COMPANY PROFILE

Ubisoft Entertainment S.A.
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COMPANY OVERVIEW

Ubisoft Entertainment SA (Ubisoft or “the group”) is a developer, publisher and distributor of interactive entertainment and services. The group primarily operates in Europe, the US, Canada and Asia-Pacific. It is headquartered in Montreuil-Sous-Bois, France and employed about 9,281 people as of March 31, 2014.

The group recorded revenues of €1,007.1 million ($1,349.7 million) during the financial year ended March 2014 (FY2014), a decrease of 19.8% compared to FY2013. The operating loss of the group was €97.9 million ($131.3 million) in FY2014, compared to an operating profit of €87.9 million ($117.8 million) in FY2013. The net loss of the group was €65.5 million ($87.8 million) in FY2014, compared to a net profit of €64.8 million ($86.9 million) in FY2013.

KEY FACTS

| Head Office | Ubisoft Entertainment S.A.  
|             | 28 rue Armand Carrel  
|             | 93108 Montreuil-Sous-Bois  
|             | Paris  
|             | FRA  
| Phone       | 33 1 48 18 50 00  
| Fax         | 33 1 48 57 07 41  
| Web Address | http://www.ubisoft.com/  
| Revenue / turnover (EUR Mn) | 1,007.1  
| Financial Year End | March  
| Employees | 9,281  
| Euronext Paris Stock Exchange Ticker | UBI  

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SWOT ANALYSIS

Ubisoft Entertainment SA (Ubisoft or “the group”) is a developer, publisher and distributor of interactive entertainment and services. The group's strong market position and widespread business operations provide a wider base for revenue generation and it also reduces business risk by reducing vulnerability to country specific risks. However, intense competition may adversely impact the group's market share, results of operations and its profitability.

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Strengths

Strong market position and widespread business operations

Ubisoft has established a strong market position in the gaming industry over the years. According to the group, it is the third independent video game publisher in the UK video game market. In the third quarter of FY2015, Ubisoft was the third independent publisher in the US and Europe with 10.1% and 14.3% market share respectively. In addition, the group has strengthened its presence in on social media and within gaming communities and established a customer base of million fans on Facebook, and 74 million players through Uplay, its online distribution and services’ platform.

The group has operations in 30 countries in North America, EMEA and Asia Pacific. Ubisoft has established an extensive distribution network by virtue of its strong international operations. The group’s international operations are managed by local subsidiaries that develop and market products according to the local preferences. The group also offers direct distribution via its Uplay, a digital distribution, digital rights management, multiplayer and communications service. Due to its global reach, the group has also become a major worldwide distributor and marketer of video games.
The group’s strong market position and widespread business operations provide a wider base for revenue generation and it also reduces business risk by reducing vulnerability to country specific risks.

Growth through acquisitions

Ubisoft has established leadership position in the gaming industry through inorganic growth strategy. In 2013, the group acquired THQ Montreal and two companies specializing in free-to-play games, including Digital Chocolate and Future Games of London. These acquisitions enabled the group to develop and distribute casual games for mobiles and social networking. Its acquisitions in 2011 include Owlcient, specializing in free-to-play games, and RedLynx, specializing in downloadable games. These acquisitions aligned with the group’s strategy of establishing its position as the creator and developer of online gaming. The group’s previous acquisitions also align with the same strategy. These include Nadeo studio and Tom Clancy name for video games and ancillary products, and of the Massive Entertainment studio. Previously, the group acquired Red Storm Entertainment and Blue Byte Software. These acquisitions established Ubisoft as one of leading independent publishers.

Ubisoft’s inorganic growth strategy enabled it to establish a strong position in the gaming market and diversify its product offerings. Further, it would enable the group drive growth from the growing online gaming market.

Weaknesses

Dependence on console manufacturers

A significant part of the group’s business comes from selling video games for consoles. Ubisoft purchases cartridges and gaming media from console manufacturers such as Sony, Nintendo and Microsoft. The supply is subject to prior approval of the manufacturers, the production of these media in sufficient quantities and the establishment of royalty rates. Any change in terms of sale by manufacturers could have a material impact on the group’s results. The console manufacturers are large players and market leaders in the gaming market and are therefore enjoy higher bargaining power compared to Ubisoft, thereby, increasing the vulnerability of the group’s revenues and operating margins to the supplier’s business policies.

Lack of scale

The group lacks scale when compared to its peers operating in the same industry. The group recorded revenues of €1,007.1 million ($1,349.7 million) in FY2014. Comparatively, Activision Blizzard recorded revenues of $4,408 million in FY2014 (year ended December 2014). The group also reported negative operating and net margins in FY2014. Ubisoft had a negative operating margin of 9.7% and a negative net profit margin of 6.5% during FY2014. Comparatively, the group’s competitor, Activision Blizzard recorded an operating margin of 26.8% and a net profit margin of 18.9% during FY2014.
Negative margins indicate the ineffective allocation of funds by the group. In addition, large scale of operations enables the group's competitors to leverage on their facilities and technologies to achieve large contracts and expand operations. The group's lack of scale compared to its peers limits its ability in pursuing large scale expansion plan.

Opportunities

Strong growth in mobile gaming market

The mobile gaming industry is expected to record strong growth in the coming years. According to industry estimates, the mobile games market is predicted to grow at a rate of 27.3% annually to reach $24 billion by 2016. The growth is expected to be driven by increasing number of players, payers, as well as a higher average spend per paying mobile gamer. The tablet games market is expected to grow four fold until 2016, to reach $10 billion. Moreover, Western Europe, North America and Asia Pacific are expected to remain the most appealing markets for mobile game publishers.

The group is focusing on strengthening its presence in the mobile gaming industry. Ubisoft made significant investments over the years to enhance its presence in mobile gaming market. The group released Trials Frontier during FY2014, which had more than 10 million downloads on iOS, indicating its growing presence in the mobile gaming market. Further, in June 2014, Ubisoft launched Just Dance 2015 for consoles and Just Dance Now that allows players to play Just Dance tracks with their smartphones and any internet-connected screen. Similarly in FY2013, the group acquired mobile game developer, Future Games of London, the UK. Established in 2009, Future Games of London (FGOL) is exclusively focused on developing free-to-play games for mobiles and tablets. This acquisition is expected to boost the group's footprint in the growing mobile games market. Furthermore, the group is also developing mobile games that will have cloud save system which will enable gamers to swap devices without interrupting the game.

Positive outlook for mobile gaming industry will enhance Ubisoft's revenues, thereby supporting the topline growth.

Robust growth in games software market

The global games software market experienced strong growth during 2013 and the market is forecasted to continue growing strongly over the forecast period to 2017. According to MarketLine (a unit of Informa), the global games software market is expected to grow at a compound annual growth rate (CAGR) of 4% during 2013-17 and reach $34.6 million in 2017.

The group offers a range of games that appeal to both the core and casual gamers. Its game portfolio includes a combination of graphics, storylines and characters, along with diverse challenges and gameplay, as well as advanced artificial intelligence. The group released a range of games during FY2014, including Rayman Legends, Far Cry 3 Blood Dragon, Just Dance 2014, Rocksmith 2014 and Splinter Cell Blacklist, Assassin's Creed IV Black Flag and South Park: The Stick of Truth among
others. Popular game franchises of the group include Assassin's Creed, Just Dance, Tom Clancy's Splinter Cell, Petz, Rayman, Prince of Persia, and Driver, among others.

The strong outlook for the global games software market will translate into improved demand for the group's offerings and will support the group's top line growth.

Growing presence in emerging markets

Ubisoft opened a new Russian subsidiary based in Moscow, in October 2014. Through this, the group intends to provide community development and support to Russian customers, and work closely with partners to increase marketing and sales growth in the emerging Russian videogame market. The Russian market is continuing to expand across almost all formats and platforms. According to industry estimates, online gaming market is booming and is expected to grow by 20% until 2016. Further, number of mobile gamers in Russia is expected to increase annually to reach over 60 million by 2016. In addition, Russia recorded the largest number of total active players for Ubisoft's The Crew. The group's focus on strengthening its presence in growing markets coupled with the strong market growth will enable Ubisoft to enhance its market presence and drive revenue growth in the future.

Focus on business diversification

Ubisoft is focused on diversifying its business and establish its presence in entertainment industry. In line with this strategy, In February 2014, Ubisoft and Sony Pictures Entertainment partnered to develop a full-length feature film based on the Rabbids, from its television (TV) series and videogames. The group launched Rabbids TV in nearly 25 countries. Further, it recorded more than 300 million times during the first nine months and was positioned as one of the top 10 of the 200 global cartoons. In addition, the group signed to screen its second season in partnership with Nickelodeon and France Televisions. The group also has its focus on releasing feature-length films based on its franchises developed in close collaboration with New Regency, Fox, Sony and Warner Bros. In addition, Ubisoft marked its presence in the theme parks with the development of Rabbids ride at Futuroscope, an amusement park in France. Moreover, Ubisoft also intends to develop its merchandising activities, especially in toys and clothing. The group's focus on business diversification will enable Ubisoft to offset the continuing decline in the console market. It would also allow Ubisoft to diversify its revenue streams and maintain a steady inflow of income enabling it to focus on future growth investments.

Threats

Intense competition

Ubisoft operates in a highly competitive interactive software industry. Competition in the entertainment software industry is based on innovation, features, playability, and product quality; brand name recognition; compatibility with popular platforms; access to distribution channels; price; marketing; and customer service. The group competes with existing and evolving entertainment software titles,
hardware for adequate levels of shelf space and promotional support. The group also faces new challenges such as the dematerialization of physical media, which is set to gradually replace games boxes in the near future, the second-hand market, piracy, online games and emerging competitors in Asia. In the publishing segment, the group competes with companies that range in size and cost structure from very small with limited resources to very large companies with greater financial, marketing and technical personnel and other resources. In the physical game sector, the group competes with Electronic Arts, Activision, Take-Two and Nintendo. Similarly in the online gaming sector, it competes with Electronic Arts, Activision, Tencent, King Entertainment, Supercell and Zynga.

The group's titles also compete with other forms of entertainment such as motion pictures, television and audio and video products featuring similar themes, online computer programs and other forms of entertainment that are less expensive. Intense competition may adversely impact the group's market share, results of operations and its profitability.

Technological changes and transition in console platforms

The rapid technological change in the gaming industry coupled with the transitions in console platforms may impact the group's performance. The group's market is characterized by rapid technological changes, evolving industry standards, frequent new product introductions and short product life cycles. New products introduced by Ubisoft may not achieve significant market acceptance or achieve sufficient sales to recover development, manufacturing and marketing costs. In the past, only a few interactive entertainment software products have achieved sustained market acceptance. In addition, delays in product releases or disruptions in the release of one or more new products could adversely affect the operating results of the group. Short lifecycles of products have been adversely affecting the gaming business, and these trends are expected to further increase their impact in the future.

Furthermore, during platform transitions, the group may simultaneously incur costs both in developing and marketing new titles for prior-generation video game platforms, which may not sell at premium prices, and also in developing products for current-generation platforms, which will not generate immediate or near-term revenue. As a result, Ubisoft's operating results during platform transitions may be more volatile. Any failure to successfully adapt to emerging technologies could harm Ubisoft's competitive position, reduce its market share and have an adverse effect on its revenues.

Growing software piracy

Ongoing piracy problems continue to impact the growth for players in the entertainment industry. Unauthorized copying of the Ubisoft's titles and reverse engineering of the products would enable duplicating of the programming techniques proprietary to the group and creation of similar competitive products. Further, in some countries where Ubisoft's products are distributed, the laws do not protect the group's products and intellectual property rights to the same extent as the laws of the US. Legal protection of Ubisoft's rights may be ineffective in such countries. Moreover, the rapid expansion of broadband internet access may aggravate these problems by making it possible to transmit digital files faster and more easily. Though the industry is taking various steps worldwide to prevent piracy, it still remains one of the major factors affecting potential revenues. In the recent years, organized
piracy has evolved rapidly, enabling copying of the pirated titles through internet. The increasing piracy will adversely affect the business value of Ubisoft's products and thereby its revenues.