

Digital Garage, Inc.

- FYE 2011 -
Financial Report

August 12, 2011



Digital Garage
Social Media Incubator

Contents

■ Mission & Business Model	2
■ Group Financial Performance Review	5
■ FYE 2011 Segment Performance Review	15



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:

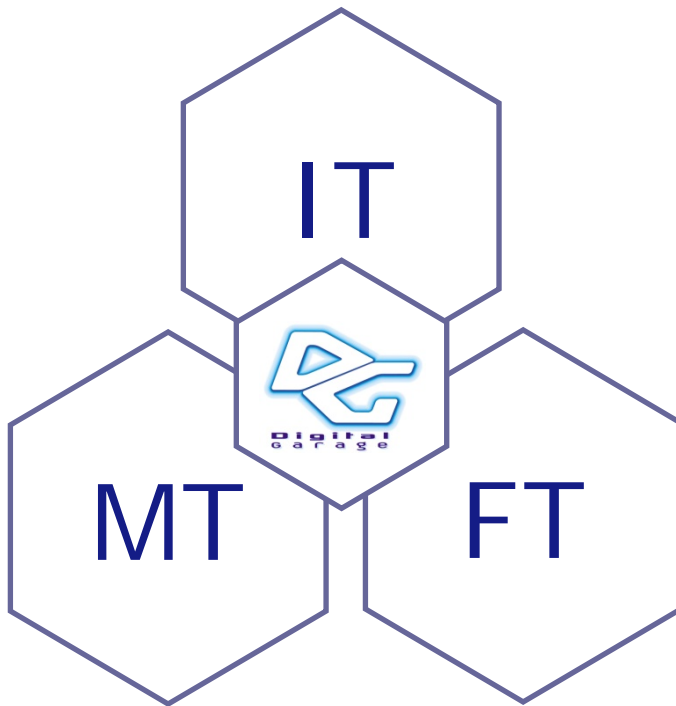
Real & **Cyber**
Local & **International**
Marketing & **Technology**
Present & **Future**



A black and white photograph of a man in a suit standing in a narrow alleyway, looking thoughtful with his hand to his chin. A blue square with a white ampersand is overlaid on the wall to his left. The text 'Context Company' is written in a serif font across the bottom of the image.

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



Mid-term Plan Initial Forecast Achieved New Media Incubation Strategy Initiated

Executing Capital Increase through Public Offering / Building Global Investment & Development Networks

I Surplus and operating income up 1 billion yen year-on-year

- Healthy growth of Hybrid Solution businesses as enabling platform
- Recovery of venture incubation businesses
- Robust investment in social media/smartphone business development

II U.S.-Japan real-time business intelligence/development networks

- Establishment of Digital Garage US, Inc. as U.S. subsidiary (office: San Francisco)
- Collaboration with MIT Media Lab (office: Boston)
- Active foreign investments and DG's self-developed media offerings based on agile development methods

III Capital increase through public offering to maximize long-term growth potential

- Total of 8 billion yen in funding raised through domestic public offering
- Venture investments and new social media development
- Operating capital for new settlement system

July 2011: Approx. 8 billion yen raised via public offering and third-party allotment

Purpose of Capital Increase	Application of Fund		Amount
<p>Growth Strategy in New Mid-Term Management Plan</p> <p>Social Media-related business Incubation</p> <ul style="list-style-type: none"> • Globalization • Enhanced media development capability • Improved solution offering <ul style="list-style-type: none"> • New business opportunities with companies with innovative services following success of Kakaku.com and U.S. Twitter • Investment in development of new social media-based service system 	Investment Fund	Investment in domestic/overseas Internet-related companies and angel funds	5,300 million yen
	Development Fund	Development of new social media-based service system	938 million yen
	Operating Fund	Operating fund for expanded settlement businesses (e.g., Kakaku.com settlement assurance service)	1,500 million yen
	Repayment of debt		Balance
	Total		8,064 million yen

Dilution due to issuance of new shares: 14.6%

Number of shares increased due to capital increase (32,000) / Total number of shares issued following capital increase (218,224)*

*Total of 219,084 shares issued as of today including exercise of stock options following capital increase

(¥ million)	FYE 2010	FYE 2011				Year-on-Year (Amount)
	Actual	Original Forecast	Revised on May 27	Revised on Aug 2	Actual	
Net sales	8,346	10,600	10,900	11,065	11,067	+2,720
Operating income	-960	-250	50	135	135	+1,095
Ordinary income	-457	500	900	970	972	+1,429
Net income	-2,207	310	800	900	901	+3,108

FYE 2011 Consolidated Performance

First operating surplus achieved post business restructuring

- Driven by growth of Hybrid Solution segment, net sales increase of 32.6% and operating income increase of 1,095 million yen on year-on-year basis achieved; venture incubation segment also delivered capital gains
- Ordinary income increased by 1,429 million yen year-on-year as result of income growth of Kakaku.com (equity in earnings of affiliates)
- FYE 2011 net income increased by 3,108 million yen year-on-year (from -2,207 million yen to 901 million yen)



FYE 2011 Financial Summary: Balance Sheet (Consolidated)

(¥ million)	FYE 2010 Actual	FYE 2011 Actual	Year-on-Year Amount
Current assets	14,208	14,345	+136
Incl. cash and deposits	4,799	4,784	-15
Incl. receivables	3,413	4,351	+937
Money held in trust	3,155	2,501	-654
Fixed assets	5,497	6,075	+578
Total assets	19,706	20,421	+714
Current debt	9,941	9,933	-7
Incl. deposits	5,743	6,168	425
Incl. interest-bearing debt	2,809	2,519	-290
Fixed debt	935	592	-343
Incl. interest-bearing debt	670	351	-319
Net assets	8,829	9,895	+1,065
Incl. retained earnings	1,497	2,398	+901
Total debt/net assets	19,706	20,421	+714

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

Net assets following capital increase

17,959

■ Effect of capital increase: increased net cash

FYE 2010	FYE 2011	Post capital increase forecast
1,320 million yen	1,914 million yen	9,978 million yen

Net cash: (cash and deposits) - (interest-bearing debt)

■ Balance sheet improvements

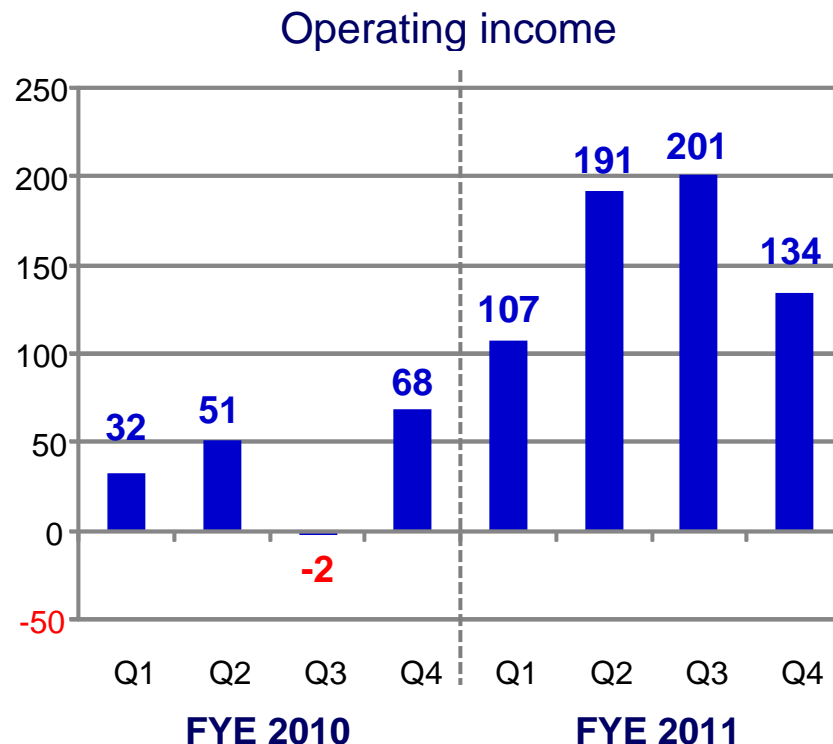
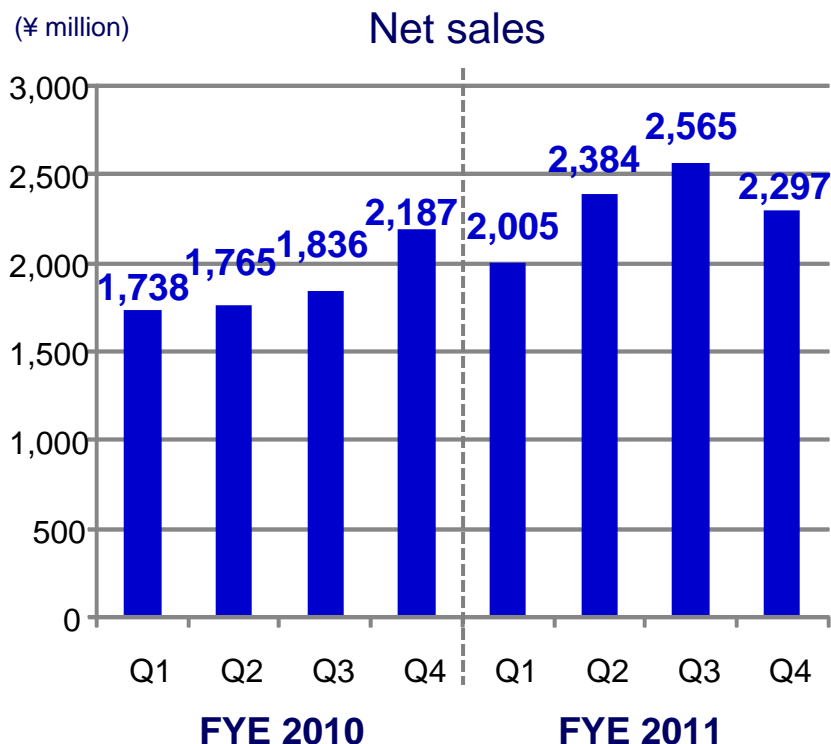
	FYE 2010	FYE 2011	Post capital increase forecast
Capital-to-asset ratio	44%	48%	63%
Percentage of interest-bearing debt	17%	14%	10%




(¥ million)	FYE 2010 (Actual)	FYE 2011 (Actual)	Year-on-Year (Amount)
(Hybrid Solution Segment)			
Net sales	7,527	9,252	+1,725
Operating income	150	634	+483
(Media Incubation Segment)			
Net sales	812	634	△177
Operating income	△107	△218	△111
(Venture Incubation Segment)			
Net sales	7	1,180	+1,173
Operating income	△143	688	+831

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

Hybrid Solution Segment

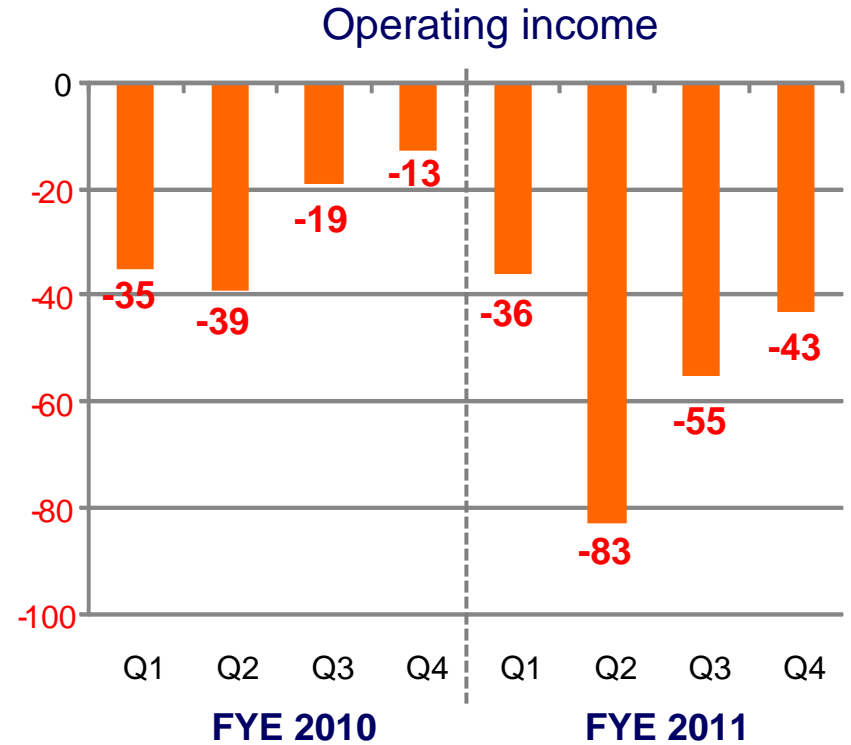
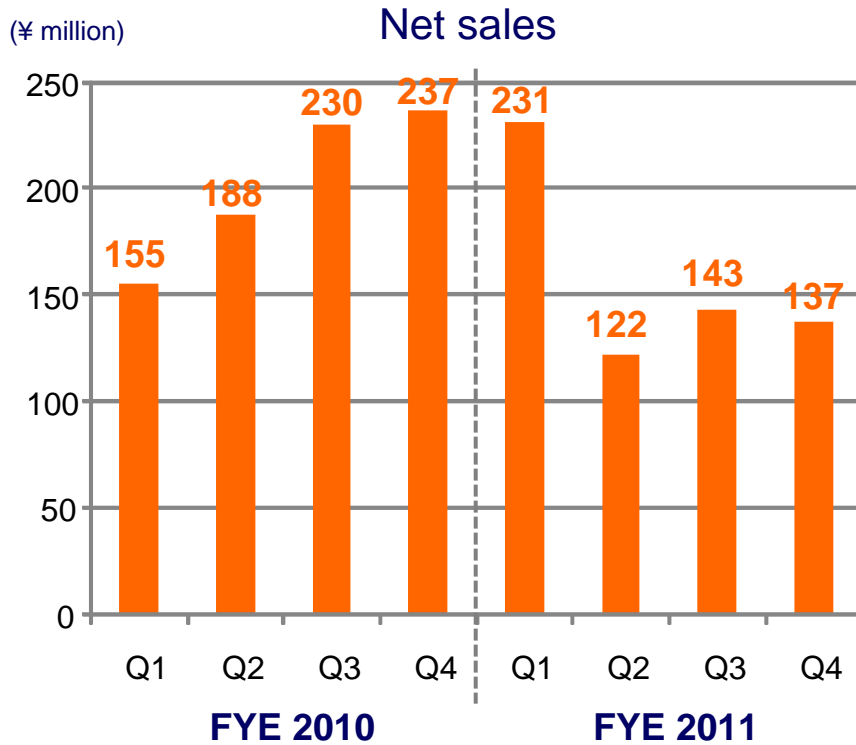


Performance Review

- Steady growth in comprehensive total promotion business based on real/Web service integration
- Record-high total of settlement transactions driven by strong performance in gaming and travel sectors
- Increased number of stores using  安心支払い ; full-scale contribution to revenue expected to start in next year



Media Incubation Segment



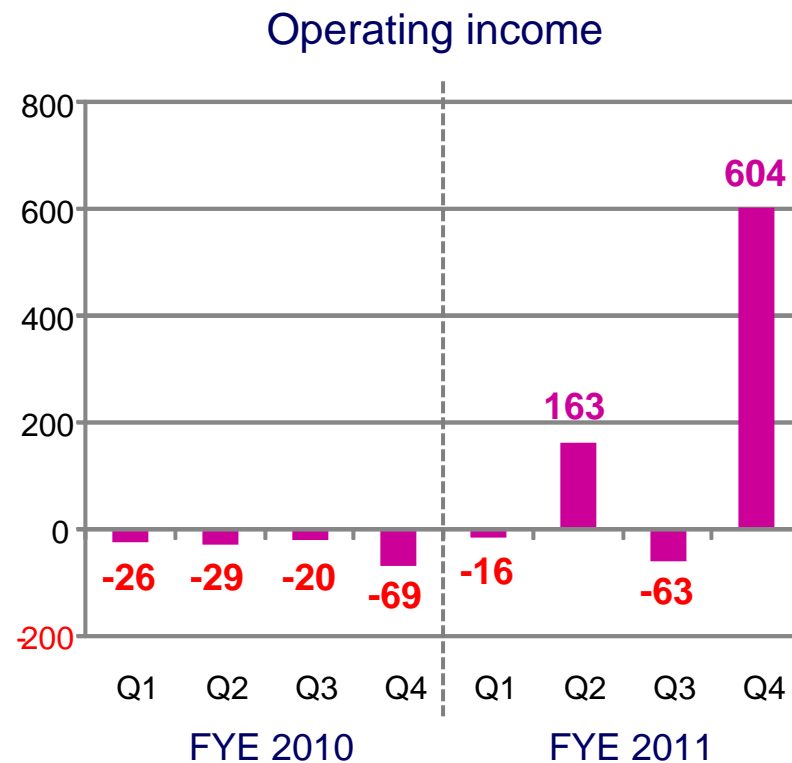
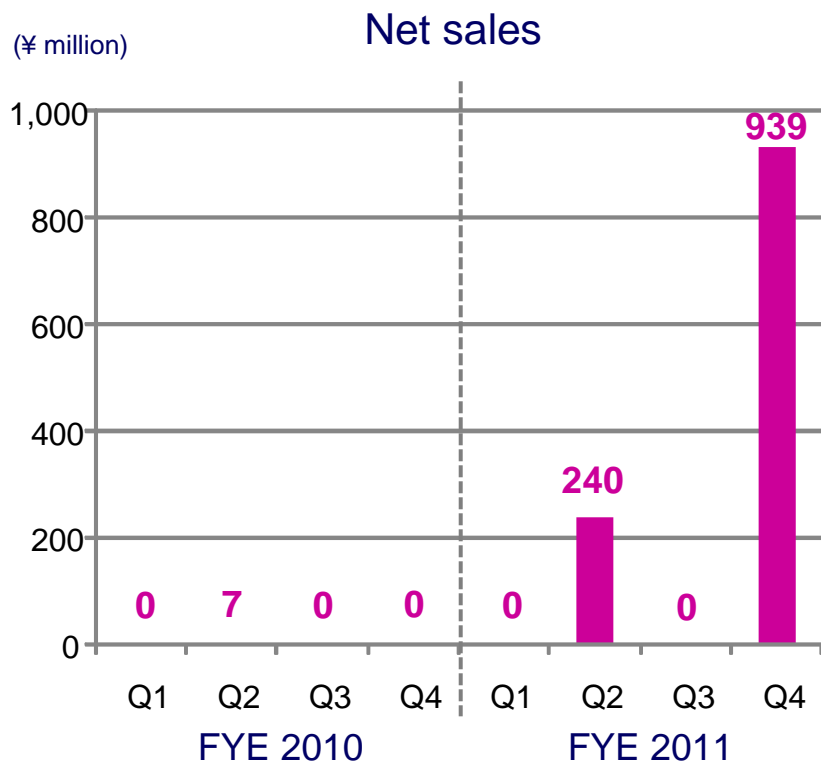
Performance Review

- Twitter ad sales back on growth trend following inventory adjustment upon introduction of new user interface in September
- New sales record set at end of term despite nation-wide voluntary restraint in advertising in immediate aftermath of earthquake disaster
- Focus on mobile business restructuring (Wheel established in December and DG Mobile sold in March) and smartphone-related businesses strengthened





Venture Incubation Segment



Performance Review

- Due to sharply-rising stock valuations among U.S.-based SNS companies, exit strategy with carefully-timed sale being pursued
- Investment in graduates from Japan's first seed accelerator program "Open Network Lab" started
- Partnership with renowned investors expanded, while conducting further investment in promising overseas ventures by leveraging strong yen



(¥ million)	FYE 2011 Actual	FYE 2012 Plan	Year-on-Year (Amount)
Net sales	11,067	13,800	+2,732
Operating income	135	1,350	+1,214
Ordinary income	972	2,500	+1,527
Net income	901	2,100	+1,198
<Net sales by segment>			
Hybrid Solution	9,252	9,600	+347
Media Incubation	634	2,000	+1,365
Venture Incubation	1,180	2,200	+1,019
<Operating income by segment>			
Hybrid Solution	634	650	+15
Media Incubation	△218	260	+478
Venture Incubation	688	1,500	+811

FYE 2011

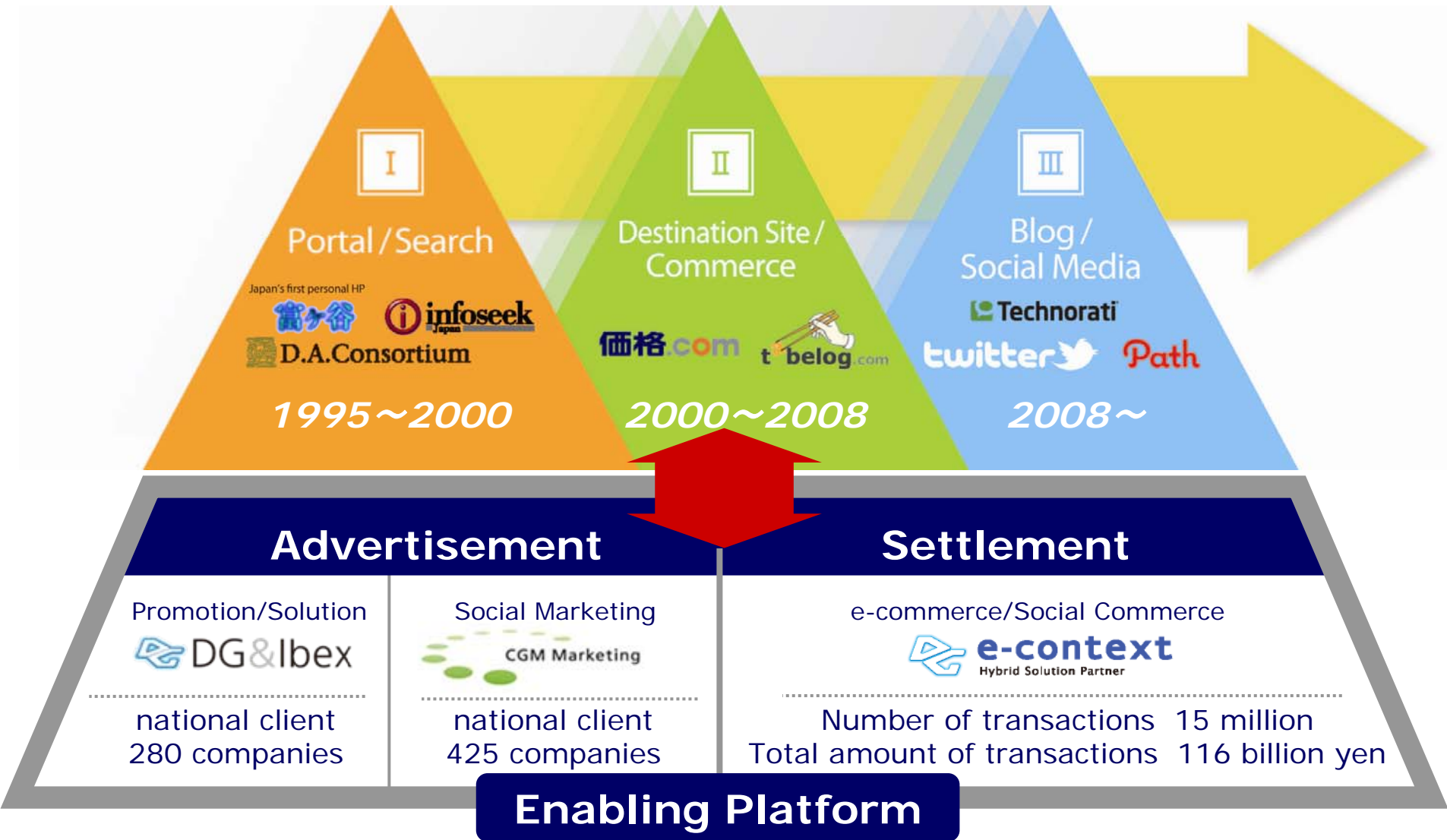
Segment Performance Review



Enabling platform and net business incubation



From the beginning of the internet era, DG has been accelerating incubation of internet services utilizing “Enabling Platform”





Next Decade: Development and Global Application of New Media

New business development as social media incubator accelerated following recent capital increase

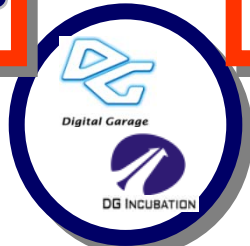
Discovery

- Realize promising investment opportunities more rapidly and extensively

San Francisco



Boston



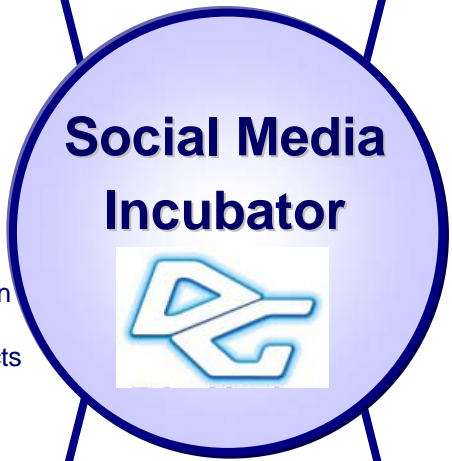
Information gathering /development base

Participation in leading R&D projects



Tokyo

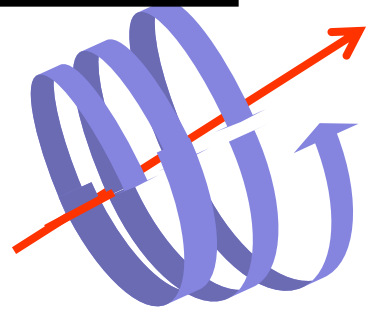
Discovery of promising services that create global standard developed in Japan



Incubation/Structure

- Establish agile structure that flexibly adapts to rapidly-changing Internet business market

Verification



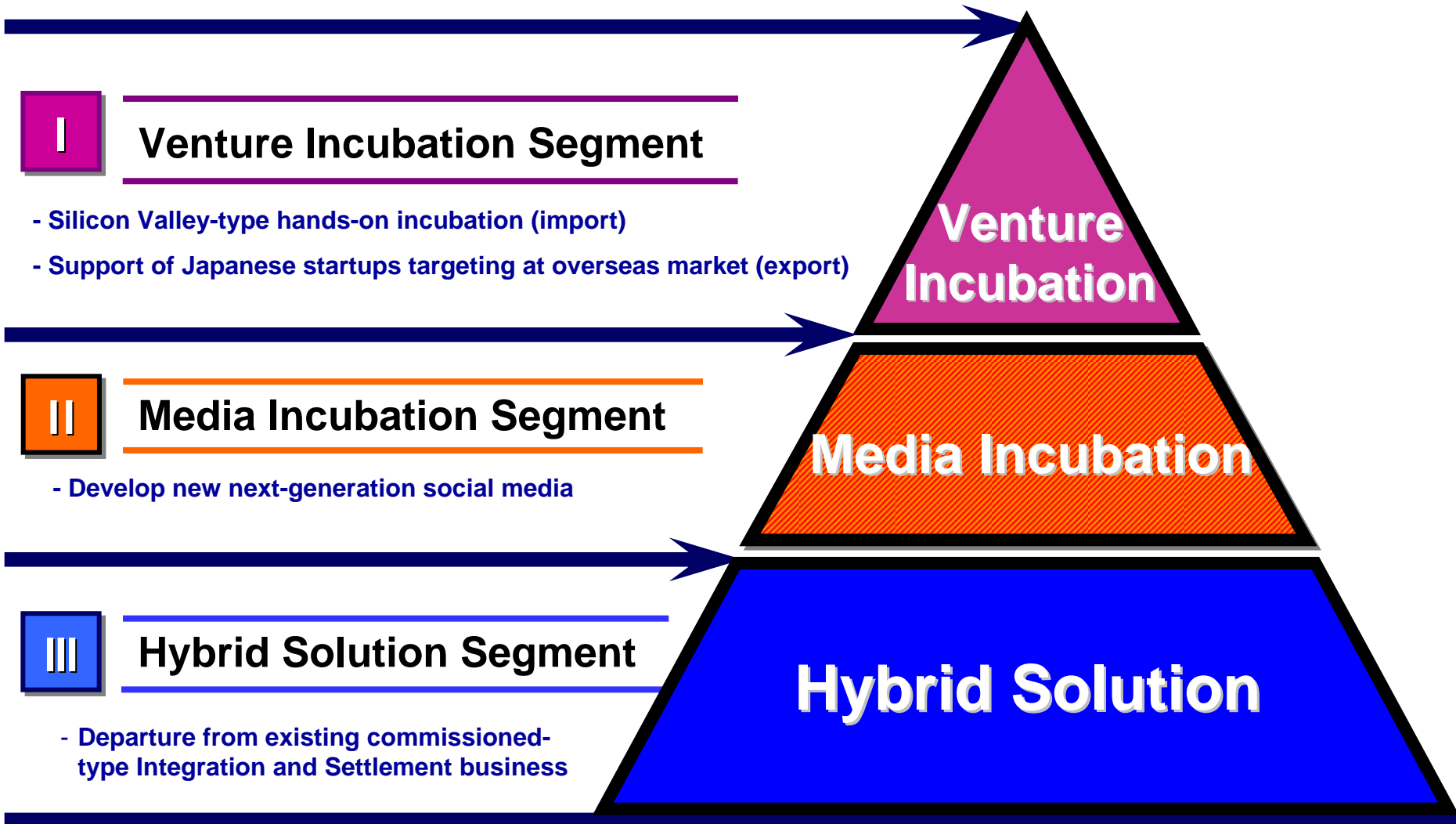
Services Quality

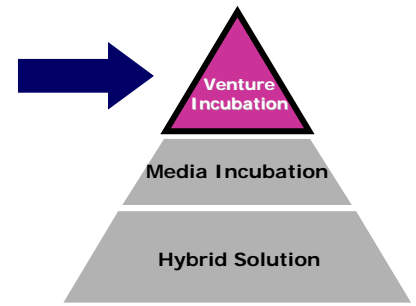
Development

Agile development:

A method that quickly improves service quality by repeating development and verification process in a short cycle, the main approach used by leading Internet companies such as Twitter and Google







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





I Venture Incubation Segment

	Net sales	Operating income
FYE 2010 Actual	7 million yen	-143 million yen
FYE 2011 Actual	1,180 million yen	688 million yen
FYE 2012 Forecast	2,200 million yen	1,500 million yen

 **Incubate and support high-quality Japanese ventures while actively investing in overseas ventures based primarily in Silicon Valley**

DG Incubation, Inc.

- ◆ Through strengthened partnership with renowned investors in Silicon Valley, investment in next key social media that follows success of Twitter and ongoing support for Japanese market localization being conducted
- ◆ Investment in angel fund SV Angel III conducted in May 2011; early identification of high-quality overseas ventures and thorough information gathering for direct investment being pursued



Open Network Lab

- ◆ Investments made in domestic ventures (e.g., giftee, Inc. , SpinningWorks Inc. )

Incubate and support high-quality Japanese ventures while actively investing overseas ventures based primarily in Silicon Valley

New venture incubation in the era of real-time web
New business models for both import/export

U.S. and other overseas seed-stage venture investments
Formation of dream team of Silicon Valley angel investors

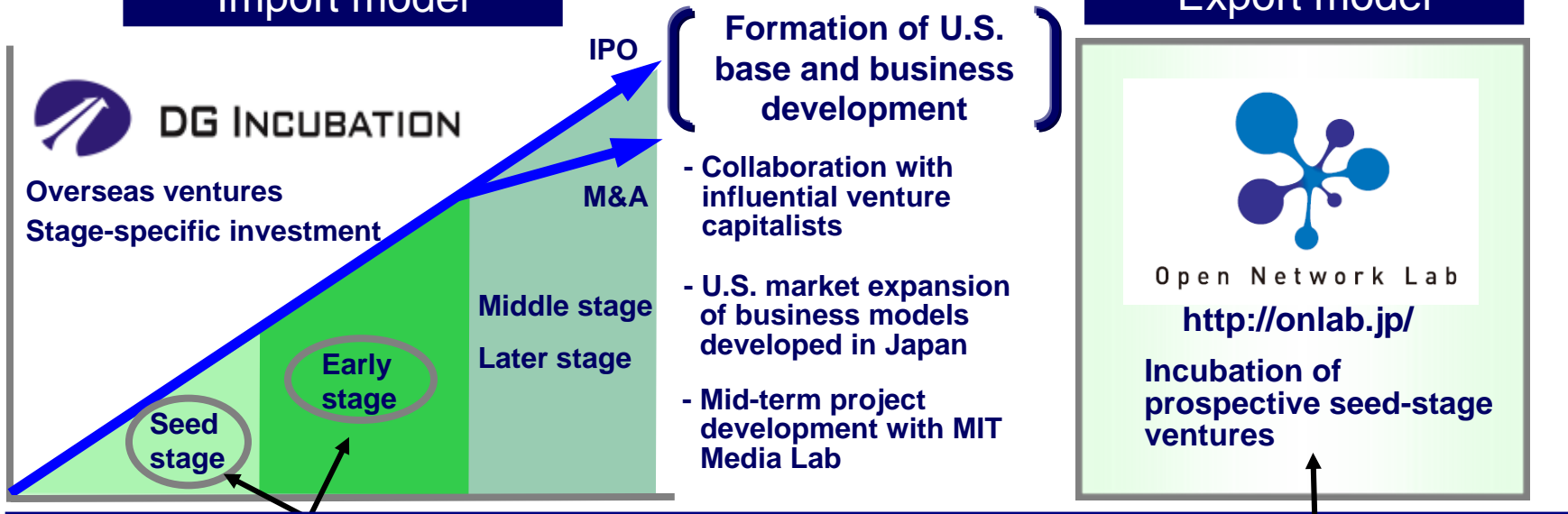
Global business marketing model developed in Japan
Seed Accelerator program

- ◆ Early discovery of prospective overseas ventures
- ◆ DG's **parallel investment** and **Japanese market localization** support

- ◆ **Renowned overseas entrepreneurs mentoring** domestic ventures aiming to expand into global markets
- ◆ Rapid expansion supported through IT, MT and FT solutions once business is established

Import model

Export model




Co-investment with U.S. angel investors
⇒ DG's independent parallel investment

Support new domestic ventures and their entry to overseas markets

Fund Investment

Purpose and benefits of investing in angel funds

- ◆ **Become involved in the inner workings** of angel investor/venture capitalist networks to develop organic business incubation model that includes investment
 - ⇒ **Acquire up-to-date information on cutting-edge** Internet businesses
- ◆ Secure **parallel investment privileges** for angel fund investment targets
 - ⇒ Retain DG's **independent investment opportunities**



SV Angel - Founded by Ron Conway, advisor and influential Silicon Valley investor

- Target: early-stage startup companies

DGI and Ron Conway's main co-investment targets:



Angel Fund A

- Founded by renowned Silicon Valley investors
- Target: early-stage startup companies (also actively invests in overseas ventures)


[currently under development]

Individual Investment




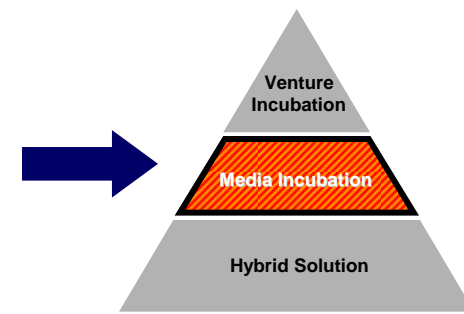
i'd rather wear a unique story

Luxury jewelry and bag marketplace founded by Kiyan Foroughi and Avid Larizadeh in March 2009



Comprehensive beauty services website (hair, makeup & nails, etc.) launched in October 2010





Media Incubation <B2C businesses>

➤ Media Incubation Division

Localization of overseas media and promotion of DG's original media development

➤ Twitter Company **Twitter company**

Operational support and business development for Twitter in Japan

➤ CGM Marketing, Inc.

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

➤ Wheel, Inc.

Content service provision for smartphones utilizing social media





Media Incubation <ToC Solution businesses>

	Net sales	Operating income
FYE 2010 Actual	812 million yen	-107 million yen
FYE 2011 Actual	634 million yen	-218 million yen
FYE 2012 Forecast	2,000 million yen	260 million yen

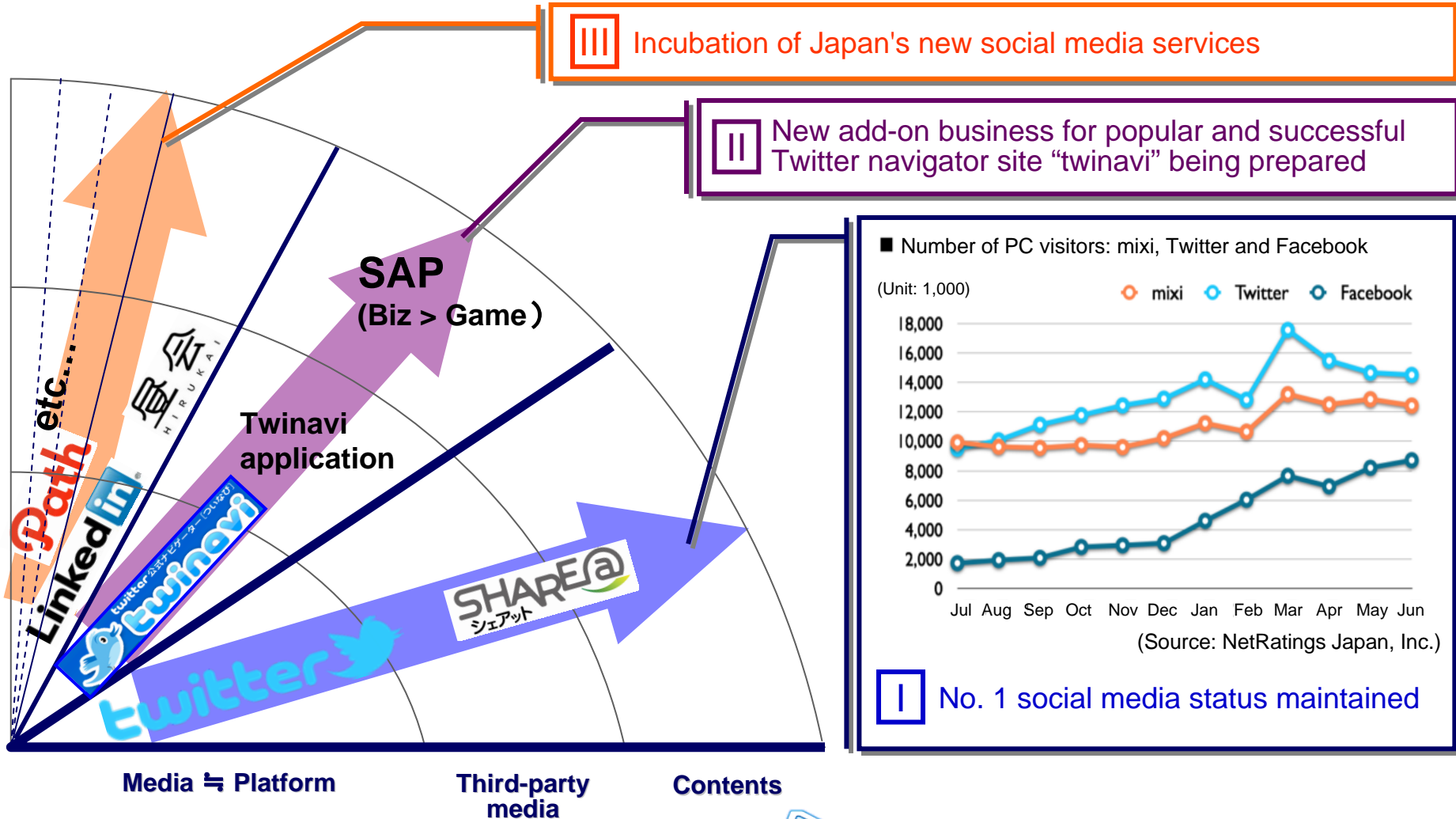


As a social media incubator, focus on DG's original media development and incubate new social media business as next Twitter

- ◆ With consolidation of dispersed group resources, segment growth as "media incubation strategy hub" was accelerated
- ◆ Agile global development system development and further promotion of business collaboration with investment targets were conducted with new Group CTO Ian McFarland, Chief of Technology Management at leading U.S. company
- ◆ Support for Japanese localization of LinkedIn was provided; Japan's first media tied to LinkedIn  was developed and launched

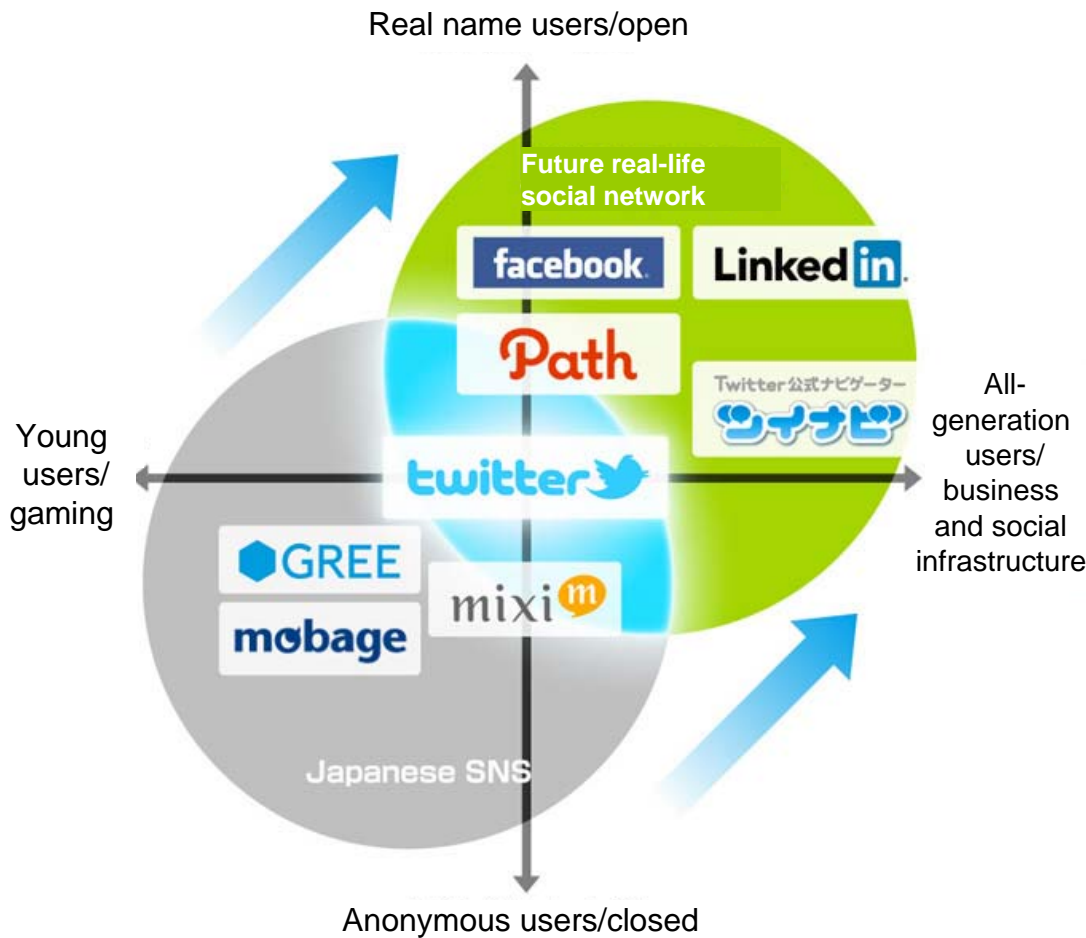


Incubate social media and platform to follow success of Twitter and simultaneously develop third-party businesses linked with new media/platform



Social media in transition from gaming to real-time web to business applications

Shift from Japan's anonymity-based SNS to "real-life social networking"



DG's market trend forecast

Real-life social network

Further integration with real world will occur via transformation of social media from limited use (e.g., gaming platforms) to social infrastructure/business use

Smart technology

Arrival of super devices will be brought on by development of open technology regardless of user's technological literacy level

User-led approach

As a result, users can flexibly choose services they use in areas previously controlled by carriers and portal providers (including contents and settlement choices)



Media Incubation Division

■ FYE 2011 Highlights

◆ Business acceleration Division for social media incubation

Established Division with consolidated media development functionality including **product management, development, infrastructure, security, etc.**

◆ Collaboration with business SNS LinkedIn

Started Japanese localization **support including marketing, PR and research product marketing** to LinkedIn for launch of **Japanese LinkedIn site** scheduled to launch by the end of 2011

◆ Development and launch of **Japan's first** LinkedIn-connected media

Developed and released LinkedIn API-connected media as first product of DG's media development designed for **real name-based and business domain** users and their requirements



Further promotion of media export in addition to imported media development

Mid- and long-term strategy

- ◆ Collaborate with venture incubation segment and engage in marketing/operational assistance for imported post-Twitter media services
- ◆ Implement DG's original media and Onlab business in stages and proceed with global application plan

Twitter company Digital Garage Twitter company

FYE 2011 Highlights

- ◆ Twitter as essential part of social infrastructure
 - Twitter being used extensively as **real-time safety confirmation tool** following Great East Japan Earthquake on March 11
 - Various lifestyle infrastructure media initiatives being implemented/under development under guidance of Ministry of Economy, Trade and Industry
- ◆ User base expansion
 - Official PC users: rapid growth from 9.10 million UUs in June 2010 to 14.52 million UUs in June 2011 (**annual increase of approx. 1.6 times**) (Source: NetRatings Japan, Inc.)
 - **New world record for TPS** (7,916 tweets/second) achieved upon Japanese Women's World Cup Football victory
- ◆ New functions
 - Hashtags in Japanese/photo posting functions provided

Further promotional support of Twitter use as social infrastructure media

Mid- and long-term strategy

- ◆ Promote awareness and share good practices for enterprise/government use
- ◆ Proceed with cross selling services following completion of user interface renewal



FYE 2011 Highlights

◆ Twitter official PC/mobile advertising business

Maintained steady growth through completing ad inventory adjustment following UI renewal and posted **best monthly sales record** of PC

◆ Twinavi

Provided account authentication scheme for public institutions, **J Government on Twinavi**, following Twitter use as social infrastructure media during East Japan Earthquake (**approx. 300** accounts opened in **44** prefectures)

◆ Tweet manager

Started operational support for Tokyo Electric Power Co. including Tweet monitoring/analysis; further promoted implementation at central government institutions (Agency for Natural Resources and Energy, Cabinet Office and Prime Minister's Office)



Develop new media services while continuously expanding monetization of Twitter

Mid- and long-term strategy

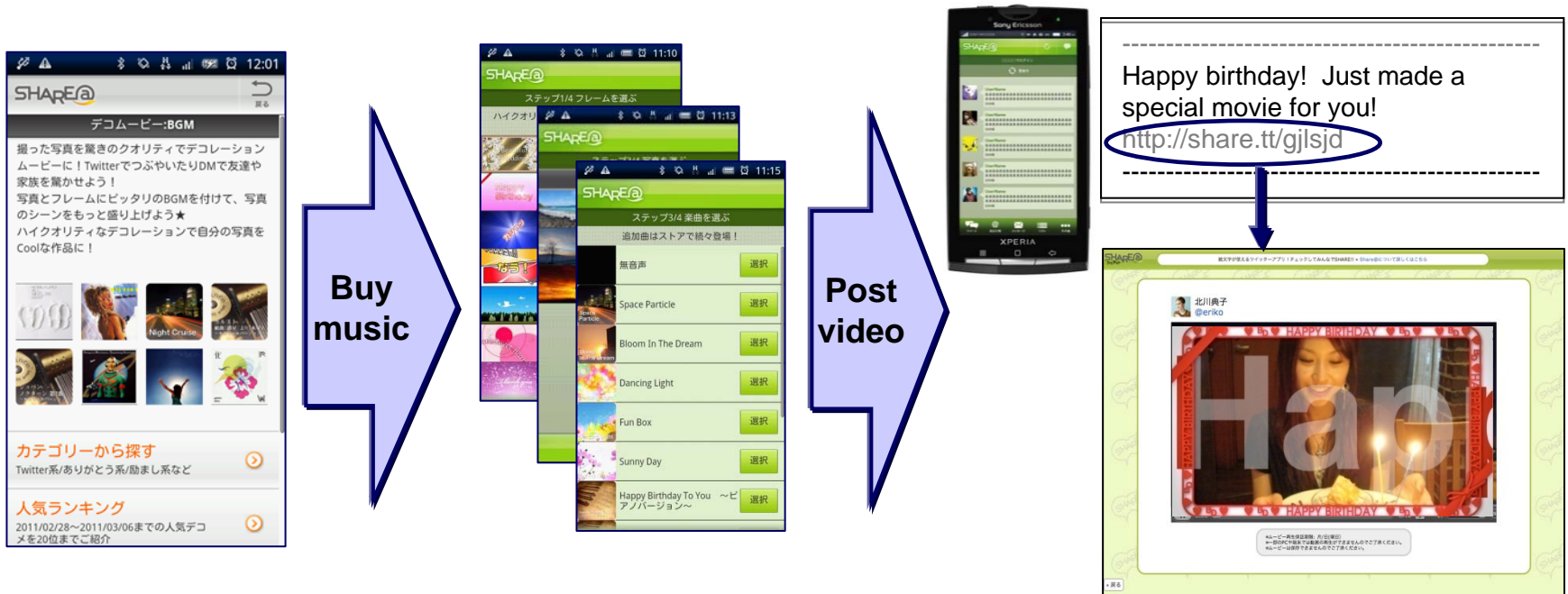
- ◆ Diversify Twitter-related ad products/profit-earning opportunities
- ◆ Develop next-generation ad products that match consumer multi-social media use



FYE 2011 Highlights

◆ Social media-linked services

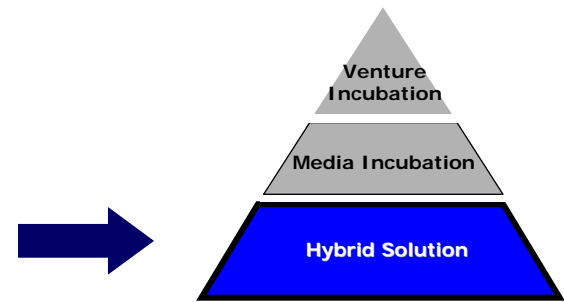
- Launched smartphone service **SHARE@** allowing users to post decorated videos to Twitter
- Gradually expanded content offerings from Android to Web-based PC access



Create fee-based content market that optimizes strength of social media

Mid- and long-term strategy

- ◆ Shift focus of fee-based services from feature phones to smartphones based on changes in smartphone user trends



Hybrid Solution: B2B Solution businesses

➤ e-context Company

E-commerce settlement platforms



➤ DG&Ibex Company

Marketing promotion support, media development and web solutions





III Hybrid Solution <ToB Solution businesses>

	Net sales	Operating income
FYE 2010 Actual	7,527 million yen	150 million yen
FYE 2011 Actual	9,252 million yen	634 million yen
FYE 2012 Forecast	9,600 million yen	650 million yen



Steady expansion of “enabling platformer” business area while use of social media increases

[e-context Company]

- ◆ Increased revenue and achieved record high settlements through development of new business model that adds new functions to existing settlement services such as



[DG&Ibex Company]

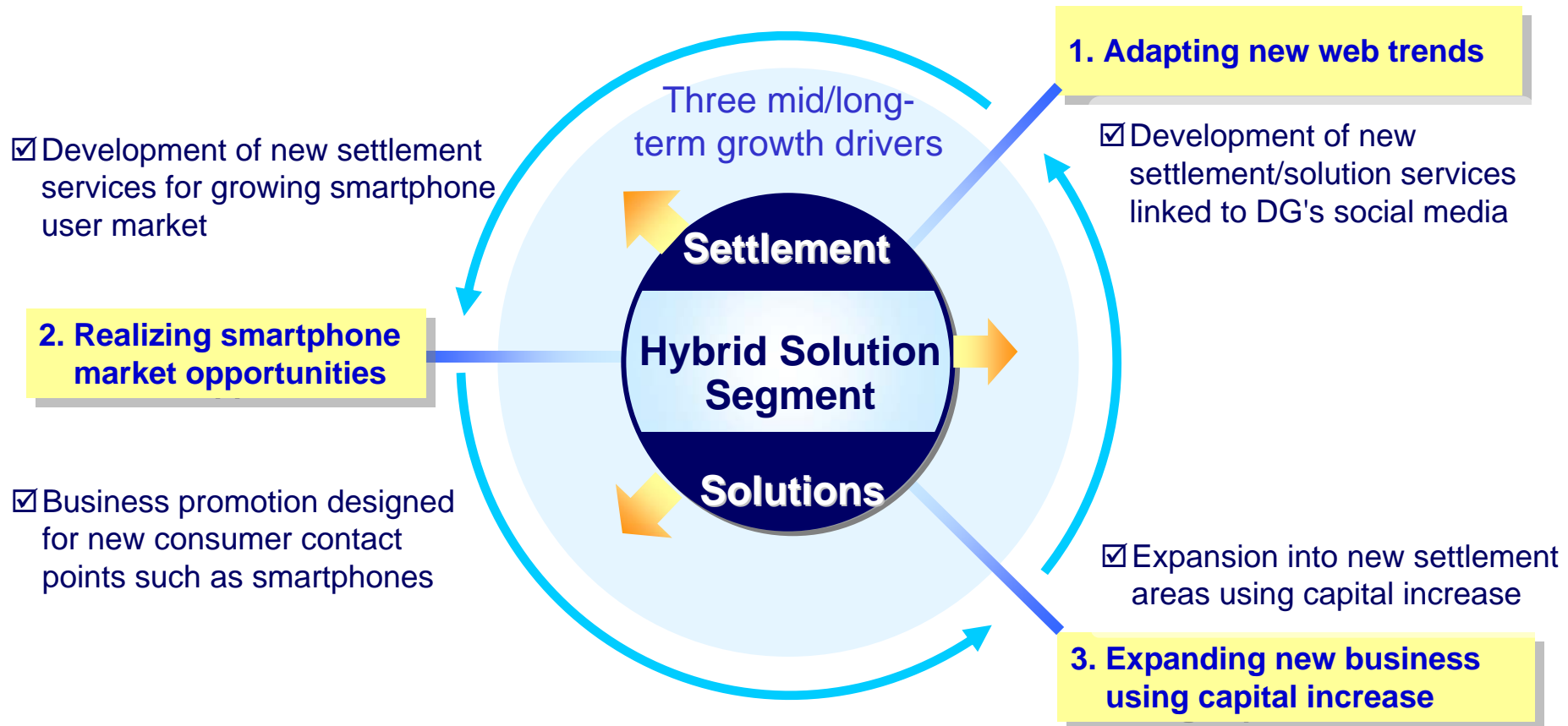
- ◆ Increased digital solution sales and improved unit profit per client by strategically differentiating DG from competitors based on DG's strength and expertise in social media

As a result, achieved overall Hybrid Solution net sales increase of 1,725 million yen and operating income increase of 483 million yen



Further acceleration of Hybrid Solution areas (advertising/settlement) based on three growth drivers

1. Flexibly adapt to new web trends: social media
2. Swiftly realize new opportunities created by smartphone market
3. Expand new businesses using capital increase



FYE 2011 Actual

Number of affiliated websites

41,617
(year-on-year) **120%**

Number of transactions

15.28 million
(year-on-year) **114%**

Total amount of transactions

116.3 billion yen
(year-on-year) **114%**

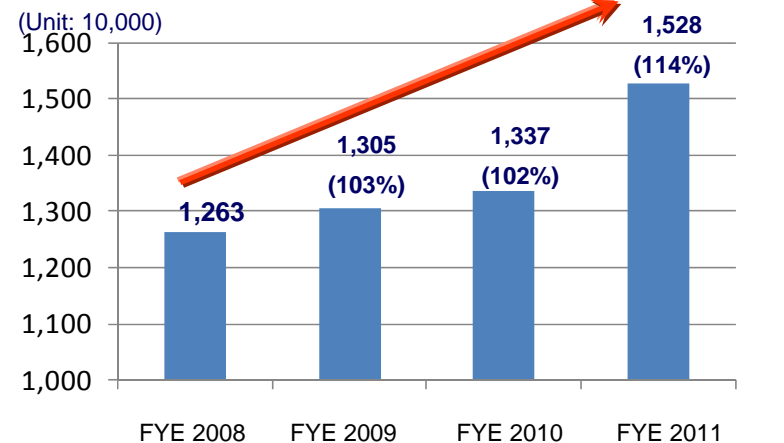
Number and amount of transactions both set new record high

(Growth factors)

Further expansion of settlement areas and improved business diversity contributed to increase in number of transactions

- ➡ Focus on **credit card settlement** in addition to existing settlement formats resulted in **14%** increase in number of transactions over previous year
- ➡ User base for  **安心支払い** settlement services with escrow function **launched in November 2010** has expanded steadily

Number of transactions



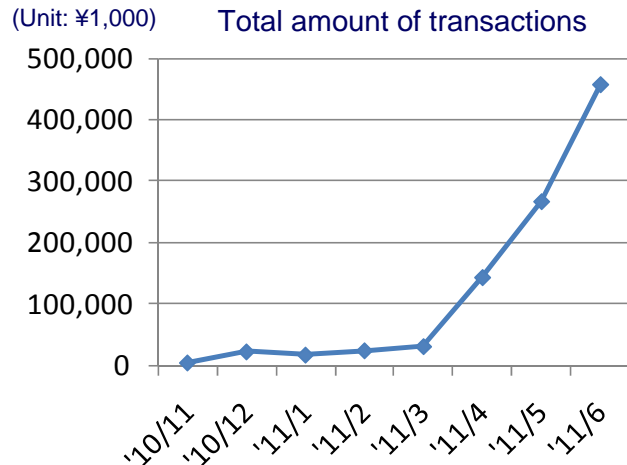
Cultivation of new markets and clients through enhanced settlement functions

Mid- and long-term strategy

- ◆ Accelerate business development for new smartphone-based settlement markets
- ◆ Gain new clients by adding new services to enhance existing settlement functions



- ◆ **Full-scale performance** was immediately achieved despite delayed startup due to issues such as system connections, credit checks and earthquake impact



- ◆ Further expansion underway due to **high level of client satisfaction**
 - Number of female store users increased
 - Credit card settlement: key purchase decision factor (based on customer survey)

New settlement services, etc.



- ◆ **Completed registration** with Kanto Local Financial Bureau as **fund transfer agent**
 - ⇒ Able to offer currency trading services that were generally limited to financial institutions such as banks
 - ⇒ Plans to offer new settlement services (BtoC, CtoC and BtoB money transfers, settlement combined with escrow services, etc.)



- ◆ Co-launched **security diagnostic service Risk Search** for e-commerce clients with LAC



BOOK☆WALKER

- ◆ Provided smartphone settlement platform to **Kadokawa Shoten Publishing Ltd.'s BOOK☆WALKER site**
 - ⇒ Offer universal settlement functions regardless of user device

FYE 2011 Actual

Total sales
6.3 billion yen
 (year-on-year) **126%**

Profit per client
22.5 million yen
 (year-on-year) **125%**

Number of clients
280
 (year-on-year) **102%**

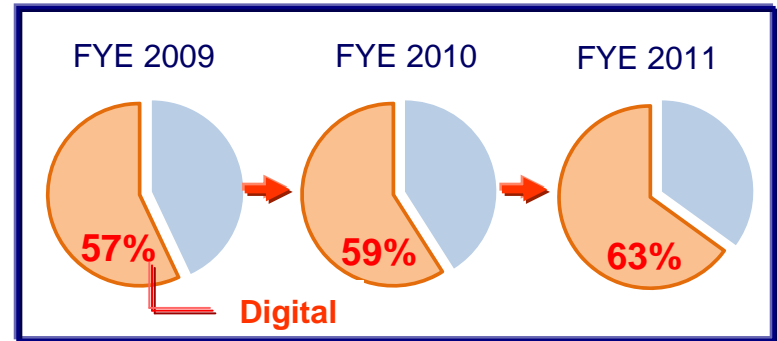
Achieved profit per client increase due to steady growth of digital areas (web/mobile)

[Growth factors]

Development of industry-specific digital/real media comprehensive promotion based on DG's expertise in social media (cosmetics, credit card solutions, etc.)

- ➔ **Web marketing area:** solution expansion contributed to improvement of unit profit per client (156% increase year-on-year)
- ➔ **Promotion area:** strong growth exceeding industry average (108% increase year-on-year)

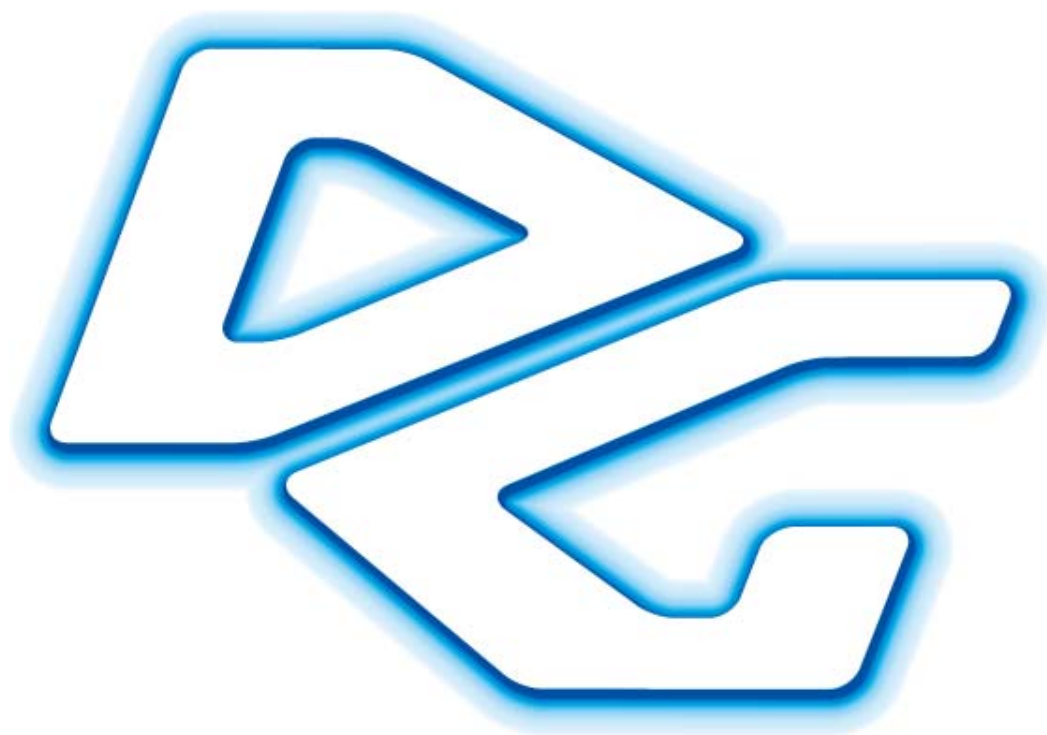
Gross margin comparisons: digital vs. other areas



Ongoing development of solutions that adapt to changes in consumer contact points

Mid- and long-term strategy

- ◆ Continuously develop cutting-edge solutions linked with new DG media
- ◆ Capture larger share in clients through enhancement of industry-specific solution package



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.