

FY2015 Q2 Earnings Presentation (Aug 13th, 2015)

Summary of Q&As

【Q】 What is the reason for lower-than-expected tax expenses in Q2? Would this continue to have impact on tax expenses in Q3 and thereafter?

【A】 Lower-than-expected tax expense was due to partial reversal of income taxes payable due to the difference in opinion between the tax authorities being resolved during the current second quarter with regards to the estimate of income taxed payable recorded in the previous consolidated accounting year at a Korean subsidiary based on the findings from tax inspection by the tax authorities. This is a one time factor and tax rate is expected to be around 20% for the full year 2015 as we have been communicating from the past.

【Q】 It would not have been surprising for 2015 Q3 revenues in Korea to decrease considerably year-over-year, as *FIFA Online 3* and *FIFA Online 3M* had very strong performances in 2014 Q3 with tailwind from FIFA World Cup. However, Korea's 2015 Q3 forecast was better than expected. Is this due to contributions from *MapleStory2* or new mobile titles? Please explain the details of assumptions regarding Korea's 2015 Q3 outlook.

【A】 2014 Q3, *FIFA Online 3* and *FIFA Online 3M* performed extremely strong with tailwind from the FIFA World Cup. Since 2015 Q3 year-over-year comparison is made against the exceptionally strong 2014 Q3, we expect revenues from these titles to significantly decrease. However, as our existing PC titles are performing solidly, and we expect certain contribution from *MapleStory2* and multiple new mobile titles, we expect these to compensate for the decreases of *FIFA Online 3* and *FIFA Online 3M*.

【Q】 With rich pipeline and increase in successful games in both mobile and PC, will you be needing more people in operations and development? Would there be possibility that headcount and HR expenses increase going forward?

【A】 Since the management change, we have been laying weight on new games development and live operations to deliver high quality and differentiated games. While we would not be increasing our staff overmuch, we plan to continue to hire developers for both new games development and live operations mainly for mobile business, which is a growth area. However, since we are going to hire developers as the situation demands, HR costs will not continue to rise at the current rate going forward but we expect increase to be moderate.

【Q】 Q3 mobile revenue outlook is at the best case flattish year-over-year as there are not many new mobile game launches. When would be the timing we can expect to see another big growth in mobile business? Can you give us an update on the current status of *DomiNations* which greatly contributed to the revenues in Q2 as well as an image of the timing mobile version of *Dungeon&Fighter* to be launched?

【A】 While the Q3 is a quarter where we have comparatively more launches of new mobile titles, since the launches are scheduled for the latter half of the quarter, we do not expect them to contribute greatly to Q3 revenues. With regards to *DomiNations*, while it had a strong start after its launch in North America and Europe, it has been a little sluggish lately due to some minor problems we had. However, our policy is to grow a high quality and differentiated title over time like we have done with our PC online titles, we intend to make it grow by overcoming its problems we intend to continue to grow the game again through large scale update together with marketing. However, we expect to see a quarter-over-quarter decrease in the 3rd quarter given the current situation. Mobile version of *Dungeon&Fighter* to be published through Tencent, it is currently in development and the exact timing of its launch has not been determined yet. We will update you once the launch date is determined.

【Q】 Marketing cost is expected to increase by JPY 2.2 billion year-over-year. What do you intend to spend the marketing costs on and how much increase in revenues due to marketing effect do you expect to gain in Q3 and Q4?

【A】 Although marketing expenses take up an extremely large portion of the increase of expense items in the 3rd quarter, we consider marketing expenses to be investments for increasing revenues of titles, thus we plan on spending marketing appropriately at the right timing by looking carefully at KPIs. In Q3, we plan on spending marketing expenses primarily for *MapleStory2* launch in Korea, Asia launch of *DomiNations* and on multiple new mobile titles, for which we think the effects would show in or after the Q4.

【Q】 Has *Counter-Strike Online 2* made any contribution to Q2 revenues in China business? Or, can we understand that the performance for Q2 is mostly represented by *Dungeon&Fighter*?

【A】 *Counter-Strike Online 2* is performing well, and there has been no cannibalism between it and *Counter-Strike Online 1*. However, since revenues from these titles in China are not large, their impact is not significant to China revenues as a whole.

【Q】 Are there more Tier 1 updates to *Dungeon&Fighter* in China scheduled in 2015 Q3 in comparison to 2014?

【A】 As in past years, a Summer Update (already implemented in July) and a National Holiday Update in the latter half of September is scheduled for 2015 Q3.

【Q】 Recently we see mobile games with more immersive experience or those using or popular PC online game IPs in Asia. Compared to casual games and mid-core games already in the market, what kind of monetization model, KPIs and revenue curve do you want to realize in the mid- to long-term?

【A】 It's important to think about the future of where mobile game business is going. We see mobile and PC platforms to converge in the next two to five years. In general, we like to make more immersive games which are typically designed to retain users for a long time. By time line, we think of as years or more than a decade. Therefore what we expect long term, as devices converge, we should be able to expect similar sort of KPIs (retention, monetization, ARPPU) from a mobile experience that we have on PC.

【Q】 How do you want to utilize VR (Virtual Reality) platforms such as Morpheus and Oculus going forward? Or, what conditions do you have if you are to utilize them?

【A】 Personally very interested in virtual reality, but as a game maker, it is not necessarily very interesting to us today as it is zero billion dollar industry and has install base of effectively zero. We need to have confidence in our ability to create great games on these platforms before we make development, so when install base gets bigger and we feel we know how to make great games that make people coming back, then we would be interested in preparing for development for these platforms. But, we are not doing that with the current opportunity.

【Q】 Please comment whether the better-than-expected PC online revenues for Q2 was due to well-received events or reflecting the outlook that a stable revenues can be maintained for the next 1~2 years.

【A】 We continue to see PC as a robust game platform. PC shall continue to have massive install base around the world and we don't see that changing. What has changed a lot compared to a year or two years ago is that we've improved a lot in the quality of our live game operations team and that has helped us a lot in growing our existing games and we have a lot more confidence about the new games we introduce.

【Q】 Console game companies are gradually shifting towards game as a service or online business models. Beginning with your partnership with Square Enix, can we think that, going forward, the direction you are going in is to enhance your partnerships including those in Japan and overseas?

【A】 Yes. We feel we are in a position to offer a lot as a partner for many companies around the world. Part of what management teams have been doing for the past several quarters is helping our colleagues in the game business understand what those advantages are because they are very powerful and help them build their business. Also by helping our partners, we help ourselves having access to great IPs. Square Enix is a great example. Other examples are LEGO or our relationship with EA. You've seen us expanding our business through partnership and we would like to do more.

【Q】 *DomiNations* seems to be struggling in North America since June. As Asia launch approaches, please give us supplementary information on whether we can expect this title to regain its growth.

【A】 With regards to mobile games, we would like to create titles with long life cycles like PC online games. In the operations of games with long life cycles, we expect the revenues to go up and down through its long lifetime. Currently, *DomiNations* is flagging a little, but we will keep on making improvements and aim for it to regain its growth. As for Asia launch, we would like to make it a success by fully leveraging our experience in the West.