

# Summary of Business Results for FY March 2007 (Consolidated)

Date: May 8, 2007

Company **D3 INC.** Listed on the JASDAQ  
 Stock Code 4311  
 U R L <http://www.d3i.co.jp>  
 Representative Yuji Ito  
 Contact Title of Executive Director  
 Name Kenji Kotera

Date of annual shareholders' meeting June 21, 2007  
 Reporting date of annual security report June 22, 2007  
 T E L 03-5428-8830  
 Starting date of dividend payment: June 22, 2007

## 1. Business Results as of FY March 2007 (April 1, 2006 — March 31, 2007)

### (1) Results of Operations

(Note: Rounded down to ¥ Million)

	Net sales		Operating income		Ordinary income	
	¥ Million	%	¥ Million	%	¥ Million	%
March 2007	9,784	—	542	—	594	—
March 2006	2,319	—	-53	—	-30	—

	Net income		Net income per share	Diluted net income per share	Ratio of net income to shareholders' equity	Ratio of ordinary income to total asset	Ratio of operating income to net sales
	¥ Million	%	¥	¥	%	%	%
March 2007	147	—	7,039.77	6,978.54	3.8	8.5	5.5
March 2006	-139	—	-6,675.66	—	-3.6	-0.6	-2.3

(Reference) Earnings/loss on investments in equity-method affiliates

Fiscal year ended March 2007: ¥ — million

Fiscal year ended March 2006: ¥ — million

(Note) Since the consolidated fiscal year ended March 2006 was an irregular 5-month accounting period, year-on-year changes are not presented.

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Million	%	¥
March 2007	8,804	4,019	45.5	190,887.71
March 2006	5,147	3,853	74.9	183,781.74

(Note) Shareholders' equity:

Fiscal year ended March 2007: ¥ 4,003 million

Fiscal year ended March 2006: ¥ — million

### (3) Results of Cash Flows

	Net cash flows by operating activities	Net cash flows by investment activities	Net cash flows by financial activities	Balance of cash and cash equivalents at the end of year
	¥ Million	¥ Million	¥ Million	¥ Million
March 2007	-1,166	-16	2,572	2,694
March 2006	-735	-75	210	1,275

## 2. Dividend

(Record date)	Dividend per share			Total dividend (Annual)	Dividend payout ratio (Consolidated)	Total dividend rate (Consolidated)
	End of interim	Year-end	Annual			
March 2007	—	400.00	400.00	¥ Milli	%	%
March 2006	—	600.00	600.00	on	—	0.2
				8	8.5	0.3
March 2008 (forecast)	—	2,800.00	2,800.00	—	10.0	—

## 3. Forecast of Financial Performance in FY March 2008 (April 1, 2007 — March 31, 2008)

	Net sales		Operating income		Ordinary income		Net income		Net income per share	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
Interim	3,890	2.7	-364	—	-457	—	-611	—	-29,161.50	
FY ending Mar.2008	15,673	60.2	1,252	130.9	1,071	80.2	589	299.4	28,110.10	

## 4. Others

(1) Changes in important subsidiary during the period (changes in specified subsidiary due to changes in the scope of consolidation): Yes

New: 1 (company name: D3 PUBLISHER Inc.) Excluded: —

(2) Changes in rules, procedures and indication methods of accounting process concerning the preparation of consolidated financial results

① Changes due to revision of accounting standards: Yes

② Changes other than ①: None

(3) Shares outstanding (common shares)

① Number of shares outstanding at end of period (treasury stock included):

Fiscal year ended March 2007: 21,006 shares

Fiscal year ended March 2006: 21,000 shares

② Treasury stock at end of period:

Fiscal year ended March 2007: 32 shares

Fiscal year ended March 2006: 32 shares

## (Reference) Summary of Non-consolidated Financial Results

### 1. Business Results as of FY March 2007 (April 1, 2006 — March 31, 2007)

(1) Results of Operations

	Net sales		Operating income		Ordinary income		Net income	
	¥ Million	%	¥ Million	%	¥ Million	%	¥ Million	%
March 2007	903	—	44	—	143	—	66	—
March 2006	1,428	—	244	—	296	—	168	—

	Net income per share	Diluted net Income per share
	¥	¥
March 2007	3,189.55	3,161.81
March 2006	8,038.09	7,932.73

(Note) 1. Since the consolidated fiscal year ended March 2006 was an irregular 5-month accounting period,

year-on-year changes are not presented.

2. On April 1, 2006, the Company made the transition to a holding company structure through a company split. As a result, the bulk of sales for the fiscal year ended March 31, 2007 represent licensing fees, brand royalties and management fees from subsidiaries. This has affected the above-mentioned management indices.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥ Million	¥ Milli on	%	¥
March 2007	7,591	4,442	58.4	211,227.23
March 2006	5,245	4,370	83.3	208,449.91

(Note) Shareholders' equity:

Fiscal year ended March 2007: ¥ 4,430 million

Fiscal year ended March 2006: ¥ — million

**2. Disclosure of non-consolidated business results**

On April 1, 2006, the Company made the transition to a holding company structure through a company split. Since the bulk of sales now represent licensing fees, brand royalties and management fees, significant differences could arise between non-consolidated and consolidated sales forecasts. Furthermore, sales in the video-game industry, the Company's core area of operations, are characterized by seasonal fluctuations (such as a surge in sales toward the end of the year), which makes it difficult to reliably forecast business results. Since non-consolidated business forecasts could potentially mislead investors in their investment decisions we have suspended issuing non-consolidated business forecasts, effective from the current fiscal year.

※ Explanation regarding appropriate use of business forecasts and other special instructions

Forecasts regarding future performance in these materials are based on information and assumptions at the time this report was prepared. Therefore, actual results may differ significantly from the forecasts.

## 1. Results of Operations

### (1) Discussion of results of operations

#### 1) Performance

During the fiscal year that ended on March 31, 2007, economic expansion continued in Japan at a moderate rate. Growth was backed by higher capital expenditures as corporate earnings increased and solid consumer spending as employment statistics improved.

The entertainment software industry experienced an unprecedented boom in the consumer game sector because of introduction of new game products. The launch of the Nintendo DS and PlayStation Portable, two high-performance portable products, triggered significant growth in sales of portable game devices. The industry also benefited from the release of two home-use game products, the Wii and PlayStation 3. The result was a large number of new game software titles targeting these high-performance game consoles.

In the market for cell phone game software, the central theme is rapid progress in cell phone performance. With the increasing use of 3G services, cell phones have payment systems, one-seg broadcast reception and many other new functions. In addition, there are dramatic improvements in cell phone services resulting from the increasing number of fixed-rate plans and infrastructure improvements such as number portability. These advances are making it possible to offer an even more diverse range of cell phone services.

In the consumer business in Japan, the D3 PUBLISHER Group continued to introduce a large variety of products aimed at capturing business from new customers who do not play games frequently. For example, in the SIMPLE Series, a core product line with a large and diverse collection of titles, the Group shifted emphasis to the SIMPLE DS Series. With regard to full-price game software, the Group continued to sell games in the Hisshou Pachinko/Pachi-Slot Kouryoku Series, which has established a solid base of core fans. Furthermore, the Group concentrated on producing and selling highly entertaining game software that targets families and women.

In the mobile game software business, the Group worked on capturing business from infrequent game users by continuing to distribute its SIMPLE100 Series of low-price games to cell phone carriers. In addition, *Kochira Munekyun Otome*, a game for women, was enhanced through a link with the consumer business. The Group started distribution of the SIMPLE500 Series of rich game content with *Earth Defense Force Mobile* as the first release. The goal is to develop ties with new mobile game users while further pursuing the multiple use of content created in the consumer business.

In North America and Europe, D3 PUBLISHER's global content strategy units worked closely with overseas subsidiaries to distribute strategic titles that match the characteristics of regional markets. Furthermore, the Group made progress in creating content designed for global use by introducing *Flushed Away*, the first title in the global content category. Global content will allow the Group to sell a particular software title worldwide rather than only in a specific country or region.

Due to these activities, consolidated sales totaled ¥9,784,224 thousand, operating income was ¥542,352 thousand, ordinary income was ¥594,354 thousand and net income was ¥147,613 thousand. Prior-year

comparisons are not provided in this report because the previous fiscal period was a transitional five-month period.

Performance by business segment was as follows.

#### Consumer business

In Japan, D3 PUBLISHER introduced 31 titles in the core SIMPLE Series of low-price titles that target infrequent game users. In the full-price software category, the Company introduced six titles in the Hisshou Pachinko/Pachi-Slot Kouryoku Series, including *CR New Century Evangelion Second Impact & Pachi-Slot New Century Evangelion*, and introduced four game software titles targeting women, including *Last Escort – Black Butterfly Special Night*. Two popular SIMPLE Series titles, *Earth Defense Force 2* and *One Chanbara*, were released again as *Earth Defense Force 3* and *One Chanbara vorteX* for the Xbox 360.

Outside Japan, the Group released *Flushed Away* in North America and Europe, the first in the planned series of global content. In North America, another release was *Naruto 2* for the Nintendo Game Boy Advance and GameCube. In Europe, the Group focused on selling titles from Japan and North America.

The result was sales of 4.04 million units of consumer game software. This includes existing titles and 56 newly introduced titles, but excludes the Group's low-price products. Sales totaled ¥9,121,497 thousand and operating income was ¥260,968 thousand.

#### Mobile business

In the SIMPLE100 Series of low-price game software, the Group increased the number of titles and adopted a new monthly billing system for all cell phone carriers in order to establish a more stable profit structure. Previously, some carriers had charged users a fee for each download. For *Kochira Munekyun Otome*, a game for women that uses a monthly billing system, D3PUBLISHER upgraded the Web site while increasing marketing activities such as consumer game events and the sale of merchandise linked to this game. Due to these activities, the number of members using this service, which is billed monthly, is now 940,000.

Progress in cell phone performance and services is creating increasingly diverse user demands for games played on cell phones. D3 PUBLISHER started the distribution of the SIMPLE500 Series of rich game content, collecting payments for each download. This helps create a more flexible profit structure. D3 PUBLISHER released first two titles in this series, *Earth Defense Force Mobile* and *One Chanbara Mobile*, and took steps to pursue synergies with the consumer business.

The result was sales of ¥662,727 thousand and operating income of ¥507,647 thousand.

Performance by geographic segment was as follows.

#### Japan

In the consumer business, shipments were strong in both the low-price and full-price categories. In the low-price category, sales were strong mainly because of the SIMPLE Series, where 31 titles were introduced, and the SIMPLE DS Series. In the full-price category, 16 titles were introduced. The most significant event

was the huge success of *CR New Century Evangelion Second Impact & Pach-Slot New Century Evangelion* in the Hisshou Pachinko/Pachi-Slot Kouryoku Series. Shipments of this new title exceeded 200,000 units, far more than shipments for the preceding title in this series. The result was total consumer business sales of 1.46 million units during the fiscal year.

In the mobile business, performance was supported by steady growth in members using the SIMPLE100 Series and *Kochira Munekyun Otome*. The start of distribution of the SIMPLE500 Series of rich game content also contributed to performance.

Due to these factors, sales in Japan totaled ¥4,765,661 thousand and operating income was ¥903,777 thousand.

#### North America

The Group introduced eight titles in the full-price category, including *Naruto 2* for the Nintendo Game Boy Advance and GameCube. Another new release was *Flushed Away*, a global title. Performance also benefited from strong sales of titles released during the previous fiscal year.

Sales totaled ¥4,442,095 thousand but there was an operating loss of ¥216,055 thousand.

#### Europe

In Europe, the Group began sales of *Flushed Away*, a global title, and introduced 16 titles that come from Japan and North America. Sales totaled ¥1,246,262 thousand and operating income was ¥88,587 thousand.

#### 2) Outlook for current fiscal year

In the game industry, the outlook is for even more intense competition as companies supply many game titles for use with popular game consoles.

In the consumer business, the Group plans to use global content to strengthen its worldwide operations. The first global content title made its debut in the past fiscal year. The fiscal year ending in March 2008 and following years will be a period when sales of new home game consoles gain momentum. Determined to achieve the fastest growth in its history during the time, the Group plans to concentrate on expanding the SIMPLE Series, which uses low-price game software to generate consistent performance, as well as on supplying other products that a large number of people can enjoy.

In the global content category, the Group plans to introduce *darkSector* and titles that use popular North American animated characters.

In Japan, plans call for reducing the number of titles in the Hisshou Pachinko/Pachi-Slot Kouryoku Series to allow concentrating only on the most popular titles. Plans also include raising sales by introducing titles linked to movies and TV programs as well as global content titles.

In North America, the Group will use global content and introduce new titles in the *Naruto* Series that are designed for new game consoles.

In Europe, the Group aims to generate earnings by selling global content titles and titles supplied from Japan and North America. The Group has started considering the development of its own titles for distribution in Europe in order to strengthen its operations in this region.

In the mobile business, the Group plans to update popular titles in the SIMPLE100 Series and increase promotional activities in order to continue attracting more new members. Plans also call for adding many more rich game content titles to the SIMPLE500 Series and in other categories.

Based on this outlook, the Group forecasts sales of ¥15,673 million, operating income of ¥1,252 million and ordinary income of ¥1,071 million in the fiscal year ending in March 2008. The net income forecast is ¥589 million, which reflects lower taxes resulting from accumulated losses in North America. This forecast assumes fiscal year-end exchange rates of ¥110 for the U.S. dollar, ¥150 for the euro and ¥210 for the British pound. The forecast also assumes average exchange rates of ¥115 for the U.S. dollar, ¥150 for the euro and ¥220 for the British pound. Earnings include the effect of a projected foreign exchange loss of about ¥100 million that will be recorded as a non-operating expense.

## (2) Financial condition

Cash and cash equivalents at the end of March 2007 amounted to ¥2,694,551 thousand, ¥1,419,340 thousand more than at the end of the previous fiscal period. Cash was used for increases in accounts receivable and inventories, but the Group used loans to procure funds.

Cash flows and major components were as follows.

### Operating activities

Net cash used in operating activities was ¥1,166,692 thousand. Cash was provided mainly by income before income taxes of ¥560,769 thousand and a ¥155,115 thousand increase in accounts payable. However, there was a ¥1,285,051 thousand increase in inventories and a ¥645,639 thousand increase in accounts receivable.

### Investing activities

Net cash used in investing activities was ¥16,565 thousand. There were proceeds of ¥93,081 thousand from the termination of time deposits, but payments of ¥76,566 thousand for property and equipment and ¥22,961 thousand for intangible fixed assets.

### Financing activities

Net cash provided by financing activities was ¥2,572,501 thousand. Repayments of long-term loans totaled ¥438,668 thousand, but there was a net increase of ¥1,100,000 thousand in short-term borrowings and proceeds of ¥2,000,000 thousand from long-term loans.

### Cash flow indicators

Years ended	Oct. 2003	Oct. 2004	Oct. 2005	March 2006 (5 months)	March 2007
Shareholders' equity ratio (%)	36.4	55.1	74.4	74.9	45.5
Shareholders' equity ratio at market value (%)	54.2	81.6	129.4	139.7	67.9
Debt to cash flows ratio (%)	-	162.5	-	-	-
Interest coverage ratio (times)	-	48.7	-	-	-

#### Note:

Shareholders' equity ratio = shareholders' equity/total assets

Shareholders' equity ratio at market value = market cap/total assets

Debt to cash flows ratio = interest-bearing debt/operating cash flows

Interest coverage ratio = operating cash flows/interest expenses

\* All indicators are calculated based on consolidated figures.

\* Market capitalization = closing share price at fiscal year end x outstanding shares at fiscal year end

\* Operating cash flows are the cash flows presented in the consolidated statements of cash flows.

Interest-bearing debt is the sum of all interest-bearing liabilities shown on the consolidated balance sheets.

Interest expenses are the payments shown in the consolidated statements of cash flows.

\* Debt to cash flow ratios and interest coverage ratios are not presented for all years except the year that ended in October 2004 because operating cash flows were negative in those four fiscal periods.

### (3) Basic policy for allocation of earnings and dividends for previous and current fiscal years

The distribution of earnings to shareholders is one of the highest management priorities of D3 PUBLISHER.

The fundamental policy is to distribute earnings while considering the need to strengthen the Group's operating base and financial condition as well as reflecting changes in the Group's operating environment, operating results and the dividend payout ratio.

Based on this policy, D3 PUBLISHER plans to pay an ordinary dividend of ¥600 per share applicable to the fiscal year that ended in March 2007. This payment is based on the need for funds for future business investments along with the long-term interests of shareholders. For the fiscal year ending in March 2008, the current plan is to pay a year-end ordinary dividend of ¥2,800 per share.

Retained earnings will be used for investments that will increase corporate value in the future, such as actions to expand overseas operations, and increase shareholder value from a long-term perspective.

In conjunction with the adoption of a holding company structure, D3 PUBLISHER plans to base dividends on the consolidated dividend payout ratio from now on.

## Segment Information

### [Segment by Business]

Consolidated Financial Results for Fiscal Year March 2006

(November 1, 2005 – March 31, 2006)

(Thousands of yen)

	Package software business	Development of software business	Network business	Total	Elimination/Unallocated	Consolidated
1. Net sales and operating income						
Net sales						
(1) Sales to external customers	2,060,181	42,318	217,248	2,319,747	—	2,319,747
(2) Intersegment sales or transfers	—	—	—	—	—	—
Total	2,060,181	42,318	217,248	2,319,747	—	2,319,747
Operating expenses	2,117,792	31,157	47,224	2,196,174	177,367	2,373,542
Operating income (loss)	(57,611)	11,161	170,023	123,573	(177,367)	(53,794)
2. Assets, depreciation and amortization, and capital expenditure						
Assets	3,438,340	41,284	207,226	3,686,852	1,460,451	5,147,303
Depreciation and amortization	144,737	173	20,424	165,334	1,990	167,325
Capital expenditure	92,411	85	108	92,606	9,813	102,419

Consolidated Financial Results for Fiscal Year March 2007

(April 1, 2006 – March 31, 2007)

(Thousands of yen)

	Consumer business	Mobile business	Total	Elimination/Unallocated	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	9,121,497	662,727	9,784,224	—	9,784,224
(2) Intersegment sales or transfers	—	—	—	—	—
Total	9,121,497	662,727	9,784,224	—	9,784,224
Operating expenses	8,860,528	155,079	9,015,608	226,263	9,241,872
Operating income (loss)	260,968	507,647	768,616	(226,263)	542,352
2. Assets, depreciation and amortization, and capital expenditure					
Assets	7,165,325	628,967	7,764,293	1,010,520	8,804,813
Depreciation and amortization	67,948	13,859	81,808	4,174	85,982
Capital expenditure	88,966	10,561	99,528	-	99,528

<Additional information>

Consolidated Financial Results for Fiscal Year March 2006  
(November 1, 2005 — March 31, 2006)

(Thousands of yen)

	Consumer business	Mobile business	Total	Elimination/Unallocated	Consolidated
1. Net sales and operating income					
Net sales					
(1) Sales to external customers	2,102,499	217,248	2,319,747	—	2,319,747
(2) Intersegment sales or transfers	—	—	—	—	—
Total	2,102,499	217,248	2,319,747	—	2,319,747
Operating expenses	2,148,949	47,224	2,196,174	177,367	2,373,542
Operating income (loss)	(46,450)	170,023	123,573	(177,367)	(53,794)
2. Assets, depreciation and amortization, and capital expenditure					
Assets	3,479,625	207,226	3,686,852	1,460,451	5,147,303
Depreciation and amortization	144,910	20,424	165,334	1,990	167,325
Capital expenditure	92,497	108	92,606	9,813	102,419

**[Segment by Area]**

Consolidated Financial Results for Fiscal Year March 2006  
(November 1, 2005 — March 31, 2006)

(Thousands of yen)

	Japan	North America	Europe	Total	Elimination/Unallocated	Consolidated
Net sales						
(1) Sales to external customers	1,505,825	795,002	18,920	2,319,747	-	2,319,747
(2) Intersegment sales or transfers	2,596	2,990	—	5,586	(5,586)	—
Total	1,508,421	797,992	18,920	2,325,333	(5,586)	2,319,747
Operating expenses	1,205,733	961,968	43,818	2,211,519	162,022	2,373,542
Operating income (loss)	302,688	(163,975)	(24,897)	113,814	(167,609)	(53,794)
Assets	2,210,232	1,273,829	202,147	3,686,209	1,461,093	5,147,303

Consolidated Financial Results for Fiscal Year March 2007  
(April 1, 2006 — March 31, 2007)

(Thousands of yen)

	Japan	North America	Europe	Total	Elimination/Unallocated	Consolidated
Net sales						
(1) Sales to external customers	4,112,474	4,415,487	1,246,262	9,784,224	-	9,784,224
(2) Intersegment sales or transfers	643,186	26,608	—	669,795	(669,795)	—
Total	4,765,661	4,442,095	1,246,262	10,454,020	(669,795)	9,784,224
Operating expenses	3,861,883	4,658,151	1,157,674	9,677,709	(435,837)	9,241,872
Operating income (loss)	903,777	(216,055)	88,587	776,310	(223,957)	542,352
Assets	5,369,263	1,576,314	1,243,549	8,189,127	615,686	8,804,813