

Explanation on FY2014 Q2

(2013/7/1 – 2013/9/30)



Gala Inc.

2013/11/14

(This is a translation. Original shall prevail.)

I . FY2014 Q2 Financial Statement

~Quarterly P/L (Summary)~



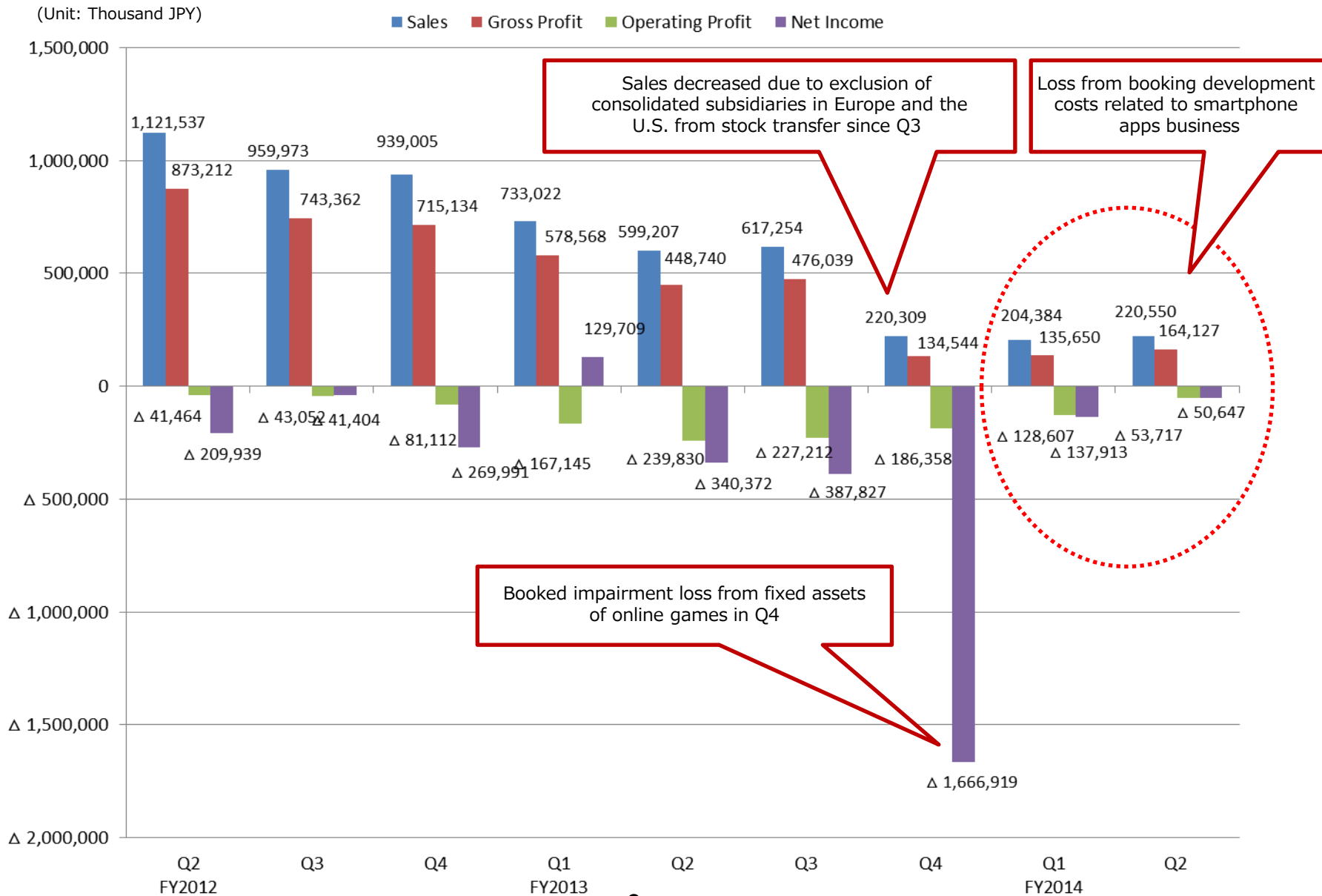
(Unit : Thousand JPY)

	Q2 (2013/7~9)	Previous Qtr. (Q1) (2013/4~6)		Same Qtr. in Previous FY (2012/7~9)	
			% Change (FY2014 Q2 vs. FY2014 Q1)		% Change (FY2014 Q2 vs. FY2013 Q2)
Sales	220,550	204,384	7.9%	599,207	△63.2%
Cost of Sales	56,423	68,733	△17.9%	150,467	△62.5%
Gross Profit	164,127	135,650	20.1%	448,740	△63.4%
SGA	217,845	264,258	△17.6%	688,571	△68.4%
Operating Profit	△53,717	△128,607	-	△239,830	-
Ordinary Profit	△34,241	△110,148	-	△255,837	-
Quarterly Net Income	△50,647	△137,913	-	△340,372	-

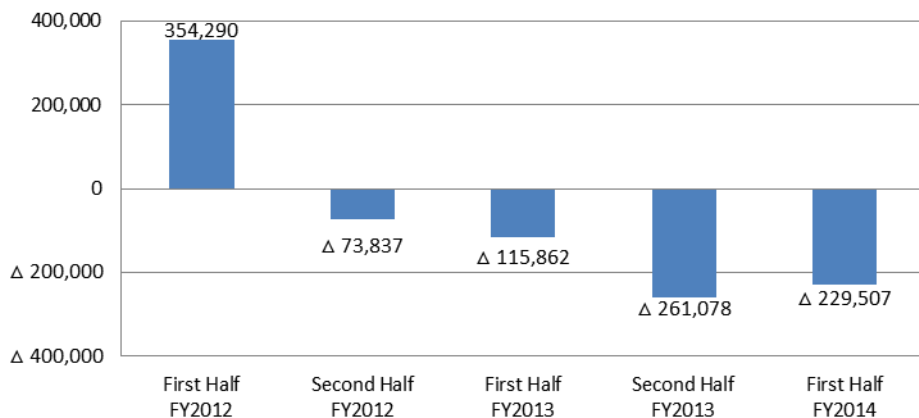
- ◆ Compared to Q1, sales of existing game titles of online games decreased in all regions except China. However, sales were booked in other business (online MG) and contributed to 7.9% sales increase. Compared to the same quarter in previous fiscal year, stock transfer of companies in Europe and the U.S. excluded from consolidation led to major change in Group structure that resulted in significant decrease in sales.
- ◆ Smartphone apps business: Apps development is ongoing but there has been no sales contribution as of Q2. Costs related to initial investment was booked.
- ◆ SGA decreased as cost-cutting continued in Q2.

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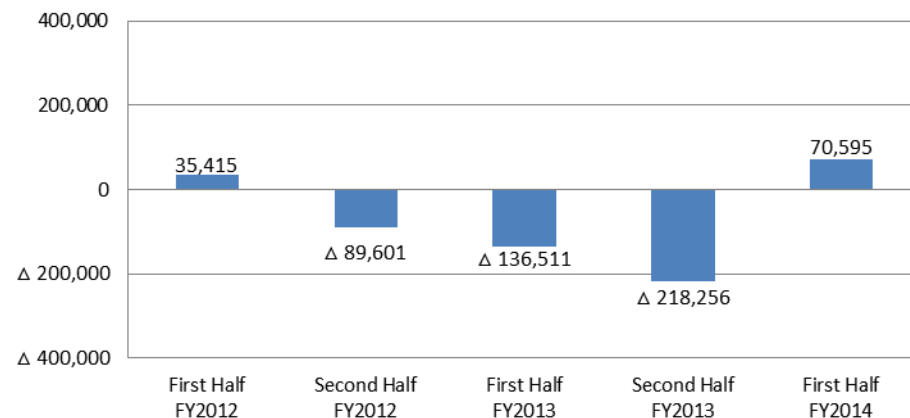
~P/L Trend (Sales · Gross Profit · Operating Profit · Net Income)~



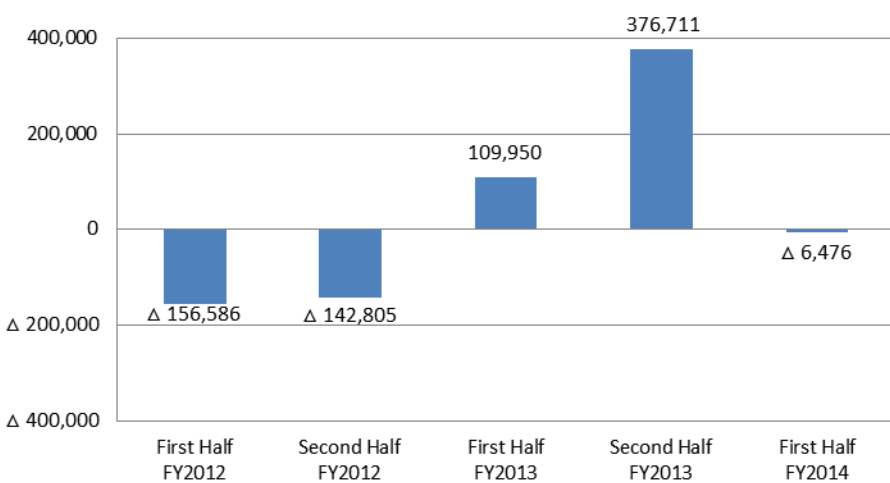
CF from Operating Activities



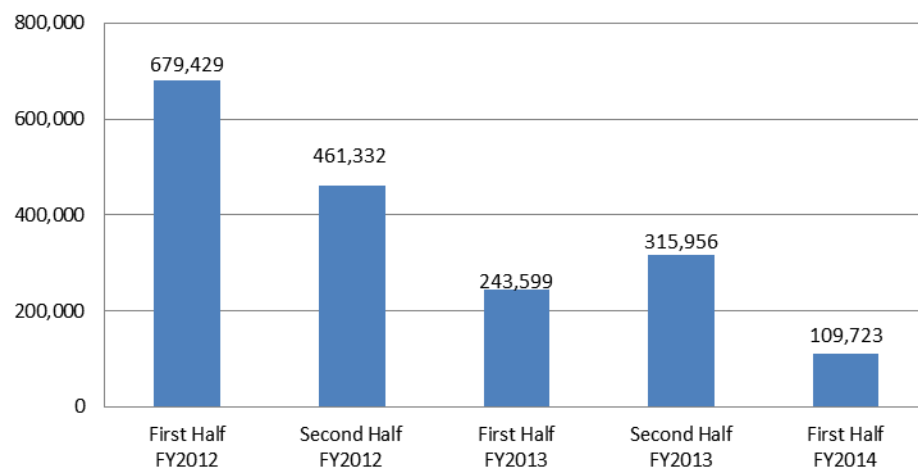
CF from Financing Activities



CF from Investing Activities



Cash and Cash Equivalents



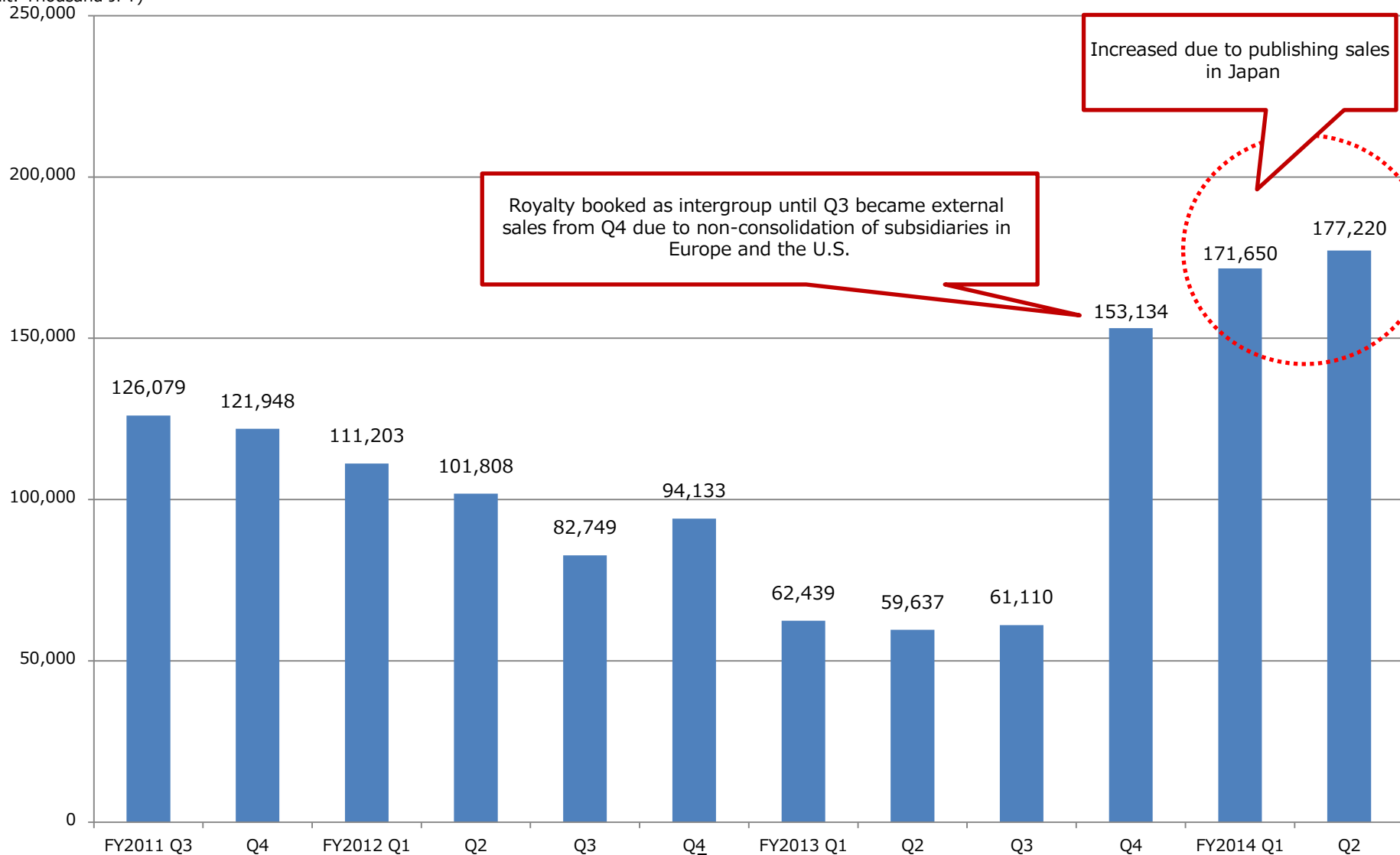
Japan Segment

(Unit: Thousand JPY)



Korea Segment

(Unit: Thousand JPY)



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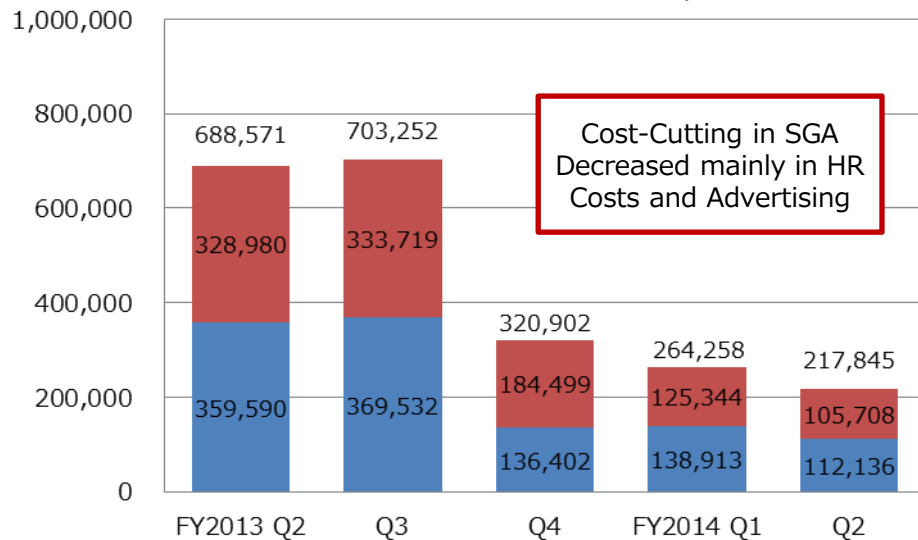
~Quarterly SGA and HR (Consolidated) ~

(Unit: Thousand JPY)

	Q2 (2013/7~9)	Previous Qtr. (Q1) (2013/4~6) % Change (FY2014 Q2 vs. FY2014 Q1)		Same Qtr. in Previous FY (2012/7~9) % Change (FY2014 Q2 vs. FY2013 Q2)	
		HR Cost	112,136	138,913	△19.3%
Other Cost	105,708	125,344	△15.7%	328,980	△67.9%
Total SGA	217,845	264,258	△17.6%	688,571	△68.4%

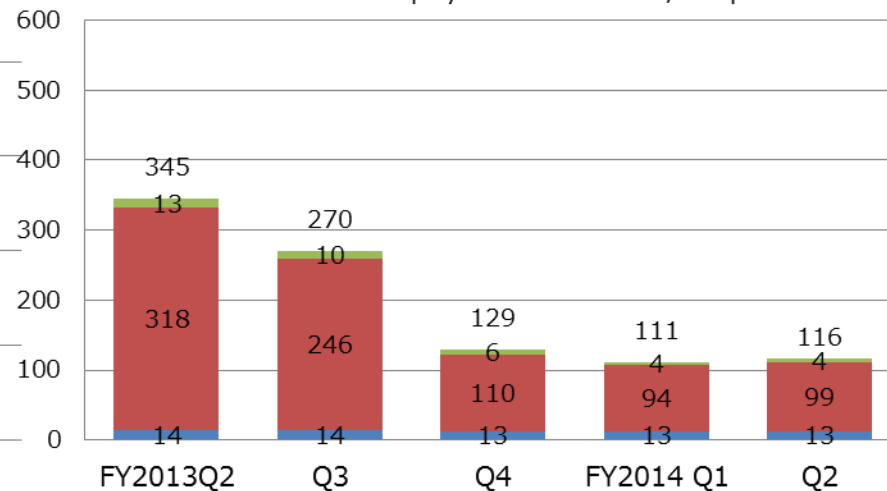
(Unit: Thousand JPY)

■ HR ■ SGA-Other Expense



(Unit : Person)

■ Directors ■ Employees ■ Part-timers/Temp



Starting New Business (Projects)

- ◆ Overseas expansion support related to domestic game apps
 - translation, press releases, operation and payment gateways
 - advertising activities

- ◆ Social apps for overseas “otaku”
 - development and service of apps that uses user interaction and relationships as key function
 - plan to use “Pleez” voting system
 - plan to begin service from English then in other languages

- ◆ Game ad networks for overseas
 - Gather game apps for advertising medium and build “ad distribution network” in order to distribute ad at once
 - Build ad network primarily for Japanese game apps targeted to overseas “otaku”
Advantage(s) to :
 - Domestic game apps development companies :
 - Distribute ad to various game apps at once
 - Expect effective advertising medium since users are interested in the ad content
 - Use this opportunity to expand overseas
 - Overseas “otaku” :
 - Find Japanese game apps easily

*Otaku : Fan of Japanese sub-culture. Japanese anime, idols, games and anything related to them.
Gala Pocket will target otaku that likes Japanese game apps.

「Dungeons&Golf」 (currently in development)

iOS and Android game apps

- ◆ Engaged in contract with the developer App Bank Games Inc. for license outside of Japan.
- ◆ Developing Android version and multi-lingualisation and localization for iOS by Gala Lab Corp., Korean-based subsidiary
- ◆ Adjusting service release date



 APPBANK GAMES





「Masquerade」

- Q2
 - ◆Channeling service with Game Yarou Inc. in Japan began on Sep. 26, 2013



「Zenobian」

- Q2
 - ◆Channeling service with Game Yarou Inc. in Japan began on Sep.11, 2013
 - ◆Contract on channeling service in Russia with Fun Factory LLC on Sep. 12, 2013
- Q3
 - ◆Contract on channeling service in Malaysia, Singapore, and the Philippines with Eaglegame



「Rappelz」

- Q2
 - ◆ Released updated version in Middle East, France, Germany, Poland, Turkey, Italy, and the U.S.
- Q3
 - ◆ Plan channeling service with Game Yarou Inc. in Japan
 - ◆ Plan to release updated version in Korea



「Eternal Blade」

- Q3
 - ◆ Plan update in Korean and Japanese

In-house Developed Games Provided in the Following Regions (as of Sep.30,2013)

Game Title	Publisher																	
	Europe							Asia										
	English	German	French	Turkish	Polish	Italian	Russian	Japanese	Korean	Philippines	Thailand	Malaysia	Singapore	Indonesia	China	Taiwan	Arabic	
Flyff Online	Webzen Dublin							Gala Lab		Level up	INI3				Net Ease	Macrowell		
Rappelz	Webzen Dublin					FUN FACTORY			Gala Lab	Eaglegame International		Eaglegame (M) Sdn. Bhd				Game Assasin Entertainment	Game Power7	
Eternal Blade	Webzen Dublin						GAULE REVOLUTION								Wave Game			
Masquerade										Gala Lab								
Zenobian							FUN FACTORY											

. . . Commercialized

. . . Preparing

. . . Gala Group

「Online Senryaku MG」

- ◆ Management simulation game targeted to corporation and educational institutions
 - service began on Sep. 21, 2012
 - won “e Management Simulation Category Award” at the Ninth Japan e-Learning Awards in November, 2012
 - business model: service charge
- ※ Began service in commercial high schools in Hokkaido as study tool for business game practice.

