



GREE, Inc.

FY2016 First Quarter Financial Results

October 29, 2015

Financial Results Overview

- **QoQ profit growth achieved with operating income of ¥4.4 billion**
 - Reduced fixed costs and implemented strict cost control through efficient deployment of advertising costs

Operational Overview

- **Domestic native game coin consumption reached its highest level in the past year**
 - *Naruto: Shinobi Collection Shippu Ranbu* driving growth
 - Progress in development/improvement efforts aimed at generating hit titles
 - Improvement in *LINE TOWER RISING* KPIs
 - memories of the Blue well-received at the Tokyo Game Show, scheduled for release in winter 2015
- **Steady growth in new businesses**
 - Smooth expansion in key areas: home-related services and health & fitness platforms

FY16 1H Earnings Forecast

- **Raising our forecast to net sales ¥37.0bn, operating income ¥7.0 billion**
 - We are raising our 1H earnings forecast (initial forecast released at the beginning of FY16) based on relatively strong 1Q performance
 - Leaving our 2Q forecast unchanged as we plan to spend on mass-media promotion in 2Q

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview (Consolidated)



FY16 1Q Financial Results Overview

Net sales ¥19.3bn, operating income ¥4.4bn

Billions of yen

| | FY16 1Q | | | FY15 4Q | FY15 1Q |
|------------------|---------|-------|-------|---------|---------|
| | | QoQ | YoY | | |
| Net sales | 19.31 | -1.61 | -6.11 | 20.92 | 25.42 |
| EBITDA | 4.75 | -0.36 | -3.26 | 5.11 | 8.01 |
| Operating income | 4.39 | 0.17 | -1.99 | 4.21 | 6.38 |
| Ordinary income | 4.00 | -1.01 | -4.07 | 5.01 | 8.07 |
| Net income | 2.39 | 10.21 | -1.08 | -7.81 | 3.48 |

Notes:

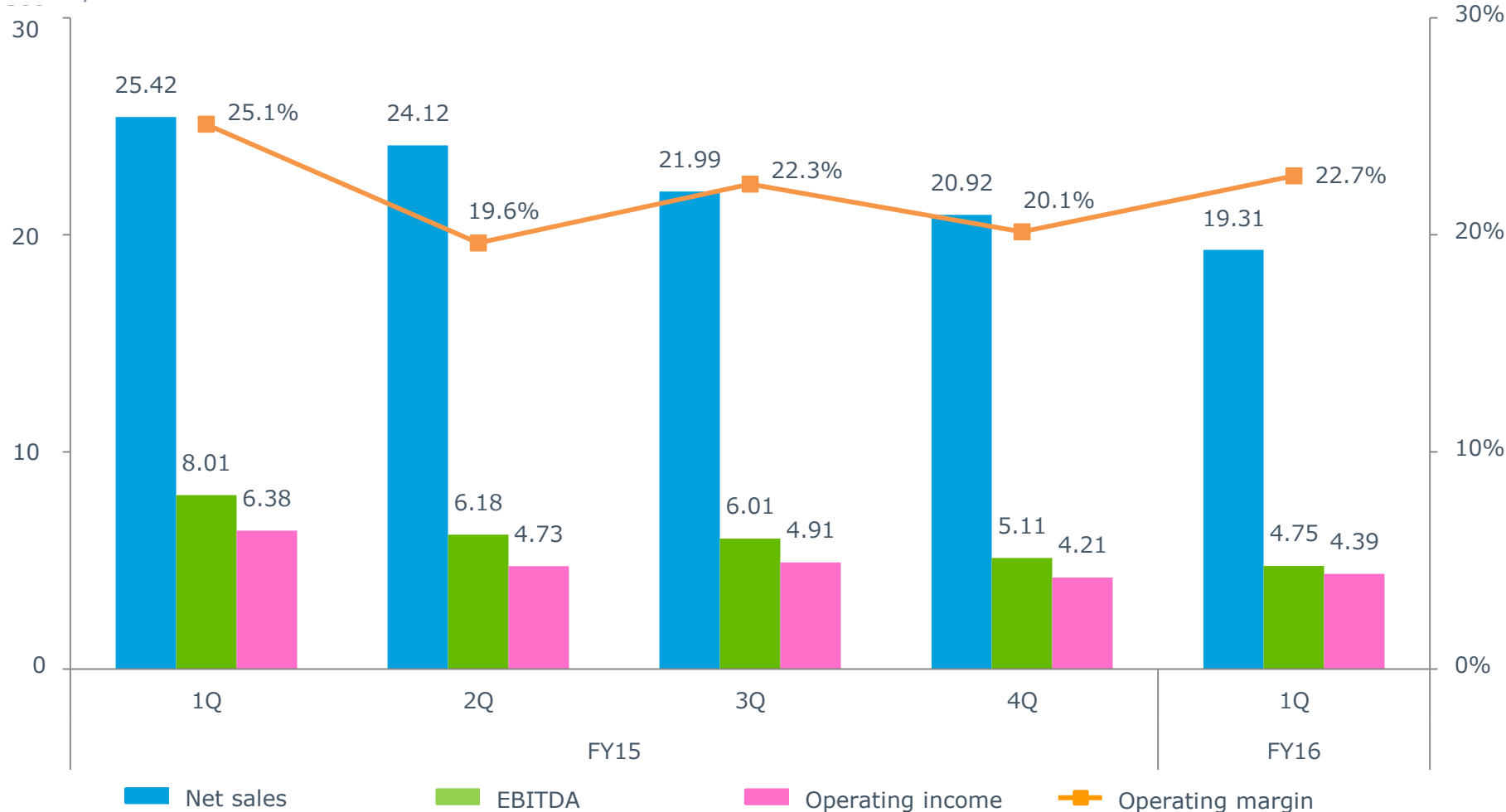
- Breakdown of FY16 1Q net sales: Paid service sales ¥18.43 billion; ad media sales ¥0.87 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

Operating margin improved by 2.6 percentage points to 22.7%

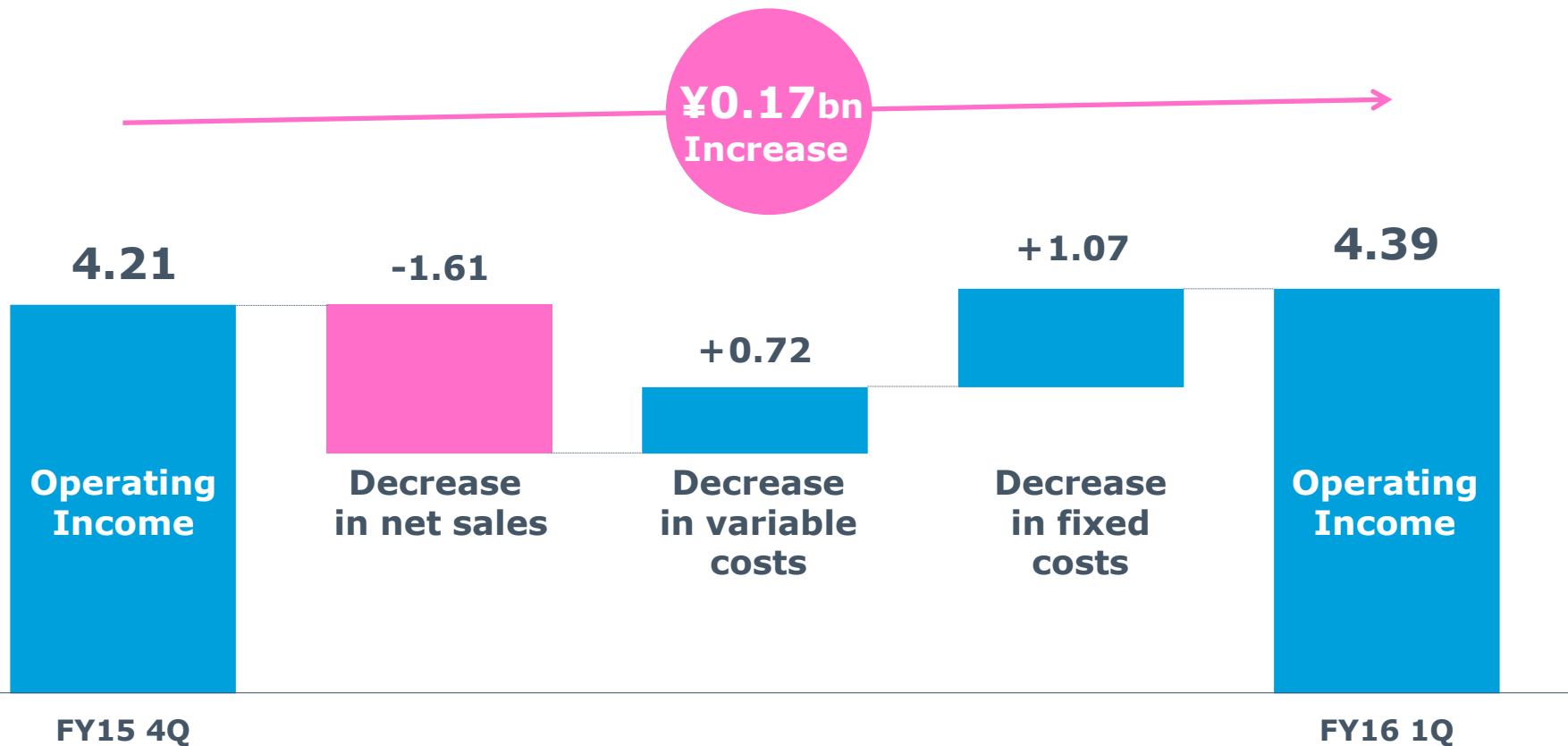
Billions of yen



Operating Income Analysis

Operating income increased by ¥0.17 billion due to lower costs

Billions of yen



1. Financial Results Overview (Consolidated)

FY16 1Q Cost Structure

Total costs decreased by ¥1.8 billion to ¥14.9 billion

Billions of yen

| | | FY16 1Q | QoQ | YoY | Factors in change (QoQ) | FY15 4Q | FY15 1Q |
|--------------------------|-----------------------------|--------------|--------|--------|-------------------------------------------------------------------------------|------------|------------|
| | Advertising | 1.21 | - 0.52 | - 1.69 | Limited mass-media promotion costs (ratio to net sales: 4Q 8.3% → 1Q 6.3%) | 1.73 | 2.90 |
| | Commission fees | 3.88 | - 0.23 | - 0.90 | Decreased on lower sales | 4.11 | 4.78 |
| | Other | 0.27 | 0.02 | 0.27 | Home-related services platform | 0.25 | 0.00 |
| | Total variable costs | 5.37 | - 0.72 | - 2.32 | | 6.09 | 7.69 |
| | Labor costs | 4.55 | - 0.19 | - 0.05 | Consolidated headcount: end-4Q: 1,634 → end-1Q: 1,475 | 4.75 | 4.61 |
| | Rental costs | 0.90 | - 0.32 | - 0.05 | Progress made in reducing server leasing fees | 1.22 | 0.95 |
| | Depreciation | 0.24 | - 0.32 | - 0.74 | Reduction in assets subject to depreciation | 0.56 | 0.98 |
| | Goodwill amortization | 0.12 | - 0.21 | - 0.54 | Reduction in assets subject to amortization | 0.34 | 0.66 |
| | Other | 3.74 | - 0.02 | - 0.41 | - | 3.75 | 4.16 |
| Total fixed costs | | 9.55 | - 1.07 | - 1.80 | | 10.62 | 11.36 |
| Total costs | | 14.92 | - 1.79 | - 4.12 | | 16.71 | 19.04 |

Revising 1H Earnings Forecast

New forecast raised to net sales of ¥3.7bn, operating income of ¥7.0bn

Billions of yen

| | New 1H forecast | Difference | Initial 1H forecast (Announced August 5) |
|------------------|-----------------|------------|---------------------------------------------|
| Net sales | 37.0 | +0.5 | 36.5 |
| Operating income | 7.0 | +1.0 | 6.0 |
| Ordinary income | 6.5 | +0.5 | 6.0 |
| Net income | 3.5 | 0.0 | 3.5 |

| 2Q forecast | QoQ | 1Q results |
|-------------|------|------------|
| 17.7 | -1.6 | 19.3 |
| 2.6 | -1.8 | 4.4 |
| 2.5 | -1.5 | 4.0 |
| 1.1 | -1.3 | 2.4 |

■ Top line

- In the native game business, we have set conservative targets for growth in sales of existing titles and earnings contribution from new titles
- In the web game business, we have set conservative targets based on past trends

■ Costs

- We plan to invest in advertising for titles that we think can benefit from ads
- We will continue to control fixed costs such as server costs and outsourcing costs

1. Financial Results Overview

2. Operational Overview

3. Appendix

2. Operational Overview: Summary

Review and Summary of 1Q

| | | Business Plan | Review |
|----------------------|-----------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Native game business | Japan | Launch new titles and generate hit titles | <ul style="list-style-type: none"> • Made progress in developing 1st party titles to be released in 2H • Improved KPIs for <i>LINE TOWER RISING</i> |
| | Over-seas | Business restructuring | <ul style="list-style-type: none"> • Made progress in reducing fixed costs • Made progress in developing new titles with the goal of restarting sales growth |
| Web game business | | Maintain profitability over medium term | <ul style="list-style-type: none"> • Began new business development <ul style="list-style-type: none"> – Release 1st party titles on multiple platforms |
| New businesses | | Create new source of income | <ul style="list-style-type: none"> • Home-related services platform: increased orders at Renoco • Health & fitness platforms: Doubled number of Lespas affiliate studios |
| Costs/ investments | | Implement strict cost controls | <ul style="list-style-type: none"> • Made progress in reducing fixed costs (down ¥1.8bn YoY) |

2. Operational Overview: Summary

FY16 Native Game Pipeline

Two new titles released, currently 14 titles in development pipeline

| Market | Already released | 2Q | 2H |
|----------|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------|
| Japan | <i>Fatal Seeker</i> (co-developed)  | Approx. 2 titles 1 st party: 0 title Co-developed: 2 titles | Approx. 6 titles 5 titles 1 titles |
| Overseas | <i>CROSS SUMMONER</i> (co-developed)  | Approx. 2 titles 1 st party: 0 title Co-developed: 2 titles | Approx. 4 titles 2 titles 2 titles |



FY16
Approx.
16 titles

(+1 YoY)

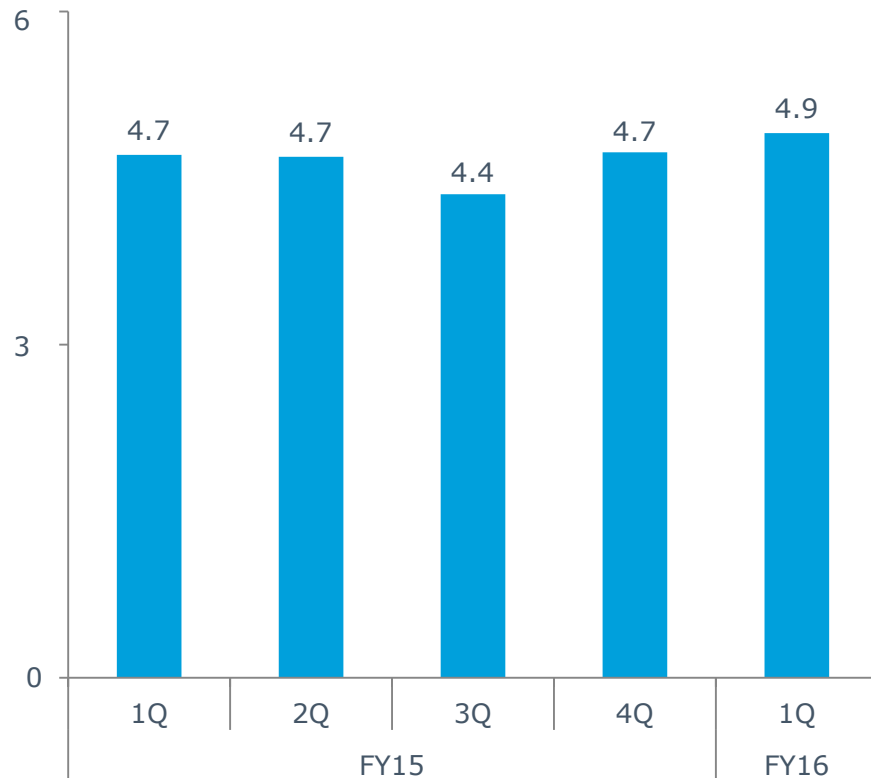
Notes:

- 1st party titles in pipeline have received approval for development
- 1st party titles are being developed in GREE's studios in Japan, North America, and South Korea
- Co-developed titles are developed in cooperation with partners (cooperation in planning, development, distribution and operations)

2. Operational Overview: Native Games (Japan) Progress Made

Coin Consumption

Billions of coins



Topics

- *Naruto: Shinobi Collection Shippu Ranbu* driving coin consumption growth
 - Reached No. 7 rank in AppStore sales
- *Shometsu Toshi* contributed to earnings as functionality was improved and content was added
- *The SAMURAI Kingdom* still posting strong sales roughly 2 years after release, currently planning major update
- KPIs of *LINE TOWER RISING* improving even faster than *Shometsu Toshi*
 - KPI level is high enough to consider large-scale promotion

2. Operational Overview: Native Games (Japan)

New Titles (1)

memories of the Blue, nominated for three awards at the Tokyo Game Show, is scheduled for release in the winter of 2015



Developed by an elite team of content creators and voice actors, *memories of the Blue* features the best 2D belt scroll action ever seen on a smartphone

Image illustrator: Yoshitaka Amano, Sound: Masaharu Iwata of Basiscape Co., Ltd.,

Scenario: Go Tanaka and Koki Matsumoto of Romancework

Note: Screenshots are of development version

2. Operational Overview: Native Games (Japan) New Titles (2)

Co-developed titles to be released this winter

Guardian Clash



3D battle RPG features spectacular battles in a 3D arena while challenging players to master complex strategies

Soul Arms



Players strive to become the ultimate warrior in this full-blown action RPG featuring various battle actions and exciting multiplayer challenges

2. Operational Overview: Native Games (Japan) Titles in Development

Titles in development to be launched after 2H announced at Tokyo Game Show

A Farewell to Arms



Players feel the thrill of trouncing their enemies in this 3D action game set in Japan in the year 2080

Note: Screenshots are of development version

Another Eden



Players soar through space and time in this full-on adventure RPG from a superb team of creators

Honya-rara-MAGIC



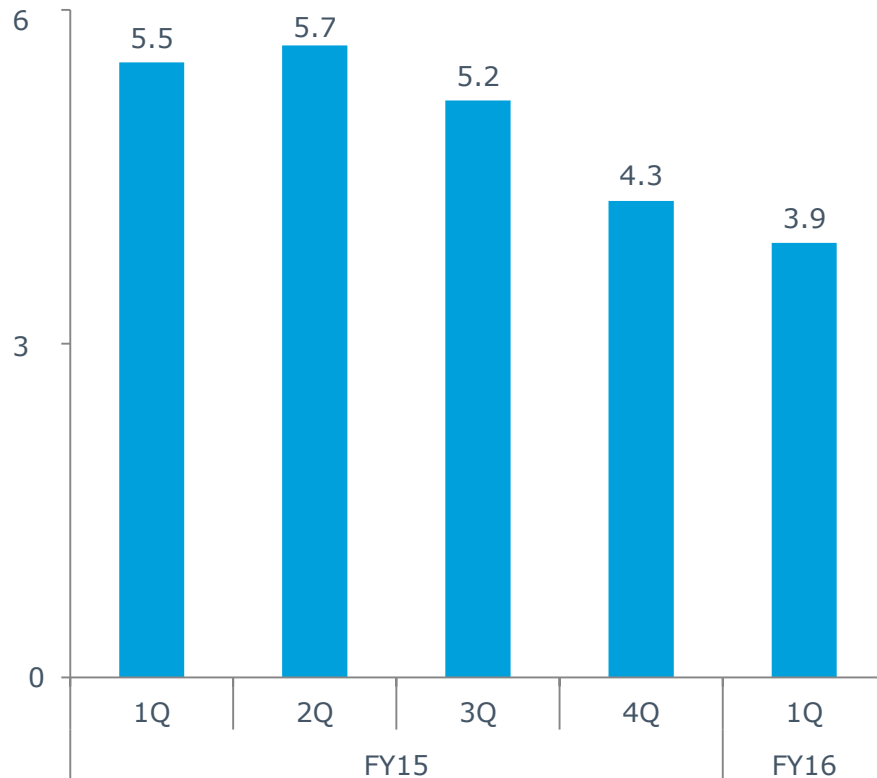
Schoolgirl-themed RPG featuring music and magic created in cooperation with leading Japanese animation studio A-1 Pictures

2. Operational Overview: Native Games (Overseas) Progress Made



Coin Consumption

Billions of coins



Topics

- Halted decline in monthly coin consumption
 - July-September trends were firmer than in June
- Progress made in reducing fixed costs
 - Labor costs and depreciation costs declined
- Progress in development of new titles
 - Development of European version
 - Development of next-gen version of popular titles
- Expanding overseas development pipeline
 - Progress in development lead by Melbourne studio

2. Operational Overview: Native Games (Overseas)

Titles in Development

Knights & Dragons (European version)



Following the European version of *WoN*, we plan to release a European version of *K&D* in 2Q

League of War (next-gen version)



We are developing a new title based on the *League of War* engine that allows for a higher level of strategic gameplay

Notes:

* *WoN* = *War of Nations*, *K&D* = *Knights and Dragons*

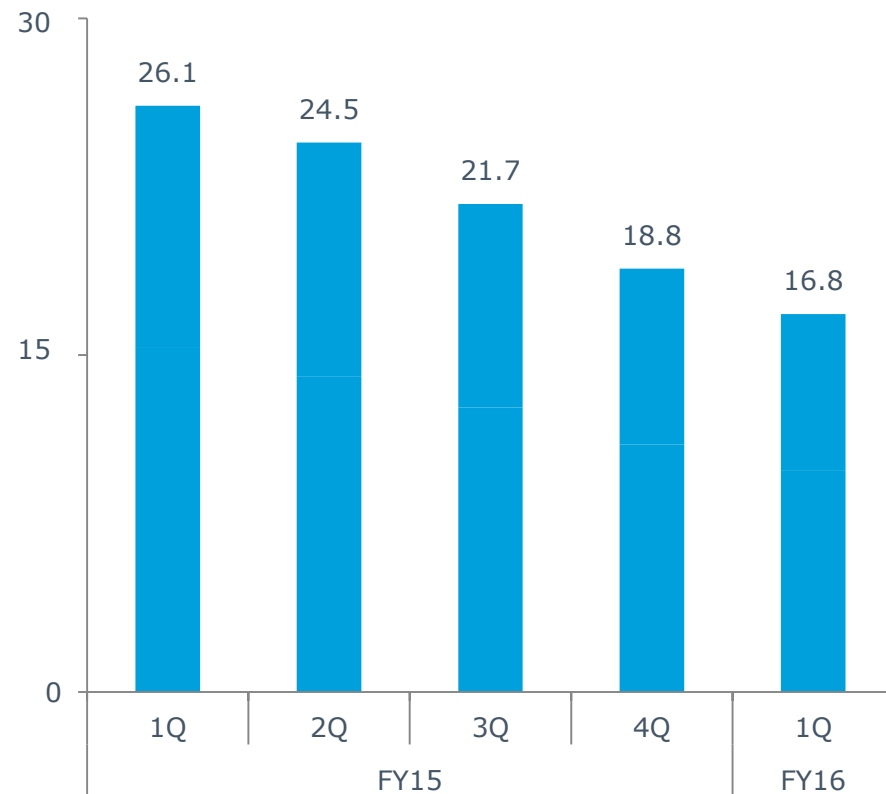
* Screenshots are of development version

2. Operational Overview: Web Games

Progress Made

Coin Consumption

Billions of coins



Topics

- Maintained profitability by improving management efficiency and controlling costs
 - Reduced number of servers
 - Shifted to offshore operations in Vietnam
- Progress in developing multiplatform versions of popular 1st party titles
- Plan to release multiple new IP-based titles in 2Q

2. Operational Overview: Web Games

New Titles

Multiplatform Development

Pirate Kingdom Columbus Z

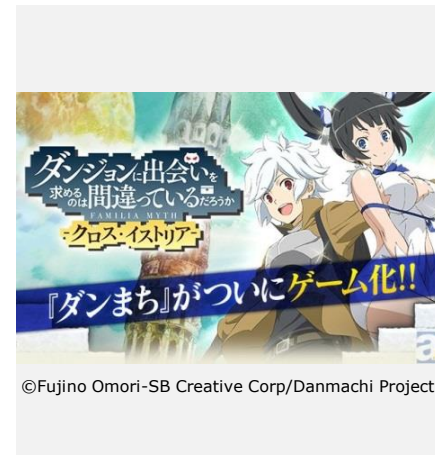
gloops



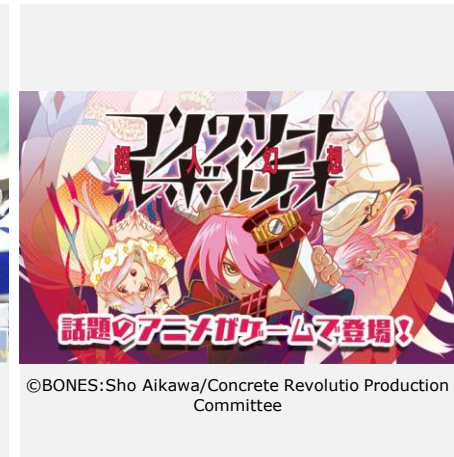
- Released for other platforms on October 21
- Plan to develop other multiplatform versions of popular 1st party titles

Development of new IP-based titles

Danmachi X.I Silbird



CONCRETE REVOLUTION QUOLIO



- Progress made on new titles based on popular IP
- Plan to continue to release new titles based on popular IP

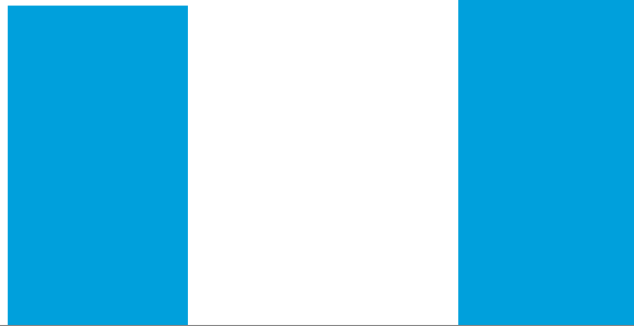
2. Operational Overview: New Businesses Progress Made

Increased orders at Renoco

Online renovation service



Up
130%



FY15 4Q

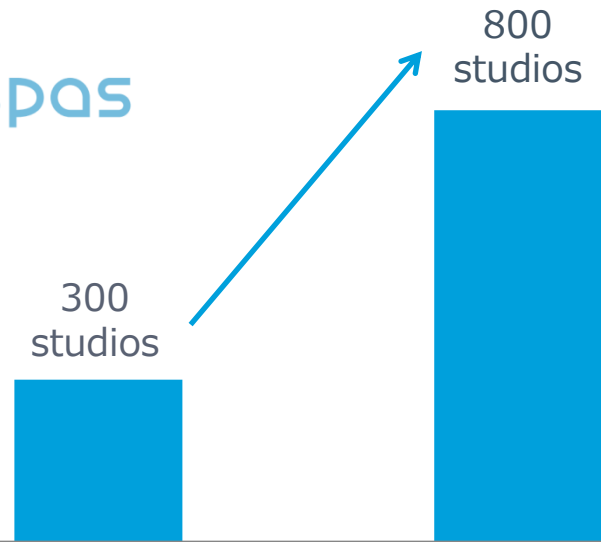
FY16 1Q

- Order volume and average unit price rose owing to expansion of product lineup

Doubled number of Lespas affiliate studios

Lesson free pass service

Lespas



End-4Q FY15

End-1Q FY16

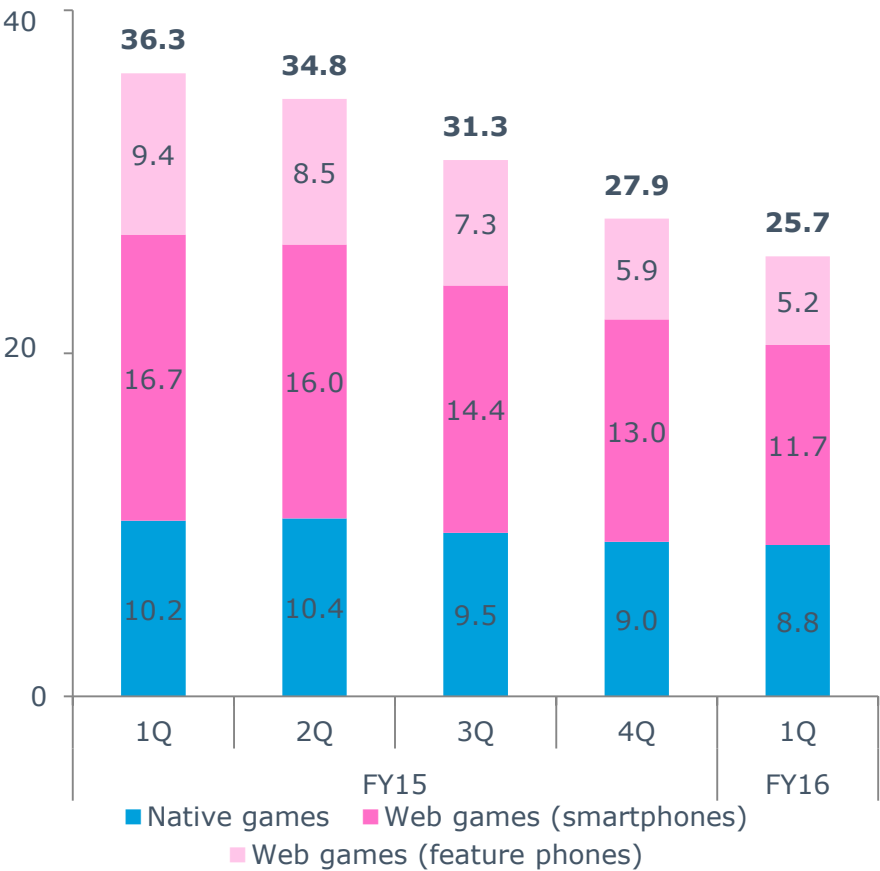
- Established base in Osaka and expanded coverage area to include Nagoya and the Kansai region
- Take actions to increase the number of subscribers

1. Financial Results Overview
2. Operational Overview
- 3. Appendix**

Coin Consumption (1)

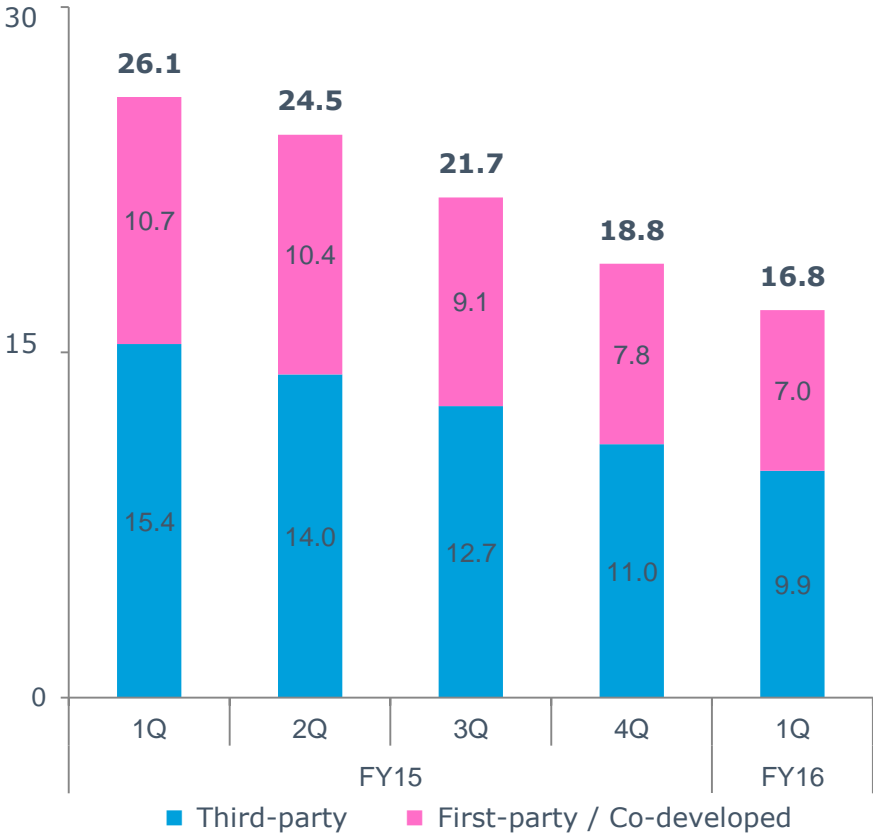
Overall coin consumption

Billions of coins



Web game coin consumption

Billions of coins

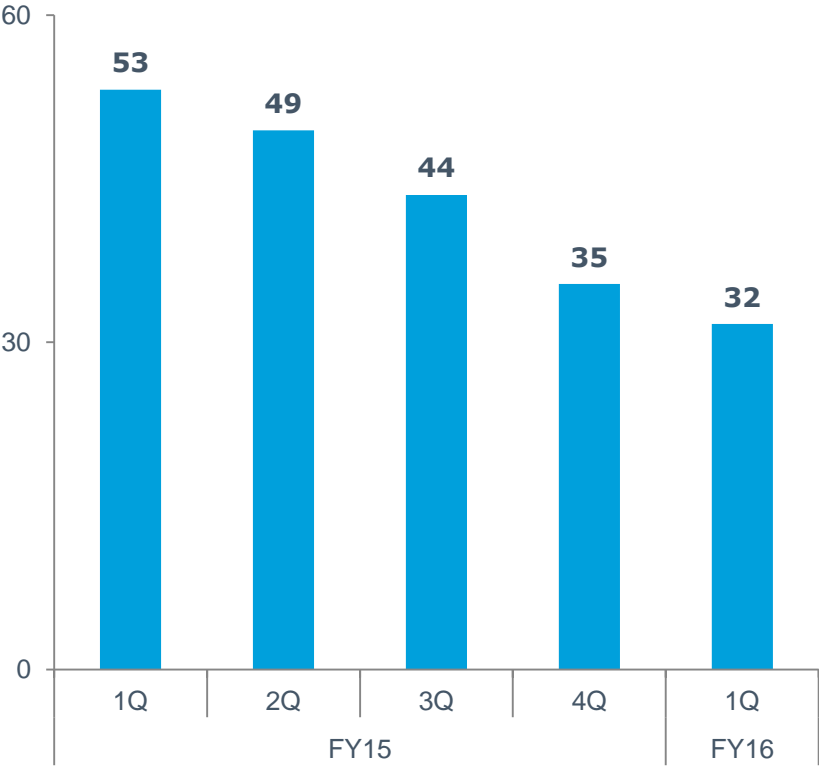


Note:
Titles in which GREE is credited are categorized as "First-party/ Co-developed" 22

Coin Consumption (2)

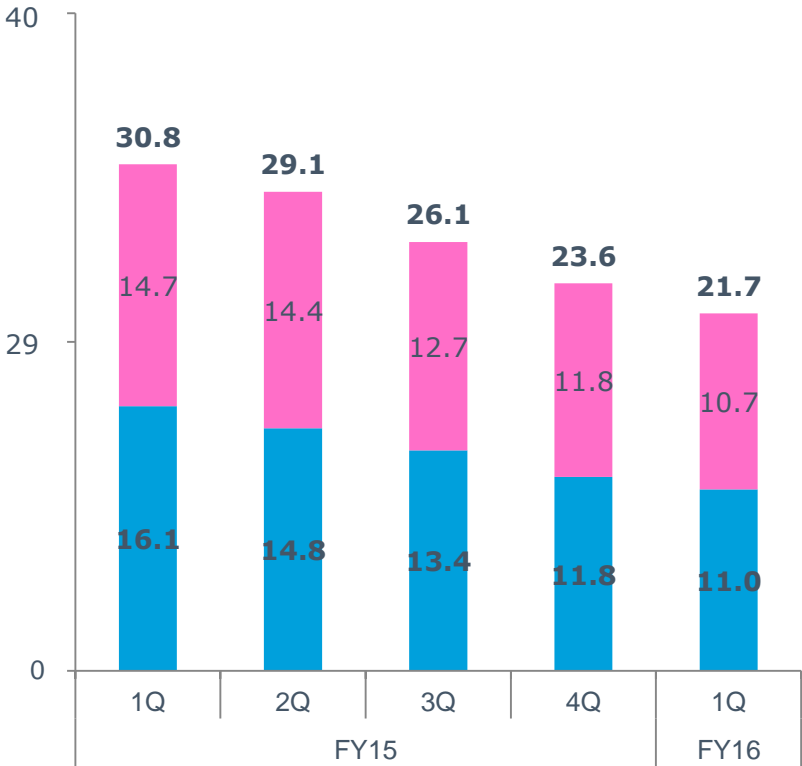
Overseas

Millions of U.S. dollars



Japan

Billion coins



Notes:

- Divided by region of consumption
- Titles in which GREE is credited are categorized as "First-party/ Co-developed"

FY16 1Q Cost Structure

Millions of yen

| | | FY16 1Q | QoQ | YoY | FY15 4Q | FY15 1Q |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|
| | Rental charges | 899 | -324 | -48 | 1,223 | 947 |
| | Labor costs | 2,682 | -226 | -255 | 2,909 | 2,937 |
| | Others | 1,590 | -649 | -714 | 2,239 | 2,304 |
| | Cost of sales | 5,172 | -1,199 | -1,017 | 6,371 | 6,188 |
| | Advertising | 1,212 | -516 | -1,692 | 1,729 | 2,904 |
| | Commission fees | 3,885 | -227 | -900 | 4,111 | 4,785 |
| | Labor costs | 1,871 | 31 | 194 | 1,840 | 1,677 |
| | Others | 2,783 | 124 | -708 | 2,658 | 3,491 |
| | SG&A | 9,751 | -588 | -3,105 | 10,339 | 12,856 |
| | Total costs | 14,923 | -1,787 | -4,122 | 16,710 | 19,045 |

FY15 4Q Balance Sheet

Billions of yen

| | FY16 1Q | QoQ | YoY | FY15 4Q | FY15 1Q |
|---------------------------|---------------|-------|--------|------------|------------|
| Current assets | 88.31 | -8.58 | -2.08 | 96.89 | 90.39 |
| Fixed assets | 21.02 | 0.27 | -33.94 | 20.75 | 54.96 |
| Total assets | 109.33 | -8.31 | -36.02 | 117.64 | 145.34 |
| Current liabilities | 13.71 | -8.18 | -13.64 | 21.89 | 27.35 |
| Fixed liabilities | 0.70 | -0.03 | -2.49 | 0.73 | 3.19 |
| Total liabilities | 14.41 | -8.21 | -16.12 | 22.62 | 30.54 |
| Total net assets | 94.92 | -0.10 | -19.89 | 95.02 | 114.81 |
| Cash and cash equivalents | 72.99 | -4.98 | 7.37 | 77.96 | 65.62 |
| - Interest-bearing debt | 0.76 | -0.84 | -8.21 | 1.60 | 8.97 |
| Net cash | 72.23 | -4.14 | 15.58 | 76.36 | 56.64 |
| Goodwill | 1.58 | 0.29 | -28.33 | 1.29 | 29.92 |
| Assets related to titles | 0.19 | -0.08 | -0.85 | 0.27 | 1.04 |

3. Appendix

Breakdown of Group Headcount

Number of employees

| | Group companies | Headcount at End-1Q |
|---------------------------------------------|----------------------------------------------------------------------------|---------------------|
| Japan Game Business | - | 885 |
| Native Game Business | Pokelabo, Wright Flyer Studios | (519) |
| Web Game Business | - | (231) |
| Shared game depts. | - | (135) |
| Native Game Business(Overseas) | Includes GREE International (U.S. Studio), GREE Korea (Korea Studio), etc. | 224 |
| Commerce and Media, Investment, Advertising | Includes Glossom, sekaie, LessonPass, etc. | 230 |
| Corporate, Headquarters | Includes GREE Business Operations | 149 |
| Engineering, Headquarters | - | 102 |
| Total | - | 1,590 |

Note: Includes non-consolidated group companies; as of September 30, 2015



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