Explanation on FY2017 Q3

(2016/10/01 – 2016/12/31)

GALA
Global Online Community

Gala Inc.

2017/02/10

This is a translation

I. Q3 Financial Statement
II. Business Report
III. Gala Group Structure

-------------------------- Business --------------------------

◆ "Arcane Online" (English) released in Europe

◆ Service shut-down (English & Japanese) of "Flyff All Stars" and "Flyff Puzzmon" on October 12th, 2016

◆ "Flyff Legacy" was licensed out to territories of Korea and South East Asia

　to Entermate Co., Ltd

◆ "Peeksy" - location based image board, released in Korea and Philippines

◆ "Flyff Legacy" released in Korea on January 12th, 2017

-------------------------- Others --------------------------

◆ From April 1st, 2016 until March 31st, 2017 Gala Inc. is in a grace period pertaining to delisting

I. Q3 Financial Statement

Ⅰ. Q3 Financial Statement

～ P/L (Summary) ～

（Unit: Thousand JPY）

	FY2017 Q3 (2016/10/01～ 2016/12/31)	FY2017 Q3 vs FY2017 Q2 2016/10/01～2016/12/31 vs 2016/07/01～2016/09/30	Change	FY2017 Q3 vs FY2016 Q3 2016/10/01～2016/12/31 vs 2015/10/01～2015/12/31	Change
Sales	229,385	203,034	13%	109,952	109%
COS	96,234	88,565	9%	17,882	438%
Gross Profit	133,150	114,469	16%	92,070	45%
SGA	229,717	230,193	0%	162,341	42%
Operating Profit	△ 96,566	△ 115,724	-	△70,270	-
Ordinary Profit	△ 81,262	△ 110,858	-	△70,068	-
Net Income	△ 82,604	△ 112,578	-	△104,622	-
Net Income attributable to the non-controlling interests	△ 3,755	△ 1,179	-	△4,697	-
Net Income attributable to parent company	△ 78,848	△ 111,398	-	△99,924	-

◆ Sales: has increased compared to Q2 FY2017 and Q3 FY2016 because of Arcane Online English and Japanese sales. Where's English version is approximately 68,000 thousand JPY and Japanese version is approximately 63,000 thousand JPY.
◆Cost of sales: increases together with sales. Cost of sales includes operational cost such as payments to Apple, Google, etc.
◆SGA: Includes promotion fee of Arcane Online. English version accounts for approximately 69,000 thousand JPY and Japanese version is approximately 23,000 thousand JPY.

(Unit: Thousand JPY)

Sales · Gross Profit · Operating Profit · Net Income
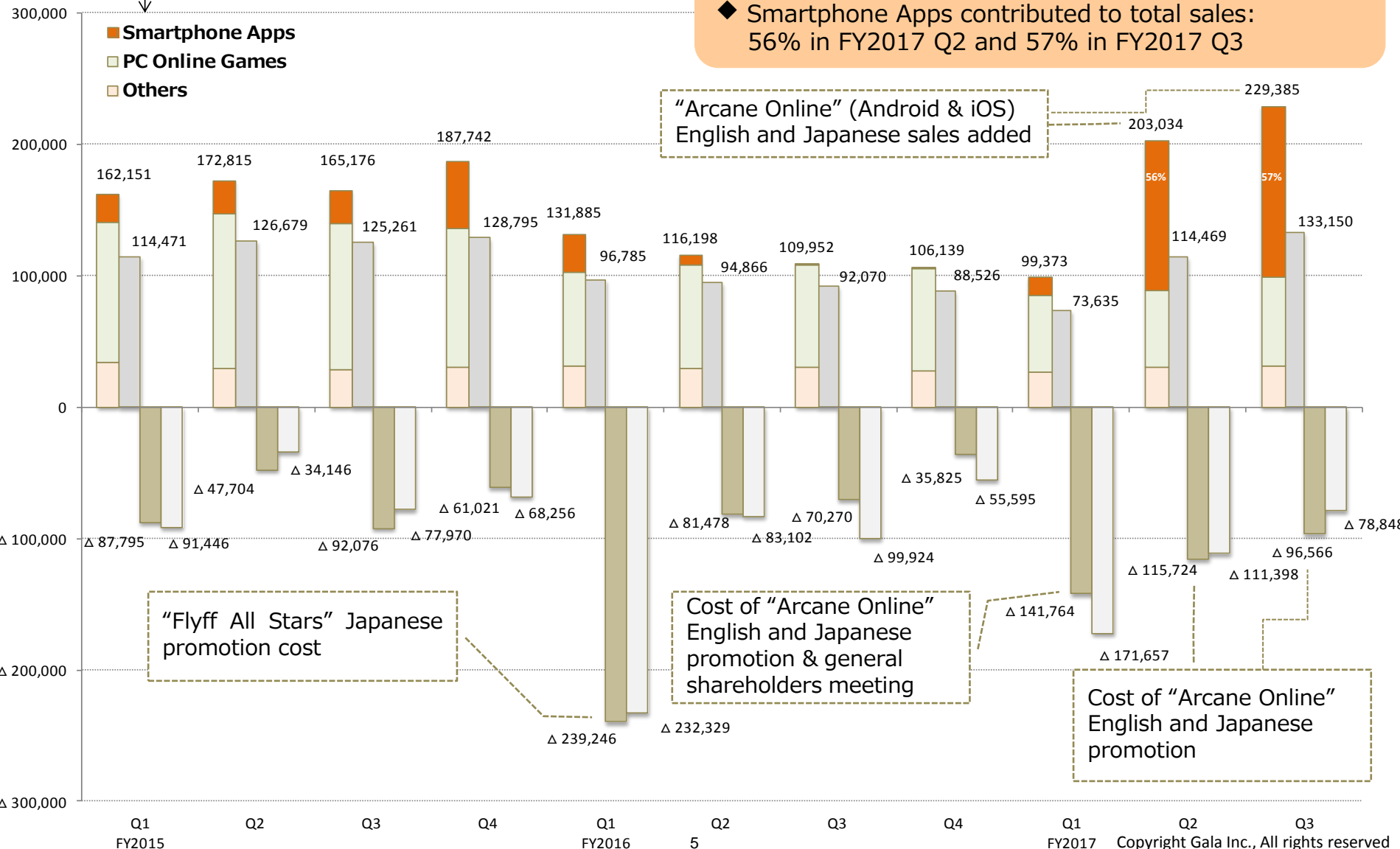
Smartphone Apps
PC Online Games
Others

◆ Smartphone Apps became a main business domain for Gala Group since FY2017 Q2
◆ Smartphone Apps contributed to total sales: 56% in FY2017 Q2 and 57% in FY2017 Q3

"Arcane Online" (Android & iOS) English and Japanese sales added

"Flyff All Stars" Japanese promotion cost

Cost of "Arcane Online" English and Japanese promotion & general shareholders meeting

Cost of "Arcane Online" English and Japanese promotion

	Q1 FY2015	Q2	Q3	Q4	Q1 FY2016	Q2	Q3	Q4	Q1 FY2017	Q2	Q3
Sales	162,151	172,815	165,176	187,742	131,885	116,198	109,952	106,139	99,373	203,034	229,385
Gross Profit	114,471	126,679	125,261	128,795	96,785	94,866	92,070	88,526	73,635	114,469	133,150
Operating Profit	△87,795	△47,704	△92,076	△61,021	△239,246	△81,478	△70,270	△35,825	△141,764	△115,724	△96,566
Net Income	△91,446	△34,146	△77,970	△68,256	△232,329	△83,102	△99,924	△55,595	△171,657	△111,398	△78,848

～ Consolidated Cash Flow ～

（Unit：Thousand JPY）

	FY2017 Q3
CF from Operating Activities	223,762
CF from Investing Activities	40,345
CF from Financing Activities	△92,000
Cash and Cash Equivalents	482,639

CF from Operating Activities: Decrease in prepaid expenses 400,780 thousand JPY
CF from Investing Activities: Revenues from cancellation of time deposits 100,000 thousand JPY
                                                Purchase of intangible fixed assets △ 57,586 thousand JPY
CF from Financing Activities: Increase / decrease in short-term borrowings △ 92,000 thousand JPY

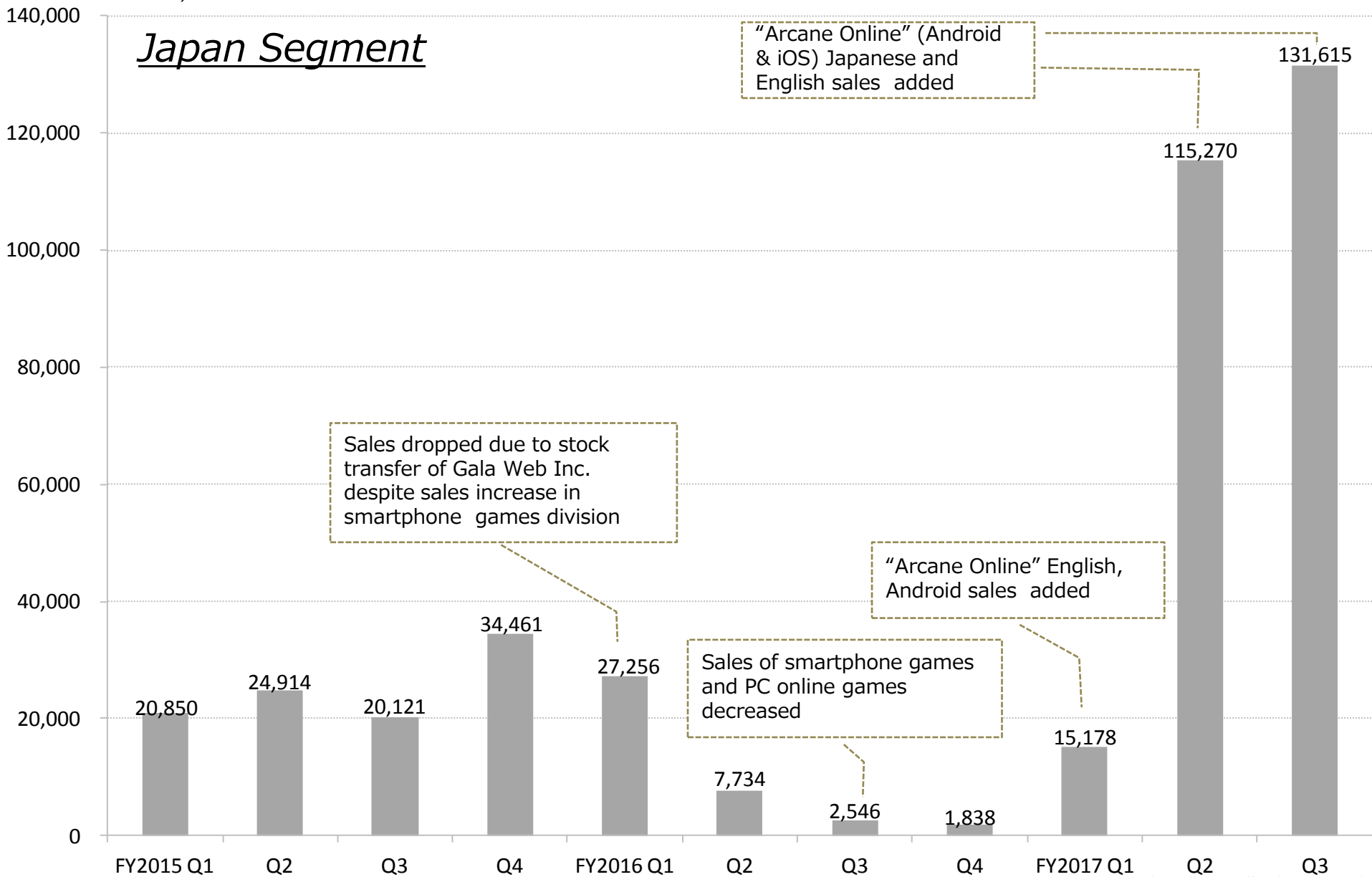**NOTE: Cash Flow numbers are disclosed voluntarily and not audited.**

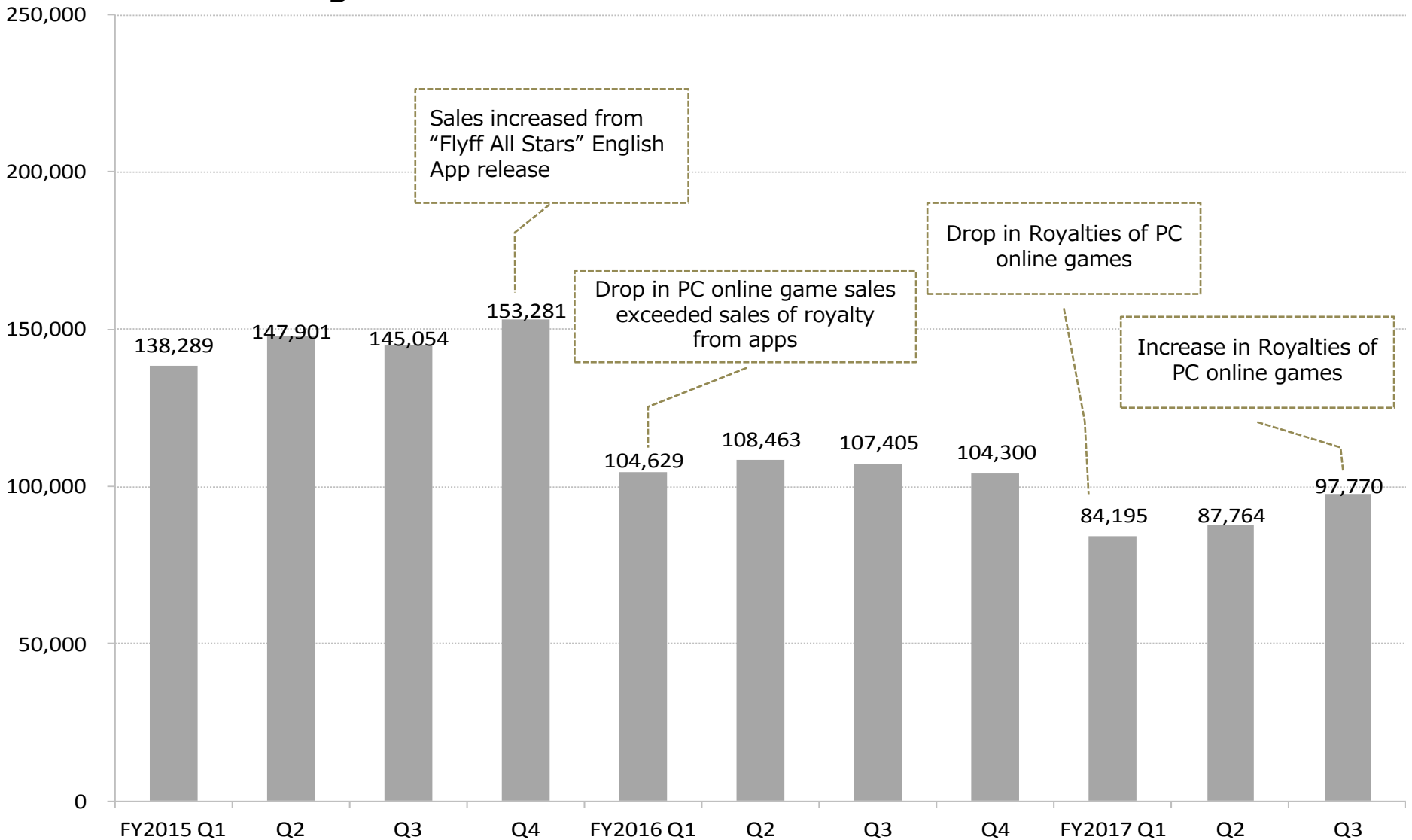～ Sales by Segment（After Adjustment）～

(Unit: Thousand JPY)

Japan Segment

"Arcane Online" (Android & iOS) Japanese and English sales added

131,615

115,270

Sales dropped due to stock transfer of Gala Web Inc. despite sales increase in smartphone games division

"Arcane Online" English, Android sales added

34,461

27,256

Sales of smartphone games and PC online games decreased

24,914

20,850

20,121

15,178

7,734

2,546

1,838

FY2015 Q1	Q2	Q3	Q4	FY2016 Q1	Q2	Q3	Q4	FY2017 Q1	Q2	Q3

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～ Sales by Segment（After Adjustment）～

(Unit: Thousand JPY)

Korea Segment

Annotations on chart:
- Sales increased from "Flyff All Stars" English App release
- Drop in PC online game sales exceeded sales of royalty from apps
- Drop in Royalties of PC online games
- Increase in Royalties of PC online games

Chart data (Thousand JPY):

Period	Sales
FY2015 Q1	138,289
Q2	147,901
Q3	145,054
Q4	153,281
FY2016 Q1	104,629
Q2	108,463
Q3	107,405
Q4	104,300
FY2017 Q1	84,195
Q2	87,764
Q3	97,770

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～ SGA-other and HR Count（Consolidated）～

(Unit : Thousand JPY)

	FY2017 Q3 （2016/10/01～2016/12/31）	FY2017 Q3 vs FY2017 Q2 2016/10/01～2016/12/31 vs 2016/7/01～2016/9/30 Change		FY2017 Q3 vs FY2016 Q3 2016/10/01～2016/12/31 vs 2015/10/01～2015/12/31 Change	
HR Cost	73,458	70,504	4%	94,778	△ 22%
SGA - Other	156,258	159,689	△ 2%	67,562	131%
Total SGA	229,716	230,193	0%	162,340	42%

※ SGA increased temporally compared to Q3 FY2016 due to promotion fee of Arcane Online. English version accounts for approximately 69,000 thousand JPY and Japanese version is approximately 23,000 thousand JPY.

(Unit: Thousand JPY)

■HR　□SGA-Other Expense

(Unit : Person)

■Directors　□Employees　■Part-timers/Temp
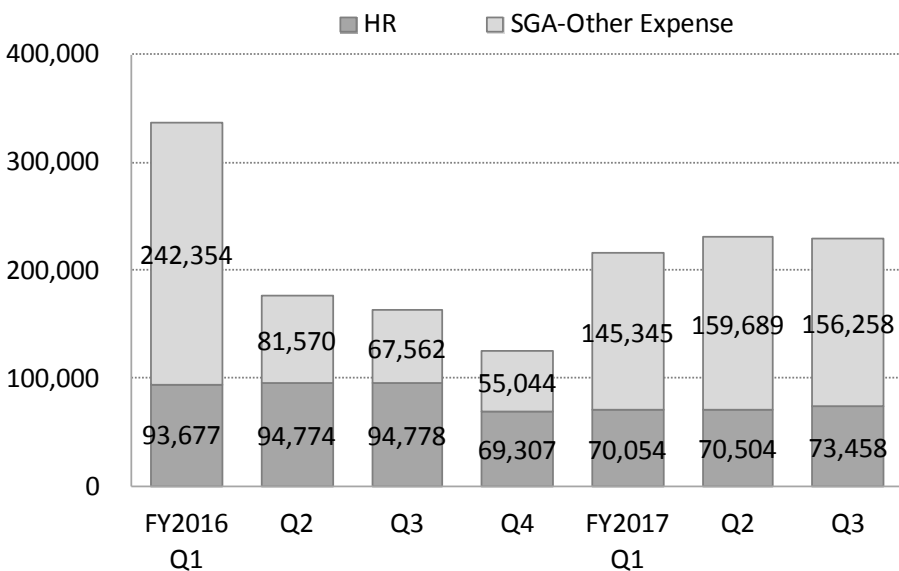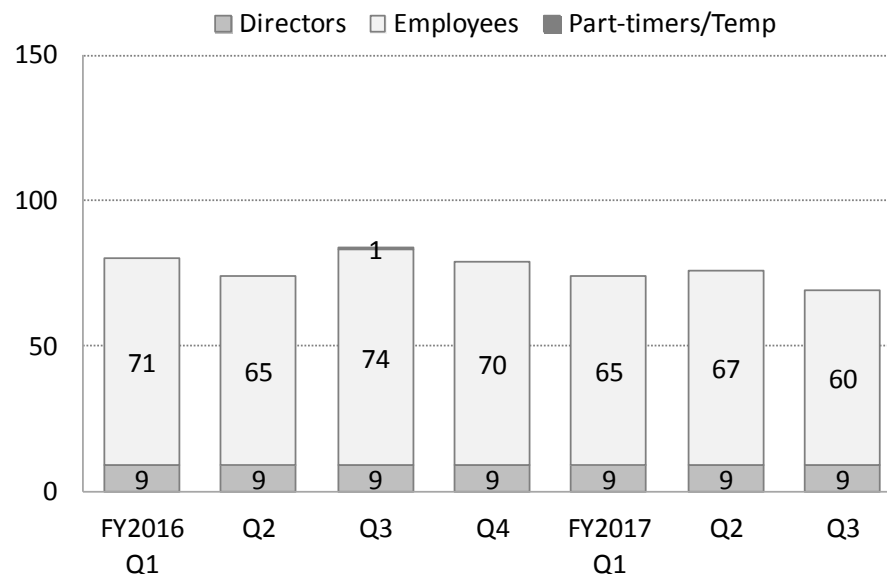
II. Business Report

ARCANE
アーケイン

Released: in Europe on October 5th

1 MILLION Downloads

Over 1 million download worldwide

"Arcane" is a mobile game app of PC online game's "Arcane Heart Web". Users enjoy features such as real-time PVP system, large scale siege war, battleground, and about 2,000 users can play the apps simultaneously in one server.

First generation MMORPG!

Developer: PlayWorks Corp.

Publisher: Gala Inc. *(English)*
　　　　　　Gala Japan Inc. *(Japanese)*

OS: Android & iOS

Fantasy MMORPG fine-tuned for mobile!

Team up for EPIC boss battles!

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First Flying Real-time MMORPG in Smartphone!

Developer: Gala Lab Corp.
Publisher: Entermate Co., Ltd *(Korea, Philippines, Indonesia, Thailand, Taiwan)*
Gala Japan Inc. *(Japanese)*
OS: Android & iOS

Release:

Korea, January 12th, 2017

Japan, scheduled in 1st half of FY2018

Other Countries, scheduled in FY2018

"Flyff Legacy" employs part of the "Flyff Online" PC game's content. "Flyff Online" was released from 2004 in various languages and monthly maximum item sales were KRW4,000,000,000 (about JPY390,000,000 in current exchange rate). Accumulated downloads were 50,000,000.

KOSDAQ (206400.KQ)

Licensed Agreement with Entermate Inc. for following countries:

Korea   Philippines   Indonesia   Thailand   Taiwan

Name	Entermate Co., Ltd
CEO	Taehyun Lee
Founded	1 November 2011
Capital	2,600,000,000 KRW
Employees	50
Address	Seoul, Korea
Subsidiaries	Entermate China Entermate Taiwan Entermate Hong Kong
Area of business	• Development and operation of smartphone games • Development and operation of online games

http://www.entermate.com/

Sales of Entermate

(Unit: Hundred Million KRW)

Year	Sales
2012	158
2013	185
2014	267
2015	201

Peeksy

Location-based image board!

Developer: Gala Mix Inc.
Publisher: Gala Mix Inc.
OS: Android
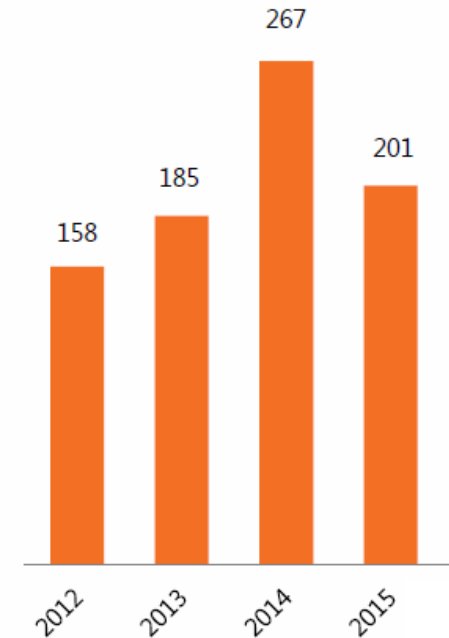
Release:

Korea, December 23rd, 2016

Philippines, December 23rd, 2016
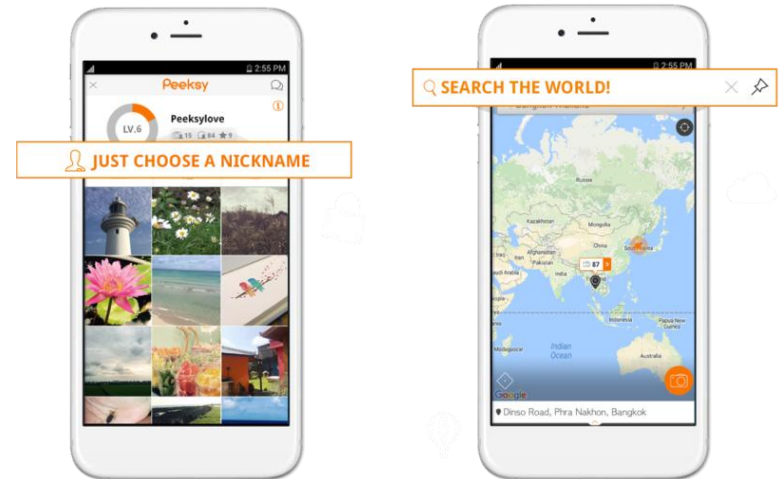
Japan, scheduled in FY2018

Other Countries, scheduled in FY2018

Peeksy is a new location-based image board, allowing to see what is happening around. It enables user to post or see other user's pictures with exact or rough location, allows to vote on postings and chat with local community. Privacy can be kept since no log in or personal data is required.

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GALA
Global Online Community

Flyff STOMP RUN

Release: scheduled in FY2018

First Real-time Running Competition in Smartphone!

Developer:	Gala Lab Corp.
OS:	Android & iOS

A user avoids various traps and obstacles, uses characters, pets, rides, and empowerment functions, aims for goals, and win points. It can be competed against other users.

"Stomprun" employs part of the "Flyff Online" PC game's content

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Under Development

Developer: Gala Lab Corp.

OS: iOS & Android
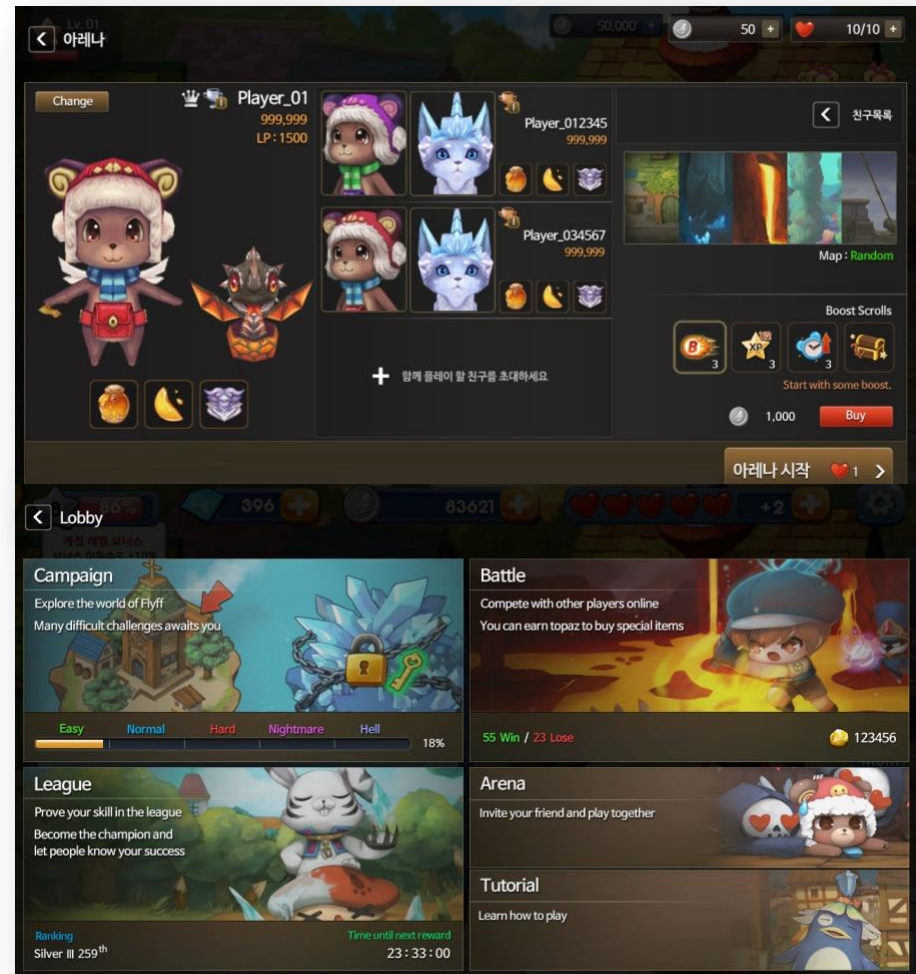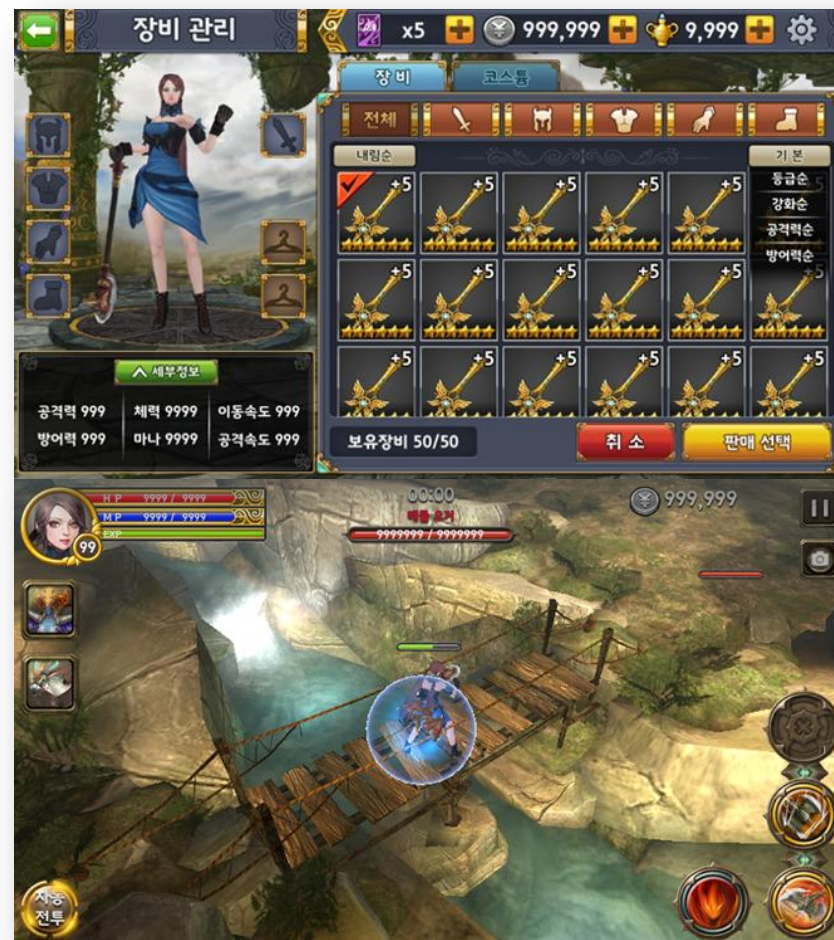
Release: scheduled in FY2018

"Rappelz" PC online game is the basis of this smartphone game.
"Rappelz" (PC) was released from 2006 in various languages and the maximum item sales were KRW2,800,000,000 (about JPY270,000,000 in current exchange rate). Accumulated downloads were 59,000,000.

Publishing area of games, developed in-house

As of 2017/02/10

Game Title		Publisher																
			Europe						Asia									
		English	German	French	Turkish	Polish	Italian	Russian	Japanese	Korean	Philippine	Thailand	Indonesia	Malaysia	Singapore	China	Taiwan	Arabic
Smartphone App	Flyff Legacy								Gala Japan	Entermate							Entermate	Game Power7
PC	Flyff Online	Webzen Dublin							Gala Lab	Gala Lab		INI3				Net Ease	Macrowell	
PC	Rappelz	Webzen Dublin						Fun Factory	Gala Lab	Gala Lab	Eaglegame International			Eaglegame (M) Sdn. Bhd				Game Power7

Gala Group · · · 3rd Party · · · In Preparation

III. Gala Group Structure

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