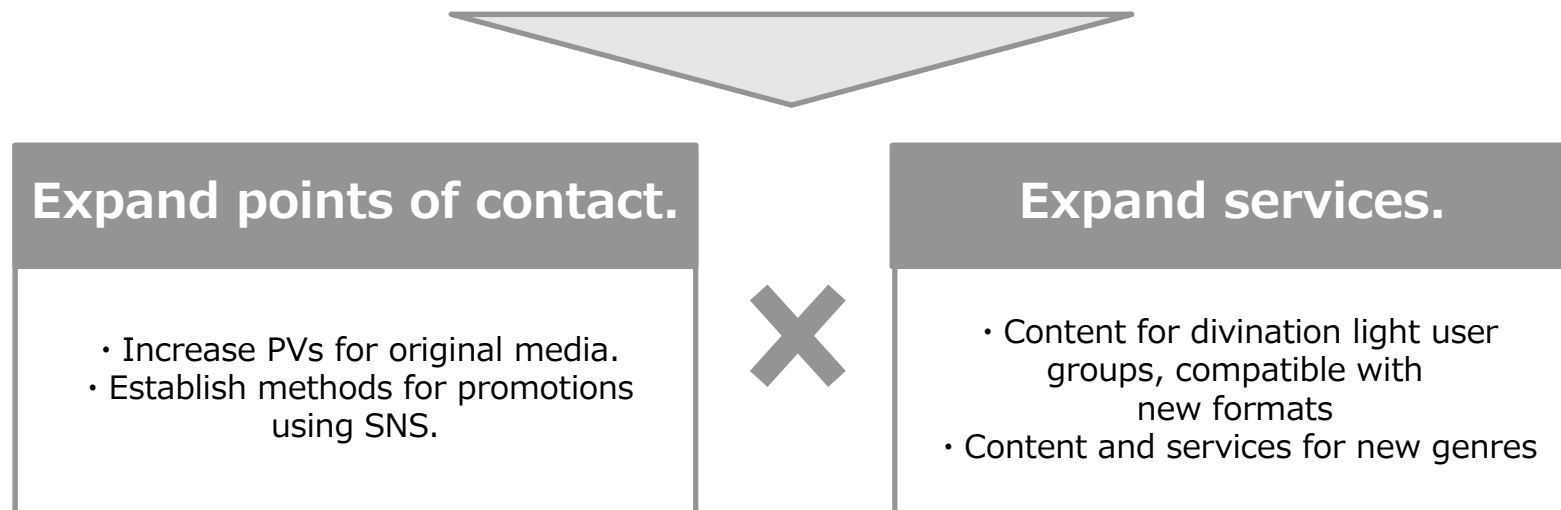
Sales increased as a result of measures including reinforcing advertising and marketing, and strengthening of our mobile sites.



III. Future Plans

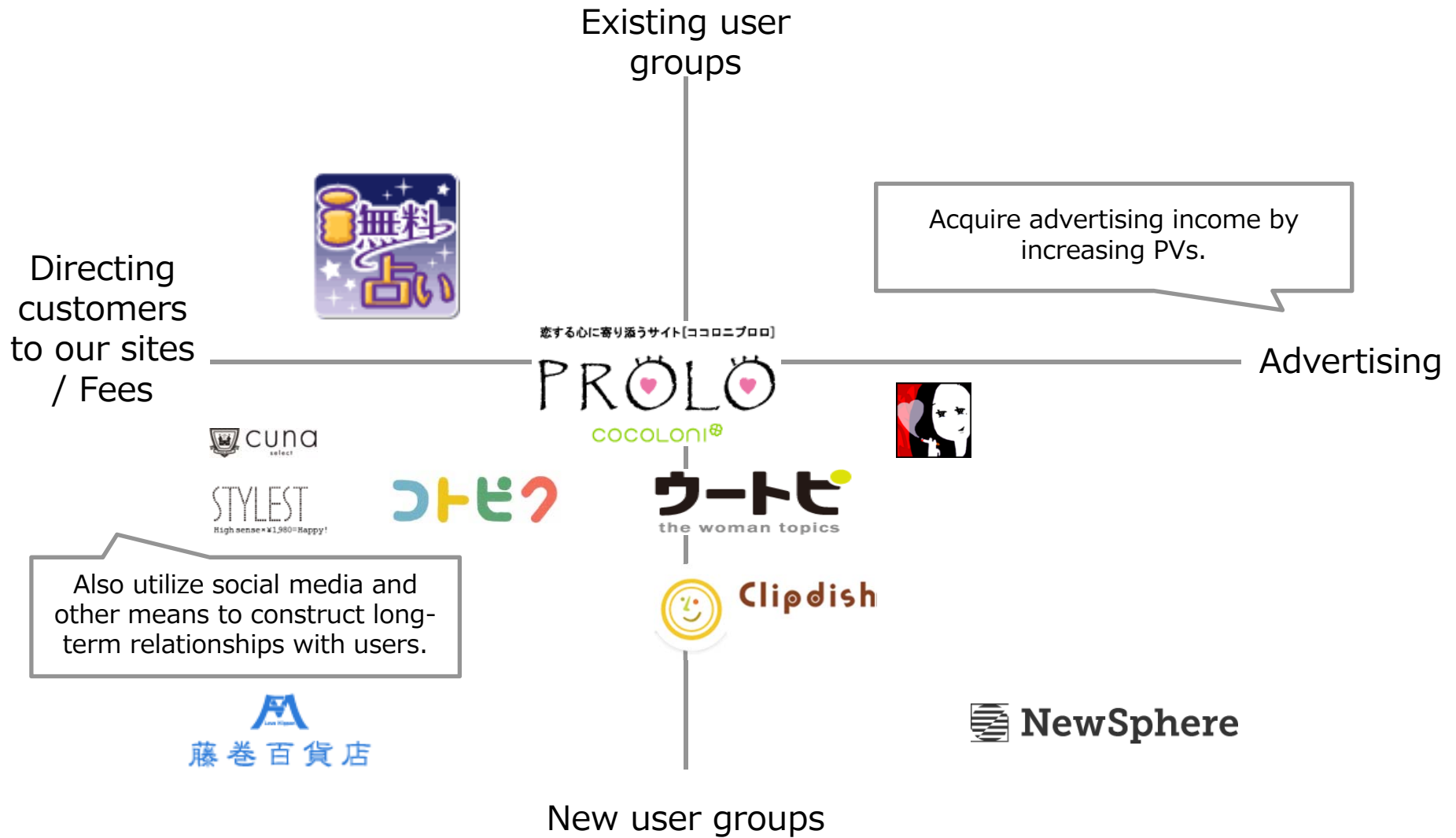
17 Policy for the Second Half of the Year

Acquire new customer groups.



Return the content business to growth.

18 Expanding Points of Contact



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 1,464,434,000 yen (as of April 30, 2013)
- No. of employees 216 (as of April 30, 2013)
- Officials
 - President & CEO Mari Tamaki (Kawashima)
 - Director Hirohiko Ogusu
 - Director Sachio Shibata
 - Director Akira Nakamura
 - Director Masato Kobayashi
 - Director (outside) Shinichi Misawa
 - Standing auditor (outside) Toyoyoshi Yamaguchi
 - Auditor Hirofumi Yamazaki
 - Auditor (outside) Masaharu Inoue (attorney)

02 Shareholders (as of October 31, 2013)

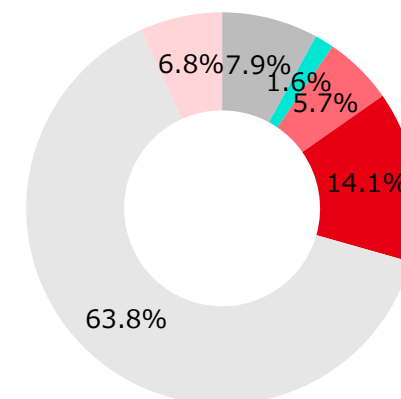
Shares issued: 135,310

Shareholders: 8,885

■ Major shareholders

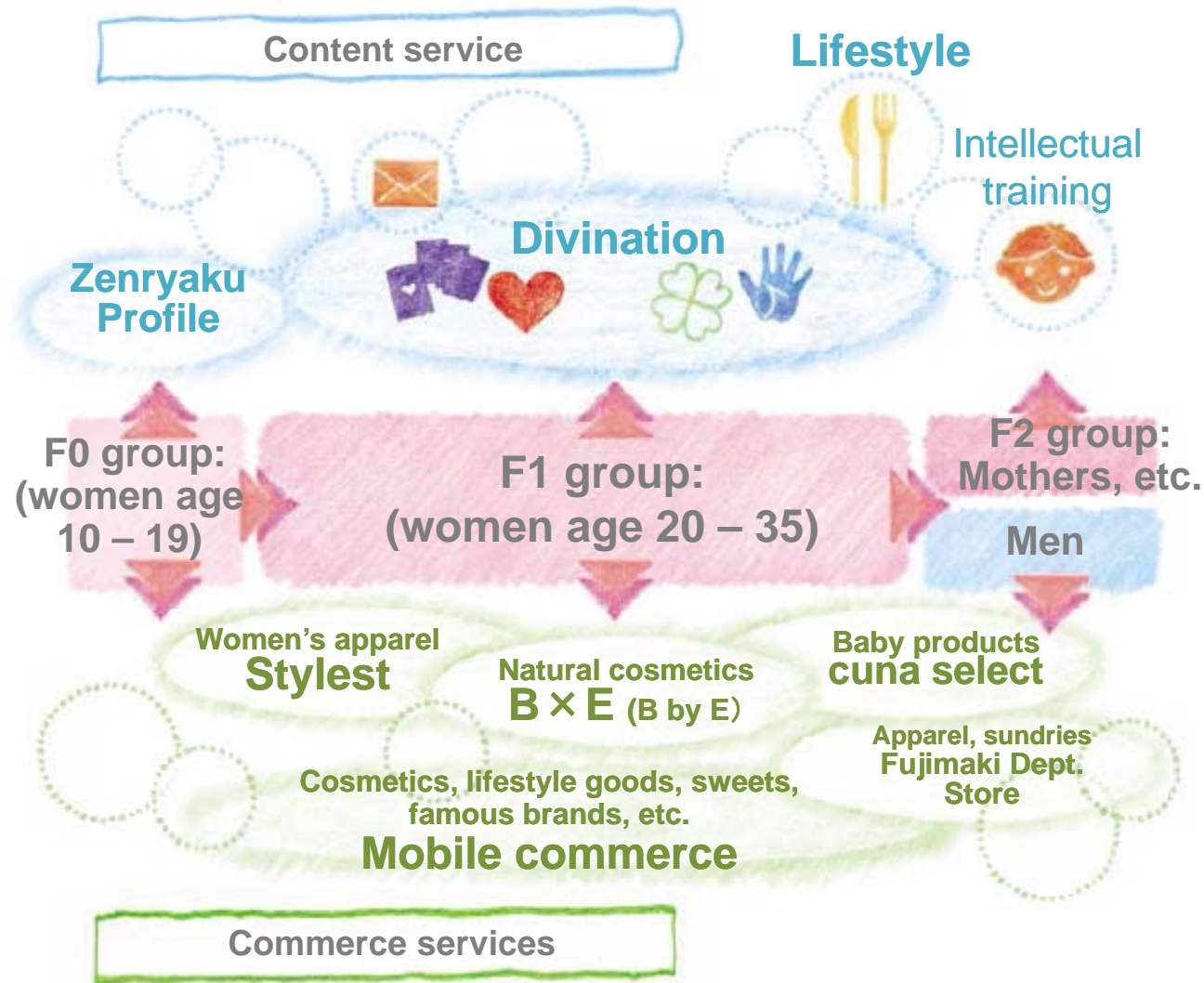
	Number of stocks	Ratio of stocks
Mari Kawashima	27,920	20.63%
BBH for Fidelity Puritan, Fidelity Series, Intrinsic Opportunities Fund	8,800	6.50%
Crimsongroup LLC	6,682	4.94%
Japan Trustee Services Bank, Ltd.	1,878	1.39%
JPMorgan Chase Bank 385093	1,748	1.29%
The Master Trust Bank of Japan, Ltd.	1,391	1.03%
Yuichi Yamada	1,319	0.98%
The Chase Manhattan Bank NA London	1,303	0.96%
Japan Securities Finance Co. Ltd.	1,231	0.91%
Japan Trustee Services Bank, Ltd.(Account 1)	1,140	0.84%

■ Shareholder distribution (percentage ownership)



- Financial institutions
- Financial instruments businesses
- Other Corporate bodies
- Foreign corporate bodies
- Individuals, other
- Treasury stock

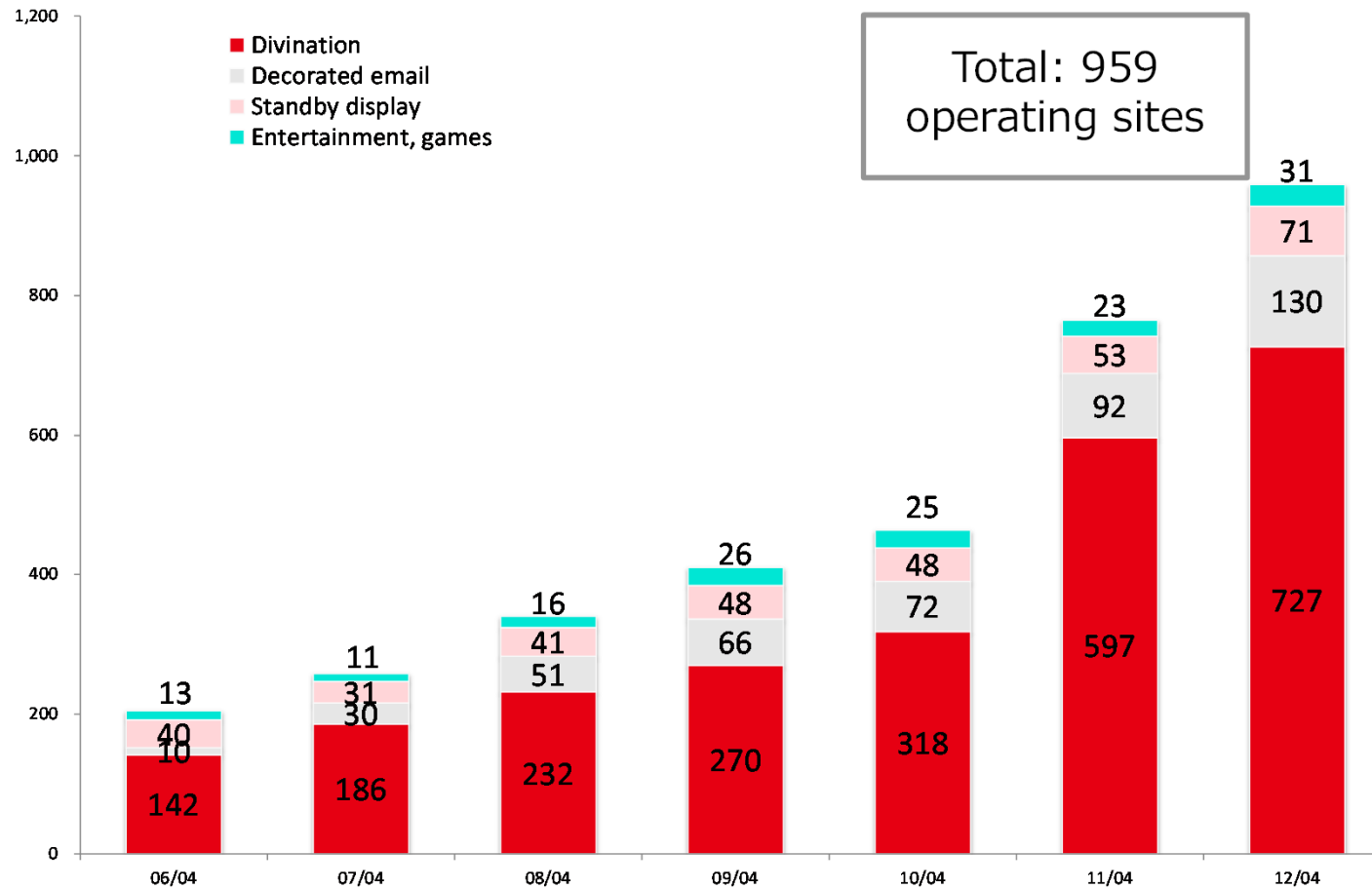
03 Zappallas Services



04 Numbers of Provided Sites

We are constructing an efficient operation system for the development and operation of large content quantities.

(Sites)



05 SP Divination Menu Ranking

Zappallas content overwhelmingly controls the top rankings for SP divination as well.

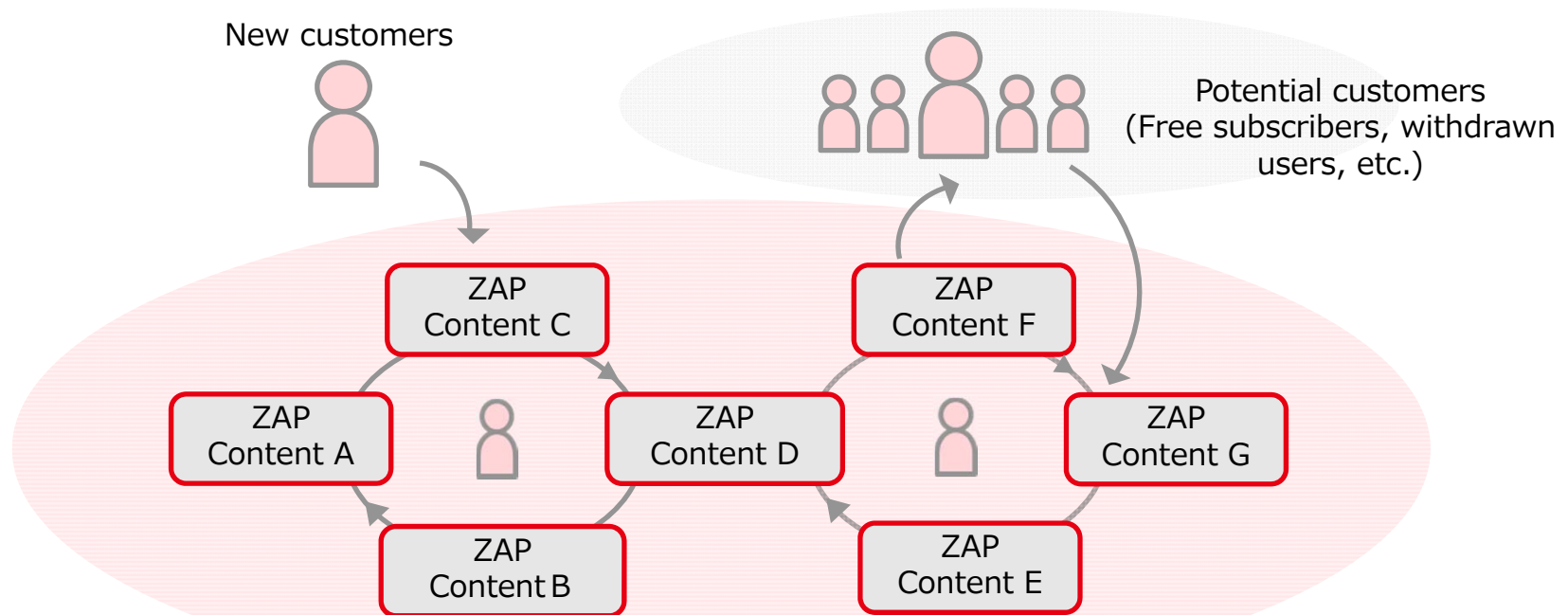
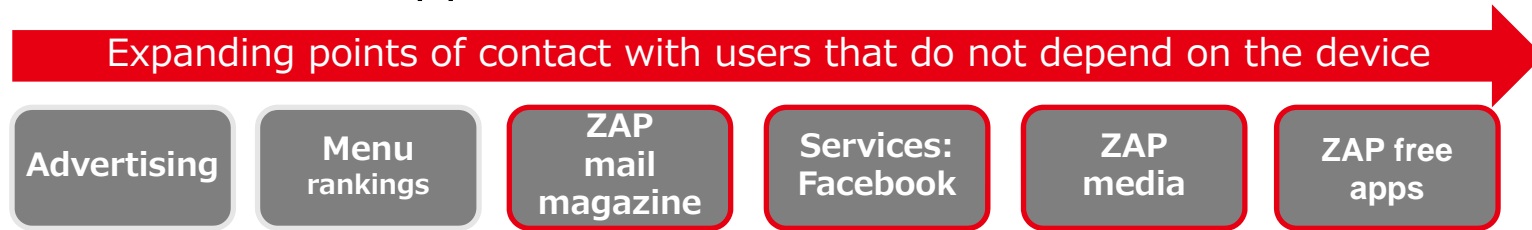
Western divination	Oriental divination	Diagnosis, psychology
1 Today's Fortune DX	1 Kazuko Hosoki's 6-Star Astrology	1 ☆Hiroyuki Ehara☆
2 365 Birthday Grand Divination	2 Smart Divination DX	2 Getters Iida Style
3 Astrology by Yukari Ishii	3 Power of Miracles◆Kazumi Uechi	3 Dream Divination for Good Fortune
4 Goddess of Love DX	4 7 Planets◆Name Divination	4 Animal Divination
5 Ryuji Kagami Astrology	5 Shuehei Shimada's Palm Reading	5 Relationships for Adults
6 Blood-type Compatibility Diagnosis	6 Divination by Getters Iida	6 Animal Character Navi
7 John Hayes England Astrology	7 Ansei-Style Fortune Telling	7 Rules for Personality Beauty
8 HAPPY! Divination	8 Mother of Shinjuku	8 Spiritual Dream Interpretation
9 Dates of Fate	9 Kyomei Hashimoto: The Last Yin-Yang Master	9 Rika Kayama's Deep-Mind Psychology
10 Destiny Love Divination	10 Mother of Ginza◆Yoshie Yokota	10 Truth and Lies in the Male Mind
11 My Birthday	11 Father of Okinawa◆Miracle Appraisal	11 Real Psychology Tests
12 Destiny and Prophecy	12 Mother of Ginza◇Names for Good Fortune	12 Love Psychology for Women
13 Shinbashi Mama◆Spiritual Divination	13 Yoshiko Shimo-Style Living	13 Nami Kagawa★Good Fortune Predictions
14 Karin's Million Person Deeply Moving Salon	14 Miracle Appraiser Karin	14 Yasufumi Nakoshi's Laboratory of the Heart
15 Yoshiyuki Hamaguchi's Tarot Divination	15 Accurate Mother of Hong Kong! Yan Jing	15 Male Brain × Female Brain
16 Mademoiselle Ai◆Astrology	16 Feng Shui Artist◆Okuni Izumo	16 The Ultimate Love Science
17 Miyoko Sensei, Goddess of Fuchu◆Messages of Love	17 Mother of Asakusabashi - Name Divination	17 Past Life Therapy
18 7 Persons who Guide Your Fate	18 Ultimate Name Divination: Journey to Shangri-La	18 The Brain's Switches
19 Ayako Izumiya [Ultimate Predictions]	19 Happy So Happy! Sakana-chan	19 99 Rules for Finding Love
20 The Future in 3 Months	20 Mother of Nishi-Shinjuku	20 Blood-Type Human Science DX
21 Egyptian Astrology	21 Yumily Naoi's Love and Feng Shui	21 Jucelino's Future Predictions
22 Promises from Past Lives	22 Mama of Dazaifu	22 Counseling for Persons Hopeless at Love
23 Magus -Foreseer-	23 The Smiling Medium◆Baramon	23 Encyclopedia of Dream Divination
24 True Colors of Adults	24 Good Fortune★Name Divination	24 Sexy Psychology
25 C. Adrienne Predicts the Future	25 Spiritual Purification - Mother of Heizan	25 Butterfly Moteage

Source: NTT DoCoMo menu list (i-mode, dmenu) (October 2013)

indicates content provided by ZAPPALAS.

06 CRM

Constructing long-term relationships with customers using the original Zappallas content circulation model



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

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.

IR Contact

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