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Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 [IFRS]

May 11, 2016

Company name: DeNA Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2432

URL: <http://dena.com/intl/>

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Scheduled date of Ordinary General Meeting of Shareholders: June 18, 2016

Scheduled date of commencing dividend payments: June 20, 2016

Scheduled date of filing securities report: June 20, 2016

Availability of supplementary briefing material on financial results: Yes

Schedule of financial results briefing session: Yes (for institutional investors, analysts and the press)

(Amounts of less than one million yen are rounded.)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

(1) Consolidated Operating Results

(% changes from the previous period)

	Revenue		Operating profit		Profit before tax		Profit for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2016	143,709	0.9	19,816	(20.0)	20,853	(26.7)	11,874	(26.0)
Fiscal year ended March 31, 2015	142,419	(21.5)	24,764	(53.4)	28,443	(48.2)	16,041	(51.1)

	Profit for the year attributable to owners of the parent		Total comprehensive income for the year		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Fiscal year ended March 31, 2016	11,325	(24.2)	11,943	(49.9)	78.76	78.61
Fiscal year ended March 31, 2015	14,950	(52.8)	23,855	(37.7)	115.35	115.00

	Ratio of profit to equity attributable to owners of the parent	Profit before tax to total assets	Operating profit to revenue
	%	%	%
Fiscal year ended March 31, 2016	6.5	8.8	13.8
Fiscal year ended March 31, 2015	10.0	13.7	17.4

(For reference) Equity in earnings (losses) of affiliates:

Fiscal year ended March 31, 2016: ¥1,960 million

Fiscal year ended March 31, 2015: ¥582 million

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent	Equity per share attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of March 31, 2016	254,861	196,328	189,208	74.2	1,302.12
As of March 31, 2015	218,529	164,502	157,210	71.9	1207.68

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended March 31, 2016	26,707	(39,986)	20,128	75,169
Fiscal year ended March 31, 2015	27,892	(21,296)	(3,803)	68,724

2. Dividends

	Dividends per share					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends on equity attributable to owners of the parent (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of year	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2015	—	0.00	—	20.00	20.00	2,593	17.3	1.7
Fiscal year ended March 31, 2016	—	0.00	—	20.00	20.00	2,900	25.4	1.6
Fiscal year ending March 31, 2017 (Forecast)	—	0.00	—	—	—		—	

(Notes) 1. The total dividends paid do not include dividends for stocks provided for the Stock Grant ESOP (Employee Stock Ownership Plan) Trust account.

2. The dividend forecast for the fiscal year ending March 31, 2017 has not been determined at this time.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

(% changes from the previous corresponding period)

	Revenue		Operating profit		Profit for the period attributable to owners of the parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1st quarter	38,200	1.3	6,600	64.7	4,900	139.1	33.79

(Note) The financial results forecast for the following quarter is disclosed in lieu of half-year and full-year financial results forecast. For details, please refer to “1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results (Outlook for Fiscal 2016)” on page 4 of the Appendix.

*** Notes**

(1) Changes in Significant Subsidiaries during the Year under Review (changes in specified subsidiaries accompanying changes in scope of consolidation): Yes
Newly consolidated: One company (Yokohama Stadium Co., Ltd.)

(2) Changes in Accounting Policies and Changes in Accounting Estimates

- 1) Changes in accounting policies required by IFRS: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No

(3) Number of Shares Issued (common stock)

1) Total number of shares issued at the end of the fiscal year (including treasury stock):

As of March 31, 2016	150,810,033 shares
As of March 31, 2015	150,810,033 shares

2) Total number of shares of treasury stock at the end of the fiscal year:

As of March 31, 2016	5,790,665 shares
As of March 31, 2015	21,136,868 shares

3) Average number of shares during the fiscal year:

Fiscal year ended March 31, 2016	143,792,982 shares
Fiscal year ended March 31, 2015	129,604,795 shares

(Note) The 495,077 shares of the Company's stock owned by the Stock Grant ESOP Trust account are included in the "Total number of shares of treasury stock at the end of the fiscal year" as of March 31, 2016, and the 556,284 shares of the Company's stock owned by the same trust account are included in the "Total number of shares of treasury stock at the end of the fiscal year" as of March 31, 2015.

(For Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

(1) Non-consolidated Operating Results (% changes from the previous period)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2016	102,975	(5.4)	21,086	(20.7)	15,917	(47.5)	6,759	—
Fiscal year ended March 31, 2015	108,816	(27.7)	26,581	(45.5)	30,313	(39.5)	(35,728)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended March 31, 2016	47.01	46.92
Fiscal year ended March 31, 2015	(275.67)	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2016	157,430	132,361	83.8	1,082.99
As of March 31, 2015	128,195	103,610	80.3	794.34

(For reference) Equity: As of March 31, 2016: ¥131,986million

As of March 31, 2015: ¥103,004 million

* Presentation regarding the Implementation Status of the Audit Process

This financial report is outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of this financial report, audit procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of the Proper Use of Financial Results Forecast and Other Notes

(1) Consolidated Financial Results Forecast

The forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as of the date of publication of this document. They are not intended as the Company's commitment to achieve such forecasts, and actual results may differ significantly from these forecasts due to a wide range of factors. For conditions prerequisite to the financial results forecast, etc., please refer to "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results (Outlook for Fiscal 2016)" on page 4 of the Appendix.

(2) Dividend Forecast

The Company decides the dividend amount taking into consideration the financial results and other factors for each fiscal year. Consequently, an announcement of the expected dividend amount will be promptly made when it is possible to disclose the full-year financial results forecast. Currently, the Company expects to provide a dividend forecast for the fiscal year ending March 31, 2017 at the time of the announcement of financial results for the third quarter.

(3) Method of Obtaining Supplementary Briefing Material on Financial Results

The Company is planning to hold a briefing session for institutional investors, analysts and the press on May 11, 2016. The briefing materials to be distributed at the session are scheduled to be posted on the Company's website at the appropriate time for disclosure. In addition, videos and primary Q&A of the briefing session are scheduled to be posted on the Company's website at a later date shortly thereafter.

* Definition of Terms

As used in this consolidated financial results, references to "DeNA" and the "DeNA Group" are to DeNA Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") except as the context otherwise requires or indicates. In addition, reference to fiscal 2015 is our fiscal year ended March 31, 2016.

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* Note

The consolidated financial statements are presented in Japanese yen and rounded off to the nearest million yen. As a result, the totals in yen do not necessarily agree with the sum of the individual amounts.

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

During the fiscal year ended March 31, 2016, although the Japanese economy showed some weakness, it continued on a mild recovery track. As for the outlook, while movement towards mild recovery is expected as the employment and income environments continue to improve, a downswing in emerging Asian nations including China poses a risk of downward pressure on the domestic economy.

Under these conditions, the DeNA Group has positioned the fiscal year ended March 31, 2016 as a year to reinforce the business foundation which continues to enhance corporate value as a global Internet player. The Group made continuing efforts to further increase its competitive advantage in the game business, which is the Group's principal business, as well as to create and nurture businesses with structural strengths for mid- to long-term growth, while conducting thorough cost management.

Revenue increased compared to the previous fiscal year. Despite a decline in revenue compared to the previous fiscal year for the Japan game business with a high profit margin, the game business in China, the new businesses and the sports business led by the Yokohama DeNA Baystars baseball team posted growth in revenue.

Cost of sales and selling, general and administrative expenses increased compared to the previous fiscal year. Commission fees such as costs related to settlement of in-game fees, personnel expenses, and others increased along with the progress of development and release of titles for the application market.

In other income, a gain on sale in connection with the transfer of the BtoB marketplace business during the second quarter ended September 30, 2015 was recorded. In addition, a gain on bargain purchase in line with the consolidation of Yokohama Stadium Co., Ltd. as a subsidiary through the tender offer during the fourth quarter ended March 31, 2016 was recorded. Other expenses consisted of expenses for retirement of intangible assets and other expenses, including temporary expenses associated with carrying out optimization of the organizational structure and the game portfolio in Europe and the U.S. during the first quarter ended June 30, 2015.

As a result, revenue of the DeNA Group was ¥143,709 million, up 0.9% compared to the previous fiscal year, operating profit was ¥19,816 million, down 20.0% compared to the previous fiscal year, profit before tax was ¥20,853 million, down 26.7% compared to the previous fiscal year, and profit for the year attributable to owners of the parent was ¥11,325 million, down 24.2% compared to the previous fiscal year.

Business performance by segment is as follows.

Due to changes in the segment classification effective from the three months ended June 30, 2015, the segment results for the period under review are compared and analyzed using the new segment classification. For more details, please refer to "4. Consolidated Financial Statements (7) Notes to Consolidated Financial Statements 3. Segment information (1) Outline of reportable segments."

In addition, until the fiscal year ended March 31, 2015, the segment revenue stated in this section represented revenue from external customers after elimination of intersegment revenue. However, from the three months ended June 30, 2015, the segment revenue represents revenue before elimination of intersegment revenue. As a result, for the purpose of comparison and analysis, the segment revenue for the fiscal year ended March 31, 2015 has been revised in the same manner.

1) Game Business

Revenue of the Game Business was ¥109,640 million, down 3.0% compared to the previous fiscal year, and segment profit was ¥25,900 million, down 13.3% compared to the previous fiscal year.

In the Japan market, the Group's principal market, consumption of the in-game virtual currency coins was ¥146.9 billion, down 1.4% compared to the previous fiscal year. Coin consumption declined gradually in the browser market, while coin consumption from key titles performed steadily in the application market in Japan and internationally. In addition, new application titles were successfully developed and launched. Coin consumption in titles for the application market for the fiscal year under review was ¥47.5 billion, up 113.7% compared to the previous fiscal year in the Japan market and ¥18.7 billion, down 1.1% compared to the previous fiscal year in the international market.

Note that delivery of "Miitomo," the first collaborative title in the business and capital alliance with Nintendo Co., Ltd., began in March 2016.

2) E-commerce Business

Revenue of the E-commerce Business was ¥19,891 million, down 1.7% compared to the previous fiscal year, and segment profit was ¥2,643 million, up 12.6 % compared to the previous fiscal year.

With regard to travel, one of the areas in which the Group is focusing its efforts, transactions at DeNA Travel Co., Ltd. grew favorably. Shopping services and processing settlement services also performed steadily on the whole, while auction services registered a decrease in revenue due to a decline in the number of paid members. From the second quarter ended September 30, 2015, revenue of the BtoB marketplace business has been excluded from the revenue of the E-commerce Business and segment profit.

3) Sports Business

Revenue of the Sports Business was ¥9,892 million, up 27.4% compared to the previous fiscal year, and segment loss was ¥1,003 million, compared with segment loss of ¥1,389 million for the previous fiscal year. Yokohama DeNA Baystars Baseball Club, Inc. performed strongly, with an increase in attendance at home games during the 2015 season. Yokohama Stadium Co., Ltd. became a consolidated subsidiary in the fourth quarter ended March 31, 2016.

4) New Businesses and Others

Revenue of the New Businesses and Others was ¥5,742 million, up 84.0% compared to the previous fiscal year, and segment loss was ¥4,706 million, compared with segment loss of ¥4,091 million for the previous fiscal year.

This section comprises businesses, such as the IP-generating platform business for the purpose of creating intellectual properties (IP) and contents structurally, the curation platform business*1, the healthcare business and the automotive business*2. Of these, the number of users in each of the services in the curation platform business has increased and results were achieved, including the gradual rise of advertising revenue.

The Group will press ahead with efforts in multiple fields in order to create businesses with structural strengths for mid- to long-term growth while ensuring thorough cost management and assessing investments appropriately.

(Notes) 1 A curation platform is a website or application where people called curators can publish articles in which they organize information scattered on the Internet from a specific perspective according to a specific subject of their own interest.

2 Businesses in the automotive field, such as the Robot Taxi service that use autonomous driving technology.

(Outlook for Fiscal 2016)

In order to enhance corporate value in the mid- to long- term, the Group will strive to further increase its competitive advantage in the Game Business, which is the Group's principal business, and make continued efforts to create and nurture businesses with structural strengths for mid- to long- term growth.

With regard to the fiscal year ending March 31, 2017, in the Japan game business, the Group will focus efforts to further enhance existing leading titles and creating new hit titles for the application market, while continuing to carry out title operation to encourage longer use by users for the browser market.

In the international game business, the Group will aim for growth in titles for China, which development is focused on titles that utilize leading IP assets, while continuing to ensure balance of payments management.

In the business and capital alliance with Nintendo Co., Ltd., following up on the first collaboration title at the end of the fiscal year ended March 31, 2016, we will launch multiple titles in the fiscal year ending March 31, 2017.

In the E-commerce Business, the Group will continue efforts to expand transactions in the focus areas of travel agency services and processing settlement services, as well as strengthen the areas of groceries and daily consumables for shopping services.

In the Sports Business, following up on last season, the Group aims to reach a higher level of attendance at home games of Yokohama DeNA Baystars during the 2016 season. Improvement in the bottom line is also expected by the full-year contribution of Yokohama Stadium Co., Ltd. starting from the fiscal year ending March 31, 2017.

In the New Businesses and Others, the Group will promote initiatives for turning each business profitable through assessing their growth phase. In particular, the Group will strive for further growth centered on the curation platform business.

In addition, the Group will continue to work on the launch of new businesses making use of in-house development in addition to measures including cooperation with other companies and M&As, as well as strive for the expansion of user base.

As for selling, general and administrative expenses, the Group will work to appropriately conduct cost control and cut expenses.

With regard to the consolidated financial results forecast, it is difficult to estimate the trend of the market in the Game Business, which is the Group's principal business, both in Japan and internationally. In addition, revenue is substantially affected by various uncertainties, such as user preferences and the existence of popular titles. Owing to these and other factors, the Group announces the financial results forecast for the following quarter at the time of each quarterly results announcement since it is not feasible to prepare highly reliable financial forecasts for the full year and half year.

As for the financial results forecast for the first quarter of the fiscal year ending March 31, 2017, revenue and operating profit are expected to increase year on year. With respect to revenue, in addition to the steady tone prevailing in the Japan game business, which is the Group's principal business, the New Businesses and the Sports Business are expected to contribute to a year-on-year increase in revenue. For operating profit, the improvement in the bottom line in the Sports Business, as well as the elimination of one-off expenses associated with optimization of the organizational structure and the game portfolio in Europe and the U.S., which was conducted in the same period of the previous fiscal year, are expected to contribute.

The forward-looking statements are based on information available and certain assumptions deemed reasonable as of the date of publication of this document, and contain many uncertain factors. Actual results may differ from the forecasts above due to a wide range of uncertain factors.

(2) Analysis of Financial Position

1) Financial Position

Total assets at the end of the fiscal year ended March 31, 2016 were ¥254,861 million, an increase of ¥36,332 million compared to the end of the previous fiscal year.

Current assets were ¥119,822 million, an increase of ¥5,695 million, compared to the end of the previous fiscal year. This was due primarily to an increase in cash and cash equivalents by ¥6,445 million, which offset a decrease of ¥3,976 million in trade and other current receivables.

Non-current assets were ¥135,039 million, representing an increase of ¥30,638 million, compared to the end of the previous fiscal year. This was due mainly to an increase in other non-current financial assets by ¥32,981 million.

Total liabilities amounted to ¥58,533 million, an increase of ¥4,506 million compared to the end of the previous fiscal year.

Current liabilities were ¥52,323 million, an increase of ¥1,181 million, compared to the end of the previous fiscal year. This was due primarily to an increase in income tax payables by ¥1,672 million and an increase in other current financial liabilities by ¥2,147 million, which offset a decrease of ¥2,583 million in trade and other current payables.

Non-current liabilities stood at ¥6,210 million, representing an increase of ¥3,325 million, compared to the end of the previous fiscal year. This was due mainly to an increase of ¥2,709 million in other non-current financial liabilities.

Total equity was ¥196,328 million, representing an increase of ¥31,826 million compared to the end of the previous fiscal year. This was primarily attributable to a decrease of ¥31,462 million in treasury stock.

In terms of liquidity, the liquidity ratio and ratio of equity attributable to owners of the parent were 229.0% and 74.2%, respectively, as of the end of the fiscal year ended March 31, 2016.

2) Cash Flows

Cash and cash equivalents (collectively, “cash”) at the end of the fiscal year ended March 31, 2016 increased by ¥6,445 million to ¥75,169 million, compared to the end of the previous fiscal year. Cash flows in each area of activity and their respective contributing factors are as follows.

(Operating activities)

Net cash provided by operating activities for the fiscal year ended March 31, 2016 was ¥26,707 million, compared to a cash inflow of ¥27,892 million in the previous fiscal year. The principal cash inflow factors were ¥20,853 million in profit before tax and ¥11,286 million in depreciation and amortization, which offset the effect of ¥7,765 million in income tax paid.

(Investing activities)

Net cash used in investing activities for the fiscal year ended March 31, 2016 was ¥39,986 million, compared to a cash outflow of ¥21,296 million in the previous fiscal year. The principal cash outflow factors were ¥23,106 million in purchases of investment securities, ¥12,814 million in acquisition of intangible assets and ¥6,098 million of acquisition of subsidiaries or other businesses, net of cash acquired, which offset the effect of ¥2,084 million in proceeds from sales and redemption of investment securities.

(Financing activities)

Net cash provided by financing activities for the fiscal year ended March 31, 2016 was ¥20,128 million, compared to a cash outflow of ¥3,803 million in the previous fiscal year. The principal cash inflow factor was ¥22,161 million in proceeds from disposition of treasury stock.

(3) Basic Policy for Distribution of Profit and Dividends for Fiscal 2015 and 2016

The Company regards continuing enhancement of its corporate value through business growth and strengthening of the management structure and contributing to shareholders' interest to be important management priorities.

With respect to allocating profit to shareholders through dividends, while considering performance of each fiscal year, the Company, as a basic principle, sets as a minimum whichever is higher, a consolidated payout ratio of 15% or an annual dividend of ¥20 per share of the Company's common stock, and plans to continue paying a dividend with the aim of a consolidated payout ratio of 30% in the future.

As one approach to capital management policy is to respond flexibly to changes in the Company's stock price and conditions in the operating environment and return a portion of profit for the year to shareholders, the Company appropriately considers purchases of its own shares from the market.

The Company is scheduled to pay a regular cash dividend for its common stock of ¥20 per share (versus a cash dividend of ¥20 per share for the previous fiscal year) for the fiscal year under review, having taken into account performance, the future business environment, and internal reserves for the continued growth of business based on the basic principle described above. The consolidated payout ratio will be 25.4% (versus 17.3% for the previous fiscal year).

Regarding retained earnings, the Company's objective is to make effective investments in the establishment of a business portfolio that realizes medium- to long-term growth, while making aggressive investments to strengthen the earnings base of its principal businesses in order to maximize corporate value.

Although the Company has not disclosed a forecast for its cash dividend in fiscal 2016 because a full-year financial results forecast has not yet been disclosed at present, as is stated in "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results (Outlook for Fiscal 2016)" on page 4, an announcement of the expected dividend amount will be promptly made when it is possible to disclose the full-year financial results forecast. Currently, the Company expects to provide a forecast at the time of the announcement of financial results for the third quarter of the fiscal year ending March 31, 2017.

The basic policy regarding the payment of dividends from surplus is to pay a year-end dividend once a year.

(4) Risk Factors

This section reviews the principal matters among the various items related to the business and accounting situation that may constitute risks for the DeNA Group and are believed likely to have a material effect on the decisions of investors. The policy of the Group, after these matters are recognized as risks that may occur, is to work to prevent their occurrence and develop countermeasures against occurrence. However, the Company believes that the judgments of investors regarding the Company's stock must be made after the careful consideration of these matters and other factors that are not covered here.

Unless otherwise indicated, matters related to future developments that are mentioned in this section are judgments of the Group that were made as of the date of the issuance of this document. Since these matters have inherent uncertainties, the actual results and outcomes may differ from these judgments.

(1) Business Environment Risk

1) Growth Prospects for the Internet Industry in Japan

The Group is capitalizing on its strengths in Internet services for mobile users, with the penetration of high-function smart devices (collective term for smartphones and tablet devices) in the market place, by establishing an environment capable of providing highly diversified contents to users. The social game market, which is currently the Group's principal business, is forecasted to grow from ¥796.9 billion in fiscal 2014 to ¥904.4 billion in fiscal 2021 (according to forecasts prepared by Nomura Research Institute, Ltd.).

In addition, accompanying the conversion to electronic commerce in the service industry and the penetration of online supermarkets, the BtoC EC (business to consumer electronic commerce) market is expected to reach ¥25.6 trillion in fiscal 2021 from ¥12.6 trillion in fiscal 2014 (according to forecasts prepared by Nomura Research Institute, Ltd.).

However, since the aforementioned markets are both still in the process of growing, sudden changes in market share owing to new entrants into the industry and structural changes in market in association with the emergence of new business models may have an adverse impact on the Group's business and performance. The advertising business, in general, is strongly influenced by changes in demand for and expenditures on advertising that occur with ups and downs in the economy and due to seasonal factors. Furthermore, even if the market continues to expand, the Group may not necessarily grow favorably at the same pace.

2) Competition

The Group strives to increase its competitiveness by creating websites, etc. that aim for optimum usability, offer distinctive services and an extensive range of products and take initiatives to ensure secure transactions and improved customer support. However, intensifying competition from companies or new market entrants offering similar services for mobile devices and PC may have an adverse impact on the Group's business and performance.

3) Responding to New Technologies

The Group is developing its business based on Internet-related technologies. This is an industry characterized by rapid change; new technologies are being developed, and new services based on these technologies are being introduced constantly in this field.

As a result, in the event that the Group lags behind new technologies due in part to its inability to retain engineers or develop personnel, its competitiveness may decline.

In addition, in the event that large expenditures are necessary for responding to new technologies, this may have an adverse impact on the Group's business and performance.

4) Responding to OS Providers for Smart Devices

The Group operates its business aimed at smart devices equipped with OS (operating systems) such as Android or iOS. In the event that the Group is unable to provide its services due to accidents or other problems related to these OSs, or if the Group is unable to provide the same services as in the past because of major changes in the conditions and rules imposed by the OS providers for providing services on these

OSs, or if responding to such changes in the conditions and rules requires large expenditures, there may be an adverse impact on the Group's business and performance.

(2) Individual Business Risk

1) Games and Other Social Media Business

Changes in user tastes and preferences may be rapid and extreme in businesses that use contents as typified by social games. In the event that, for some reason, the Group cannot accurately identify user needs and provide content that satisfies them, the appeal of the Group's services to users may decline.

In addition, it is necessary to not only improve existing content but also expand its lineup by introducing new titles on a continuing basis, but in the event that these do not proceed according to plan, it may cause an adverse impact on the Group's business and performance.

In the event that the content provided by the Group or a third-party developer, or external partners including outsource companies cause serious problems, the legal responsibility of the Group may become an issue regardless of the content of contract rules and regulation and terms/conditions. Even where this is not the case, such incidents may damage the Group's brand image, and may cause an adverse impact on the Group's business and performance.

2) E-commerce Business

In the EC sites run by the Group, the business, in principle, is only to offer a venue for transactions and the EC site itself does not act as a buyer or seller. However, as the provider of a sales venue, the EC site performs a surveillance function on the items offered for sale to ensure that these do not violate laws, are not fake brands, are not fraudulent, and do not involve other forms of illegal behavior. In addition, the EC site terms and conditions in agreements include phrases that clearly absolve the Group of any responsibility regarding the items shown and any matter or transactions following the closing of the bidding and completion of the shopping transaction. Moreover, based on the Act on Specified Commercial Transactions, which restricts advertising by mail-order retailers, the Group sets its own standards for advertisements it will carry related to such sales and exercises self-restraint in this area. In addition, the Group's contracts with mail-order retailers state clearly that the responsibility for advertising content lies with the mail-order retailer.

Nevertheless, in the event that serious problems arise between site members and other users on EC sites run by the Group, regardless of the content of contract rules and regulation and terms/conditions, the legal responsibility of the Group may become an issue. Even where this is not the case, such incidents may damage the Group's brand image, and may cause an adverse impact on the Group's business and performance.

3) Internet Advertising

The Group operates a number of Internet media. Looking ahead, the unit prices of advertising services may decline as a result of trends in the Internet advertising industry as a whole and competition with services of other companies. Similarly, such circumstances may also result in increases in selling fees paid to advertising agencies and the cost of winning new business from advertisers, possibly causing an adverse impact on the Group's business and performance.

When other advertisers and the media use the advertising services offered by the Group and serious problems arise because of legal violations, etc., regardless of the content of contracts and terms/conditions, the legal responsibility of the Group may become an issue.

4) Processing Settlement Business

In some cases, payment gateway services provided by Group company Paygent involve payment to participating businesses that make use of the services before receiving compensation from buyers. As a result, during the time between the payment to participating businesses and collection of this amount from buyers, Paygent must raise the necessary funds. In the event that the usage of this service spreads more

rapidly than anticipated, it may be impossible to raise the necessary funds at an appropriate cost, and may cause an adverse impact on the Group's business and performance.

Paygent has the responsibility for supervising the participating businesses that make use of this service and works to obtain credit information from such businesses in advance. However, when problems for which the business using the service is responsible arise, which were difficult to predict in advance, it may cause an adverse impact on the Group's business and performance. Furthermore, Paygent strives to meet international standards for security management through compliance with PCI DSS, an international standard for the protection of credit card information, and acquisition of "ISO/IEC 27001:2005 (JIS Q 27001:2006)" (commonly referred to as ISMS) certification, the system for qualifying for information security management. However, if problems arise that were not anticipated under these standards, it may cause an adverse impact on the Group's business and performance.

In the event that implementation of new legislation to control the processing settlement business in the future exercises restraint on the Group's business, it may have an adverse impact on the Group's business and performance.

5) Travel Agency and Insurance Agency Businesses

The Group engages in the travel agency and insurance agency businesses. In the event that unforeseen economic trends, such as natural disasters as earthquakes, weather conditions, other circumstances in Japan or internationally as well as changes in consumer tastes or the intensification of competition, occur, this may have an adverse impact on the business and performance of these agency activities.

In addition, the Group operates these businesses in compliance with the relevant public restrictions and observes the stipulations of Japan's Travel Agency Act and other regulations. However, in the event of unforeseen circumstances, if the Group should violate these regulations and is subject to government administrative action, such as the cancellation of its travel agency license, or, if these regulations are tightened going forward or new regulations are put into effect and the Group is subject to some kinds of constraints in the development of its business activities in these fields and incurs additional costs, it may cause an adverse impact on the Group's business and performance.

In the case of the insurance agency business, the Group must comply with the Insurance Business Act as well as the Act on Sales, etc. of Financial Instruments, and other regulations. Looking ahead, in the event that these laws are changed, it may cause an adverse impact on the Group's business and performance.

6) Healthcare Business

The Group engages in the healthcare business. While the Group constructs its services and pursues research and development in this business in such a way that they do not come in conflict with the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics and the Medical Practitioner's Law, and other regulations, future amendments to regulations regarding the application of approval processes and related regulations, as well as circumstances leading to some kinds of constraints and additional expenses involving this business or devices and other products it handles may adversely impact the Group's business and performance. Additionally, as this business handles a large amount of highly-sensitive information such as personal health records and genetic information, in the event of leakage or improper handling of information, the Group may receive claims for large amounts of damages or administrative sanctions.

In particular, the speed of technological innovation in the market for genetic testing services that this business is involved in is fast, and competition is expected to intensify. Additionally, whether or not the Group's services are involved, changes in market conditions as a result of situations giving rise to social or moral questions or changes in business partners may have an effect on business performance. Furthermore, with regard to genetic testing, in the event that testing errors, unforeseen circumstances leading to an environment in which testing is not possible, or a shortage of or defects in testing devices required for the business lead to the cessation of services, a recall of products sold, or claims for large amounts of damages alongside a loss of trust in the Group, it may cause an adverse impact on the Group's business and performance.

7) Automotive Business

The Group engages in the automotive business comprising car-sharing services using smart devices and research and development aimed at practical application of taxis using autonomous driving technology.

While the Group will construct its services and pursue research and development in this business in such a way that they do not come in conflict with the Road Traffic Act, Road Transportation Act, and other regulations, in the event that circumstances arise in which amendments to related regulations lead to some kinds of constraints and additional expenses involving this business, or if amendments to regulations needed for the commercialization of these services are not made, it may adversely impact the Group's business and performance. Furthermore, in this business, there is the possibility of traffic accidents involving injury or death, or damage to property, and the possibility of serious problems arising between users or between users and third parties. If the Group's services are determined to be the cause in such cases, either directly or indirectly, resulting in a cessation of services or claims for large amounts of damages alongside a loss of trust in the Group and impairment in the Group's brand image, it may have an adverse impact on the Group's business and performance. Moreover, development of new technologies is continuing in this field, and if the Group lags behind in its response to new technologies, its competitiveness may decline. In addition, in the event that large expenditures are necessary for responding to new technologies, this may have an adverse impact on the Group's business and performance.

8) Sports Business

The Group engages in the sports business including management of the professional baseball team "Yokohama DeNA Baystars."

In this business, the shift in trends in the target industry of sports may have an adverse impact on the Group's business and performance. Moreover, the game results of the team under management may have an adverse impact on attendance at games and on earnings, in addition to which expenditures for strengthening the team in order to improve their game results or capital investment may have an adverse impact on the Group's business and performance.

9) New Businesses

To expand the scale of its business activities and diversify sources of earnings, the Group will continue to take aggressive initiatives to provide new services and enter new businesses. As a result, the Group may have to make investments in systems and incur additional expenditures on advertising and other items, which may result in lower profitability. In addition, in launching new services and new businesses, the risks inherent in these new activities become risk factors for the Group. Also, in unexpected situations and other circumstances, the development of new services and new businesses may not proceed as originally planned and the Group may not be able to recover its investments, possibly causing an adverse impact on the Group's business and performance.

10) Venture Investments

The Group invests in venture businesses and limited partnerships (funds) with the aims of providing support from early stage for companies with a high growth potential. The unlisted companies where the Group invests may lack sufficient development and other capabilities to adapt to changes in the market, and there are many uncertainties regarding their future growth. These companies may not be able to realize their expected potential and may experience deterioration in performance, thus making it impossible to recover venture fund investments, and may cause an adverse impact on the Group's business and performance.

11) International Business

The Group is aggressively investing its corporate resources in the development and strengthening of its international business activities. Nevertheless, in developing business operations globally, the Group will face many potential risks, including those related to the legal regulations, systems, political/economic/social conditions, differences in culture/religions/ preferences of local users/business customs of other countries, as well as foreign currency risk. In the event that the conduct of business becomes difficult because the Group

is unable to deal with these risks, recovering the Group's investments may become difficult, and may cause an adverse impact on the Group's business and performance. If the development of the Group's international business activities does not proceed according to its plans, the need may arise to recognize impairment losses on goodwill, and may cause an adverse impact on the Group's business and performance.

In addition, since the financial statements of its international subsidiaries are prepared in local currencies, these are converted to Japanese yen when the Group's consolidated financial statements are prepared. Changes in foreign currency conversion rates in Japanese yen caused by market fluctuations may have an adverse impact on the Group's performance and financial position.

In the event that the Group's transactions in foreign currencies increase and the prevailing market foreign currency conversion rate diverges from the rate assumed by the Group, it may cause an adverse impact on the Group's business and performance.

12) Providing Services to the General Public

The Group provides services to a large number of individual users who make use of the websites, etc. it operates, such as Mobage. Accounts that are receivable from these users are generated when they use the Group's fee-based services. The majority of these accounts receivable are for small amounts. Through the use of the collection agency services of mobile phone carriers and other processing settlement agencies, the incidence of uncollected receivables is minimal, but as the range of users expands and the balance of uncollected receivables increases rapidly, the costs of collecting these receivables and the uncollected balance will rise, possibly causing an adverse impact on the Group's business and performance.

In businesses where the user base comprises a large number of individual users, such as Mobage and curation platforms, there is a possibility that issues may arise related to communication between users because of inappropriate behavior. These may include matters related to ownership rights of others, intellectual property, personal honor, privacy, and other issues that arise from violations of the rights of others, laws and regulations.

The Group is continuously taking initiatives to maintain and strengthen its surveillance systems, but it may be difficult to fully supervise the behavior of users on the Group's sites, etc. In the event that inappropriate behavior of users leads to trouble, regardless of the content of user contract rules and regulation and terms/conditions, the legal responsibility of the Group may become an issue. In addition, even when issues of legal responsibility do not arise, the adverse effects on the Group's brand image may have an adverse impact on the Group's business and performance.

(3) Operating Agreements, M&A, and Related Risks

1) Business Alliances and Capital Investments

The Group is working to expand its business activities through business alliances, capital investments, the formation of joint ventures, and other activities that involve relationships with other companies. By combining the operational know-how of the Group with that of alliance and joint venture partners, the Group aims to realize major synergies. However, in the event that these relationships do not achieve the initially conceived positive benefits or these relationships are dissolved, it may cause an adverse impact on the Group's business and performance.

2) Expansion through M&A (Corporate Acquisitions, Etc.)

As an effective means of accelerating business expansion, the Group has adopted a policy of making use of M&A. When concluding M&A deals, the Group conducts detailed screenings, including the examination of the financial position of M&A candidate companies, their contractual relationships, and other matters, and makes decisions after carefully considering the risks involved. However, in the event that problems arise, such as the emergence of contingent liabilities after acquisitions have been made and the discovery of unrecognized liabilities that were not found prior to the acquisition, or in the event that the development of the acquired business does not proceed as planned, the Group may have to recognize impairment losses on goodwill. These and other contingencies may have an adverse impact on the Group's business and performance.

Also, as a result of corporate acquisitions, etc. that result in the addition of business activities that are new to the Group, the risks inherent in these new activities become risk factors for the Group.

(4) Telecommunications Network and Computer Systems Risk

The businesses of the Group are totally reliant on telecommunications networks that link computer systems such as mobile devices and PCs. In the event that these networks are disconnected as a result of natural disasters and accidents (including those caused by human factors either inside or outside the Group), it may cause a very serious effect on the Group's business and performance.

Also, while the Company does implement countermeasures such as decentralizing its data centers, in the event that computer systems break down because of unpredictable developments, such as a sudden increase in the number of users accessing the Group's sites, etc., an electric power outage, or other problems, it may cause an adverse impact on the Group's business and performance.

The Group takes precautionary security measures to avert improper external access of its computer systems, but, in the event of damage to these systems as a result of computer viruses and hacker attacks, it may cause an adverse impact on the Group's business and performance.

(5) Management Systems Risk

1) Human Resources

In recent years, the Group has rapidly expanded its business domain, focusing on games. Nevertheless, to further expand and diversify its business activities going forward, the Group believes it will be necessary to enhance human resources in each of its departments. However, in the event that the training of personnel does not keep pace with the expansion of the scale of business, and qualified human resources cannot be externally recruited as planned, it may not be possible to assign proper personnel. This results in a decline in competitiveness and constraints the expansion of the business, and may cause an adverse impact on the Group's business and performance.

2) Internal Control Systems

With the understanding that effectively functioning corporate governance is indispensable for sustaining growth in corporate value, the Group is aware of the need for the proper functioning of operations, reliability in financial reporting, and full compliance with laws and regulations based on a sound sense of corporate ethics.

As well as corporate planning division is responsible for internal control reporting system (J-SOX), the Company is working to enhance its internal control system such as establishment of internal auditing division for internal audit and support for its corporate auditors.

Nevertheless, in the event that the creation of adequate internal control systems cannot keep pace with the rapid expansion in the Group's business operations, conducting operations properly may become difficult, and may cause an adverse impact on the Group's business and performance.

3) Measures for Recovery from Disasters

The Group's principal business locations are situated in the Tokyo metropolitan area. In the event that various circumstances make it difficult for the Group to continue operations, including the occurrence of natural disasters, such as earthquakes and typhoons, as well as epidemics of new influenza strains or other diseases, it may cause an adverse impact on the Group's business and performance.

(6) Compliance Risk

1) Maintaining Site Integrity

The Group's Mobage, auction, curation platform, and other services are provided to a large number of individual users, and it is assumed that users using these services will communicate with one another on their own initiative.

To nurture healthy user communities, the Group's terms of use clearly forbid the improper use of its sites that might lead to social issues. For example, on Mobage, various uses, such as behavior with the intent of matchmaking or activities that violate the rights of other people, are forbidden. Also, on auction sites, curation platforms, etc., such behavior that might lead to the violation of other people's rights is not allowed. The Group also monitors communication between users on a continuing basis. Users that violate the site agreements are asked to remedy their behavior, and measures may be taken to cancel their memberships.

In addition, the Company has formed a "Community Integrity Committee" that is chaired by the President, and systems have been put into place to take immediate measures to ensure site integrity and maintain the stable development of site communities. Moreover, to promote appropriate service usage, the Group has made it substantially clearer what manners are to be observed and those points where users should exercise caution. Other related measures the Group has taken include limiting the use of communication functions by younger people, strengthening monitoring systems, and increasing the number of site patrol personnel. The Group is continuing to strengthen its supervisory functions, including both systems and personnel, to maintain site integrity.

Please note that the Mobage sites, etc. have qualified under the Accreditation Standards for Supervision of the Operation of Mobile Content, indicating that its operating standards meet or exceed specific criteria as judged objectively by the Content Evaluation and Monitoring Association (EMA).

However, it is difficult to fully supervise the conduct of users within the sites, etc. In the event that improper user behavior causes trouble, regardless of the content of user contract rules and regulation and terms/conditions, the legal responsibility of the Group may become an issue. Even where this is not the case, such incidents may damage the Group's brand image, and may cause an adverse impact on the Group's business and performance.

Going forward, as the scale of its businesses grows, the Group has adopted a policy of taking measures needed to maintain and enhance the integrity of its sites, etc. In the event that the Group's response to system requirements and the strengthening of monitoring activities is delayed and this results in occurrence of expenses that exceeds the Group's estimates, it may cause an adverse impact on the Group's business and performance.

2) Improvements in the Social Game User Environment

To promote the development of the computer entertainment industry, in collaboration with the Computer Entertainment Supplier's Association (CESA), in which other leading gaming platform companies and game providers participate, and other entities, the Group implements various initiatives to advance reasonable game play and improve the user environment. The Group's business and performance may be adversely affected by unforeseen costs or delays in enacting system and structural changes associated with such goals, and/or new regulatory schemes that place significant restrictions on existing services.

3) Legal Restrictions

Services offered by the Group are subject to legal restrictions including the Consumer Contract Act, the Act against Unjustifiable Premiums and Misleading Representations, the Act on the Protection of Personal Information, the Act on the Prohibition of Unauthorized Computer Access, the Act on Specified Commercial Transactions, and the Act on Regulation of Transmission of Specified Electronic Mail. Besides these regulations, as electronic communication companies, companies engaging in electronic communication business within the Group are subject to the provisions of the Telecommunications Business Act.

Services offering social networking service functions including Mobage assume healthy communication among users. It is the Group's understanding that such communication does not involve "dating and personal introduction services" as covered by the Act on Regulation on Soliciting Children by Using

Opposite Sex Introduction Service on the Internet. In addition, under the Act on Establishment of Enhanced Environment for Youth's Safe and Secure Internet Use, mobile phone carriers are legally required to offer a filtering service. As indicated above, the Group is continuing to step up its activities to maintain the integrity of its sites, etc. To the maximum extent possible, the Group makes it possible for users to gain access to content even when filtering functions are operative.

In addition to the foregoing, the Group's MobaCoins, which are the dedicated in-game virtual currency for Mobage and other forms of payment, are subject to the Payment Services Act of Japan. The Group complies with this act in its operations.

In some cases, the DeNA Group outsources its systems development, content preparation and other aspects of its operations. Certain transactions of this kind are subject to the provisions of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontract Act). The DeNA Group provides regular training for its employees regarding the Subcontract Act.

Moreover, depending on factors such as the business scale and market conditions of services offered by the DeNA Group, with regard to the implementation of the DeNA Group's policies and the content of its agreements (regulations) that form the basis for these transactions, it is necessary to consider the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Anti-Monopoly Act). In addition, the Group's expansion of its international business will be exposed to laws and regulations of other countries and regions, including legal restrictions in respect to commercial transactions, advertising, premiums, personal information, privacy, protection of minors, prohibition of monopolization, intellectual property, consumer protection, virtual currencies, as well as government approval and licenses required for conducting businesses and investments.

The Group is responding in good faith to legal regulations including those of Japan and other countries and regions previously mentioned, but in the event that, under unforeseen circumstances, should the Group be denied the validity of contracts and other agreements, be subject to government administrative action due to its alleged violation of those regulations, or, if these regulations are tightened or amended going forward or new regulations are put into effect and the Group is subject to some kinds of constraints in the development of its business activities, this may have an adverse impact on the Group's business and performance.

Regarding legal regulations, please also refer to the sections numbered (2) 2), 4), 5), 6) and 7) and (6) 4).

4) Protection of Personal Information

Some of the Group's companies in Japan gather and make use of member, credit card and other information in providing their services. For this reason, under the Act on the Protection of Personal Information, these companies have certain duties to perform as handlers of personal information. The Group has formed a "Personal Information Management Committee," which is chaired by the President, and, under the committee's leadership, rules and guidelines for the management of personal information have been prepared as well as strict workflows for the processing of personal information.

Nevertheless, in the event that serious problems arise, such as the leakage of personal information, it may cause claims for damages and a loss of trust in the Group. These circumstances may have an adverse impact on the Group's business and performance.

5) Litigation Involving Third Parties

By promoting compliance with laws and regulations, the Group works to restrain legal violations by management and employees. However, regardless of whether there are violations by the Group, or management and employees, unforeseen trouble arising with users, transaction partners, employees and third parties, and lawsuits and litigations may occur. In addition, as noted in the following item, the Group recognizes that there are risks of lawsuits associated with intellectual property, including patents.

Depending on the nature of these lawsuits and their outcomes, it may cause an adverse impact on the Group's business and performance. In addition, incurring substantial legal expenses and damage to the Group's brand image may have an adverse impact on the Group's business and performance.

(7) Intellectual Property Risk

The Group has registered the trademarks for the sites, etc. it operates and the services it provides as necessary. In addition, the Group has acquired patent rights, as necessary and for those applicable, for its originally developed systems and business models that are eligible for this protection.

However, depending on the content of intellectual property rights owned by third parties, the Group may be subject to lawsuits, and may cause an adverse impact on the Group's business and performance.

2. Management Policy

(1) Basic Management Policy

The DeNA Group began its activities with the start-up of an online auction service. This was followed by the creation of a series of pioneering new growth engines suited to the times, namely: online shopping, mobile auctions, mobile advertising, mobile social networking, and then games for mobile devices and game platform businesses.

The Group's slogan "Delight and Impact the World" expresses the belief to "take the voices of customers above all else and bring delight to people around the world."

The Group will continue to aim to provide users throughout the world with fresh, convenient, and enjoyable content. By accepting the challenges of entering new business domains and not going on the defensive, we want to grow to become a truly global enterprise that originated from Japan.

The Group will work to enhance corporate value and increase shareholders' interest by developing its business operations driven by this basic management policy.

(2) Targeted Management Indicators

Recognizing that its most important management challenge is to continuously enhance the Group's corporate value, the Group emphasizes management indicators such as operating profit and EPS. In addition, the indicators of most importance for operations include the number of registered customers, the number of users, ARPU*1 for item billings for each service content, and RR*2.

(Notes) 1 ARPU means average revenue per user, or, in other words, the usage per active user in monetary terms.

2 RR (Retention Rate) refers to the percentage of users who continue to use a service a certain amount of time after beginning to use it.

(3) Medium- to Long-Term Management Strategy

In recent years, the dissemination of high-function devices such as smartphones and the evolution of software technology have led to the continuous launch of new Internet services for mobile devices. Also, with the global penetration of smartphones, the Group recognizes that the mobile Internet business domain will expand globally in the future as well.

Focusing on the potential of mobile Internet before others, the Group has grown by successively launching businesses that grasp the needs of the times. Going forward, in addition to strengthening existing businesses, the Group will continuously launch new services that provide new values to users and engage in diversifying the means of profit-making and creating synergy with existing businesses, while establishing a business portfolio that continues growing in the medium to long term as an important management strategy.

In the game business domain for mobile devices, a core business of the Group, further market expansion is expected both in Japan and internationally. The Group will utilize the know-how it acquired through the development and operation of games for mobile devices and game platforms to create new trendsetting game titles. By doing so, the Group will broaden the user base worldwide and enhance its earnings power. In addition, the Group will focus on creating core businesses equal to the game business by capitalizing on the Company's capabilities to create mobile services and experiences in cooperation with various companies.

In the E-commerce Business, the Group will enhance user convenience and strengthen its business base through alliance with leading partners while engaging in optimizing the synergistic effect between the services to be provided.

In the Sports Business, using the synergy creation derived from management integration of the professional baseball team Yokohama DeNA Baystars Baseball Club and the Yokohama Stadium Co., Ltd. acquired as a subsidiary in January 2016, we will endeavor to expand baseball fans, invigorate the community, and enhance profitability.

The Company will continue to offer services that bring delight and impact, as well as provide new value to people around the world, mainly focusing on the mobile Internet domain that contains increasing potential.

(4) Issues to be Addressed

The Group is working on various companywide management measures in its mission to “Delight and Impact the World.” Based on this mission, in order to achieve the Group’s management strategy described in “(3) Medium- to Long-Term Management Strategy” above, the Group will focus on efforts to further increase its competitive advantage in the Game Business, which is the Group’s principal business, and creating and nurturing businesses with structural strengths for mid- to long-term growth. Accordingly, the Group will continue to address the following issues.

1) Creating Multiple Hit Titles and Strengthening Leading Titles in the Game Business

In the game business domain for mobile devices, as it becomes more common to enjoy games on smartphones, it has become necessary to continuously create hit titles in the application market and to build a structure that can compensate for the decline in earnings power in the browser market.

Based on the know-how it has accumulated through game planning and operation, etc., the Group believes that such a business climate is an opportunity to exert the strengths of the Group. In the application market, the Group will continue to strengthen its efforts to continuously provide hit titles by enhancing its lineup of high-quality content. It will also further enhance existing leading titles, while working on measures to maintain and reactivate utilization by users in the browser market.

In addition, we will also advance launch of titles in the business and capital alliance with Nintendo Co., Ltd.

2) Initiatives for Contributing to Earnings of International Business

The Group has undertaken aggressive business expansion internationally in anticipation of growth in the game business domain for mobile devices internationally. Looking ahead, the Group will position the international business as one of the priority areas in its business strategy, and expand that business and enhance its earnings power, while simultaneously continuing to ensure balance of payments management.

3) Initiatives to Develop New Business with a View to Diversifying the Earnings Base

Since its foundation, the Group has been creating various businesses by grasping the trend of the fast-changing Internet market, and has been improving its corporate value while changing its core businesses. Going forward, in order to realize sustained growth of the Group in the medium to long term, we will set up businesses in a prompt and efficient way in the mobile Internet business domain and other domains where the Group’s strengths can be exerted, using diverse strategy options such as M&As and cooperation with other companies, while capitalizing on the knowledge and know-how acquired through our business thus far, and work to diversify the earnings base and strengthen the management base so as to respond flexibly to market changes.

Particularly in the curation platform business, we will enhance this as a business that will be the next pillar for the Group.

4) Supporting New Technologies

As the global penetration continues of high-function mobile devices, as typified by smartphones, and new services are offered one after another, the Group believes it is important to provide prompt support for new devices and new technologies in order to more advantageously advance business deployment. The Group will commit to recruiting and developing engineers in order to accurately grasping these new trends and actively responding to these trends.

5) Initiatives for Strengthening Security and Integrity of Websites, etc. and Maintaining an Adequate User Environment

In its social networking service functions, Internet auctions, and shopping, the Group, as the provider of a community and a venue for transactions, believes it is necessary to maintain and strengthen security and integrity of its websites, etc. so that users can have peace of mind. The Group is working to strengthen functions in terms of both systems and personnel to maintain and improve integrity of its websites, etc.

The Group also believes it is important to maintain and improve the user environment to ensure even safer and more secure enjoyment of the games and other contents provided by the Group, and it will work in

concert with entities including the Computer Entertainment Supplier's Association (CESA) to consider and execute the measures for maintaining an adequate user environment.

6) Improving Brand Awareness and Corporate Brand Value

In order to expand the usage of each service provided by the Group and to realize continuous improvement of its corporate value, the Group believes it is also important to improve the brand awareness of each service and the corporate brand value of the entire Group on top of the service itself being favored by users. The Group's policy is to continue to work actively on brand strategy including advertising and public relations activities in the future, while giving careful consideration to cost performance so as to progress favorably with acquiring the excellent human resources required for supporting the business and business alliances with other companies, etc.

7) Strengthening Organizational Capabilities and Corporate Governance, etc. in Response to the Expansion of Business Operations

The Group's policy is to continue promoting further expansion of business domains both in Japan and internationally. In line with this policy, the Group will strive to strengthen organizational capabilities through the improvement of its personnel system and promotion of employee empowerment, and by increasing the hiring of excellent human resources.

In addition, taking fully into account the spirit of the Corporate Governance Code, the Group will pursue various measures to strengthen corporate governance in order to ensure the fairness and transparency of management, while strengthening the internal control system, further improving corporate ethics across the Group through the thorough enforcement of the Ethics Charter and the Group Code of Conduct, and enhancing and strengthening the compliance structure.

3. Basic Stance Regarding Selection of Accounting Standards

With the Group's movement toward international expansion, it has adopted International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ended March 31, 2013 in order to adopt global standards in accounting, both ensuring transparency in financial reports and allowing for comparisons to other international companies while also attempting to diversify future fundraising methods with international capital markets in mind.

4. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	(Millions of yen)	
	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and cash equivalents	68,724	75,169
Trade and other current receivables	34,958	30,982
Other current financial assets	1,104	2,971
Other current assets	9,342	10,701
Total current assets	114,127	119,822
Non-current assets		
Property and equipment	2,958	2,756
Goodwill	53,111	50,825
Intangible assets	19,241	16,860
Investments accounted for using the equity method	8,761	10,775
Other non-current financial assets	17,720	50,701
Deferred tax assets	2,517	3,075
Other non-current assets	94	47
Total non-current assets	104,401	135,039
Total assets	218,529	254,861

	(Millions of yen)	
	As of March 31, 2015	As of March 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other current payables	22,858	20,275
Income tax payables	2,419	4,091
Other current financial liabilities	13,368	15,514
Other current liabilities	12,497	12,443
Total current liabilities	51,142	52,323
Non-current liabilities		
Non-current provisions	834	837
Other non-current financial liabilities	10	2,719
Other non-current liabilities	2,040	2,653
Total non-current liabilities	2,885	6,210
Total liabilities	54,027	58,533
Equity		
Common stock	10,397	10,397
Capital surplus	9,650	10,250
Retained earnings	163,229	163,711
Treasury stock	(43,918)	(12,456)
Other components of equity	17,851	17,306
Total equity attributable to owners of the parent	157,210	189,208
Non-controlling interests	7,293	7,120
Total equity	164,502	196,328
Total liabilities and equity	218,529	254,861

(2) Consolidated Income Statement

	(Millions of yen)	
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Revenue	142,419	143,709
Cost of sales	(56,645)	(59,623)
Gross profit	85,773	84,086
Selling, general and administrative expenses	(59,302)	(62,093)
Other income	697	3,865
Other expenses	(2,405)	(6,042)
Operating profit	24,764	19,816
Finance income	3,228	124
Finance costs	(131)	(1,048)
Share of profit (loss) of associates accounted for using the equity method	582	1,960
Profit before tax	28,443	20,853
Income tax expense	(12,402)	(8,979)
Profit for the year	16,041	11,874
Attributable to:		
Owners of the parent	14,950	11,325
Non-controlling interests	1,091	548
Profit for the year	16,041	11,874
		(Yen)
Earnings per share attributable to owners of the parent:		
Basic earnings per share	115.35	78.76
Diluted earnings per share	115.00	78.61

(3) Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit for the year	16,041	11,874
Other comprehensive income		
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax		
Gains (losses) from investments in equity instruments, net of tax	2,489	2,500
Other	(7)	6
Total other comprehensive income that will not be reclassified to profit or loss, net of tax	2,482	2,506
Components of other comprehensive income that may be reclassified to profit or loss, net of tax		
Foreign currency translation adjustments, net of tax	5,293	(2,420)
Other	39	(16)
Total other comprehensive income that may be reclassified to profit or loss, net of tax	5,332	(2,436)
Other comprehensive income, net of tax	7,814	70
Total comprehensive income for the year	23,855	11,943
Attributable to:		
Owners of the parent	22,308	11,580
Non-controlling interests	1,548	364
Total comprehensive income for the year	23,855	11,943

(4) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total		
As of April 1, 2014	10,397	10,965	153,072	(44,290)	10,456	140,600	4,955	145,555
Profit for the year	-	-	14,950	-	-	14,950	1,091	16,041
Other comprehensive income	-	-	-	-	7,358	7,358	456	7,814
Total comprehensive income for the year	-	-	14,950	-	7,358	22,308	1,548	23,855
Dividends recognized as distributions to owners	-	-	(4,792)	-	-	(4,792)	(150)	(4,942)
Increase (decrease) through treasury stock transactions	-	(250)	-	373	(101)	21	-	21
Increase (decrease) through share-based payment transactions	-	411	-	-	138	549	-	549
Acquisition, disposal and other changes of non-controlling interests	-	-	-	-	-	-	940	940
Changes in ownership interests in associates	-	(1,476)	-	-	-	(1,476)	-	(1,476)
As of March 31, 2015	10,397	9,650	163,229	(43,918)	17,851	157,210	7,293	164,502

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total		
As of April 1, 2015	10,397	9,650	163,229	(43,918)	17,851	157,210	7,293	164,502
Profit for the year	-	-	11,325	-	-	11,325	548	11,874
Other comprehensive income	-	-	-	-	255	255	(185)	70
Total comprehensive income for the year	-	-	11,325	-	255	11,580	364	11,943
Dividends recognized as distributions to owners	-	-	(2,593)	-	-	(2,593)	(188)	(2,782)
Increase (decrease) through treasury stock transactions	-	(9,186)	-	31,462	(287)	21,989	-	21,989
Increase (decrease) through share-based payment transactions	-	401	-	-	56	457	-	457
Transfer to capital surplus from retained earnings	-	8,818	(8,818)	-	-	-	-	-
Acquisition, disposal and other changes of non-controlling interests	-	64	-	-	-	64	(348)	(284)
Increase (decrease) through transfers and other changes	-	502	569	-	(569)	502	-	502
As of March 31, 2016	10,397	10,250	163,711	(12,456)	17,306	189,208	7,120	196,328

(5) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Operating activities		
Profit before tax	28,443	20,853
Depreciation and amortization	10,813	11,286
Gain on bargain purchase	-	(2,030)
Interest and dividend income	(46)	(109)
Interest expenses	12	37
Decrease (increase) in trade and other current receivables	3,287	4,735
Increase (decrease) in trade and other current payables	(5,045)	(2,770)
Increase (decrease) in deposits received	367	1,220
Other, net	1,348	1,176
Subtotal	39,179	34,399
Dividends received	11	63
Interest paid	(12)	(37)
Interest received	36	46
Income tax paid	(11,321)	(7,765)
Net cash flows from (used in) operating activities	27,892	26,707
Investing activities		
Acquisition of subsidiaries or other businesses, net of cash acquired	(3,629)	(6,098)
Proceeds from sales of subsidiaries or other businesses, net of cash disposed of	-	838
Proceeds from sales and redemption of investment securities	649	2,084
Purchases of investment securities	(2,435)	(23,106)
Acquisition of property and equipment	(923)	(800)
Acquisition of intangible assets	(15,282)	(12,814)
Other, net	324	(91)
Net cash flows from (used in) investing activities	(21,296)	(39,986)
Financing activities		
Proceeds from borrowings	1,903	1,500
Repayments of borrowings	(912)	(850)
Cash dividends paid	(4,789)	(2,599)
Cash dividends paid to non-controlling interests	(150)	(188)
Proceeds from disposition of treasury stock	153	22,161
Other, net	(8)	104
Net cash flows from (used in) financing activities	(3,803)	20,128
Net increase (decrease) in cash and cash equivalents	2,793	6,849
Cash and cash equivalents at beginning of year	65,394	68,724
Effect of exchange rate changes on cash and cash equivalents	537	(404)
Cash and cash equivalents at end of year	68,724	75,169

(6) Notes on Going Concern Assumption

Not applicable.

(7) Notes to Consolidated Financial Statements

1. Reporting entity

DeNA Co., Ltd. (the “Company”) is a company incorporated in Japan. The Company and its subsidiaries (collectively, the “Group”) principally provides Internet services for mobile and PC users.

2. Basis of preparation

1) Compliance with IFRS

Consolidated financial statements of the Group have been prepared in accordance with IFRS issued by the International Accounting Standards Board. Since the Company qualifies as a “specified company” as provided in Article 1-2 of “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements,” it adopts the provision of Article 93 of the said ordinance.

2) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value, etc.

3) Presentation currency and unit

The consolidated financial statements are presented in Japanese yen and rounded off to the nearest million yen.

4) Significant accounting policies

The significant accounting policies adopted by the Group in the consolidated financial statements remain the same as those adopted in its consolidated financial statements for the fiscal year ended March 31, 2015.

3. Segment information

(1) Outline of reportable segments

The Group principally provides Internet services for mobile and PC users and organizes business divisions by type of service. Each of these business divisions formulates comprehensive business strategies for the services it provides, and undertakes related business activities.

Therefore, the Group is composed of operating segments classified by the types of services provided. The three reportable segments of the Group are classified as the “Game Business,” “E-commerce Business” and “Sports Business.”

The types of services provided by each segment classification are shown in the table below:

Segment classification	Type of service
Game Business	Game for mobile devices-related services (provided in Japan and internationally) Principal services: Mobage, etc.
E-commerce Business	E-commerce-related services (provided in Japan and internationally) Principal services: DeNA Shopping, DeNA Travel, Mobaoku, and processing settlement services, etc.
Sports Business	Sports-related services (provided in Japan) Principal services: Yokohama DeNA Baystars Baseball Club, operation of the Yokohama Stadium, DeNA Running Club, etc.
New Businesses and Others	New businesses and other services (provided in Japan and internationally) Principal business domains: IP-generating platform business, curation platform business, healthcare business, automotive business, mobile social incubation business, etc.

Effective from April 1, 2015, the Group changed the classification in the allocation of management resources and the assessment of performance. In the fiscal year ended March 31, 2015, the reportable segments of the Group are classified as the “Social Media Business” and “E-commerce Business,” however, in accordance with the above revision, the segment classification has changed as set out below.

The “Sports Business” segment has been newly established and the sports business such as operations of a professional baseball team, which had been included in “Others” until the previous fiscal year, has been included in the new reportable segment.

The “Others” category has been changed to “New Businesses and Others.” The IP-generating platform business such as E*Everystar and Manga Box, which had previously been included in “Social Media Business,” and new businesses including curation platform business and healthcare business, which had been included in “Others,” have been included in the newly named category. Consequent to these changes, the name of “Social Media Business” has been changed to “Game Business.”

Accordingly, the segment information for the fiscal year ended March 31, 2015 has been restated.

(2) Revenue, profit or loss, and other items by reportable segment

Accounting policies for reportable segments are identical to accounting policies adopted by the Group as stated in the consolidated financial statements for the fiscal year ended March 31, 2015.

Intersegment revenue is calculated based on external market prices.

Revenue, profit or loss, and other items of the Group's reportable segments are as follows:

For the fiscal year ended March 31, 2015

(From April 1, 2014 to March 31, 2015)

	(Millions of yen)					
	Game Business	E-commerce Business	Sports Business	New Businesses and Others*2	Adjustments *3	Total
Revenue						
Revenue from external customers	112,896	18,655	7,764	3,103	—	142,419
Intersegment revenue	152	1,582	0	18	(1,752)	—
Total	113,048	20,237	7,765	3,121	(1,752)	142,419
Segment profit (loss)*1	29,861	2,347	(1,389)	(4,091)	(256)	26,472
Other income (expenses), net						(1,708)
Operating profit						24,764
Finance income (costs), net						3,097
Share of profit (loss) of associates accounted for using the equity method						582
Profit before tax						28,443
Other items						
Depreciation and amortization	7,954	1,700	425	734	—	10,813

(Notes) 1. Segment profit (loss) is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

2. "New Businesses and Others" refer to operating segments that do not fall into any of the reportable segments, including IP-generating platform business, curation platform business and healthcare business.

3. Adjustments in segment profit (loss) represent corporate expenses, which primarily include general and administrative expenses not attributable to any of the reportable segments.

For the fiscal year ended March 31, 2016
(From April 1, 2015 to March 31, 2016)

(Millions of yen)

	Game Business	E-commerce Business	Sports Business	New Businesses and Others*2	Adjustments *3	Total
Revenue						
Revenue from external customers	109,220	18,939	9,888	5,661	—	143,709
Intersegment revenue	419	952	4	81	(1,456)	—
Total	109,640	19,891	9,892	5,742	(1,456)	143,709
Segment profit (loss)*1	25,900	2,643	(1,003)	(4,706)	(842)	21,993
Other income (expenses), net						(2,177)
Operating profit						19,816
Finance income (costs), net						(924)
Share of profit (loss) of associates accounted for using the equity method						1,960
Profit before tax						20,853
Other items						
Depreciation and amortization	8,117	1,742	499	928	—	11,286

(Notes) 1 Segment profit (loss) is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

2 “New Businesses and Others” refer to operating segments that do not fall into any of the reportable segments, including IP-generating platform business, curation platform business, healthcare business, automotive business and mobile social incubation business.

3 Adjustments in segment profit (loss) represent corporate expenses, which primarily include general and administrative expenses not attributable to any of the reportable segments.

4. Earnings per share

The basis for calculating earnings per share attributable to owners of the parent for the fiscal year ended March 31, 2015 and 2016 are as follows:

	Fiscal year ended March 31, 2015 (From April 1, 2014 to March 31, 2015)	Fiscal year ended March 31, 2016 (From April 1, 2015 to March 31, 2016)
Profit for the year attributable to owners of the parent (Millions of yen)	14,950	11,325
Weighted average number of common shares outstanding during the fiscal year—basic (Shares)	129,604,795	143,792,982
Effect of dilutive potential common shares: Stock options, etc. (Shares)	394,045	273,292
Weighted average number of common shares outstanding during the fiscal year—diluted (Shares)	129,998,840	144,066,274
Earnings per share attributable to owners of the parent (Yen)		
Basic earnings per share	115.35	78.76
Diluted earnings per share	115.00	78.61

(8) Notes on Significant Subsequent Events

Not applicable.