

Digital Garage, Inc.

- Second Quarter FYE 2011 -
Financial Report

February 10, 2011



Digital Garage

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Mission & Business Model



Context Company

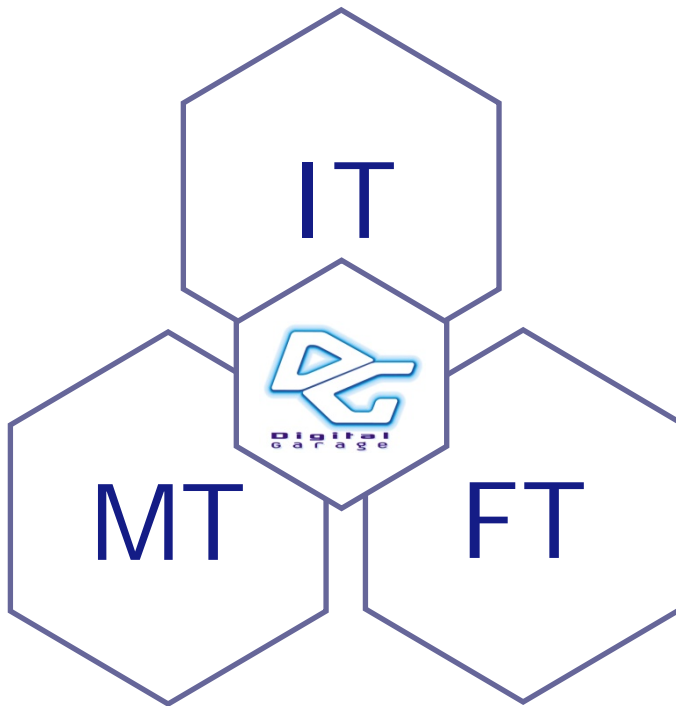
Digital Garage creates innovative business "context" for the new internet age and provides unique business solutions for Japan's new lifestyles, society and industries by linking:

Real & **Cyber**
Local & **International**
Marketing & **Technology**
Present & **Future**



C o n t e x t C o m p a n y

Produce and incubate Japan's Internet businesses
with optimal use of our three core strengths: IT, MT and FT



- ★ Information Technology
- ★ Marketing Technology
- ★ Financial Technology

Group Financial Performance Review



Shift Toward Social Media Business

- Growing Hybrid Solution Providing Foundation for Accelerated Social Media Incubation -

I Group performance exceeding revenue forecasts

- Advancement of ToB solution/settlement business restructuring led to strong performance
- Investment capital gains achieved

II Increased media power and progress in monetization

- Domestic Twitter UUs exceeding 12 million (Source: NetRatings Japan Inc.)
- Number of advertising impressions temporarily decreased due to website renewal
- Restructuring of mobile businesses implemented with launch of e-book business
- Preparation of new smartphone businesses for growing Android market currently under way

III Reinforced efforts in new social media cultivation

- Investment/business partnership for new social media platforms implemented
- New projects (e.g., business SNS) under review



(¥ million)	<u>Cumulative Q2 FYE 2010 Actual</u>	<u>Cumulative Q2 FYE 2011</u>			<u>Actual-to-Forecast (Amount)</u>		<u>Year-on-Year (Amount)</u>
		Initial Forecast	Dec. 27 Forecast	Actual	Initial Forecast	Dec. 27 Forecast	
Net sales	3,854	4,500	4,950	4,983	+483	+33	+1,128
Operating income	-443	-490	-240	-181	+308	+58	+ 262
Ordinary income	-261	-205	170	213	+418	+43	+ 475
Net income	-247	-230	130	158	+388	+28	+ 405

Cumulative Q2 FYE 2011 Performance

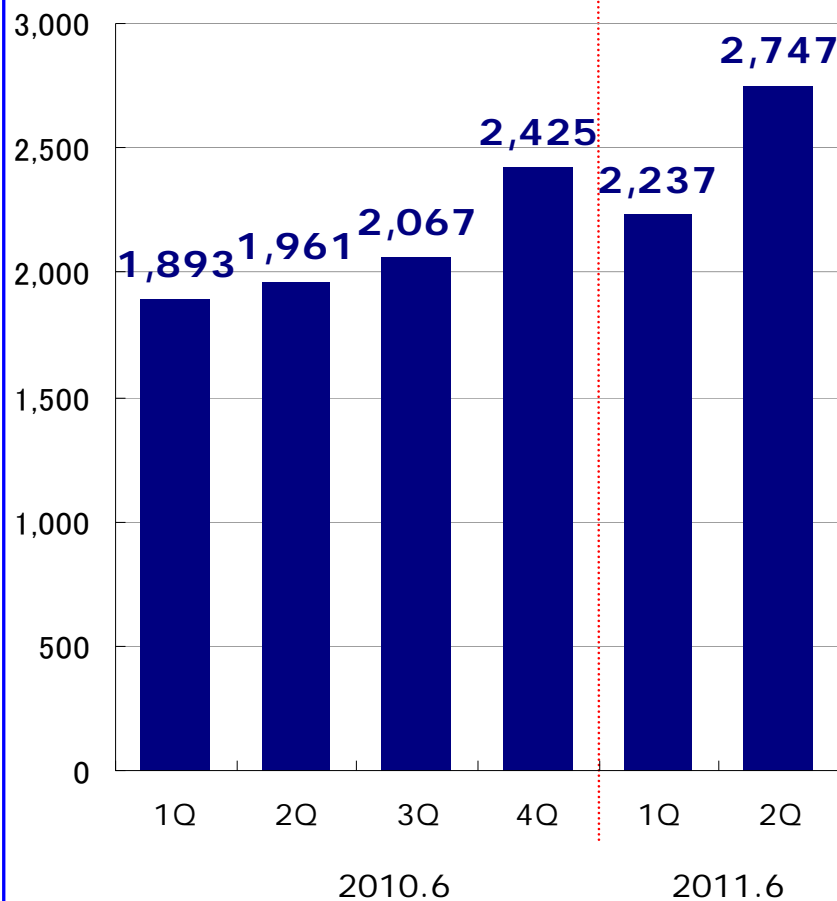
Surplus of ordinary income (Q1) and operating income (Q2)

- Sales up 29.3% year-on-year; operating income up 262 million yen year-on-year
- Ordinary income included equity in earnings of affiliates (Kakaku.com, etc.) of 413 million yen as non-operating income; up 475 million yen year-on-year (213 million yen in 2011 vs. -261 million yen in 2010)
- Q2 net income up 405 million yen year-on-year (158 million yen in 2011 vs. -247 million yen in 2010)

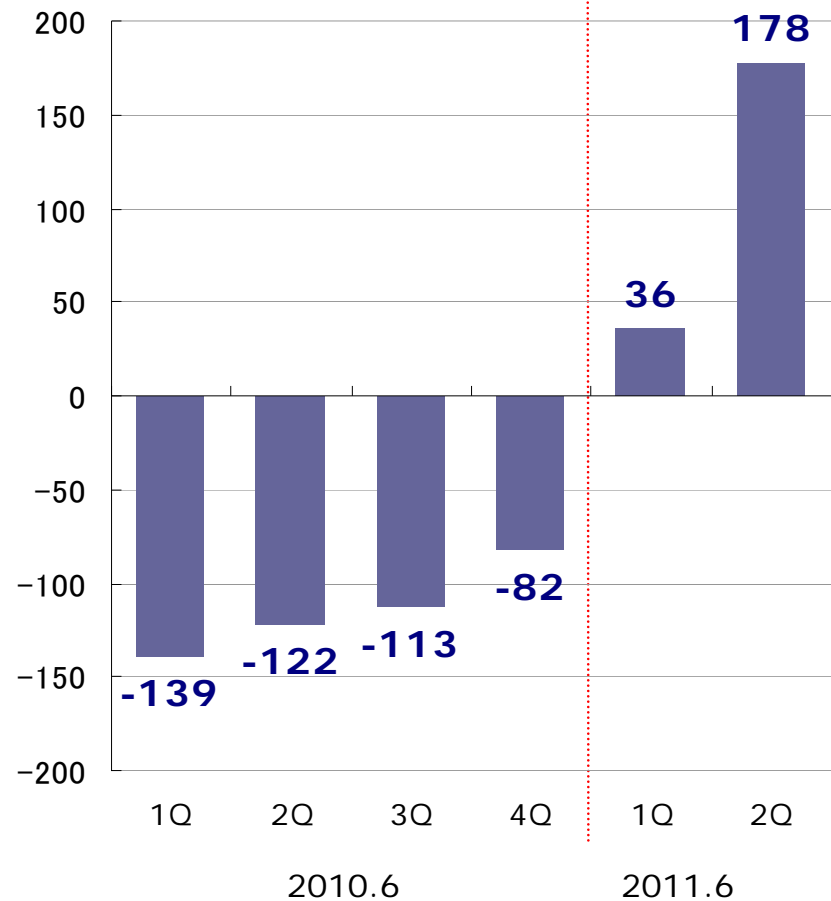
Consolidated Net sales/Ordinary income

(¥ million)

Net sales



Ordinary income



Segment for 2Q FYE 2011 (Consolidated)

(¥ million)	Q2 FYE 2010 (Actual)	Q2 FYE 2011 (Actual)	Year-on-Year (Amount)
(Hybrid Solution Segment)			
Net sales	3,503	4,389	+885
Operating income	84	298	+214
(Media Incubation Segment)			
Net sales	343	353	+9
Operating income	△74	△120	△45
(Venture Incubation Segment)			
Net sales	7	240	+232
Operating income	△54	146	+200

* Operating income: based on figures prior to Group tax deduction



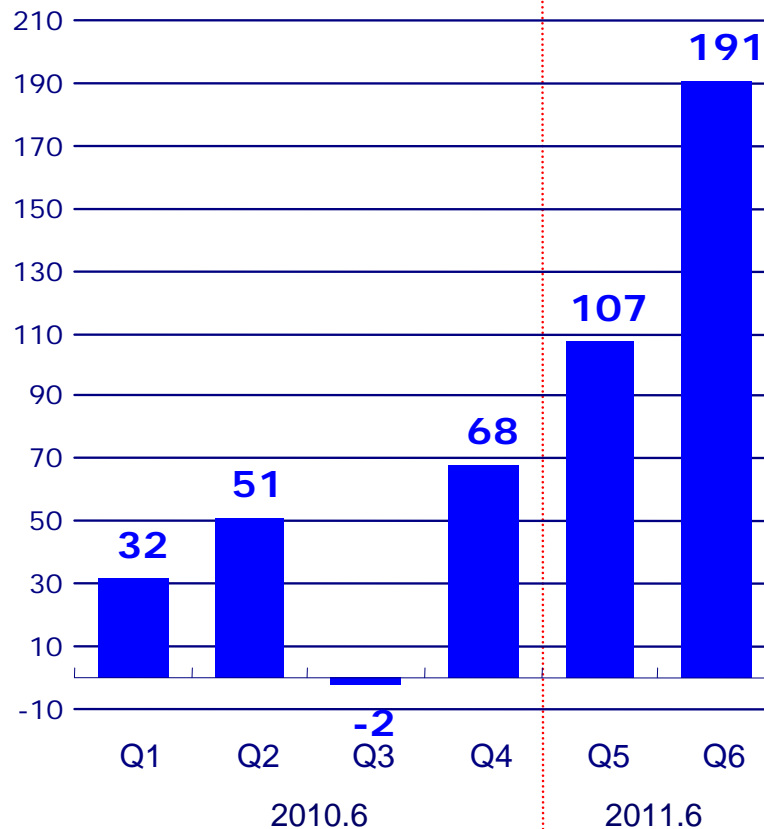
Hybrid Solution

(¥ million)

Net sales



Operating income



Performance Review

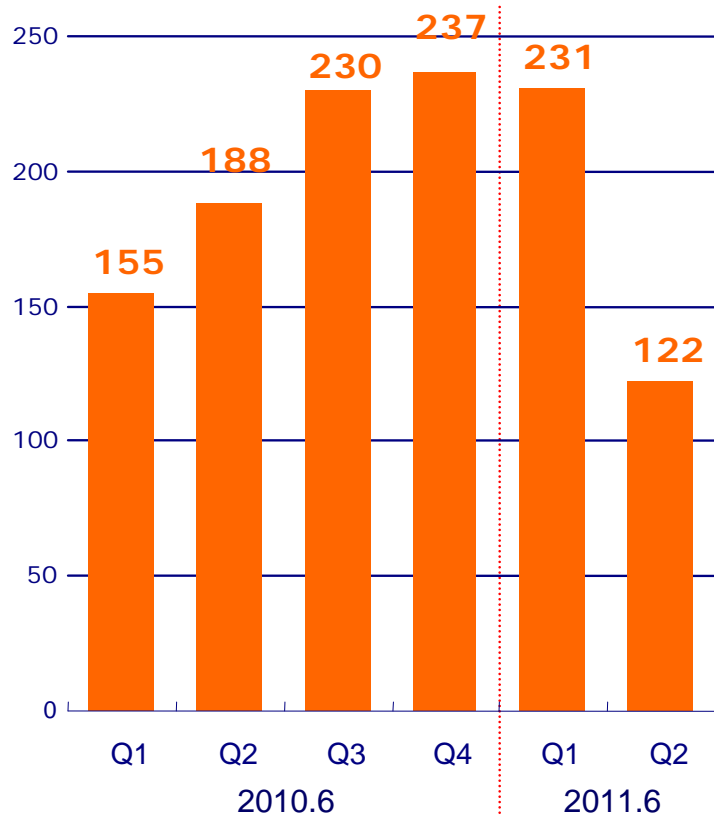
- **Solution:** expansion of businesses with increasing returns contributed to income growth
- **Settlement:** growth of existing businesses achieved; new business launched



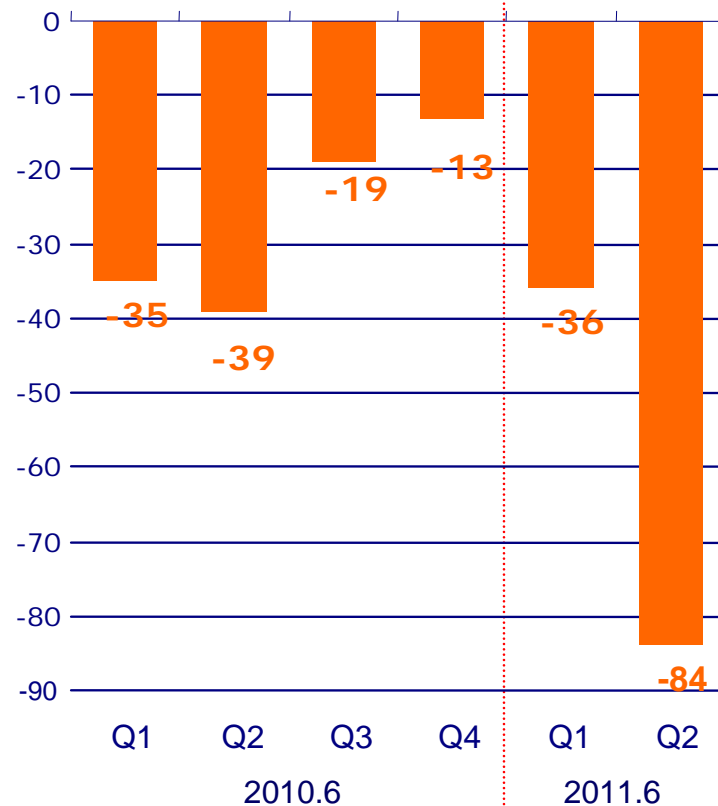
Media Incubation

(¥ million)

Net sales



Operating income



Performance Review

- Restructuring of mobile businesses implemented with launch of e-book business; existing content distribution to be discontinued in Q3; preparation of new smartphone businesses for growing Android market under way
- Number of advertising impressions temporarily decreased due to Twitter website renewal

Financial Summary for 2Q FYE 2010: BS (Consolidated)

(¥ million)	FYE 2010 Actual	Q2 FYE 2011 Actual	Year-on-Year (Amount)
Current assets	14,208	14,220	+11
Incl. cash and deposits	4,799	5,055	+255
Incl. receivables	3,413	4,000	+587
Money held in trust	3,155	2,253	-902
Fixed assets	5,497	5,813	+316
Total assets	19,706	20,034	+327
Current debt	9,941	10,283	+342
Fixed debt	935	753	-181
Incl. deposits	5,743	6,687	+944
Incl. interest-bearing debt	3,479	3,069	-410
Net assets	8,829	8,997	+167
Total debt/net assets	19,706	20,034	+327

Settlement-related accounts

Receivables:
Payments owed by convenience stores/credit card companies (average payment period: approx. two weeks)

Money held in trust:
Payments protected by trust

Deposits:
Payments temporarily held until paid to e-commerce clients

FYE 2010 Actual	Cumulative Q2 FYE 2011		FYE 2011 Initial Forecast	Year-on-Year (Amount)
	Initial Forecast	Actual		
Net sales	8,346	4,500	10,600	+2,254
Operating income	-960	-490	-250	+710
Ordinary income	-457	-205	500	+957
Net income	-2,207	-230	310	+2,517

Performance Forecast for FYE 2011

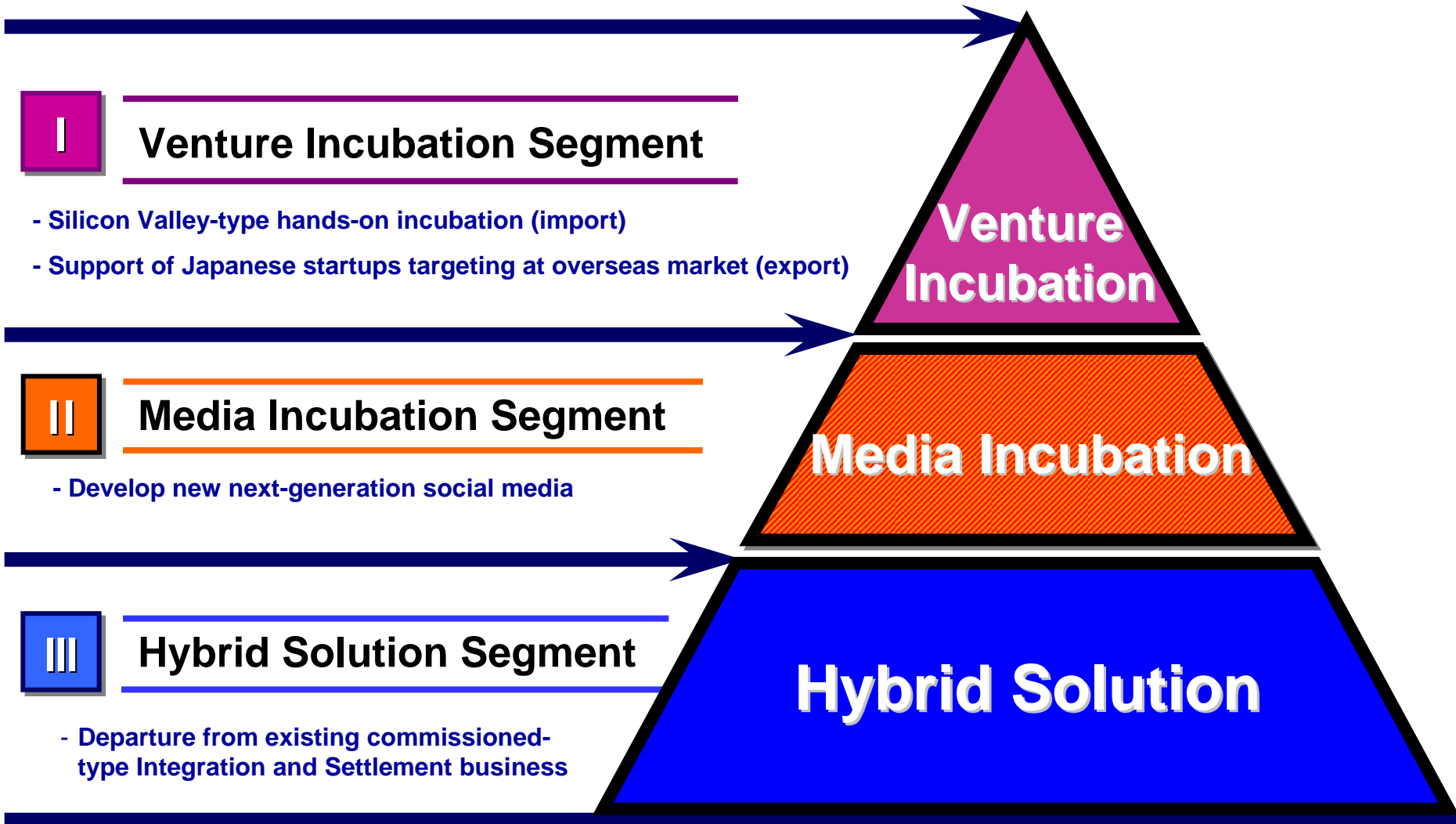
Overall forecast remains unchanged despite Q2 cumulative performance exceeding initial expectations

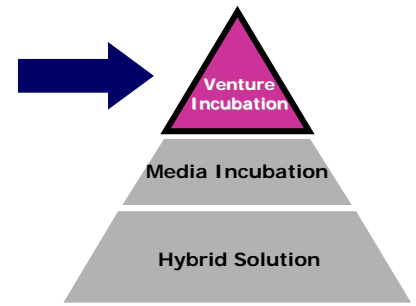
- Q2 cumulative performance exceeded initial forecasts
- **Hybrid Solution:** steady growth expected to be maintained
- **Media incubation:** forecast figures of Twitter related ad returns and start-up losses for new businesses currently being analyzed
- **Venture incubation:** positive year-end results achievable thanks to robust overseas private equity market

Second Quarter FYE 2011

Segment Performance Review







I

Venture Incubation Segment

➤ DG Incubation, Inc.

Venture business incubation through investment and development



DG INCUBATION



Strategic Partners
Building the ecosystem for mutual success

➤ Open Network Lab

Internet-based business accelerator program for aspiring engineers



Open Network Lab

Open Network Lab

～日本のスタートアップを世界へ～



I Venture Incubation Segment



Increase domestic/overseas investments for social media-based business incubation

DG Incubation, Inc.:

Actively collaborate with renowned investors primarily based in Silicon Valley and Singapore; invest in next key social media that follows success of Twitter; provide ongoing support for Japanese market localization

DG Strategic Partners:

Initiated capital participation in content distributor Media Do Co., Ltd. in response to expansion of e-book market; incubation projects for social media-based businesses planned

Open Network Lab:

Second round of “Seed Accelerator” program, which supports entrepreneurial engineers who create global businesses originating from Japan, attracted more entries from around the world than the first round; four selected teams are currently developing products with the support of the Lab; results are scheduled to be announced in April

Consolidated companies	Establishment/Subsidiary dates	Investment ratio	Description
➤ DG Incubation, Inc.	Jun 09/Jun 09	100%	Foreign investment and domestic business development
➤ DG Strategic Partners, Inc.	Oct 10/Oct 10	100%	Domestic direct investment



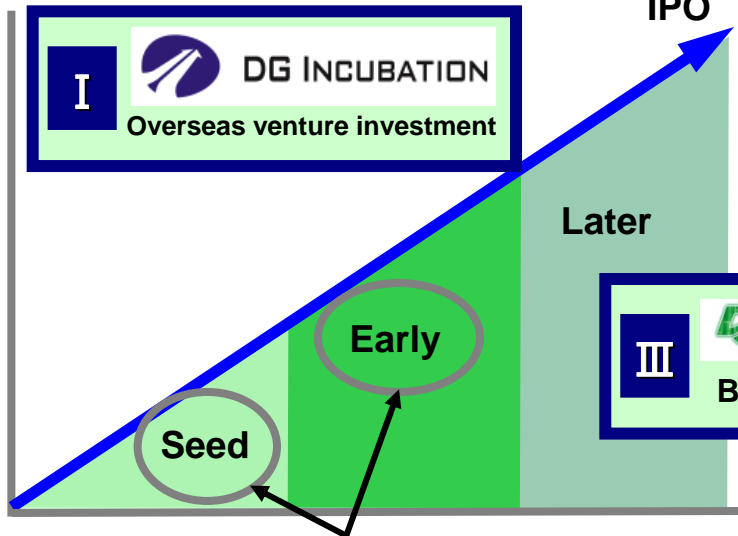
Create global standard originating from Japan while incubating overseas VCs based primarily in Silicon Valley area

Import/export of Internet businesses
New venture incubation in the era of real-time web

U.S. origin WEB 2.0 - real time WEB - From Silicon Valley -

- ◆ Enhance business-type investment primarily in Silicon Valley companies
- ◆ Investment in overseas companies and localization in Japan

Import model

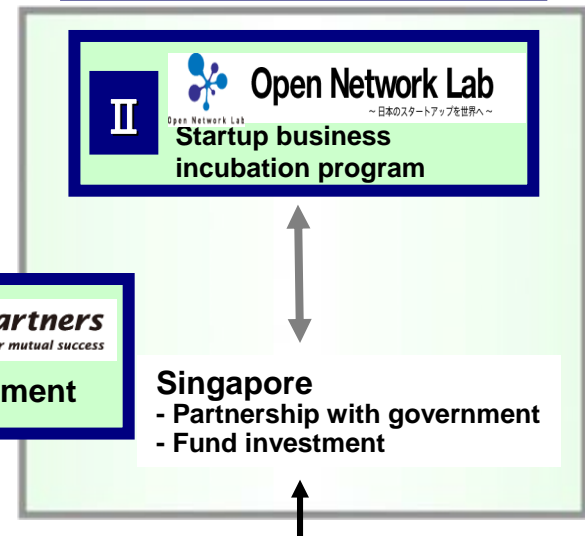


VC investment primarily in U.S. and Japanese market entry support

Japan origin global standard - From Tokyo, JAPAN -

- ◆ Support domestic venture creation by opening ON Lab site
- ◆ Collaborate with Singaporean government and funds

Export model



New domestic venture incubation and overseas market entry support



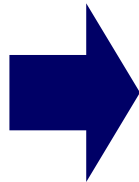
**Business alliance with key e-book industry player
Media Do as largest external investor (approx. 15%)**

**Aggressive promotion of e-book reader platform
with multi device support for smartphone market**

- Established as a key industry figure by attracting investment from major businesses
(e.g., DG, CCC and Shogakukan)
- Collaborated with top mobile carriers
(e.g., DoCoMo, Softbank)

Digital content brokerage

E-book stores



Approx. 50,000 titles offered
as result of capital alliance
agreements with Kodansha,
Shogakukan and CCC

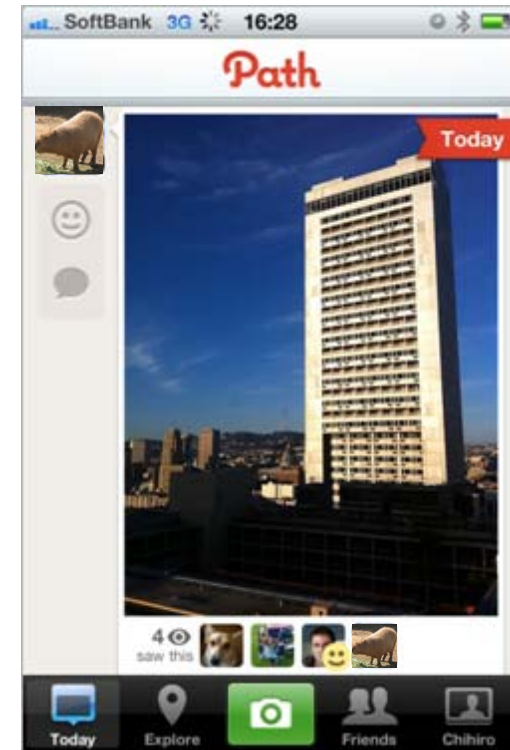


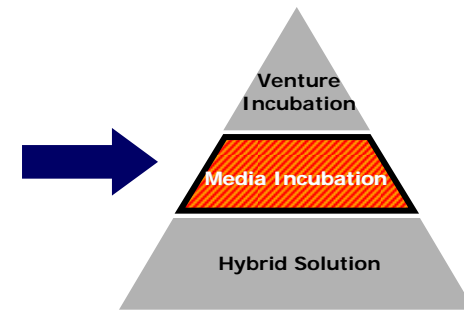
Publishing/book distribution



**Emerging SNS with 2 million postings since
November 2010 launch**

- Founded by former Facebook Senior Platform Manager David Morin and Napster founder Shawn Fanning
- Personal network service that offers private alternative to popular social media such as Twitter and Facebook





Media Incubation <B2C businesses>

➤ Twitter Company

Operational support and business development for Twitter in Japan

Twitter company

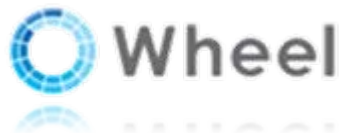
➤ CGM Marketing, Inc.

Twitter- and CGM-based ad product development, twinavi operation and Twitter business support



➤ Wheel, Inc.

Contents providing service for smartphones utilizing social media



II Media Incubation / B2C Businesses

 **Social media incubation: New post-Twitter social media project and strategic businesses for smartphone market being prepared**

- ◆ Japan's Twitter users reached 12.9 million mark in December; established as one of Japan's most powerful media (Source: NetRatings Japan, Inc.)
- ◆ Number of advertising impressions temporarily decreased due to user interface renewal of Twitter site, in mid-September despite steady progress in Twitter monetization implemented by CGM Marketing
- ◆ In addition to business alliance with HootSuite and investment in Path, new post-Twitter social media business currently being prepared by Social Media Planning Office and DG's newly-launched strategic business entity Wheel

DG Mobile operation to be suspended in Q3 due to restructuring implemented with launch of e-book business

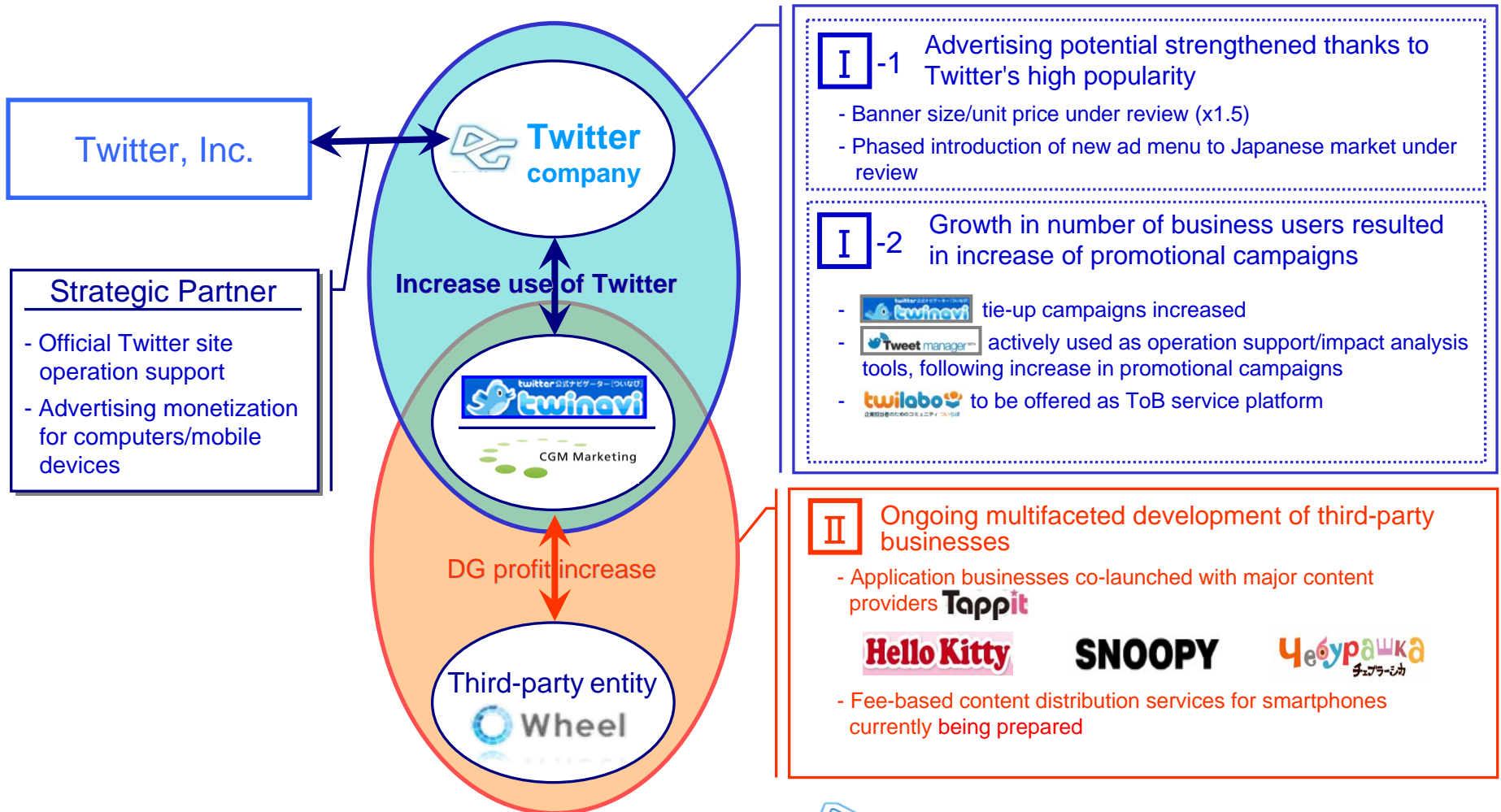
Consolidated companies	Establishment/Subsidiary dates	Investment ratio	Description
> Twitter Company	Nov 09	Group company	Operational support for mini-blog service Twitter in Japan
> CGM Marketing, Inc.	Aug 06/Aug 06	74%	Drive forward marketing businesses using blogs and Twitter
> Wheel, Inc.	Dec 11/Dec 11	100%	Social media-based content distribution for smartphones

Equity-method affiliate FYE 2010 -

> Kakaku.com, Inc.	Dec 97/Jun 02	20.2%	Price comparison website "Kakaku.com"
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Bilateral operation of Twitter: official Twitter and navigation site/third-party Twitter businesses
 Establishment of Twitter's business ecosystem in Japan

Business focus shifting from user cultivation to revenue increase



I-1 Advertising potential strengthened thanks to Twitter's high popularity

- Banner size/unit price under review (x1.5)
- Phased introduction of new ad menu to Japanese market under review

I-2 Growth in number of business users resulted in increase of promotional campaigns

- **twifmest** tie-up campaigns increased
- **Tweet manager** actively used as operation support/impact analysis tools, following increase in promotional campaigns
- **twilabo** to be offered as ToB service platform

II Ongoing multifaceted development of third-party businesses

- Application businesses co-launched with major content providers **Tappit**
- **Hello Kitty** **SNOOPY** **Челси** (チグラーニカ)
- Fee-based content distribution services for smartphones currently being prepared

Twitter company (Digital Garage Twitter company)

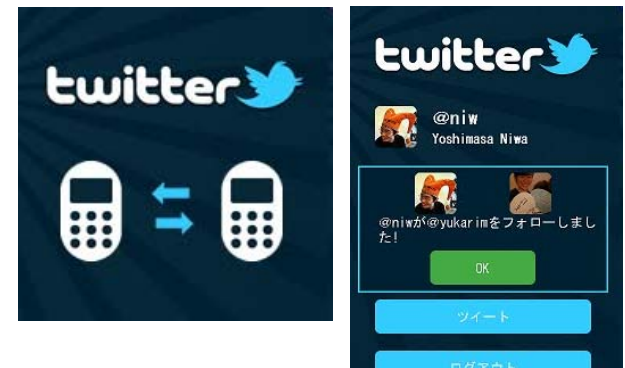
FYE 2011 Mid-Year Highlights

- ◆ **Extensive website renewal implemented on September 15**
New interface allows users to attain external information without leaving Twitter site; new advertising products using renewed interface currently being tested in U.S. to be implemented in Japan
- ◆ **Twitter becoming essential part of social infrastructure**
Increased collaborations with Internet and mass media; participated in global broadcasting of NHK Kohaku Uta Gassen on New Year's Eve
- ◆ **User base expansion (Source: NetRatings Japan, Inc.)**
Rapid increase of official users:
 - PC-based UUs: annual growth of approx. 270%
(from 4.73 million in January to 12.9 million in December)
 - Mobile-based UUs: annual growth of approx. 830%
- ◆ **Activity improvement**
New world record for TPS (Tweets Per Second): 6,939 TPS between New Year's Eve and New Year's Day, breaking previous record of 3,283 TPS during last World Cup

Twitter use for NHK's annual music show (Kohaku Uta Gassen)



I-appli launched via NTT DoCoMo Market (December 16)



Further expansion of Twitter usage and profit improvement

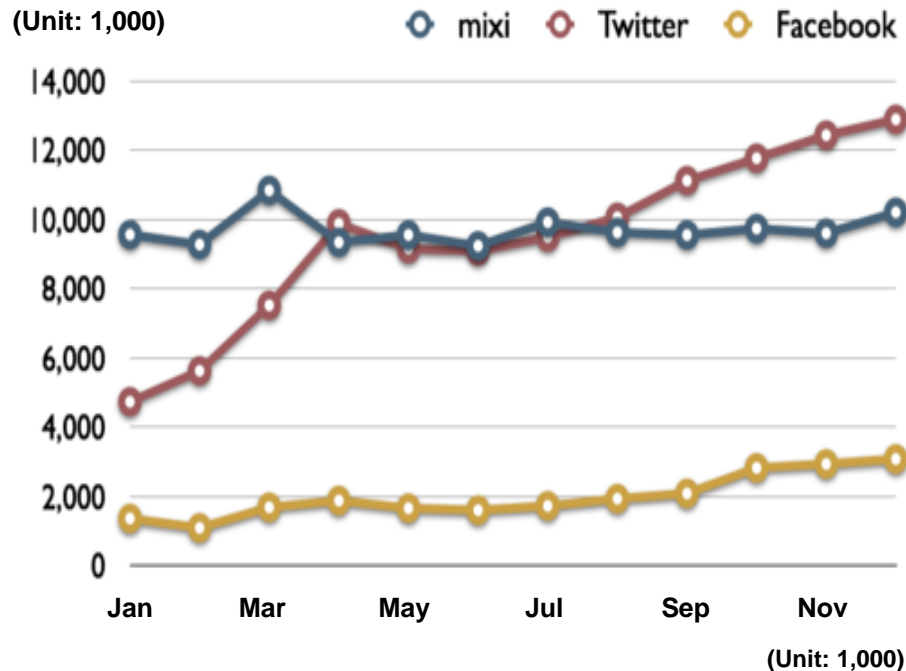
Mid- and long-term strategy

- Shift from marketing and expansion phase to fully-fledged monetization phase
- Localization of U.S. advertising products and development support of products unique to Japanese market

Number of visitors

Twitter UUs reach 12.9 million mark in December

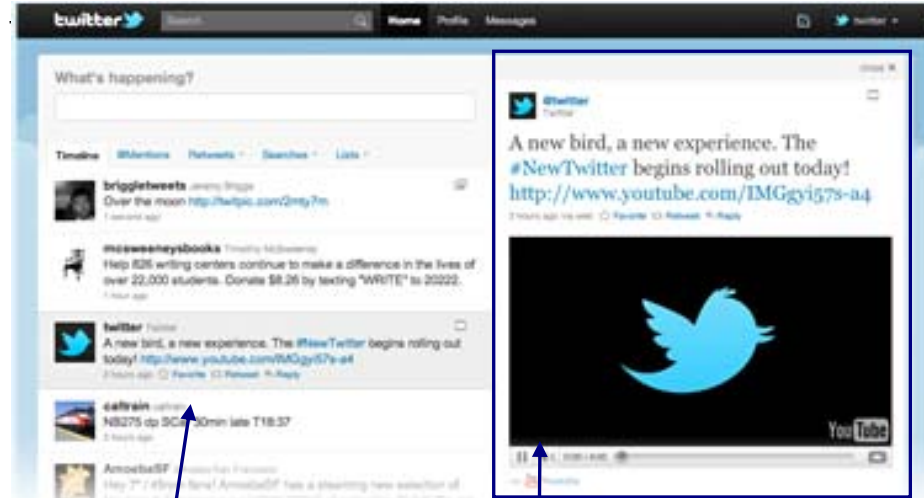
> Number of visitors: mixi, Twitter and Facebook by Nielsen Netview



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
mixi	9,567	9,281	10,847	9,344	9,559	9,242	9,930	9,632	9,557	9,744	9,608	10,214
Twitter	4,732	5,627	7,522	9,882	9,157	9,100	9,496	10,069	11,129	11,778	12,444	12,901
Facebook	1,356	1,084	1,679	1,873	1,653	1,596	1,719	1,928	2,080	2,819	2,934	3,077

Website Renewal Overview

Extensive renewal launched on September 15, 2010



Detail pane appears on the right side when a tweet is clicked

Detail pane displays various services including:

YouTube **flickr** **vimeo** **twitpic**

Ping iTunes-linked Ping allows users to check and preview songs and albums without leaving Twitter site

New advertising products currently being tested in U.S.

◆ Promoted Tweet

Advertisers' tweets are displayed at the top of the search results page

◆ Promoted Trend
Trend tied with certain keywords is displayed

◆ Promoted Account

Advertisers' accounts are suggested to users who follow similar products



CGM Marketing, Inc.

FYE 2011 Mid-Year Highlights

Facilitation of enterprise/personal usage of wide-ranging Twitter services and ongoing Twitter monetization

Twitter official PC/mobile-based advertising business

- ◆ Modified banner size for enhanced advertising impact and increased advertising fee with introduction of new user interface
- ◆ Mobile-based advertising in new format launched in August; preparation of new menu for PC-based advertising currently under way



- ◆ Corporate use of Twitter well-established; needs for ToB services increased

- Twinavi registered businesses: approx. 6,500 accounts
- Management/marketing support ASP tool Tweetmanager: approx. 70 accounts (cumulative)
- Community site for corporate Twitter account administrators twilabo (launched in October 2010): approx. 200 accounts



- ◆ Expanded ToC services (e.g., follower search tool Tree, dress-up tool for profile pictures) while engaged in further enhancement of service quality and UU increase through partnership with top entertainment content distributors (e.g., PIA, Avex)



New ToB service development and reinforcement of ToC services

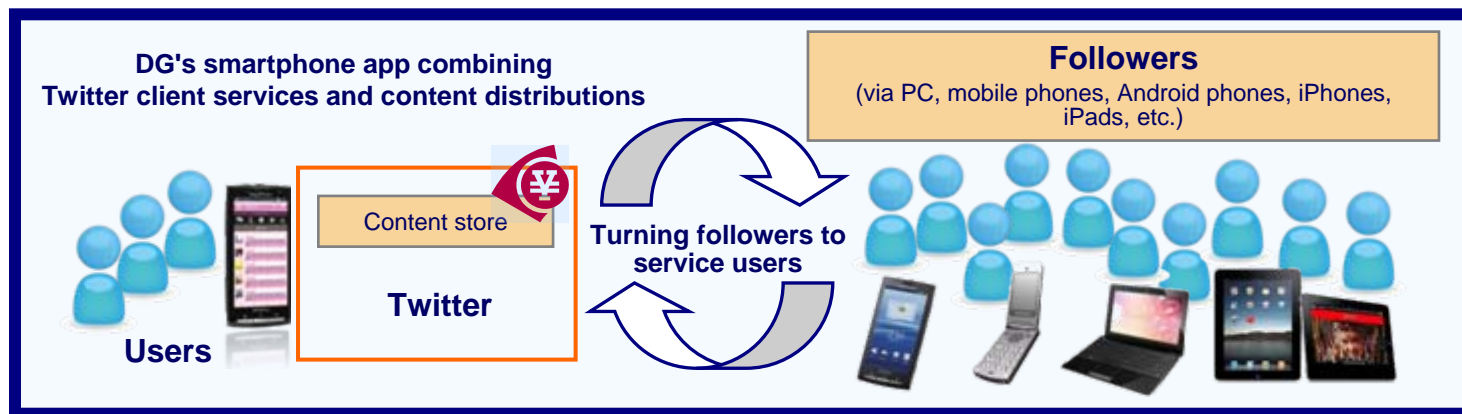
Mid- and long-term strategy

- Facilitate corporate use of Twitter with focus on twilabo and accelerate new service usage
- Promote twinavi as social platform and examine introduction of potential ToC profit model

Wheel, Inc.

FYE 2011 Mid-Year Highlights

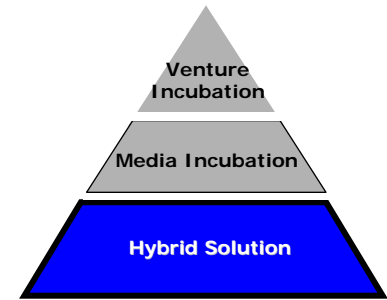
- ◆ **Restructuring of mobile businesses implemented following investment agreement with e-book distributor Media Do:**
DG's existing official website businesses for mobile devices (e-books and videos) reorganized following recent expansion of e-book market
- ◆ **Shift in business focus toward new smartphone-specific services:**
New business development under way in response to widespread use of Android mobile phones
 - Social media platform services including Twitter
 - Fee-based content distribution services (photos, videos, e-books, etc.)



Smartphone- and social media-based service provider

Mid- and long-term strategy

- Link businesses to DG-related social media services including Twitter
- Develop services for smart devices such as smartphones, tablet terminals and TV media devices



Hybrid Solution: B2B Solution businesses

➤ **DG&Ibex Company**

Marketing promotion support, media development and web solutions



➤ **e-context Company**

E-commerce settlement platforms



III Hybrid Solution / B2B Solution Businesses

➔ Steady progress of Hybrid Solution Partner businesses

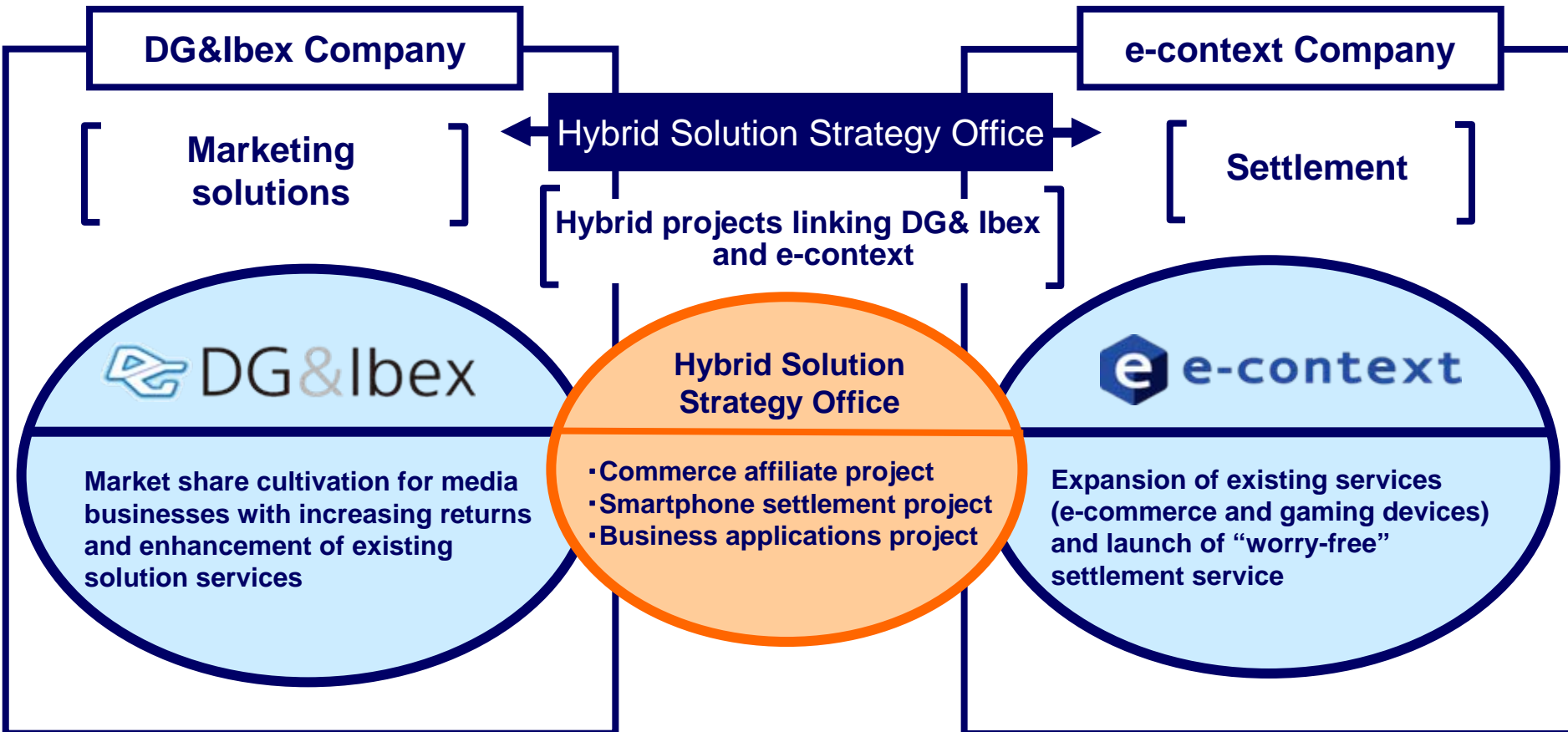
Solutions: Consistent progress in media businesses with increasing returns in addition to existing commissioned businesses contributed to stronger revenue base (e.g., point mall, **BirdFish**, etc.)

Settlement: Transactions using new “worry-free” settlement service co-launched with Kakaku.com, show steady increase as with existing settlement services

Consolidated companies	Establishment/Subsidiary dates	Description
➤ Digital Garage	Aug 95	Group holding
➤ e-context Company	May 00/Oct 08 merged with DG	E-commerce settlement service/logistics platform provider
➤ DG&Ibex Company	Sep 83/Oct 08 merged with DG	Next-generation solution provider for sale-focused business

Strong performance under new framework as result of advancement of B2B solution/settlement business restructuring

Facilitate acceleration of business growth by assigning specific business/hybrid solution areas for each entity



FYE 2011 Mid-Year Highlights

◆ Strong growth of existing commissioned businesses:

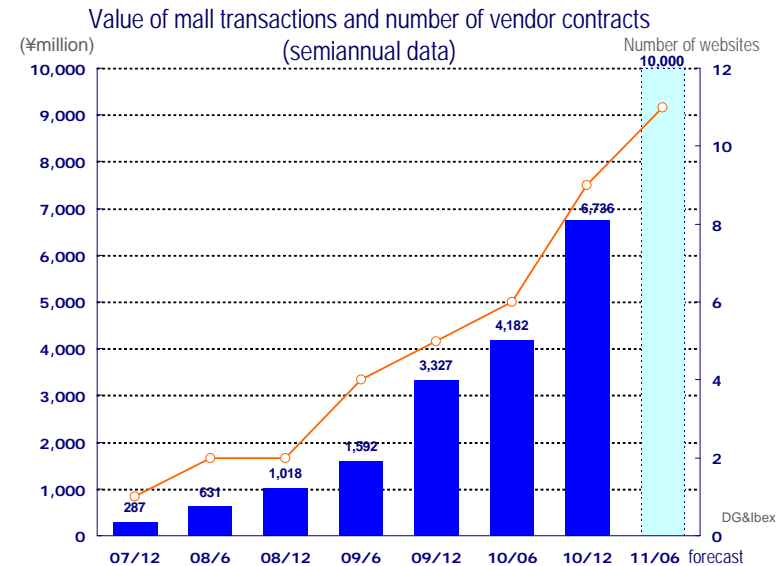
Apply DG's strength and expertise in social media as key factors of differentiation strategy and increase sales by integrating with existing services

- Comprehensive promotion: addition of new major clients resulted in strong sales (131% year-on-year)
- Web marketing: recovery of financial/recruitment markets resulted in strong increase (159% year-on-year)

◆ Transition to media-/hybrid solution-focused businesses

Successful cultivation of businesses with increasing returns for increased revenues

- Point Mall services: significant increase in value of transactions 6,736 million yen (202% year-on-year)
- October: full-scale launch of 



Full-fledged operational phase as Hybrid Solution Partner

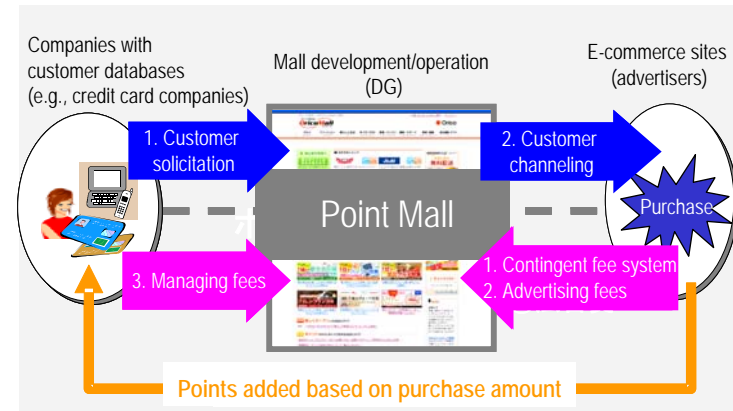
Mid- and long-term strategy

- Accelerate development of social media-based solution packages for enterprises
- Strengthen revenue base by continuously adding media-based services to existing commissioned businesses

Point Mall

Development of affiliate malls linked with point programs offered by business with customer information database

- Mall card memberships increased from approximately 54.65 million to 85.65 million
- Service implemented at nine major credit company websites with two more sites to be added in second half FYE 2011
- Transactions expected to jump significantly in second half due to addition of a major client site launched in December 2010, creating Japan's biggest point mall service



BirdFish (<http://birdfish.jp>)



ASP service optimized for intra-firm knowledge sharing using Twitter-style mini-blog

- Fee-based services fully-launched in October:
Monthly fee: 100,000 yen (up to 700 users)
200,000 yen (up to 3,000 users)
- To be implemented in IJG GIO Cybozu Garoon SaaS after spring, following formation of business alliance with IJG's cloud service in January
- Currently in trial stage with goal of swiftly reaching 100 fee-based business clients



First Half FYE 2011 Actual

Number of affiliated websites

38,561
126% (year-on-year)

Number of transactions

7.52 million
112% (year-on-year)

Total amount of transactions

55.4 billion yen
109% (year-on-year)

FYE 2011 Mid-Year Highlights

- August 2010: Kakaku.com Settlement Assurance Service co-launched in November following business alliance agreement with Kakaku.com
- September 2010: Settlement services for BICCAMERA Inc. launched Payments via convenience store and Internet banking on biccamera.com increased
- Other: Gaming fee revenue increased (e.g., **Online Monster Hunter Frontier XBOX** launched on June 24, **PlayStation Network Tickets**)

Launch of “Kakaku.com worry-free” settlement service



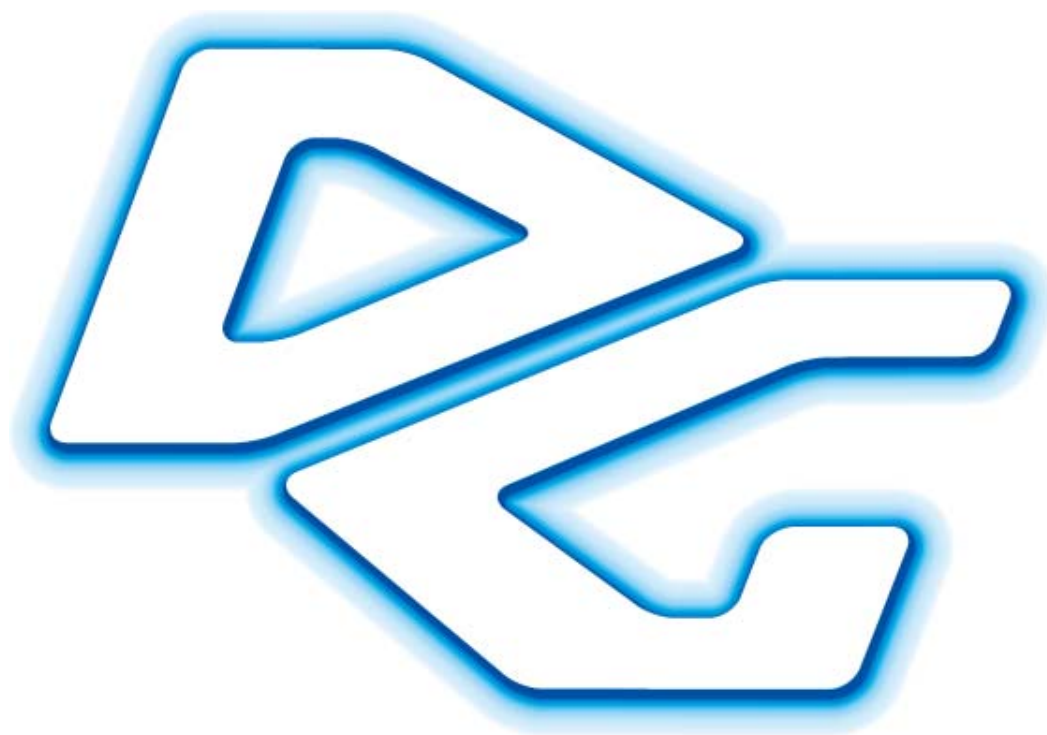
Goal: 100 corporate clients with approx. 20% of transaction market share gained by June

Overview

- Transactions increased due to e-commerce and digital content market expansion
- Ongoing focus from previous year on credit card data processing services showing growth with over 1 million pieces of data processed monthly

Future focus areas

- Enhance safe and secure environment for Internet shopping based on Kakaku.com Settlement Assurance Service
- Develop new settlement service for smartphones



Digital Garage

Please note that the business forecasts and strategies covered in this material are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances.