

Consolidated Financial Results for the 2nd quarter of FY Ending December 31, 2017
Supplementary Materials

Sales of P&D slightly declined. Company focusing on game development with the presumption of global distribution

■ Summary of Financial Results for the 2nd Quarter of FY Ending December 31, 2017 (Trends of Quarterly Performance)

(Millions of yen)	2016				2017	
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Net sales	31,699	29,743	25,970	25,043	25,723	23,432
Gross profit	21,261	19,719	16,483	16,170	16,503	14,880
SG&A	7,126	7,187	6,600	6,638	6,369	5,575
Salary and allowances	878	874	817	1,067	844	820
Advertising expenses	4,053	4,019	3,636	3,265	3,356	2,595
Others	2,195	2,294	2,147	2,305	2,168	2,159
Operating income	14,134	12,531	9,882	9,532	10,134	9,304
(operating income margin)	(44.6%)	(42.1%)	(38.1%)	(38.1%)	(39.4%)	(39.7%)
Ordinary income	13,965	12,368	9,771	9,975	10,022	9,326
Profit	13,965	11,854	9,785	8,250	9,249	8,714
Profit attributable to owners of parents	9,197	7,609	6,358	4,744	6,075	5,957

■ Although sales of P&D slightly declined, MAU remains at a high level.

【Net Sales】

While the Japanese smartphone game market continued to grow rapidly in parallel with the increasing popularization of smartphones, and is expected to reach ¥960 billion in size in 2017 according to Yano Research Institute Ltd., the speed of that growth has become more gradual in comparison to that taking place thus far, and the market is now transitioning stably.

Meanwhile, the Japanese market for console games had continued to gradually decrease; however, new technologies and ways to enjoy games (such as new kinds of gaming consoles and virtual reality consoles) have been presented to consumers and the creation of new markets is being anticipated.

With respect to net sales for the group during the consolidated cumulative second quarter of this year, our core game Puzzle & Dragons (hereinafter referred to as “P&D”) experienced a decrease in net sales, meaning that we saw a decrease in income year-on-year. Amidst this situation, we have been focusing on initiatives geared toward the development and distribution of new games produced on the presumption of global distribution along with maintaining and expanding our MAU (Monthly Active Users: users who log in to games at least once per month) figures for existing games in order to work toward the creation of new value.

In terms of new games, we commenced distribution in Japan and Asia on February 2, 2017 for LET IT DIE, an online action game for the PlayStation® 4 that we began distributing in North America and Europe on December 3, 2016; the game has been downloaded more than 3 million times across the globe on a cumulative basis as of May 15, 2017.

Our initiatives for the online game LET IT DIE include constant planning of events, addition of in-game items, and major updates including an addition of a new area on June 29, 2017, all of which are aimed at a future expansion of the global user base and contribution to long-term user satisfaction.

In terms of our existing games, P&D is celebrating the fifth year since its release back on February 20, 2012. We have been seeing a firm transition in terms of MAU figures for the title since holding constant events commemorating its fifth year anniversary, collaborating with a popular character from our competitor and implementing updates including the capability of trading monsters. As of July 1, 2017, the game has been downloaded more than 46 million times on a cumulative basis in Japan. In the summer of 2017, we developed the new sensation panel RPG for smartphones, Divine Gate, into a more fast-moving, user-friendly Divine Gate Zero having a new chapter with a new story line.

At GungHo Festival 2017 held at Makuhari Messe on May 28, 2017, we conducted an annual P&D JAPAN CUP, or a P&D contest in Japan, and a new live stage by a list of top artists related to our game.

As a result, net sales for the second quarter of the year were JPY 23,432 million, a decrease against the previous quarter by JPY 2,290 million.

【Selling, general and administrative expenses】

(Salaries and allowances)

As of the end of the second quarter of the year, the number of staff at GungHo alone was 386 (an increase of 1 individual from the previous quarter). Although the consolidated number of staff was 998, an increase of 42 individuals from the previous quarter, salaries and allowances were JPY 820 million, a decrease of JPY 24 million from the previous quarter.

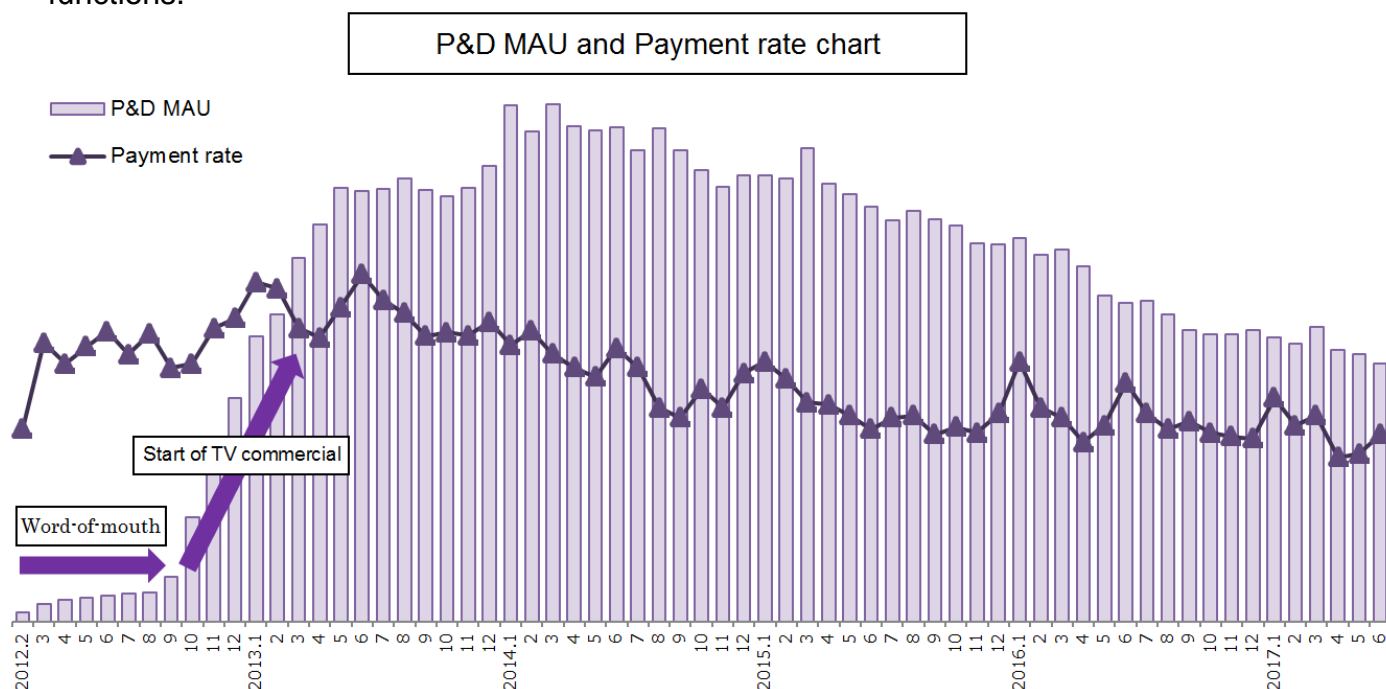
(Advertising expenses)

During the second quarter of the year, we have continued television commercials in Japan for P&D, however some expenses related to baseball events and baseball team sponsoring which we incurred during the first quarter of this year were absent in addition to the improvement of advertising efficiency, our advertising expenses were JPY 2,595 million, a decrease of JPY 760 million.

【Operating profit】

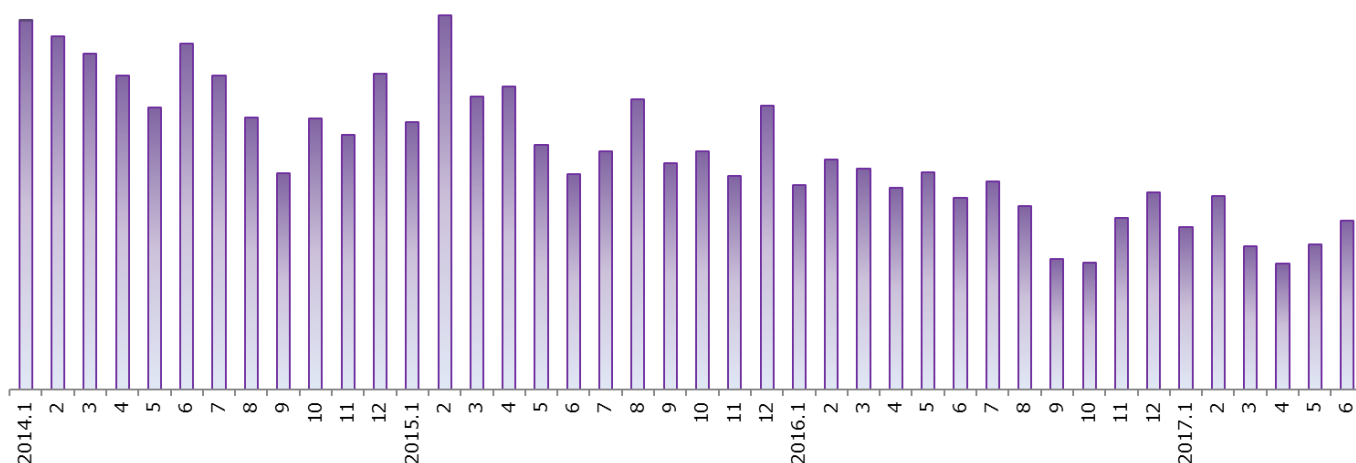
Operating income for the second quarter of the year was JPY 9,304 million, a decrease against the previous quarter of JPY 829 million. This was mainly the result of decrease in sales of P&D.

■ MAU slightly declined but it remains at a high level with the implementation of adding new functions.



P&D was released for iPhone in February 2012. Initially, we carried out promotional activities mainly based on a word-of-mouth approach. Subsequently, when the Android version was released in September 2012, we launched a TV commercial in the following month. With the rapid penetration of smartphones, the number of DLs grew. The number of DLs continued to increase steadily thereafter and exceeded 46million as of July, 2017. Additionally, the number already accounts for over 50% of the smartphone contracts of 77,150,000 (source: MM Research Institute, Ltd., as of March 2016), reflecting a wide reach of P&D in the current market with one of the highest popularity in the nation.

■ GungHo non-consolidated monthly sales



Regarding the non-consolidated monthly sales of GungHo, as a result of implementing monthly in-game events, etc. the Company has been posting high profits for a long time backed by a stable, outstanding level of MAU despite some fluctuations of sales in results from month to month. In the market for mobile phone games, the projected life cycle of a game tended to be short. However, as smartphone games have stronger features as online games, the Company is able to offer games that can continue to attract users on a long term basis by developing/updating games continuously and implementing events effectively based on a proper analysis of user reactions.

■ Consolidated Balance Sheet

(Millions of yen)

	2014				2015				2016				2017	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Current assets	67,006	92,930	130,810	150,905	149,447	86,796	84,794	99,413	97,959	108,669	35,731	47,183	49,721	58,240
Cash and deposits	48,078	73,145	115,737	132,099	128,688	71,661	68,491	81,045	85,629	95,813	25,726	33,876	36,375	44,613
Accounts receivable-trade	16,951	17,017	12,810	16,094	18,199	12,116	13,669	15,024	9,263	9,443	6,579	9,063	10,462	10,518
Short-term investment securities	486	500	520	543	760	1,035	1,354	1,388	1,120	1,015	1,245	1,302	1,352	1,326
Work in process	56	35	53	63	103	118	83	1	29	48	68	82	53	103
Deferred tax assets	805	1,511	812	1,295	564	1,110	383	778	407	793	311	517	156	307
Others	627	720	876	809	1,131	753	811	1,174	1,509	1,553	1,800	2,341	1,322	1,370
Non-current assets	36,497	36,114	6,625	10,175	10,243	10,446	10,929	8,665	9,785	10,066	9,583	7,848	6,674	6,240
Property, plant and equipment	372	389	368	405	349	322	271	256	509	1,067	913	39	45	20
Intangible assets	2,618	2,666	2,449	4,484	4,715	4,818	4,721	3,597	3,802	3,677	2,973	2,397	1,443	880
Goodwill	297	248	14	1,493	1,419	1,369	1,266	0	0	0	0	0	0	0
Software	1,597	1,619	1,646	1,778	1,511	1,357	1,107	595	600	572	833	1,876	871	184
Software in progress	671	750	737	1,158	1,724	2,015	2,272	2,925	3,123	3,017	2,052	433	478	599
Others	52	48	50	53	59	75	74	76	77	87	87	88	93	96
Investments and other assets	33,506	33,058	3,806	5,285	5,178	5,305	5,935	4,811	5,473	5,321	5,697	4,636	4,484	4,694
Investment securities	30,109	29,346	0	2,629	2,647	2,701	2,636	1,620	1,524	1,392	1,368	349	335	334
Deferred tax assets	1,334	1,324	1,393	652	531	575	564	502	621	677	981	1,116	1,097	1,497
Others	2,062	2,387	2,413	2,003	2,000	2,027	2,734	2,688	3,327	3,251	3,347	3,170	3,051	2,861
Total assets	103,503	129,045	137,436	161,081	159,691	97,243	95,723	108,078	107,745	118,735	45,315	55,032	56,396	64,480
Current liabilities	14,504	25,362	17,218	28,466	16,224	22,751	11,009	17,065	11,930	15,286	8,199	12,822	9,990	11,617
Notes and accounts payable-trade	562	344	426	579	455	494	455	406	354	467	348	561	1,023	1,334
Short term loans payable									772	765			271	200
Current portion of long-term loans payable	106	96	87	476	931	943	934	936	214	193	178	195	147	143
Income taxes payable	9,048	19,452	10,431	19,612	8,008	15,419	4,728	10,209	4,736	9,593	3,230	6,948	2,909	6,150
Others	4,787	5,468	6,273	7,797	6,828	5,893	4,891	5,512	5,852	4,265	3,677	4,312	5,638	3,788
Non-current liabilities	1,207	1,202	1,193	1,411	811	701	663	656	720	1,139	1,101	1,225	1,183	1,524
Long term loans payable	825	803	782	1,009	277	257	198	158	105	62	87	123	100	139
Others	382	398	410	401	533	444	465	498	614	1,077	1,014	1,101	1,083	1,384
Total liabilities	15,712	26,564	18,412	29,877	17,035	23,452	11,673	17,721	12,651	16,425	9,301	14,047	11,173	13,142
Shareholder's equity	83,467	98,497	116,120	128,443	140,128	71,301	82,251	88,430	93,310	100,920	34,278	39,023	42,965	48,923
Capital stock	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338
Capital surplus	5,471	5,471	5,471	5,471	5,471	5,471	5,471	5,469	5,469	5,469	5,469	5,469	5,469	5,469
Retained earnings	75,438	90,468	108,091	120,414	132,099	102,805	113,756	119,937	124,817	132,427	103,601	108,346	112,288	118,246
Treasury shares	-2,780	-2,780	-2,780	-2,780	-2,780	-42,314	-42,314	-42,314	-42,314	-42,314	-80,130	-80,130	-80,130	-80,130
Accumulated other comprehensive income														
Foreign currency translation adjustment	1,606	1,253	188	414	213	388	-224	109	-28	-282	-237	-164	-38	-68
Others	0	0	0	48	167	126	261	-11	0	0	0	0	0	0
Total Accumulated other comprehensive income	1,606	1,253	188	462	380	514	37	109	-28	-282	-237	-164	-38	-68
Non Controlling Interests	2,715	2,730	2,715	2,297	2,146	1,950	1,660	1,639	1,560	1,344	1,604	1,696	1,805	1,894
Total non-current assets	87,790	102,481	119,023	131,203	142,656	73,790	84,049	90,356	95,094	102,309	36,013	40,984	45,222	51,338
Total assets	103,503	129,045	137,436	161,081	159,691	97,243	95,723	108,078	107,745	118,735	45,315	55,032	56,396	64,480

■ Consolidated Profit and Loss Sheet

(Millions of yen)

	2014					2015					2016					2017	
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	1Q	2Q
Net sales	49,909	44,424	38,494	40,241	173,069	44,618	37,722	36,878	35,110	154,329	31,699	29,743	25,970	25,043	112,457	25,723	23,431
Cost of sales	16,048	14,198	12,544	13,198	55,989	14,392	12,796	12,148	11,656	50,993	10,438	10,023	9,487	8,873	38,822	9,219	8,551
Cost of sales ratio	32.16%	31.96%	32.59%	32.80%	32.35%	32.26%	33.92%	32.94%	33.20%	33.04%	32.93%	33.70%	36.53%	35.43%	34.52%	35.84%	36.50%
Gross profit	33,860	30,225	25,950	27,043	117,080	30,226	24,925	24,730	23,453	103,335	21,261	19,719	16,483	16,170	73,635	16,503	14,880
Total selling, general and administrative expenses	5,071	5,242	6,281	6,201	22,797	6,545	7,142	7,335	9,886	30,910	7,126	7,187	6,600	6,638	27,553	6,369	5,571
Salaries, wages and bonuses etc.	619	649	653	1,031	2,953	845	838	842	1,046	3,573	878	874	817	1,067	3,638	844	820
Advertising & marketing	2,963	3,086	4,164	3,268	13,483	3,946	4,492	4,583	6,957	19,979	4,053	4,019	3,636	3,265	14,973	3,356	2,591
Others	1,488	1,506	1,463	1,902	6,360	1,754	1,811	1,910	1,882	7,357	2,195	2,293	2,147	2,305	8,941	2,168	2,150
Operating profit	28,789	24,982	19,669	20,841	94,283	23,680	17,783	17,394	13,566	72,425	14,134	12,531	9,882	9,532	46,081	10,134	9,309
Operating profit ratio	57.68%	56.24%	51.10%	51.79%	54.48%	53.07%	47.14%	47.17%	38.64%	46.93%	44.59%	42.13%	38.05%	38.06%	40.98%	39.40%	39.71%
Non-operating profit	39	35	35	182	293	117	51	155	-23	300	32	25	21	18	98	21	30
Interest income	33	32	32	68	166	48	42	29	28	148	22	12	12	12	60	13	14
Foreign exchange gains	0	0	0	88	88	56	-7	108	-54	102	0	0	0	6	6	0	0
Others	6	3	3	25	39	12	16	18	2	49	9	12	9	0	31	7	16
Non-operating expenses	734	318	-4	3	1,052	22	76	20	0	119	201	188	133	-423	98	132	0
Interest expenses	6	6	6	6	26	12	12	10	8	44	7	7	6	6	28	5	0
Treasury stock acquisition costs	0	0	0	0	0	0	58	0	0	58	0	0	53	0	53	0	0
Equity in losses of affiliates	725	295	0	0	1,021	0	0	0	0	0	0	0	0	0	0	0	0
Foreign exchange losses	1	15	-11	-6	0	0	0	0	0	0	186	179	67	-432	0	125	-1
Others	0	0	0	3	4	9	6	9	-9	16	7	1	5	2	17	1	0
Ordinary profit	28,095	24,699	19,709	21,020	93,524	23,775	17,757	17,529	13,543	72,606	13,965	12,368	9,771	9,975	46,081	10,022	9,329
Extraordinary profit	0	0	7,591	0	7,591	0	0	0	66	66	0	0	0	0	0	0	0
Gain on sales	0	0	7,591	0	7,591	0	0	0	0	0	0	0	0	0	0	0	0
Loss on valuation of stocks of subsidiaries and affiliates	-	-	-	-	-	-	-	-	66	66	-	-	-	0	0	-	-
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary loss	0	39	184	1	225	0	23	181	2,636	2,841	0	514	-14	1,724	2,225	773	611
Impairment loss	0	39	184	1	225	0	23	204	1,698	1,902	0	514	500	564	1,064	773	1,381
Loss on valuation of investment securities	-	-	-	-	-	-	-	-	938	938	-	-	-	1,160	1,160	-	-
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Profit before income taxes and Non Controlling Interests	28,095	24,660	27,116	21,018	100,890	23,775	17,734	17,348	10,973	69,832	13,965	11,854	9,785	8,250	43,856	9,249	8,710
Profit Attributable To Owner Of Parent	17,063	15,029	17,622	12,323	62,038	15,128	11,172	10,950	6,180	43,432	9,197	7,609	6,358	4,744	27,911	6,075	5,951

■The number of downloads

(Unit: ten thousand)

Puzzle & Dragons (Japan)

Reached date	Downloads
2012/2/20	Launch
2012/7/15	100
2012/10/17	200
2012/11/5	300
2012/11/22	400
2012/12/12	500
2012/12/31	600
2013/1/18	700
2013/1/30	800
2013/2/18	900
2013/3/9	1,000
2013/3/25	1,100
2013/4/9	1,200
2013/4/28	1,300
2013/5/18	1,400
2013/6/8	1,500
2013/6/29	1,600
2013/7/22	1,700
2013/8/16	1,800
2013/9/14	1,900
2013/10/14	2,000
2013/11/15	2,100
2013/12/15	2,200
2014/1/4	2,300
2014/1/31	2,400
2014/3/1	2,500
2014/3/23	2,600
2014/4/20	2,700
2014/5/27	2,800
2014/7/8	2,900
2014/8/15	3,000
2014/9/25	3,100
2014/11/16	3,200
2014/12/31	3,300
2015/2/19	3,400
2015/3/28	3,500
2015/5/15	3,600
2015/7/17	3,700
2015/9/20	3,800
2015/11/24	3,900
2016/1/26	4,000
2016/3/30	4,100
2016/6/17	4,200
2016/9/11	4,300
2016/12/24	4,400
2017/3/19	4,500
2017/7/1	4,600

Puzzle & Dragons (North America)

Reached date	Downloads
2012/11/8	Launch
2013/7/27	100
2013/10/30	200
2014/3/7	300
2014/5/22	400
2014/9/16	500
2014/12/31	600
2015/5/6	700
2015/9/29	800
2015/12/30	900
2016/5/1	1,000
2016/11/4	1,100

Puzzle & Dragons (South Korea)

Reached date	Downloads
2013/1/21	Launch
2013/7/1	100
2014/3/15	200

Puzzle & Dragons (Hong Kong, Taiwan)

Reached date	Downloads
2014/1/23	Launch
2014/3/11	100
2014/12/17	200

Princess Punt Sweets (Japan)

Reached date	Downloads
2012/11/19	Launch
2013/1/15	100
2013/2/13	200
2013/5/5	300
2013/8/17	400
2013/9/15	500
2013/10/23	600
2014/1/10	700
2014/4/12	800
2014/9/14	900
2015/6/20	1,000
2016/4/3	1,100

Divine Gate

Reached date	Downloads
2013/9/30	Launch
2013/10/26	100
2014/1/23	200
2014/9/20	300
2015/4/14	400
2015/11/29	500

SUMMONS BOARD

Reached date	Downloads
2014/2/10	Launch
2014/4/1	100
2014/11/9	200
2015/6/19	300
2015/10/4	400
2017/3/1	500

Disney Magic Kingdoms

Reached date	Downloads
2016/10/3	Launch
2016/10/22	100
2017/4/13	200

LET IT DIE

Reached date	Downloads
2016/12/3	Launch
2016/12/30	100
2017/2/14	200
2017/5/15	300