

Q2 FY2009 Results Briefing Q&A Summary

DeNA held a meeting on October 27, 2009, to brief participants on the Company's performance during the second quarter of the fiscal year ending March 31, 2010. Following is a summary of major questions that were raised, along with their responses.

Q1 What is your full-year forecast for advertising and sales promotion expenses?

A1 Our first-half figure is indicated in the results presentation materials. In the second half, we expect advertising expenses and sales promotion expenses together to come to around ¥2.2 billion.

Q2 What are your expectations for initial costs on the Moba-ge Open Platform?

A2 We are handling open platform preparations in house, so we do not anticipate any major cost increases.

Q3 How much do you believe the in-house social game startups and the Moba-ge Open Platform will compete with your existing businesses?

A3 Our in-house social games were launched just one month ago, so it is difficult to say for certain. Based on current conditions, however, we expect the game revenue from our in-house social games and the open platform to add to our revenue from existing games, and we expect them to grow together.

Q4 How large do you expect the Buyer's Club B2B marketplace business to become over the medium to long term?

A4 Because we are in this business with partners, we cannot disclose figures at this point. Personally, I believe there is every possibility that our total gross merchandise sales from B2B businesses could greatly exceed gross merchandise sales for bidders alone.

Q5 Is U.S.-based Aurora Feint's service provided only in the United States, or can it be used for development in Japan as well?

A5 The Japanese market is certainly a target, but the number of people using iPhones and other smart phones in Japan is much smaller than in English-speaking countries. For this reason, we understand that Japan is not a priority market at the moment.

Q6 Please explain the factors that caused your results for the first half of fiscal 2009 to fall short of the forecasts you announced on May 1, 2009.

A6 The reason is that Moba-ge-town avatar-related sales were around ¥1.2 billion lower than forecast, and Pocket Affiliate external media sales fell short by approximately ¥500 million.

Q7 Judging by your financial statements last quarter and this quarter, your investment in China-based WPTX appears to be about ¥1.0 billion. Is this correct?

A7 Yes, it is.

Q8 In terms of international business development, will you be concentrating more on WAP (mobile phone) than on the smart phone market? How large is the market, in your opinion?

A8 The growth of the smart phone market is most noticeable, and we have begun making inroads into this area. (Considering the fact that the U.S. market is concentrating resources and funds on the smart phone market, and that WAP remains mainstream in China,) we recognize the benefits of remaining a player in the WAP market, so we plan to continue working in this market as well. In terms of market scale, we believe the smart phone market in the United States and, naturally, the rest of the English-speaking world, will be significantly larger than the Japanese WAP market. On the other hand, we do not expect the U.S. WAP market to surpass the Japanese WAP market any time soon.

Q9 As you are beginning to release in-house social games, it seems that you could attract new members by spending aggressively on advertising, even if that means sacrificing profit in the short term. What are your plans for the future?

A9 Looking at Moba-ge-town, we did not spend much on aggressive advertising or promotions during the first half, and we concentrated our efforts on energizing the community and developing social games. Because our launch of the in-house social games went so well, we are thinking about launching advertising and promotional activities in the second half. We are still considering the form these activities should take. Our second-half forecast for sales promotion and advertising expenses is based on current expectations. If it becomes necessary, we will conduct aggressive sales promotion and advertising activities. Though it is extremely important to meet the guidelines, we have no plans to prioritize short-term profits at the sacrifice of medium- and long-term growth.

Q10 Isn't the Moba-ge Open Platform causing competition between your in-house social games and open-platform games? It seems that players might get confused by the number of games that you are providing. What are your plans going forward?

A10 We believe availability of a wide variety of games is a requisite for a major platform. We can only offer a few in-house games each quarter. Gamers' needs are diverse, and we aim to provide the number one platform for mobile social games.

Q11 Are your in-house social games created entirely in-house? Or, as is the case with your existing item-billing games, will profitability fall as a result of revenue sharing and rising outsourcing costs?

A11 Currently, these games are created nearly 100% in-house, so we have no need for revenue sharing, and there are no outsourcing costs. As a result, profitability is very high. In the future, though, our in-house resources may not be sufficient to introduce new titles. If that turns out to be the case, we may work with partners.

Q12 You haven't had any major hits until the first half of this year. Why have your recent in-house social games been so successful?

A12 We made the decision to develop social games in-house in early summer. We are not gaming pros. Rather, our strength is in web applications. We drew on our confidence in this area to create community-based games.

Q13 Do your overseas development strategies include providing the social games you have created in-house to major SNS operators?

A13 We intend to pursue the development possibilities of social games we create in-house, but at present we are not ready to make any public statements in this regard.

Q14 Are any of your in-house social games showing particularly strong sales?

A14 We cannot answer in detail, but all three titles are performing solidly.

Q15 In terms of carrier billing methods for games, I understand monthly subscription billing service is not available to you. Is that a disadvantage for you? Also, please explain your stance on monthly carrier billing going forward.

A15 Of course it is better to have more billing methods than fewer, but we believe pay-per-item purchase is sufficient at the moment.

Q16 Do you think there is going to be much difference in game lineup between Moba-ge-town and mixi?

A16 Though we won't actually know until this starts, it is likely that many developers will create games for both Moba-ge-town and mixi since both platforms are using OpenSocial. However, we believe there will be developers who create games only for Moba-ge-town using avatars and a wider monetization mechanism, which are the strengths of the Moba-ge platform.

Q17 How is your international development progressing?

A17 In China, we are beginning to apply our Moba-ge-town expertise at WAPTX. At U.S.-based IceBreaker, on October 26 we began holding study sessions to share this know-how, and now we are at the business planning stage. We have already begun collaborative sales with U.S.-based Aurora Feint. We plan to develop community functions together as well.

Q18 Please describe the background for your decision to provide an open platform for Moba-ge-town.

A18 Game developers lobbied heavily for an open platform, and Moba-ge-town players indicated a strong desire for social games. We recognized that it would be difficult for us to develop on our own the variety of games that players wanted.

Q19 What are your ARPU figures for the social games you have created in-house?

A19 At this stage, we do not plan to disclose these figures. In general, though, if asked whether the figures are in the hundreds of yen or thousands of yen, we would answer "In the thousands of yen range." We have only just begun, however, and it will take some time before we can discern trends.

Q20 What was different immediately following your introduction of in-house social games and your offering of 3D avatars?

A20 At this stage, player repetition is high, which is different from the introduction of 3D avatars. But we have only recently introduced the service. We should be better able to explain the results the next time we meet.

Q21 Are there any synergies between your in-house social games and avatars? Will avatar sales increase as a result of the social games?

A21 Item billing on social games is firm, but this does not necessarily connect to an increase in avatar sales. Of the four games, only Settlerin has any link with avatars. Moba-gold use by Settlerin players is solid, and we aim to expand this usage in the future by introducing more avatar-related games.

Q22 The open platform makes avatars available to game developers. Have you made any decisions on revenue sharing?

A22 For avatars that developers create, the revenue sharing ratio is seven to three for partners and ourselves. We plan to introduce a separate fee system for avatars, but we haven't yet finalized the details.
