

Explanation on FY2016 Q2

(2015/7/1 – 2015/9/30)



Gala Inc.

2015/11/13

This is a translation.

Q2 Topics (2015.07 – 2015.09)

[Business]

◆ Smartphone Apps

<Game Apps Download Began>

- Puzzle Game Apps “Flyff Puzmon” Japanese version released globally on Google Play and iTunes Store
- Negotiation and License Agreement on real-time MMORPG apps “Arcane” developed by PlayWorks Corp.
License Agreement signed on Japanese and English version of the apps in Q3 (October 2015)

[Others]

- July 2015: Third-party allotment by Gala Lab Corp.
Gala Inc.’s ownership: 70% (no change)
- September 2015: Established Gala Mix Inc. in Korea
Gala Inc.’s ownership: 60%

I . Q2 Financial Statement

~Qtrly P/L (Summary) ~

(Unit: Thousand Yen)

	Q2 (2015/7/1 - 2015/9/30)	FY2016 Q2 vs FY2016 Q1 (2015/7/1 - 2015/9/30 vs 2015/4/1-2015/6/30)		FY2016 Q2 vs. FY2015 Q2 (2015/7/1 - 2015/9/30 vs 2014/7/1-2014/9/30)	
				Change	Change
Sales	116,198	131,885	△11.9%	172,815	△32.8%
COS	21,331	35,099	△39.2%	46,136	△53.8%
Gross Profit	94,866	96,785	△2.0%	126,679	△25.1%
SGA	176,345	336,032	△47.5%	174,383	1.1%
Operating Profit	△81,478	△239,246	-	△47,704	-
Ordinary Profit	△84,177	△237,869	-	△31,193	-
Net Income	△86,418	△234,792	-	△34,146	-
Net Income attributable to the non-controlling interests	△3,315	△2,462		-	
Net Income attributable to parent company	△83,102	△232,329		△34,146	

◆ Sales: Despite the sales increase of online games after updating the games, sales of “Flyff All Stars” Japanese version decreased that resulted in 11.9% decrease in overall sales comparing FY2016 Q2 and FY2016 Q1. Also, comparing FY2016 Q2 and FY2015 Q2, online games sales decreased. In addition, sales from “other business” which was sales of Gala Web Inc. is no longer consolidated due to the stock transfer of this consolidated company also led to sales decrease. This resulted in 32.8% decrease in overall sales.

◆ SGA: “Flyff All Stars” Japanese TVCM and promotional costs booked in SGA in FY2016 Q1 was a temporary increase in SGA; SGA of the second qtr. decreased by 47.5% compared to FY2016 Q1.

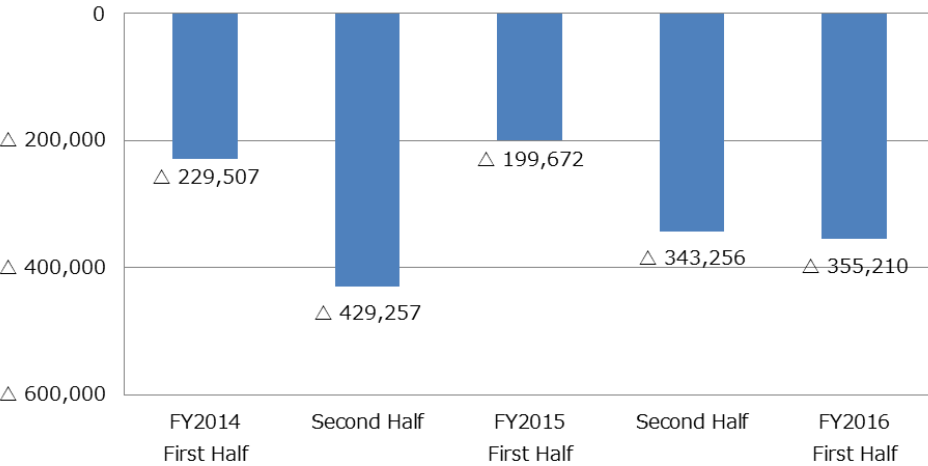
I . Q2 Financial Statement

~Qtrly Trend (Sales, Gross Profit, Operating Profit, Net Income)~

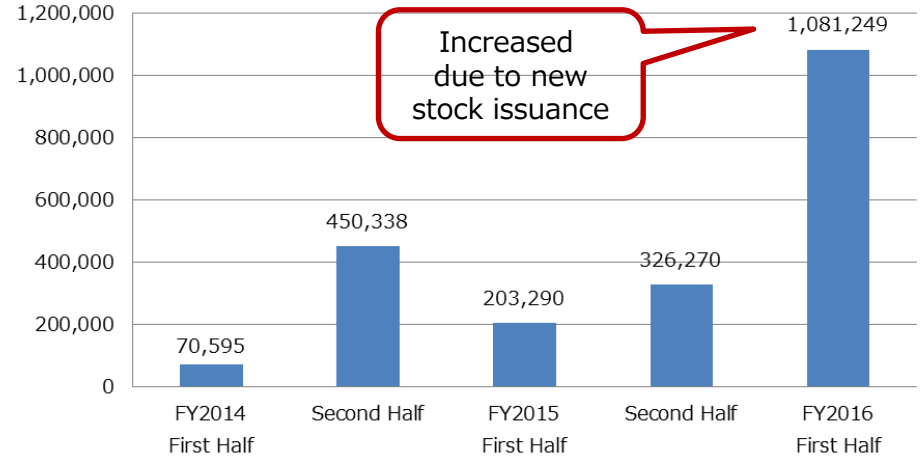
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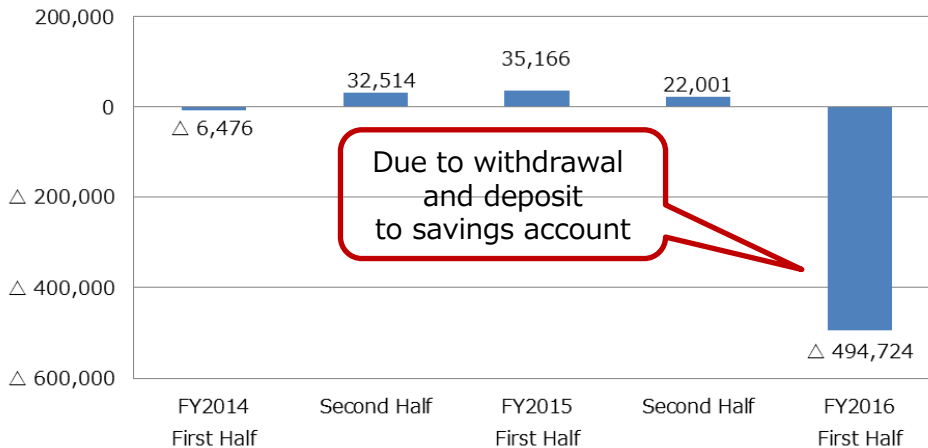
CF from operating activities



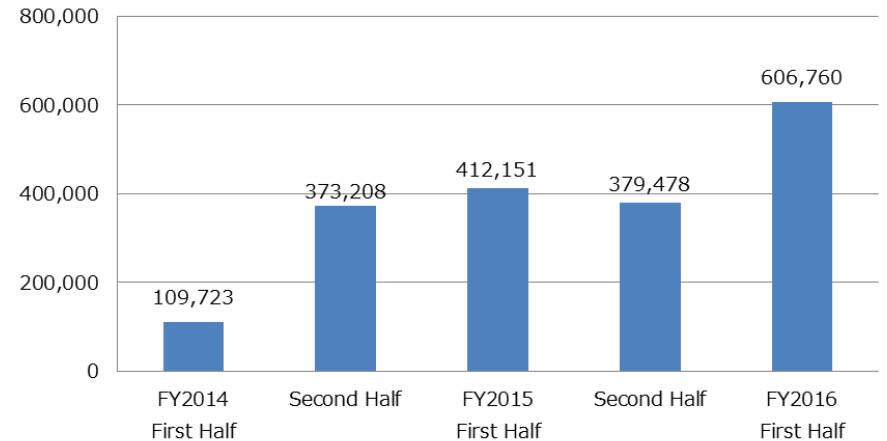
CF from financing activities



CF from investing activities

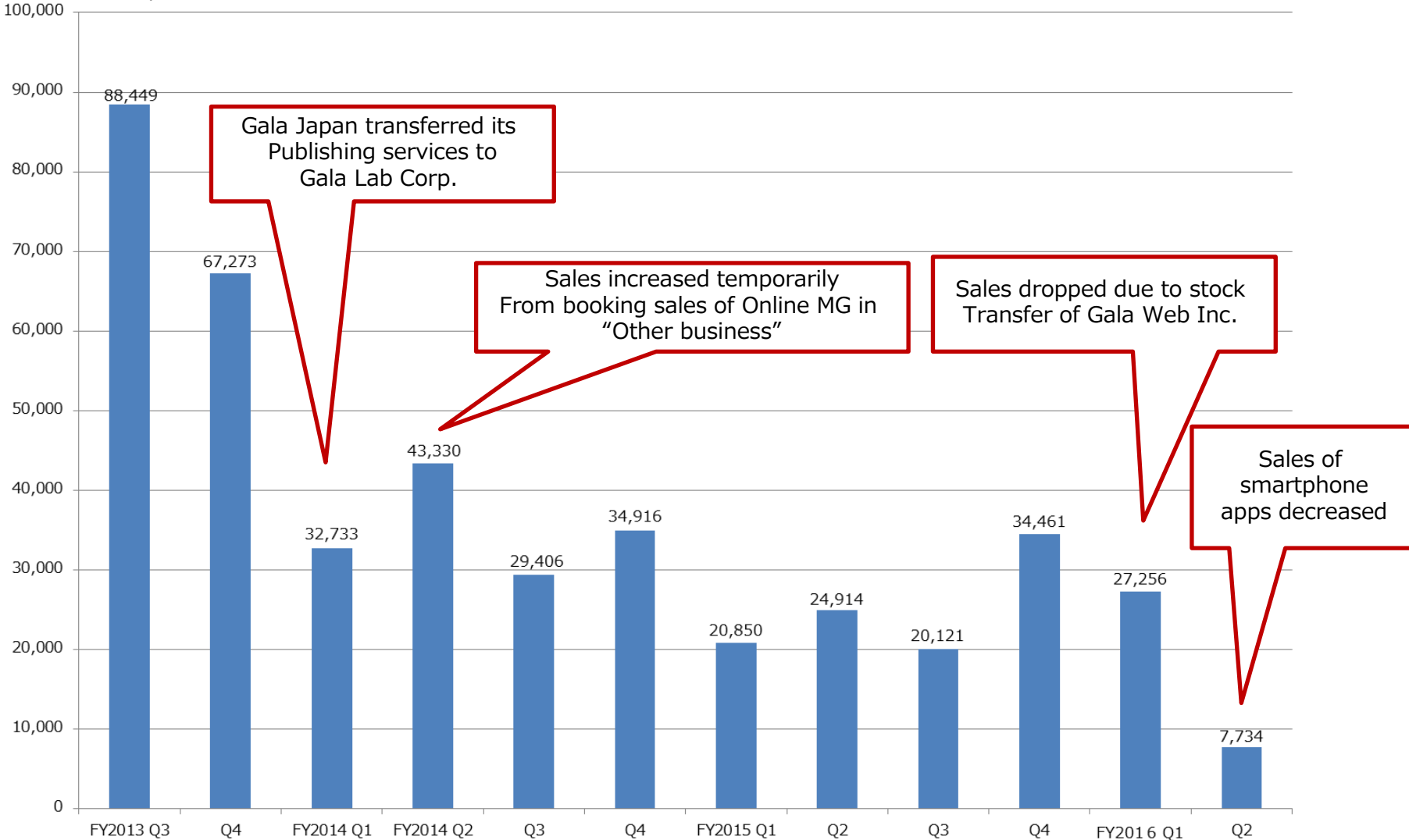


Cash and cash equivalents



Japan Segment

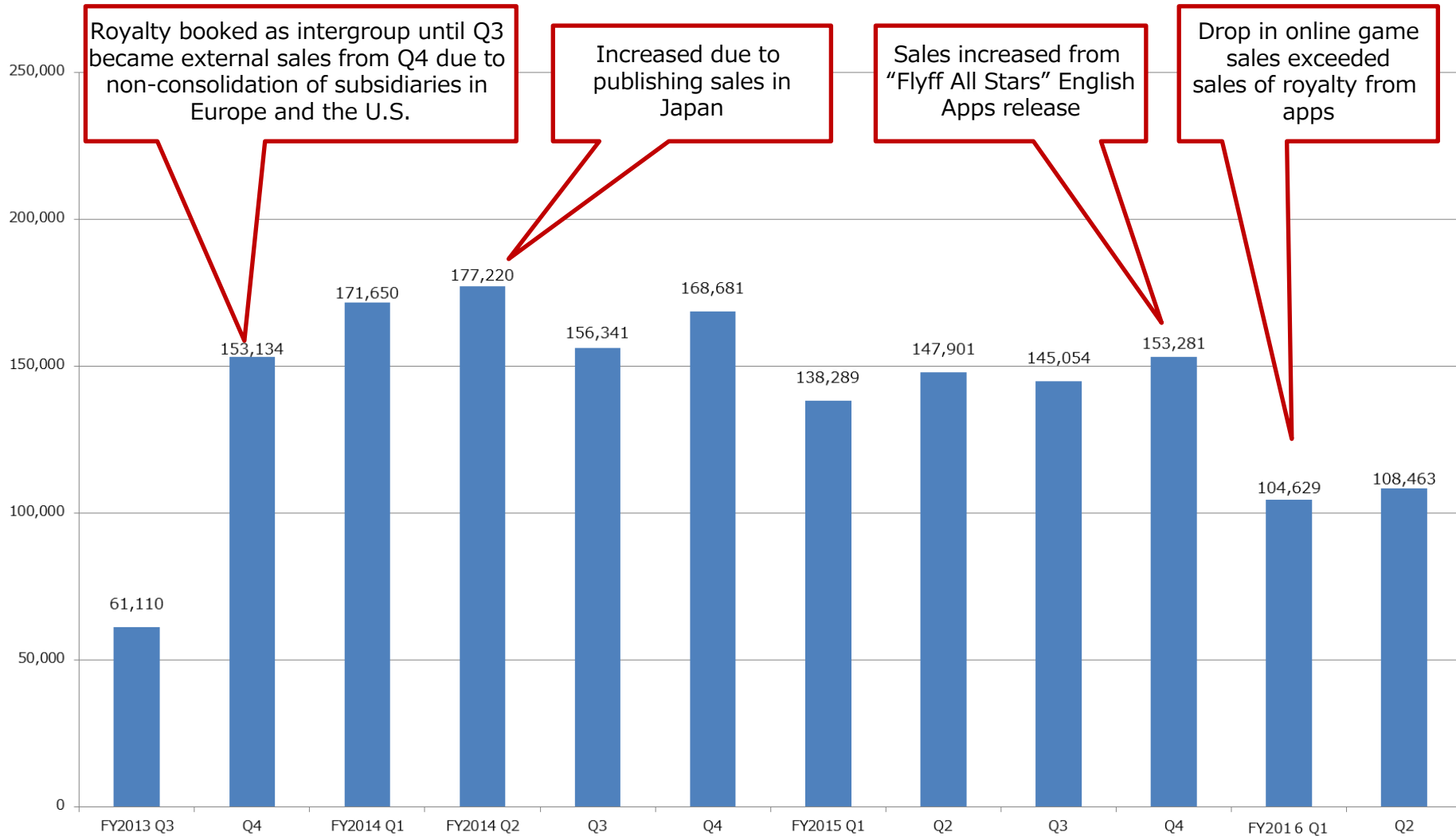
(Unit: Thousand Yen)



~Sales by Segment (After Adjustment) ~

Korea Segment

(Unit: Thousand Yen)



I. Q2 Financial Statement

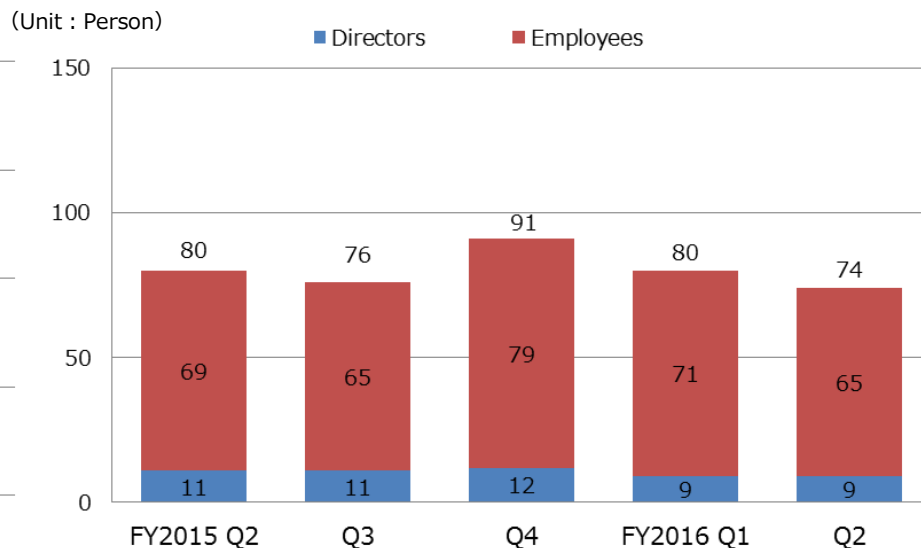
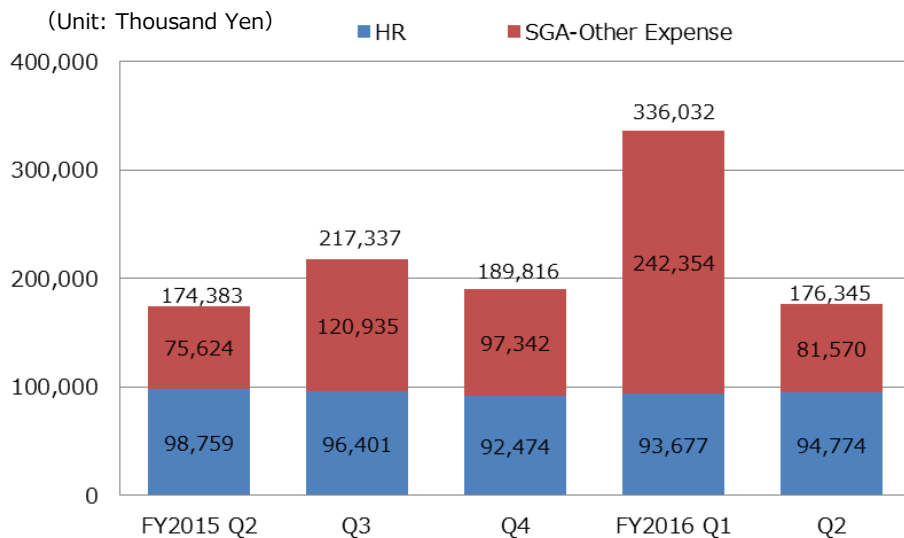
~Qtrly SGA-other and HR Count (Consolidated) ~



(Unit : Thousand Yen)

	Q2 (2015/7/1 - 2015/9/30)	FY2016 Q2 vs FY2016 Q1 (2015/7/1 - 2015/9/30 vs 2015/4/1-2015/6/30) Change		FY2016 Q2 vs. FY2016 Q1 (2015/7/1 - 2015/9/30 vs 2014/7/1-2014/9/30) Change	
HR Cost	94,774	93,677	1.2%	98,759	△4.0%
SGA-Other	81,570	242,354	△66.3%	75,624	7.9%
Total SGA	176,345	336,032	△47.5%	174,383	1.1%

※Advertising and promotion cost related to “Flyff All Stars” Japanese increased SGA temporarily in Q1



「Flyff All Stars」

「Flyff Puzmon」

「Flyff StompRun」

<iOS and Android Game Apps>

- Game Apps based on “Flyff Online,” PC online game

“Flyff Online” recorded monthly maximum sales of KRW4,000,000,000 and as of August 2014, download users are 50,000,000.

- Developed by Gala Lab Corp.

“Flyff All Stars”

Pre-registration campaign 2014/12/4 – 2014/12/16 in Android English
2014/12/17 in 130 countries, iOS English 2014/12/17 in 149 countries,
2015/2/16 iOS and Android in France in English (Q1) License Agreement
with companies in Vietnam. Japanese version is explained on the next slide.

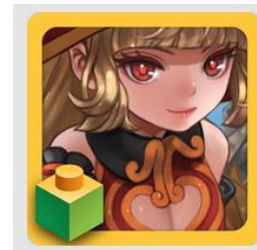
“Flyff Puzmon”

Android English version Test marketing in 8 countries in SE Asia on 2014/7/24.
iOS English version 2014/11/12 released in the Philippines. Android English
2014/12/10 in 130 countries, iOS English 2014/12/1 in 149 countries,
2015/8/3 Began pre-registration of Japanese version.

2015/8/19 official download began

“Flyff StompRun”

License Agreement on the above three game apps with a game company in Taiwan (Net Publishing Co., Ltd.) in Traditional Chinese globally except mainland China





Flyff All Stars Japanese Schedule

- Pre-registration campaign (2015/4/30)
- Release Planned (2015/6/4)
- Japanese version to be released other than Japan
- TV Commercial (Kanto region)
- Off-line Event with AKB48(2015/8/24)

Multi-language version

- Traditional Chinese (2014/12/12 PR)
- Vietnamese (2015/4/27 PR)
- Arabic (2015/4/27 PR)
- Languages in Europe (Germany, France, Spain, Portugal, Italian) , Simplified Chinese, Korean



Download

- Total of 1,000,000 downloads (English version 640,000 and Japanese version 360,000) (2015/6/12)
- 500,000 downloads (Japanese version) (2015/6/18)



License Agreement of "Arcane," smartphone apps

Outline of "Arcane" :

- Developed by PlayWorks Corporation(Seoul, Korea CEO Kwang Yeol Kim)
- Based on PC online game "Arcane Heart Web," real-time MMORPG
- About 2,000 users can play simultaneously in 1 server
- Ranked First on game apps ranking in Korea
- Android Korean version began in September 2015 and accumulated download was about 1,580,000 as of end of October

Contract Summary :

- Contract signed on 10/15/2015
- Download to be available globally except Europe, Korea, China and Taiwan
- English and Japanese
- iOS and Android version
- Download date will be announced once the apps is ready

III. Business Report

Online Game Business



In-house online game as of 2015/9/30

Game Title	Publisher														
	E n g l i s h	Europe					Asia							A r a b i c	
		G e r m a n y	F r a n c e	T u r k e y	P o l a n d	I t a l y	R u s s i a	j a p a n	K o r e a	P h i l i p p i n e s	T h a i	M a l a y s i a	S i n g a p o r e		C h i n a
Flyff Online	Webzen Dublin						Gala Lab	Gala Lab		INI3			Net Ease	Macrowell	
Rappelz	Webzen Dublin					FUN FACTORY					Eaglegame International		Eaglegame (M) Sdn. Bhd		

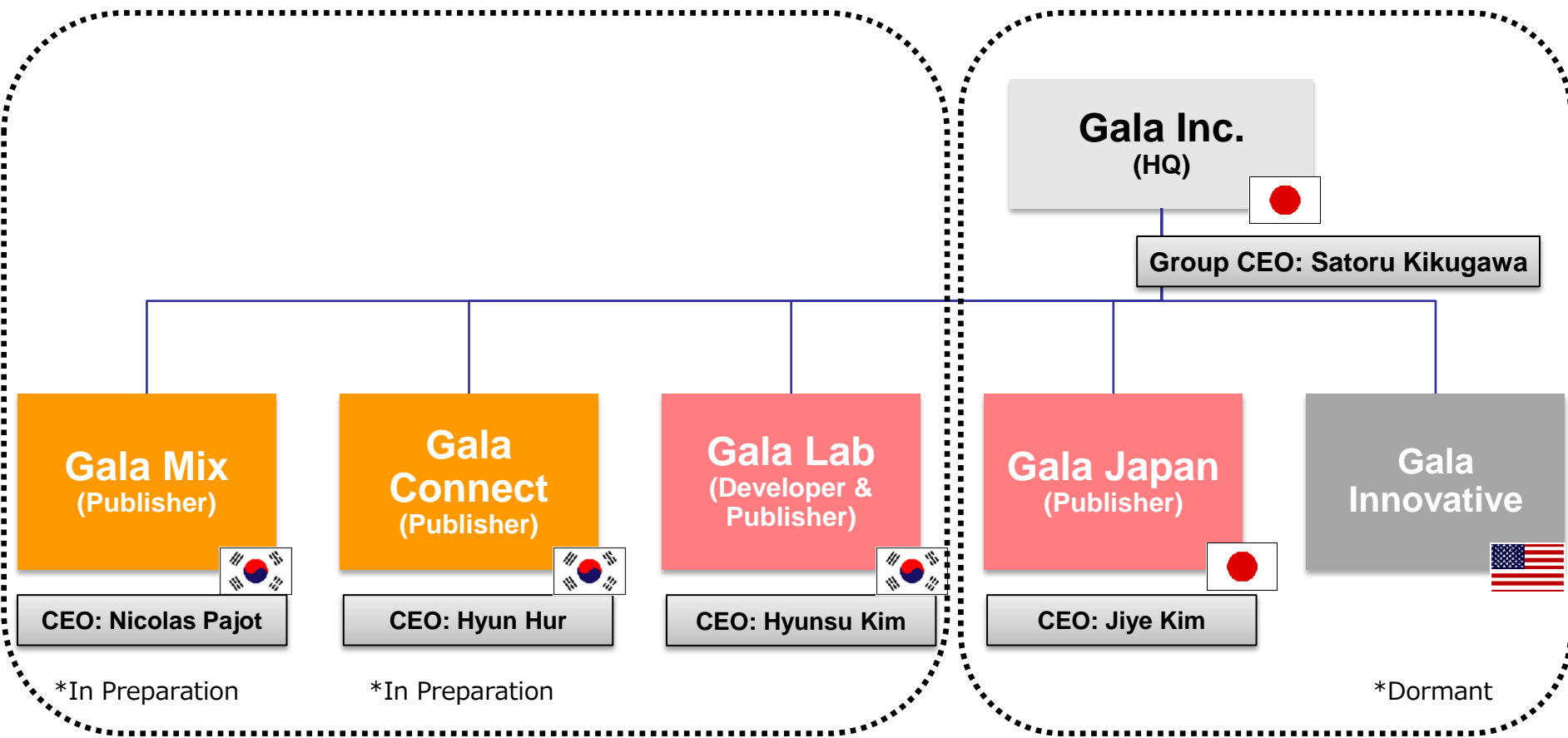
. . . Commercialization

. . . Gala Group

Group Company By Segment

Segment: Korea

Segment: Japan



*In Preparation

*In Preparation

*Dormant

- Smartphone Apps Business
- Smartphone Apps Business / Online Game Business