

Digital Garage, Inc.
FYE 2010 Financial Report

August 16, 2010



Digital Garage
Social Media Incubator

Contents

□	Mission & Business Model	2
□	Group Financial Performance Review	5
□	FYE 2010 Segment Performance Review	12
□	Mid-Term Management Plan (5/13)	36



Mission & Business Model



Context Company

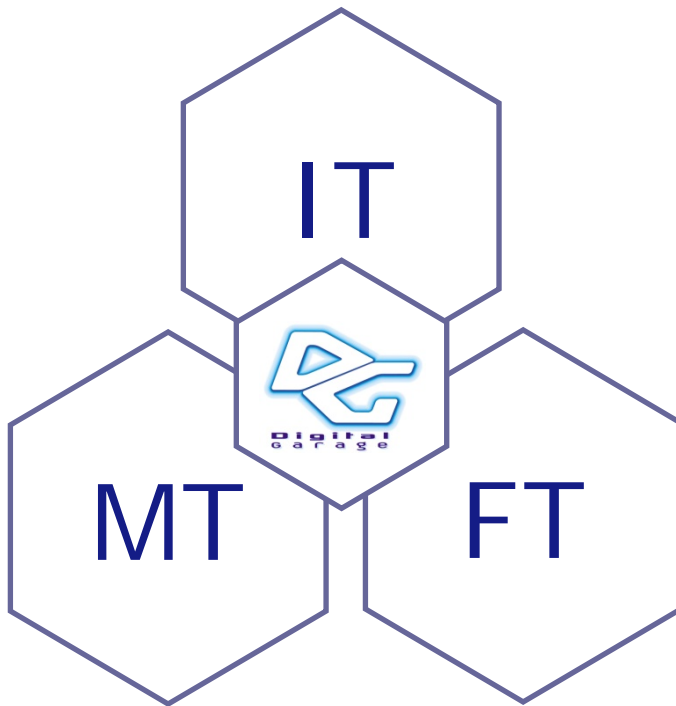
Digital Garage creates innovative business "context" for the new internet age and provides unique business solutions for Japan's new lifestyles, society and industries by linking:

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



From Hybrid Solution Partner to Social Media Incubator

Start of Monetization of Twitter-related Businesses

I Hybrid Solution business restructuring

- Resources for commissioned system development reassigned from DG&Ibex Company to Media Incubation businesses
- Approximately 50% (1.4 billion yen) of DG&Ibex Company's goodwill impaired

II Start of monetization of Twitter-related businesses

- Advertising solicitation for official Twitter site launched
- Third-party businesses initiated (e.g., smartphones, affiliates, management tools, etc.)

III Development of new mid-term management plant

- Media Incubation businesses positioned as key growth driver
- FYE 2013 target for consolidated ordinary income: exceeding 5 billion yen



Performance Summary for FYE 2010: Profit and Loss Statement (Consolidated)



context company

(¥ million)

	FYE 2009 Actual	FYE 2010		Compared to Forecast (May 13) Amount	Year-on-Year Amount
		Forecast (May 13)	Actual		
Net sales	34,499	8,180	8,346	+166	-26,152
Operating income	981	-970	-960	+10	-1,941
Ordinary income	537	-470	-457	+13	-994
Net income	5,450	-2,210	-2,207	+3	-7,657

Net sales performance analysis (year-on-year)

- Kakaku.com excluded	-9,495
- DGC excluded	-16,160
- Going concern basis	-495
Hybrid Solution	-659
Media Incubation	337
Venture Incubation	-173
Total	-26,152

Extraordinary loss details (FYE 2010)

- DG&Ibex-related impairment loss on goodwill:	1,435
- Loss on revaluation of investments in securities:	332
- Other losses:	6
Total	1,775

Operating income performance analysis (year-on-year)

- Kakaku.com excluded	-3,724
- DGC excluded	865
- Going concern basis	918
Hybrid Solution	-187
Media Incubation	74
Venture Incubation	739
Group-wide cost	291
Total	-1,941





Financial Summary for FYE 2010: Balance Sheet (Consolidated)



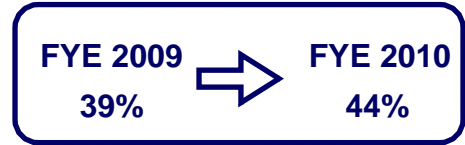
context company

(¥ million)

	FYE 2009 Actual	FYE 2010 Actual	Year-on-Year (amount)
Current assets	24,000	14,208	-9,792
Incl. cash and deposits	13,133	4,799	-8,333
Fixed assets	6,274	5,497	-776
Total assets	30,275	19,706	-10,569
<hr/>			
Current debt	17,360	9,941	-7,419
Fixed debt	925	935	+10
Incl. interest-bearing debt	5,833	3,479	-2,353
Net assets	11,989	8,829	-3,159
Debt/net asset total	30,275	19,706	-10,569

Balance sheet improvements

Capital-to-asset ratio



Percentage of interest-bearing debt



Contributing factors to key performance figures

- Loan/bond repayment: 2,353 million yen
- Payment of outstanding corporate tax: 3,733 million yen
- Payment of outstanding dividends from previous year: 923 million yen

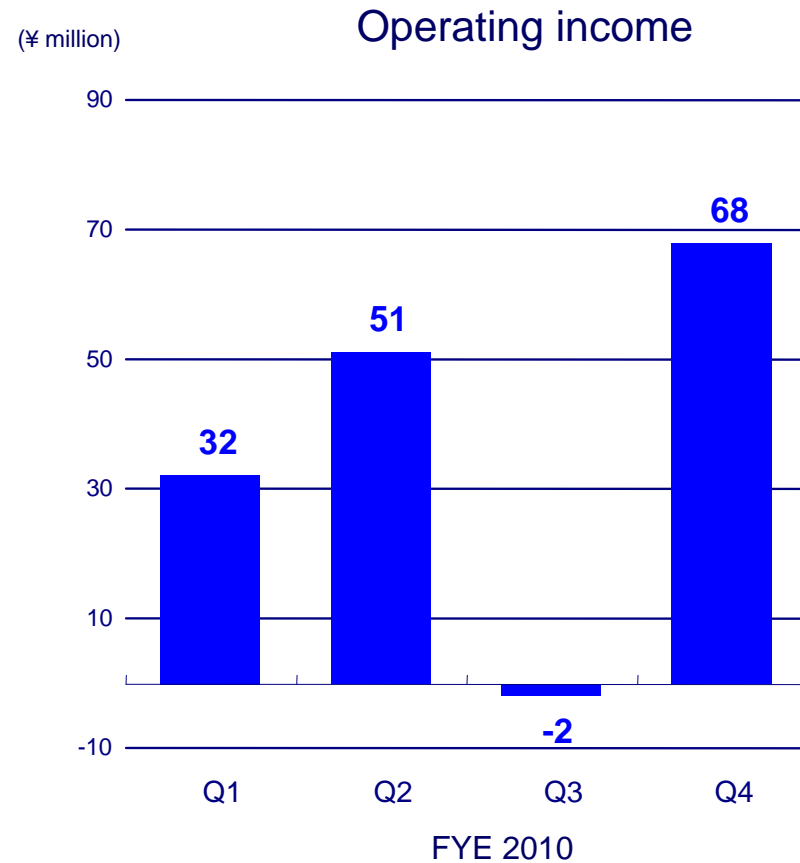
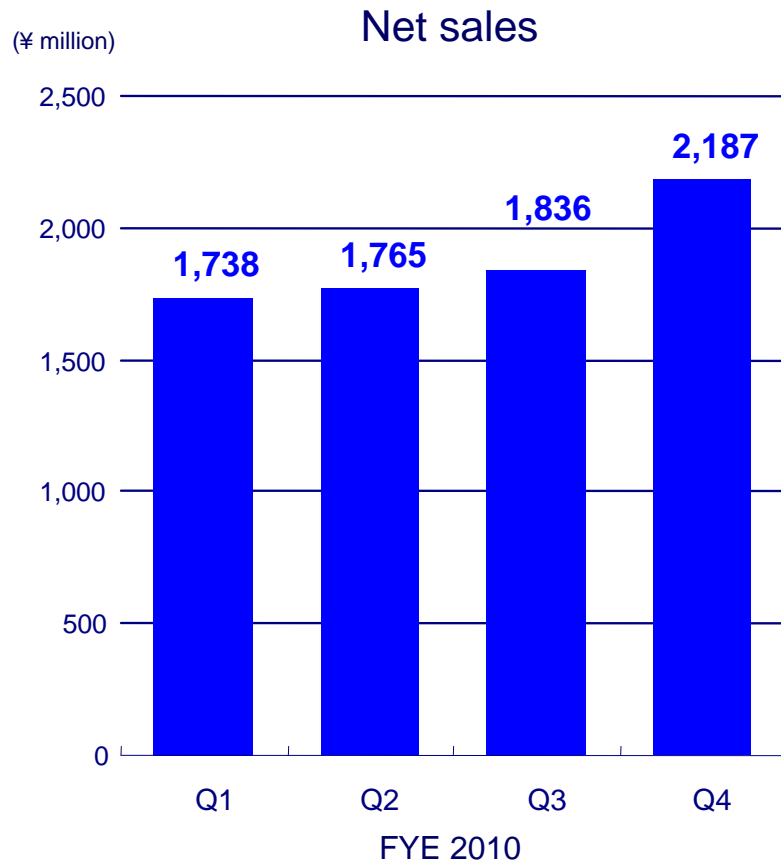
Financial ratios are calculated based on year-end figures.



(¥ million)	FYE 2010 Actual	FYE 2011 Plan	Year-on-Year (Amount)
Net sales	8,346	10,600	+2,254
Operating income	-960	-250	+710
Ordinary income	-457	500	+957
Net income	-2,207	310	+2,517
Net sales by segment			
Hybrid Solution	7,527	8,850	+1,323
Media Incubation	812	1,700	+888
Venture Incubation	7	50	+43
Operating income by segment			
Hybrid Solution	150	400	+250
Media Incubation	-107	400	+507
Venture Incubation	-143	-50	+93



Hybrid Solution Segment



Performance Review

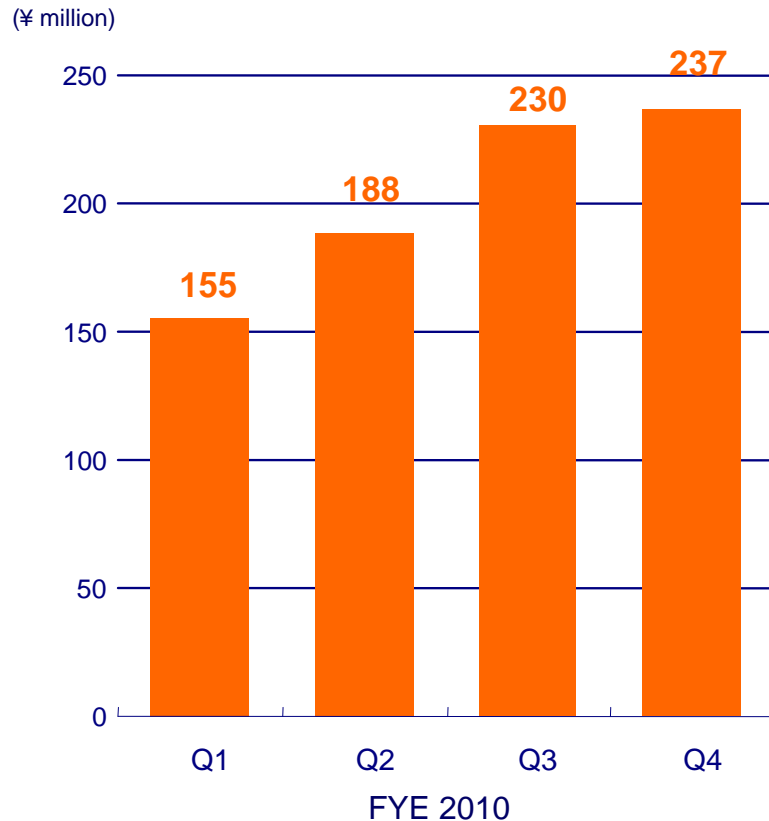
- Year-on-year loss showing recovery trend in second half
- Business restructuring in third quarter; transition to media development solutions
- Relief on goodwill amortization in fourth quarter



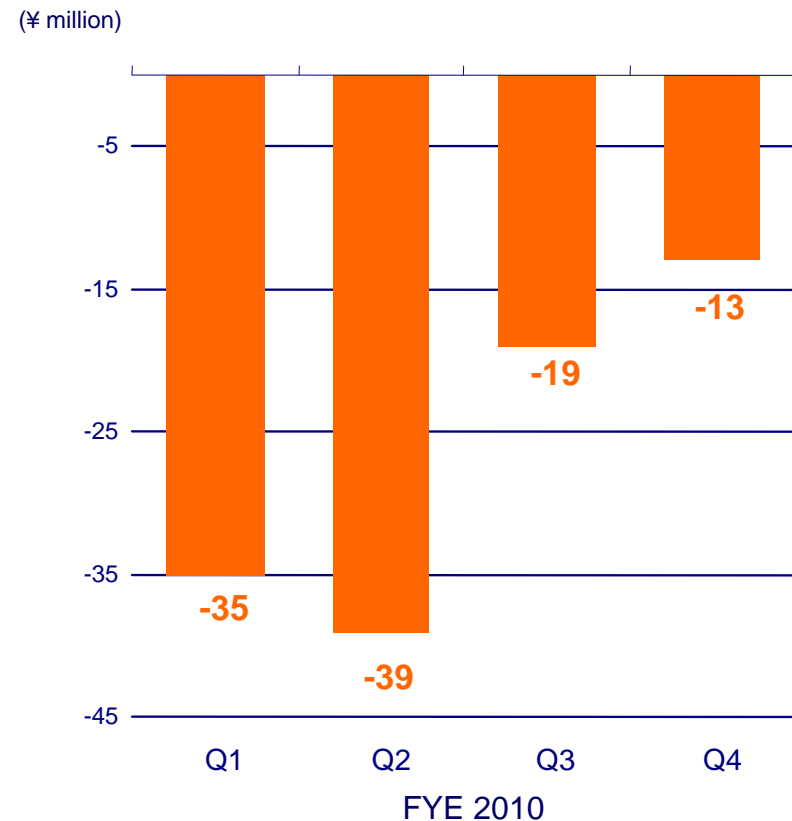


Media Incubation Segment

Net sales



Operating income



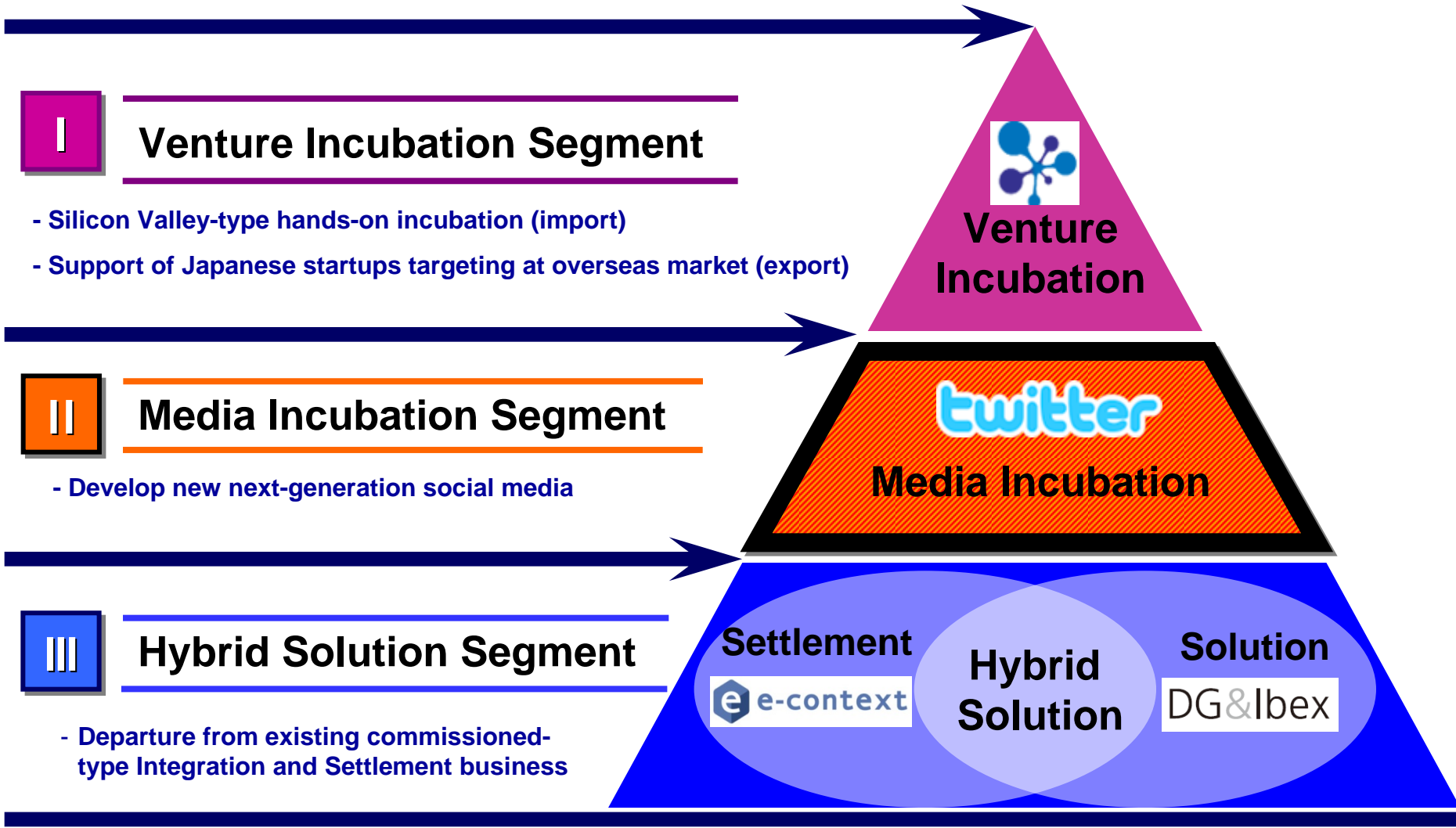
Performance Review

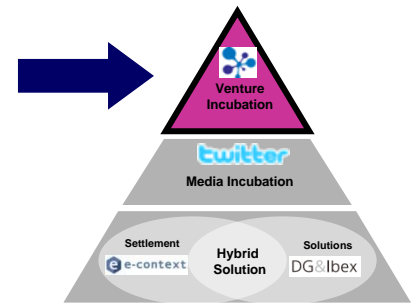
- Monetization of Twitter businesses started in third quarter
- CGM Marketing posting monthly profits (since March 2010)
- Mobile content businesses showing steady growth (DG Mobile)



FYE 2010 Segment Performance Review







I

Venture Incubation Segment

➤ DG Incubation, Inc.

Venture business incubation through investment and development



➤ Open Network Lab

Internet-based business accelerator program for aspiring engineers





Venture Incubation Segment

	Net sales	Operating income
FYE 2009 Actual	180 million yen	-883 million yen
FYE 2010 Actual	7 million yen	-143 million yen
FYE 2011 Forecast	50 million yen	-50 million yen

 Discover and cultivate cutting-edge Internet businesses that reflect DG's corporate philosophy

- ◆ Open Network Lab (office: Daikanyama) promotes the DG Group's new business development through early-stage VC investment in collaboration with international business angel networks including entrepreneurs participating in new Singapore-based fund
- ◆ Innovative business model includes domestic investment, while a majority of investments focus on Silicon Valley and San Francisco-area businesses
- ◆ Investment targets include venture companies for client applications and services using Twitter API
- ◆ One-stop solutions providing various Japanese market deployment services are offered to international early-stage investment businesses (e.g., Japanese-version system development, initial marketing and sales campaigns, user support assistance, etc.)

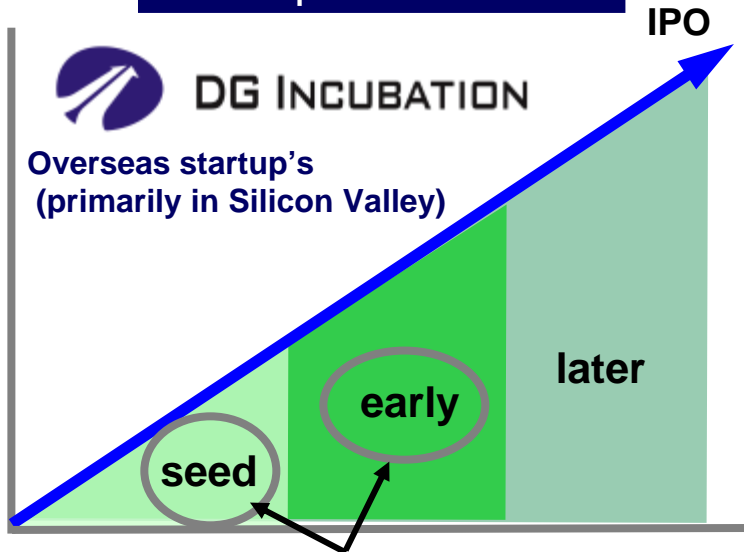
Create Japan origin global standard while investing in overseas VCs primarily based in Silicon Valley

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

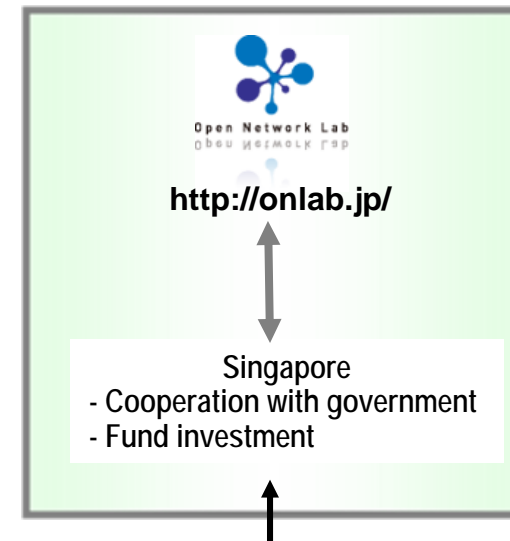


Invest mainly in U.S.-based VCs and support their entry to Japan

Japan origin global standard - From Tokyo, JAPAN -

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

Export model



Support new domestic ventures and their entry to other countries



FYE 2010 Highlights

- Additional investment made in U.S. Twitter and ongoing support for business expansion in Japan provided Fifth investment in U.S. Twitter made in May 2010
- Limited partner (LP) investment made in Singapore-based Neoteny Startup Fund 1
In June 2010, DGI made LP investment in Neoteny Startup Fund 1, an advantageous fund participated in by internationally-renowned angel investors with the Singapore government offering up to 85% matching grants

Discover and invest in next-generation social website business seeds

Current Forecasts

- ◆ Demand for social network-related services remains strong despite ongoing global recession; continuous efforts to discover new investment projects and businesses to support are required



Open Network Lab

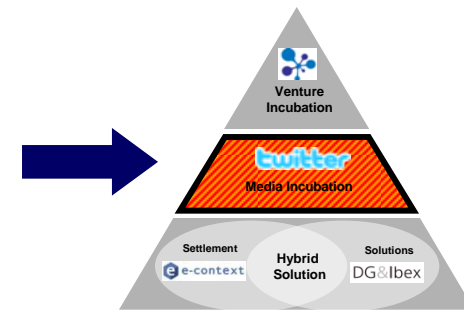
FYE 2010 Highlights

- First-phase programs initiated
On June 30, seven teams passed primary screening for Seed Accelerator, an entrepreneurial engineer incubation program

Final review to be conducted during DG Conference in late September

Current Forecasts

- ◆ Invite Co-founders of U.S. Twitter and leading mentors to DG Conference
- ◆ Establish business success model for future pilot projects



Media Incubation <ToC Solution 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



➤ DG Mobile, Inc.

Distribution of fee-based official mobile contents, marketing and distribution of smartphone contents and twitvideo operation





Media Incubation <ToC Solution businesses>

	Net sales	Operating income
FYE 2009 Actual	9,969 million yen	3,542 million yen
FYE 2010 Actual	812 million yen	-107 million yen
FYE 2011 Forecast	1,700 million yen	400 million yen



Incubate new social media services

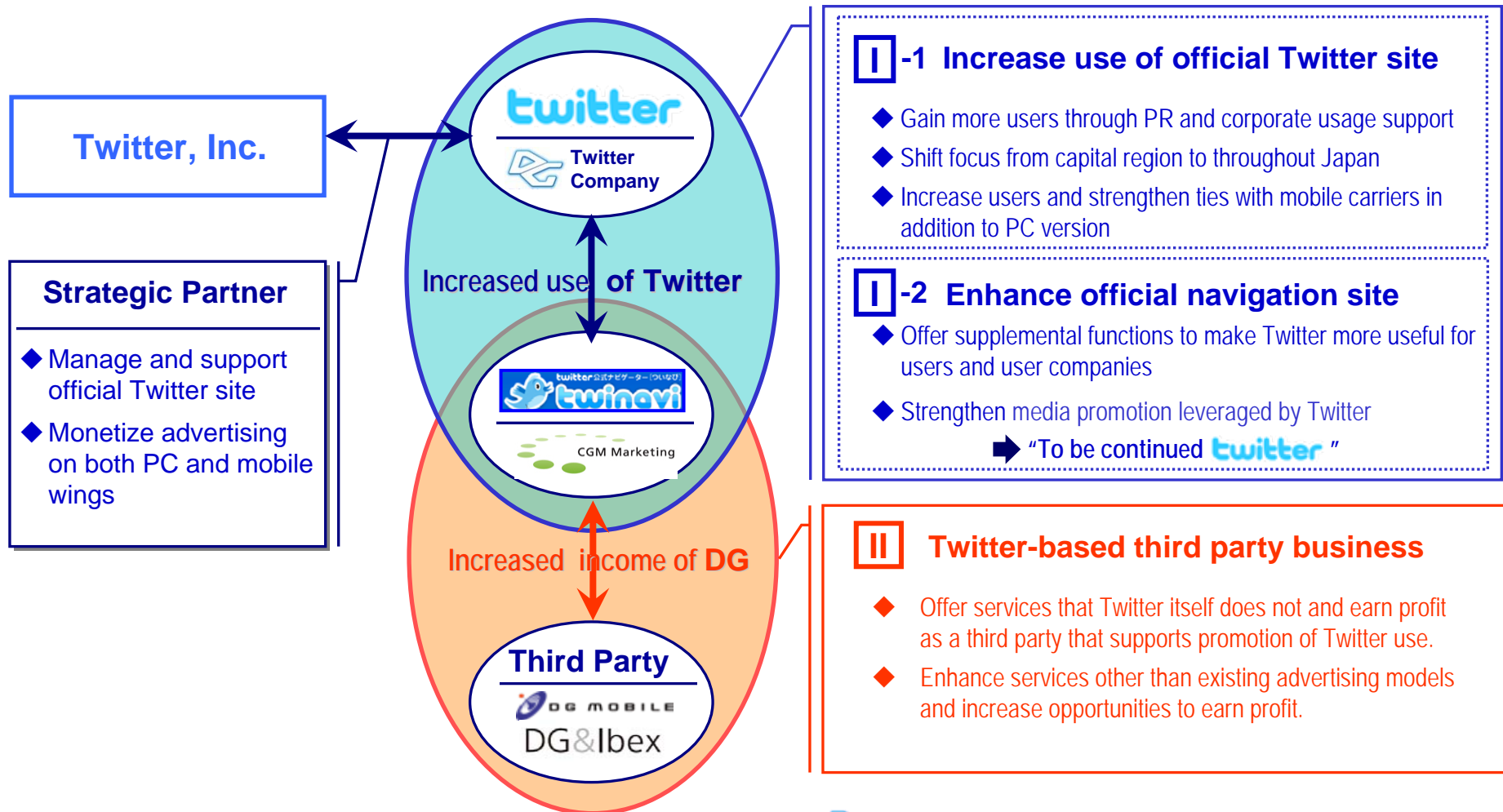
Form DG Group structure centered on 

- ◆ **Twitter Company:** established as Twitter media operator
 - Steady growth in Twitter usage; PC-based Twitter UUs exceeding mixi
 - Japan placed second after U.S. in all Twitter
- ◆ **CGM Marketing:** provide marketing support for ad solicitation for official Twitter site and Twitter-based promotional activities designed for enterprises
 - PC-based ad space maintains full status while traffic makes month-to-month increase of 115%
 - Mobile-based advertising started in August
- ◆ **DG Mobile:** make preparation for fee-based Twitter content services linked with major mobile carriers
- ◆ **Kakaku.com:** continuously support growth as top shareholder and accelerate alliance with new strategic businesses

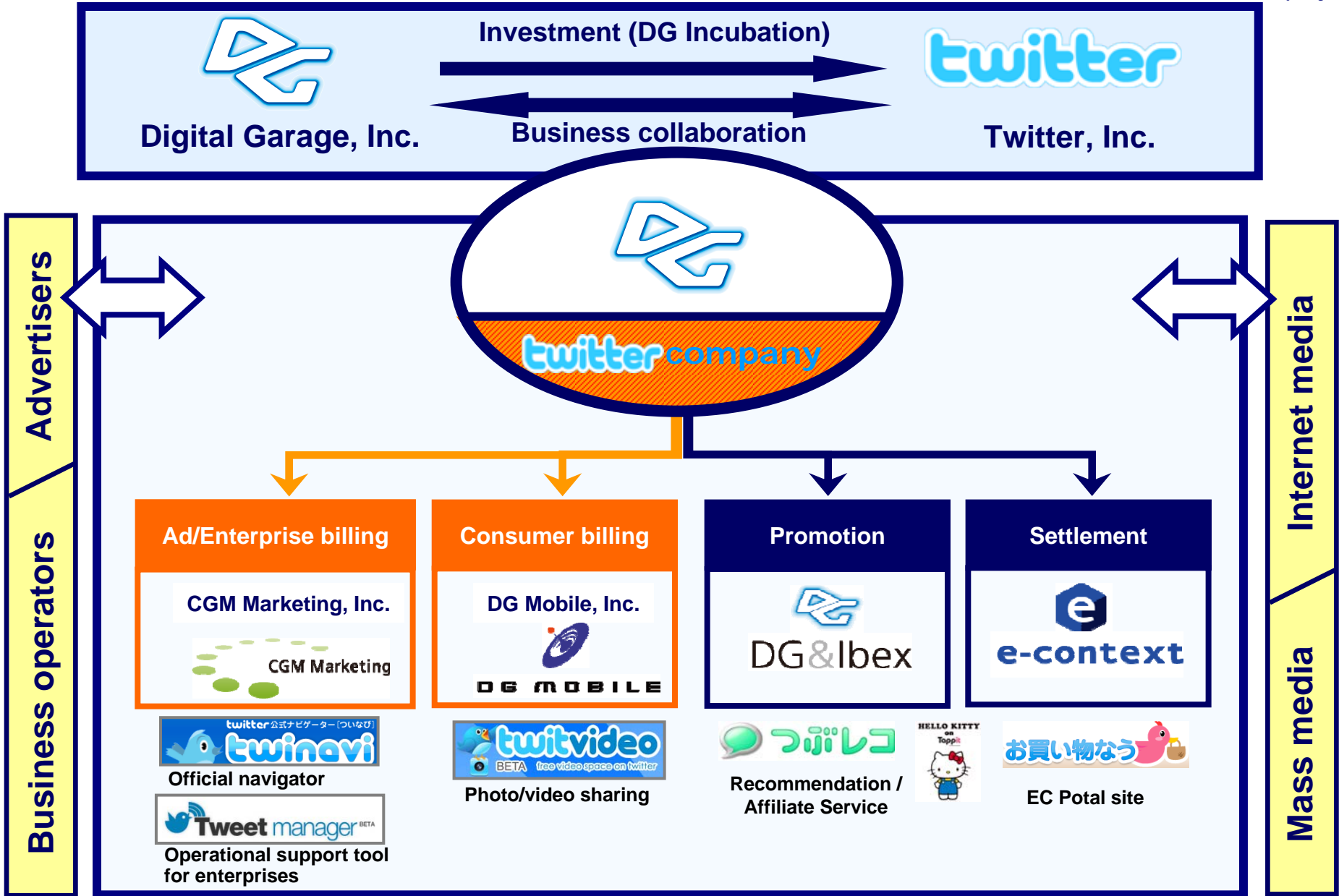


Managed by 2 wings: official Twitter site/official navigation site and third party
 - Execute "Establishment of ECO SYSTEM for Twitter Business in Japan" -

Adding on mobile carrier traffic to smoothly grow PC gateway



Promotion of Group's Twitter-focused Platforms



Business creation

User acquisition

Monetization

Jan. 7
Capital/business alliance with U.S. Twitter

Apr.23
Japanese-version Twitter released

Jun. 26
Additional investment in Twitter



Mar. 26
Additional investment in Twitter

Sep. 16
Official navigator site released



Sep. 16
Management Tool released



Oct. 8
Twitter video sharing site launched



Oct. 14
Twitter-linked banner ads released



Oct. 15
Twitter Japan official mobile site launched

December
Twitter PC-version ad solicitation started

Jan. 26
Additional investment in Twitter

May 13
Additional investment in Twitter

May 18
Hello Kitty on Tappit launched



May 24
TsubuReco launched



July
Enterprise-version released



Jul. 1
Okaimono Now launched



August
twinavi mobile-version ad solicitation started

August
Twitter mobile-version ad solicitation started



⋮

2008

2009

2010



(Digital Garage Twitter Company)

Improved mobile site functions

Bridging of the gap achieved with increase in number of users accelerated in January 2010

Mission: Support growth and management of Twitter in Japan

- Media PR campaigns to promote Twitter use in Japan
- Support in implementing Twitter profit model in Japan

FYE 2010 Highlights

- ◆ Twitter as social phenomenon
 - Featured as theme in mass media coverage and popular TV dramas; recognized as Internet media collaboration partner
 - Received numerous annual trend awards
- ◆ User base expansion
 - Reach rate of 15.1% of internet users; tenfold growth from 1.5% in last year alone
 - Reach rate of 18.6% of mobile users
- ◆ Activity improvement
 - World record-breaking 3,283 tweets per second during World Cup



- Mail Tweet



- Photo posting

Further expand Twitter usage and improve profit

Mid- and long-term strategy

- ◆ Shift from marketing and expansion phase to full-fledged monetization phase; support marketing of U.S. advertising products in Japan and development support of products unique to Japanese market

Tweetup Japan 2010 Summer event

Evan Williams, Co-founder and CEO of Twitter, together with Twitter users, celebrated reaching the 10 million unique user mark in Japan. The event was covered by three TV stations and other media outlets.





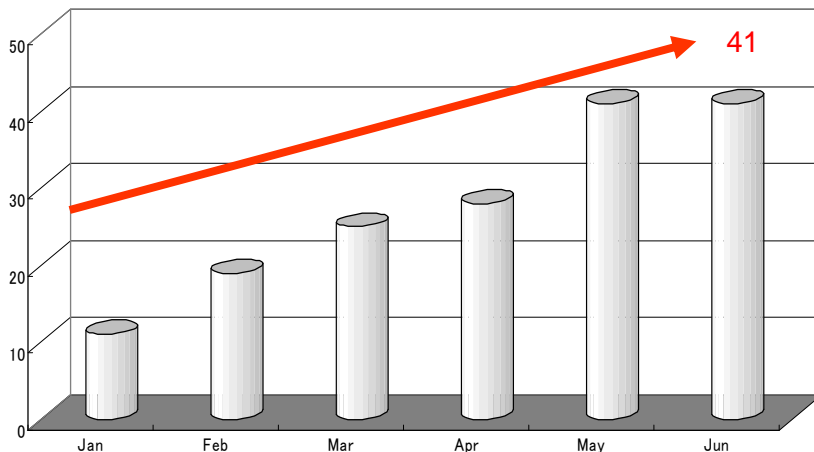
FYE 2010 Highlights

- Launch of Twitter ad banner solicitation in third quarter and full-fledged twinavi monetization in fourth quarter contributed to exceeding break-even point in fourth quarter and posting ongoing growth
- Corporate and celebrity accounts in Twitter official navigator twinavi increased steadily, **exceeding 5,000 accounts** (as of July 23, 2010); twinavi mobile launched; **PC/mobile cross-advertising products scheduled to be marketed**
- Operation and marketing support ASP tool, Tweetmanager Enterprise, launched in July 2010

Twitter/PC banner ads

- Approx. 700 million imp/month (June 2010)
Number of impressions posts 115% increase monthly while advertising needs show ongoing growth;
100% sell-through maintained

Number of advertisers (January-June 2010)



Twitter/mobile

- Approx. 250 million imp/month (July 2010) amidst rapid increase in mobile access;
mobile ad solicitation launched in August 2010

Mobile SNS/community reach rate ranking

(i-mode users: June 2010)

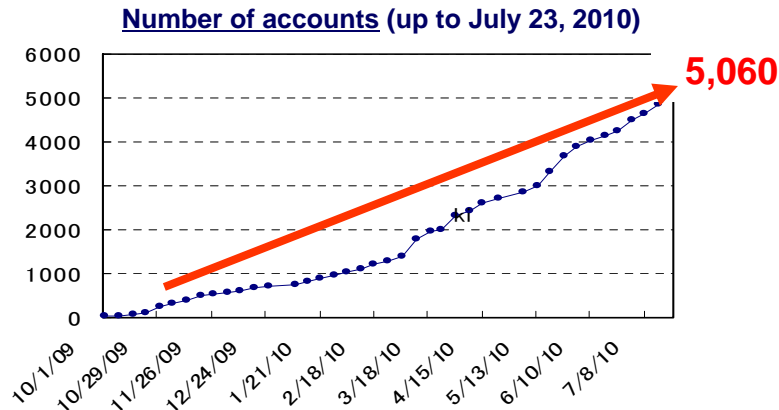
	Domain	Website name	Reach rate %
1	gree.jp	GREE Mobile	36.9
2	goo.ne.jp	goo Mobile	35.7
3	ameba.jp	Ameba Mobile	30.2
4	fc2.com	FC2 Mobile	29.1
5	mixi.jp	Mixi Mobile	26.9
6	mbga.jp	Mobage Town	25.9
7	hatena.ne.jp	Pocket Hatena	22.5
8	ameblo.jp	Ameba Mobile	21.7
9	livedoor.jp	Keitai livedoor	20.3
10	nifty.com	Mobile@nifty	19.2
11	twtr.jp	Twitter	17.2

Source: Video Research Interactive

twinavi (official Twitter navigator)



- Steady PV growth with approximately 10 million imp/month (June 2010)
- Extensive Twitter use by corporations; rapid increase of corporate accounts



twinavi/mobile

- Mobile access almost surpasses PC access due to drastic increase in mobile users; approximately 6 million imp/month (June 2010)
- Ad solicitation started in August 2010

Tweetmanager Enterprise

Revision made to beta version launched in September 2009; Tweetmanager Enterprise released in July 2010

Fee-based services currently offered to 21 companies following test marketing phase

Target increased demand for Twitter-based flash marketing by adding more capabilities



Major corporate accounts

21 corporate accounts including Tokyu Hands, Burberry International, FamilyMart and Unilever Japan

Current Forecasts

- ◆ Position twinavi as **social platform** by adding community functions
- ◆ Create profit model based on PC/mobile cross-communication by linking Twitter and twinavi

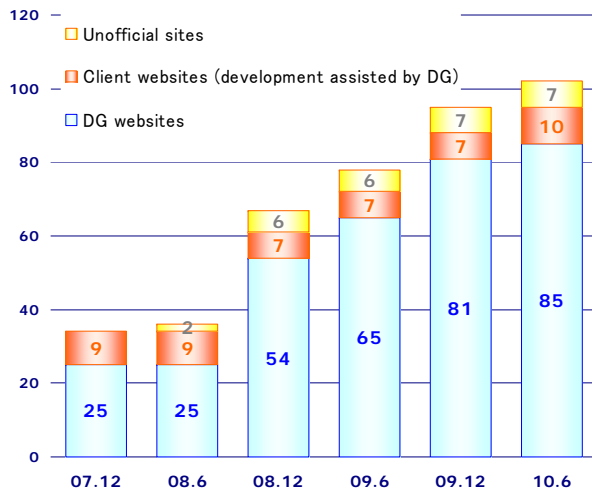


FYE 2010 Highlights

- Number of members and downloads in content distribution increased steadily, securing Group's earnings base
- Tappit (Twitter client for iPhone) and Twitvideo (digital image/video posting site) launched as part of new Twitter-related businesses
- More business models scheduled for launch

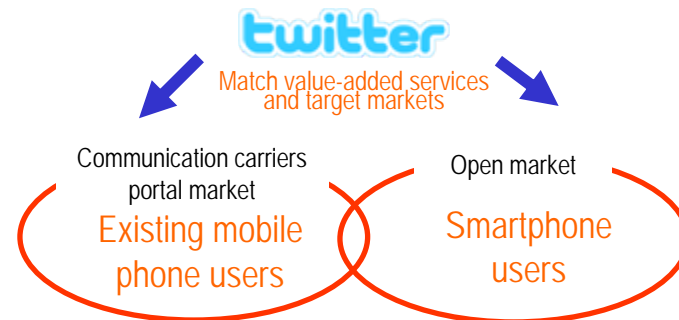
Mobile content distribution business

- Steady growth in number of sites mainly due to addition of e-book sites



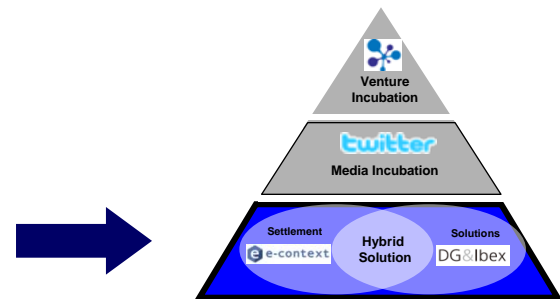
Twitter-based new business development

- Multiple value-added services offering various digital contents and EC services developed for mobile Twitter users
- Mobile platforms
 - Development of optimized services for accelerating smartphone market
 - Development of services designed to match existing mobile devices and Japanese users



Current Strategy

- ◆ Mobile content distribution market in transitional phase due to introduction of smartphones and overseas services; develop distinctive Twitter-based services
- ◆ Operation under new management structure effective August 1 in line with DG three-year plan



Hybrid Solution: B2B Solution businesses

➤ **DG&Ibex Company**

Marketing promotion support, media development and web solutions



➤ **e-context Company**

E-commerce settlement platforms





Hybrid Solution: B2B Solution businesses

	Net sales	Operating income
FYE 2009 Actual	24,348 million yen	-526 million yen
FYE 2010 Actual	7,527 million yen	150 million yen
FYE 2011 Forecast	8,850 million yen	400 million yen



Offering one-stop solutions as “Hybrid Solution Partner”

- ◆ Develops increasing return media solutions while engaging in commissioned businesses (B2B) such as IT and MT solutions as stable earnings base of DG Group

“Strengthening of B2B2C business solutions using Twitter”

- ◆ Engages in new Group-wide escrow settlement business based on existing settlement business

“Launching of Kakaku.com settlement assurance service as co-project with Kakaku.com”

e-context (Digital Garage e-context Company)

FYE 2010 Actual

Number of affiliated websites

34,686

134% (year-on-year)

Number of transactions

13.37 million

102% (year-on-year)

Total amount of transactions

101.8 billion yen

100% (year-on-year)

FYE 2010 Highlights

- September 2009:** **Launched Japan's first PayPal settlement services**
Provides easy online settlement solutions for e-commerce business operators
- December 2009:** Complied with international information security standard for payment card industry
Fully-conformed to the latest PCIDSS Ver.1.2
- December 2009:** Provided a settlement system to Square Enix Crysta
Crysta can be used for all services linked to Square Enix accounts
- June 2010:** Founded NEXDG, joint venture with Nippon Express
Supports fulfillment businesses for e-commerce clients
- July 2010:** Launched Twitter-based EC sales promotion portal site Okaimono Now
Offers Twitter-based flash marketing support services to affiliate sites

November 2010:  **安心支払い** service launched
Kakaku.com settlement assurance

Market overview

- Number of affiliated websites steadily increased as e-commerce market grew
- Slowdown in major ticket businesses and delayed launch of new websites contributed to reduction in transactions



Future focus areas

- B2C value-added business promotion through launching of Kakaku.com settlement assurance service as co-project with Kakaku.com
- Promotion of real/Internet business integration through Twitter-related and fulfillment projects

Kakaku.com settlement assurance service co-launching with Kakaku.com

A new value-added service that offers buyer protection for Internet purchases in case of undelivered products or e-commerce vendor going out of business; available this fall



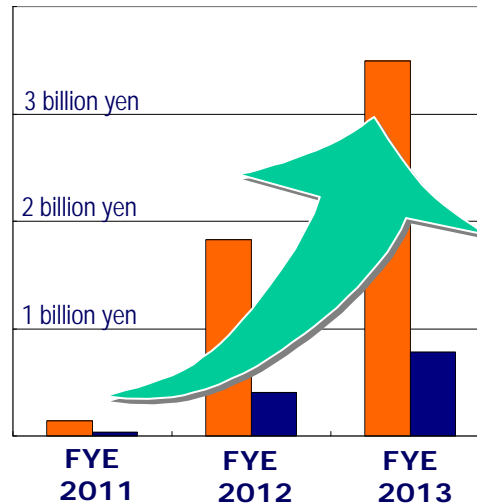
Target: User-vendor direct transactions (i.e., Kakaku.com's main business areas such as appliances, computers and cameras)

Vendor implementation rate: Percentage of vendors using Kakaku.com settlement assurance service

User implementation rate: Percentage of customers using the service at e-shops offering Kakaku.com settlement assurance service

3-year target: total amount of transactions of 110 billion yen and sales of 3.5 billion yen

Potential	FYE 2011	FYE 2012	FYE 2013
Vendor implementation rate:	10%	30%	50%
User implementation rate:	30%	35%	40%
Total amount of transactions (¥100 million)	45	580	1,100
Total amount of sales (¥100 million)	1.5	18	35
DG gross margin (¥100 million)	0.3	4	8



Usage in three years no more than 20 percent of target; two to three-fold potential still remaining

FYE 2010 e-context Company performance:

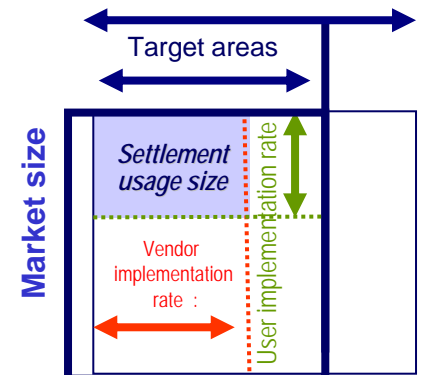
Total amount of transactions:
101.8 billion yen

Settlement gross margin:
0.93 billion yen

Achieve settlement business for new service equivalent to that of existing service in three years

New service: clear potential for further growth

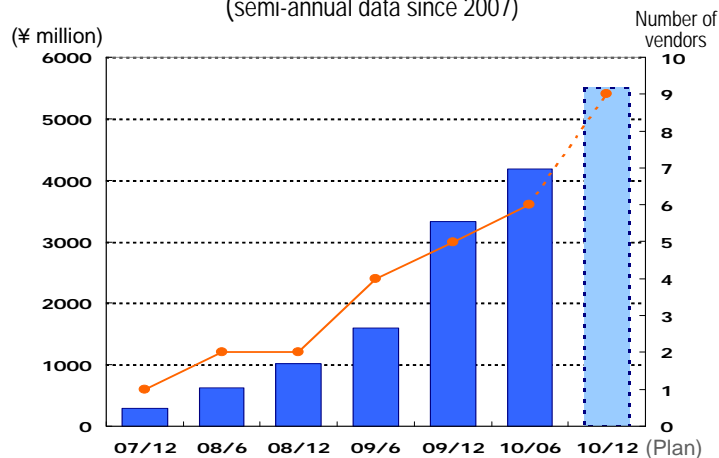
Kakaku.com total transactions



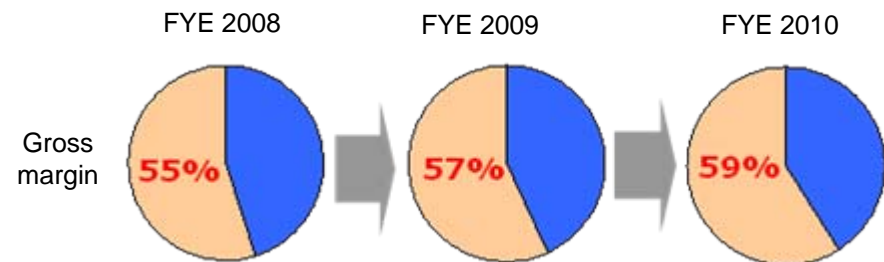
FYE 2010 Highlights

- Business restructuring implemented with strategic move of technology resources to Media Incubation
- Four existing headquarters consolidated into two in order to focus on comprehensive promotion services and Internet media businesses
- Web marketing area posted steady 130% sales growth year-on-year
- Point mall business achieved significant transaction increase to 7.509 billion yen (294% year-on-year)

Amount of mall transactions and number of vendor contracts
(semi-annual data since 2007)



Digital/analog three-year gross margin comparisons



Entering into full-fledged operational phase as Hybrid Solution Partner

Mid- and long-term strategy

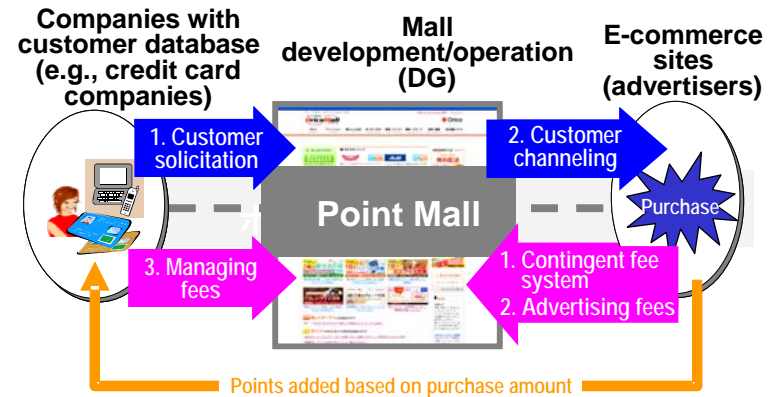
- ◆ Accelerate development of Twitter-based solution packages for enterprises
- ◆ Strengthen earnings base by adding media-based businesses to existing commissioned businesses

◆ Point Mall

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

Mall card memberships increased from approximately 14.7 million to 54.65 million

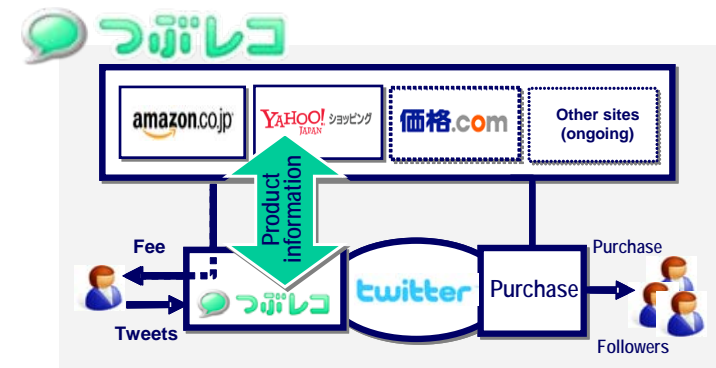
Number of mall affiliates increased from 2 to 6; expected to grow to 9 companies during current term



◆ TsubuReco (launched on May 24, 2010 <http://tbrc.jp>)

Third-party platform service that matches user tweets and product information and allows affiliate information to be added with a simple operation

Product information currently offered at Amazon Japan and Yahoo Information service also started for Kakaku.com



◆ BirdFish (test marketed since July 2010 <http://birdfish.jp>)

ASP service optimized for intra-firm information sharing using Twitter-style microblog

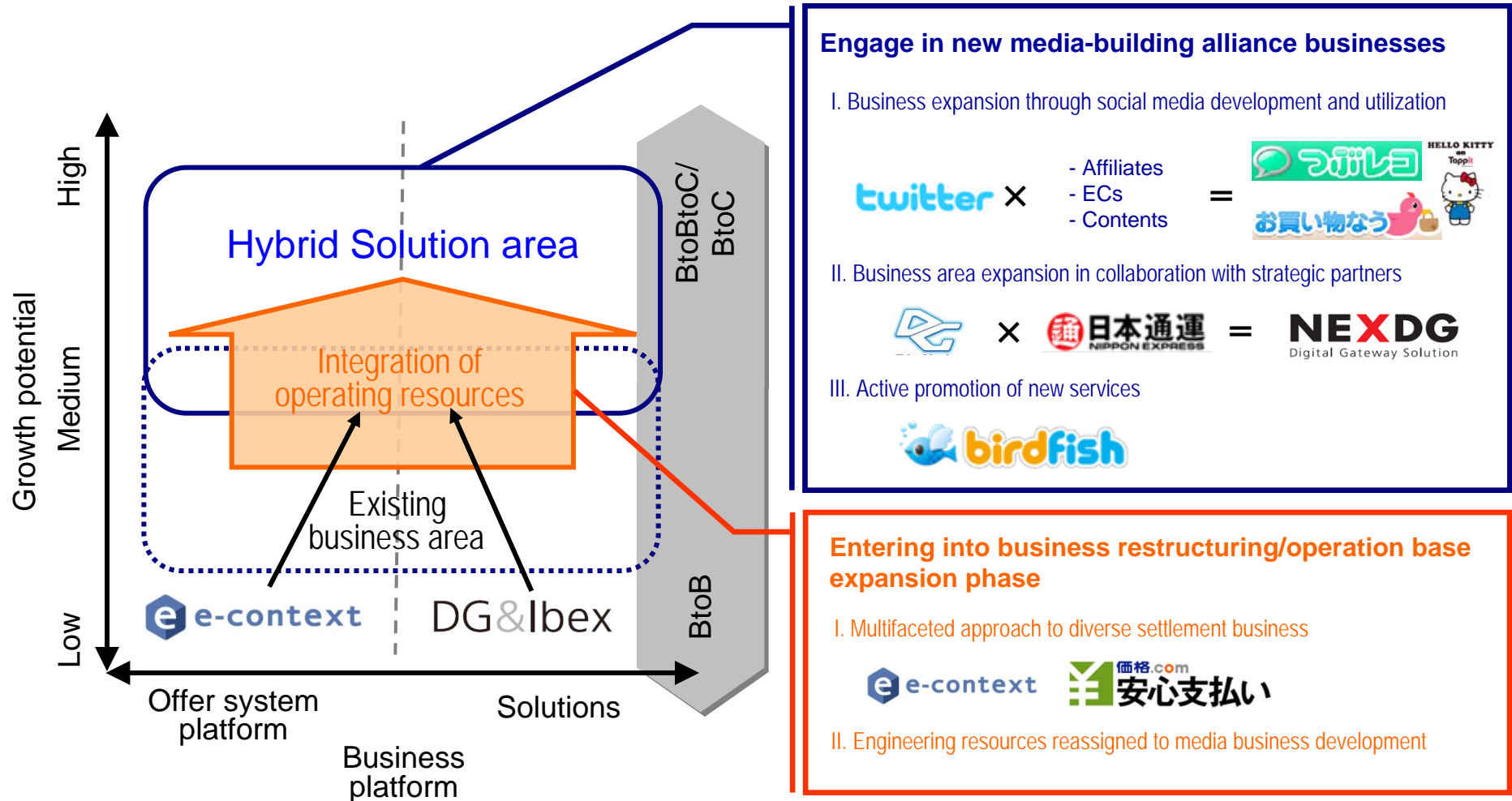
Collaborative business with groupware developer, scheduled to be fully available in first half of FYE 2011

Approximately 10 corporations including IJ currently expected to participate in test marketing



Promotion of new media development solutions supported by B2B business expertise
 Entering into business restructuring/operation base expansion phase

Create new earnings structure with shift from B2B to B2B2C



Engage in new media-building alliance businesses

I. Business expansion through social media development and utilization

twitter ×
 - Affiliates
 - ECs
 - Contents =


II. Business area expansion in collaboration with strategic partners

 ×  = **NEXDG**
 Digital Gateway Solution

III. Active promotion of new services



Entering into business restructuring/operation base expansion phase

I. Multifaceted approach to diverse settlement business

  **安心支払い**

II. Engineering resources reassigned to media business development



Mid-Term Business Plan (5/13)

**Target figures
(Target year: FYE 2013)**

- ◆ Consolidated ordinary income: over 5 billion yen
- ◆ Consolidated ROE: over 25 %
- ◆ Operating income provided by Media Incubation business: over 50 %

Hands-on Internet businesses to follow Twitter

- Silicon Valley-type hands-on incubation (import)
- Support of Japanese startups targeting at overseas market (export)

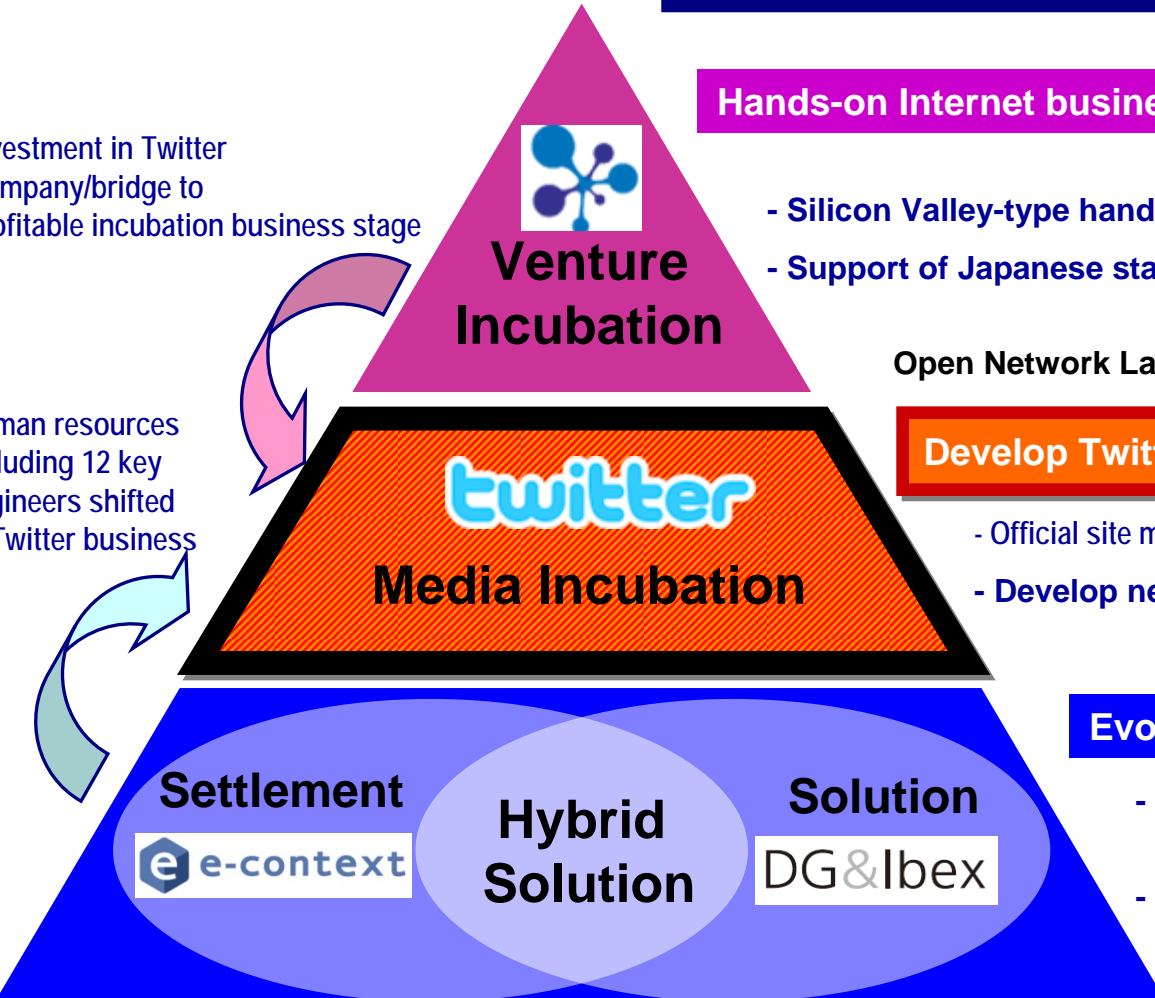
Open Network Lab <http://onlab.jp/>

Develop Twitter and next-generation social media

- Official site management and proprietary third-party strategy
- Develop new next-generation social media

Evolution of Hybrid Solution

- Departure from existing commissioned-type system development
- BtoBtoC-type media development alliance



	FYE 2009	FYE 2010	New plan		
	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Net sales	34,499	8,346	10,600	14,500	20,000
Operating income	981	-970	-350	1,350	4,300
Ordinary income	537	-457	400	2,500	5,800
Net income	5,450	-2,207	220	1,800	3,700
Net sales by segment					
	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
◆ Hybrid Solution	24,348	7,527	9,000	10,800	13,000
◆ Media Incubation	9,969	812	1,550	3,200	5,500
◆ Venture Incubation	180	7	50	500	1,500
Total	34,497	8,346	10,600	14,500	20,000
Operating income by segment					
	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013
◆ Hybrid Solution	-526	150	350	750	1,200
◆ Media Incubation	3,542	-107	350	1,400	2,800
◆ Venture Incubation	-883	-143	-100	200	1,200
Total	2,133	-100	600	2,350	5,200

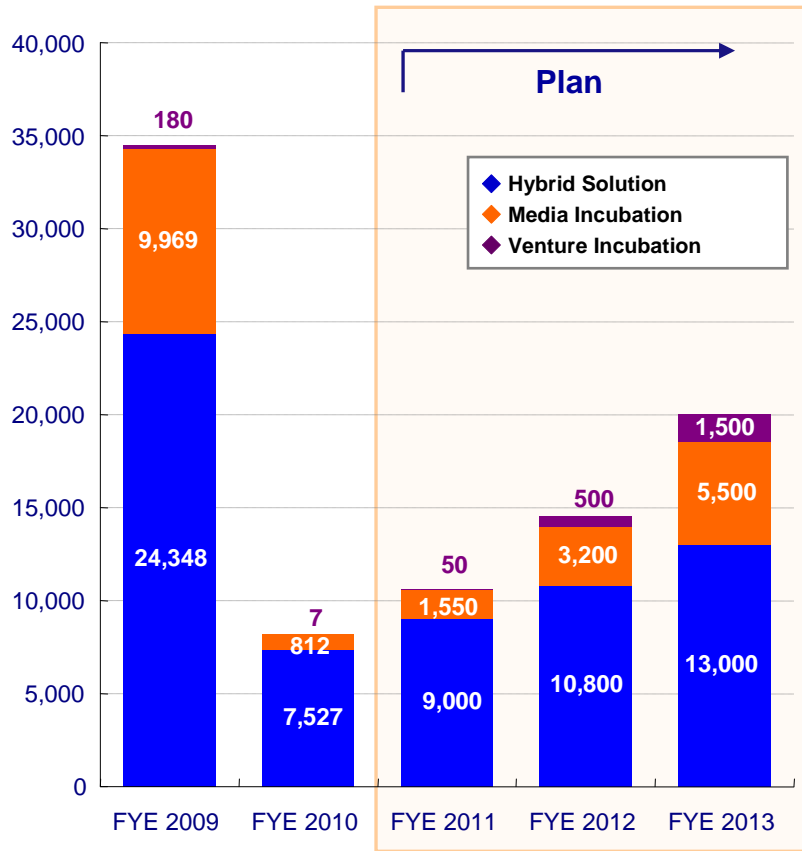


Consolidated Net Sales/Operating Income by Segment

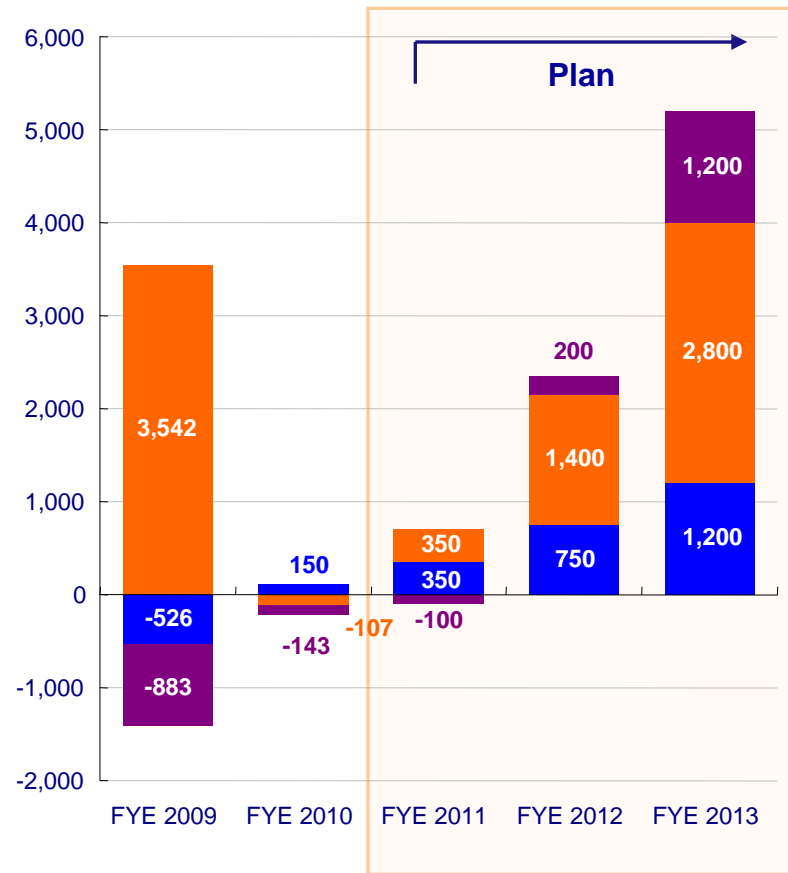


context company

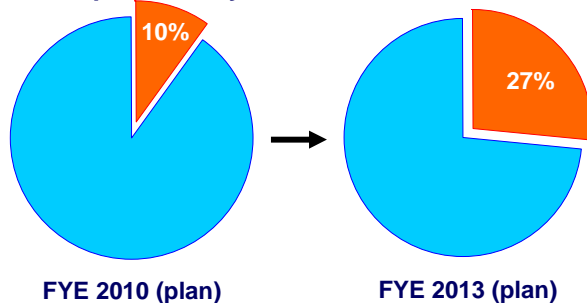
Consolidated net sales



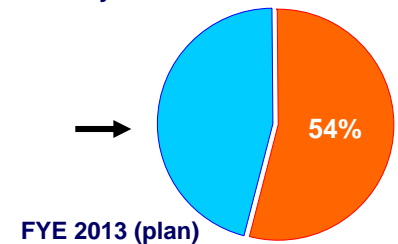
Consolidated operating income (Prior to Group tax deduction)

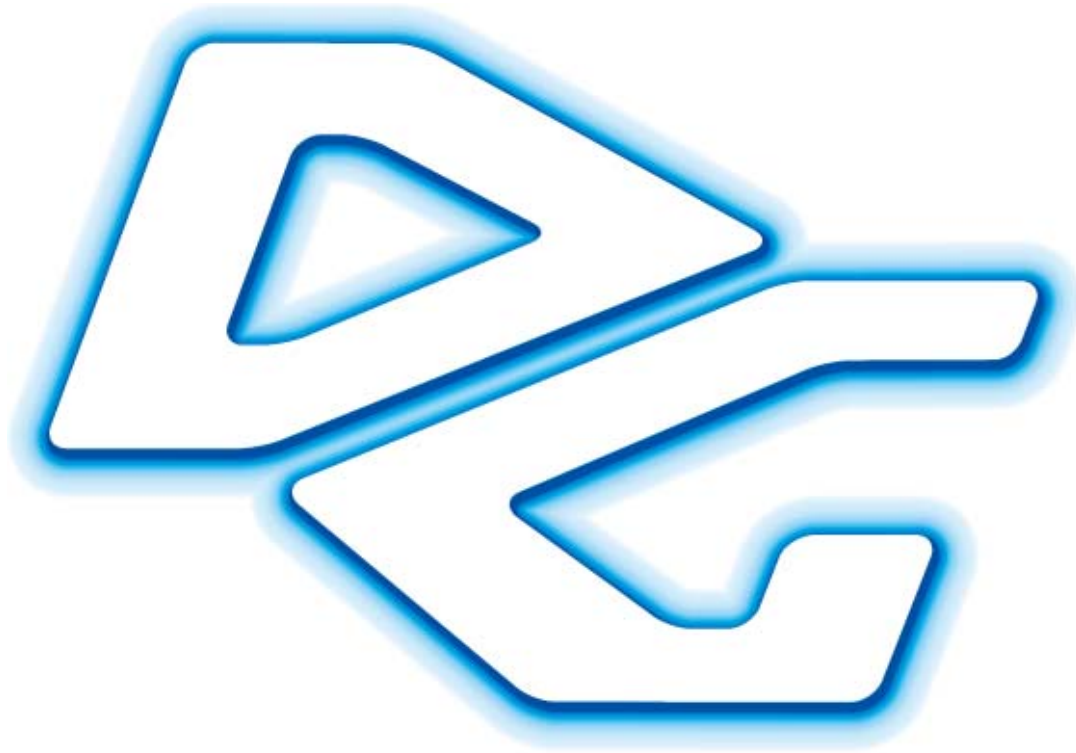


Sales provided by Media Incubation business



Operating income provided by Media Incubation business





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.