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May 10, 2024

Consolidated Financial Results for the Three Months Ended March 31, 2024 (Under Japanese GAAP)

Company name: Gala Inc.
Listing: Tokyo Stock Exchange
Securities code: 4777
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Scheduled date to file quarterly securities report: May 10, 2024
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

(1) Consolidated operating results (cumulative) (Percentages indicate comparison with same quarter of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
March 31, 2024	505	—	△130	—	△80	—	△106	—
June 30, 2023	545	△22.2	△10	—	9	△89.8	1	△98.8

Note: Comprehensive income For the three months ended March 31, 2024: △¥72 million [—%]
For the three months ended June 30, 2023: ¥33 million [△56.0%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	△4.22	—
June 30, 2023	0.05	0.05

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2024	3,384	2,054	39.6	52.39
December 31, 2023	3,355	2,014	47.7	63.92

Reference: Equity

As of March 31, 2024: ¥1,340 million
As of December 31, 2023: ¥1,600 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2024	—				
Fiscal year ending December 31, 2024 (Forecast)		0.00	—	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2024 (From January 1, 2024 to December 31, 2024)

Consolidated earnings forecast for the current fiscal year is not stated due to the difficulty of calculating a reasonable earnings forecast. For details, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" of the Additional Information.

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: — companies (Company name)

Excluded: — companies (Company name)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2024	25,579,200 shares
As of December 31, 2023	25,035,700 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2024	— shares
As of December 31, 2023	— shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended March 31, 2024	25,204,788 shares
Three months ended June 30, 2023	25,035,700 shares

* Quarterly financial results reports are exempt from a quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Change in fiscal year-end)

Effective from the previous fiscal year, the Company changed its fiscal year-end from March 31 to December 31. As a result, the previous fiscal year was a nine-month period from April 1, 2023 to December 31, 2023. Accordingly, year-on-year comparisons are omitted since the periods under comparison are different for the first three-month period of the previous fiscal year (from April 1, 2023 to June 30, 2023) and the first three month period of the current fiscal year (from January 1, 2024 to March 31, 2024).

(Disclaimer on forward-looking statements, etc.)

The forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Actual results may differ significantly due to various factors.

(How to obtain supplementary information on quarterly financial results)

Supplementary materials for quarterly financial results will be posted on the Company's website after the announcement of financial results.

○Additional Information

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1. Qualitative Information on Quarterly Financial Results

Gala Inc. ("the Company") changed its fiscal year end from March 31 to December 31 effective from the previous fiscal year, following the partial amendment of its Articles of Incorporation by the resolution of the 30th Annual Meeting of Shareholders held on June 24, 2023. Accordingly, year-on-year comparisons for "(1) Explanation of Operating Results" are omitted since the periods under comparison are different for the first three-month period of the previous fiscal year (from April 1, 2023 to June 30, 2023) and the first three month period of the current fiscal year (from January 1, 2024 to March 31, 2024).

(1) Explanation of Operating Results

The Company and its consolidated subsidiaries (hereinafter referred to as the "Group") reported consolidated net sales of 505,099 thousand yen for the three-month period ended March 31, 2024.

This was mainly due to sales of the HTML5 game "Flyff Universe".

Cost of sales amounted to 223,408 thousand yen. This was mainly due to royalties paid for the HTML5 game "Flyff Universe" and personnel and subcontracting expenses resulting from the inclusion of ROAD101 Co., Ltd. in the scope of consolidation from the third quarter of the fiscal year ended December 31, 2023.

Selling, general and administrative expenses totaled 411,744 thousand yen. The main components were directors' compensations of 100,595 thousand yen, salaries and allowances of 109,037 thousand yen, and commission fees of 42,900 thousand yen.

As a result, operating loss was 130,052 thousand yen, ordinary loss was 80,110 thousand yen, and loss attributable to owners of parent was 106,327 thousand yen.

The Group's operating results by each segment are summarized as follows:

1) Japan

In the Japan segment, the Company launched the smartphone game application "Rappelz" developed by consolidated subsidiary Gala Lab Corp. in the U.S. and Canada in October 2021, but the service was temporarily terminated in November 2022. Currently, "Rappelz" is being renewed as "Rappelz Universe," an NFT game/blockchain game (*1) by combining blockchain technology with "Rappelz" and is being prepared for release in the global area. In NFT games/blockchain games, in-game items and other items are "NFT (*3)ized" using blockchain (*2), a crypto asset infrastructure technology, and users can convert items and other items obtained in the game into crypto assets and trade them on exchanges and other venues. This will further enhance the appeal of the game and will be the focus of our efforts to monetize the Smartphone app business. We are currently preparing for the release of "Rappelz Universe", but the service launch date has not yet been determined due to the time required to study the legal and tax aspects in Korea for the crypto assets used in the game.

In addition, the Treehouse resort business conducted by consolidated subsidiary Treeful Inc. in Nago City, Okinawa Prefecture is a resort business that provides guests with a tree house and an aero-house, a building on the ground, as a single set. Treeful Inc. was approved in July 2021 for an "application for a Ryokan business license based on the Ryokan Business Law" and opened the Treehouse Resort in August 2021 as the first tree house resort in Japan that allows guests to stay overnight for a fee.

In January 2024, the Company passed a resolution to underwrite a third-party allotment of new shares of Treeful Inc. and acquired an additional 15.7% of its shares, bringing the Company's ownership to 24.4%. We determined that this third-party allotment of new shares would promote investment in the construction of treehouses and aero-houses and further strengthen the cooperative relationship between the Group and Treeful Inc., thereby enhancing the Group's corporate value.

Treeful Inc. is currently constructing two additional aero-houses and is preparing to start providing services in combination with the two new treehouses that have already been completed.

The concept of the Treehouse Resort is a "sustainable resort" that does not use fossil fuels, but instead uses electricity, and aims to build a sustainable society by generating more solar power than it uses. The Group intends to deploy the treehouse resort business not only in Japan but also overseas, and halt the destruction of forests overseas by creating value in the forest business. As a first step in the overseas expansion of the treehouse resort business, Treeful Inc. established TREEFUL (CAMBODIA) Co., Ltd. in Cambodia. It aims to generate stable revenue through treehouses as a sustainable luxury resort hotel and

create a path of coexistence between forests and human society.

In terms of expenses, cost of sales amounted to 1,034 thousand yen and selling, general and administrative expenses amounted to 116,674 thousand yen. The main components of selling, general and administrative expenses were 55,082 thousand yen in directors' compensations and 13,624 thousand yen in salaries and allowances.

As a result, net sales in the Japan segment amounted to 16,945 thousand yen (including internal transactions), and the segment loss amounted to 100,762 thousand yen.

2) Korea

In the Korea segment, net sales of the HTML5 game "Flyff Universe," which was launched in May 2022, amounted to 251,415 thousand yen. In July 2023, due to a change in the type of contract for the HTML5 game "Flyff Universe," the method of recording sales changed from publishing sales as a publisher to license sales based on license fees received. HTML5 games are highly accessible games that can be played on a variety of devices, including PCs and smartphones, without the need for downloading. Gala Lab Corp. entered into a strategic alliance agreement for the Publishing and Game businesses with BPMG Co., Ltd. and Wemade Connect Co., Ltd. in July 2023 regarding the NFT game/blockchain game "Flyff Universe" that combines the HTML5 game elements of the HTML 5 game "Flyff Universe" with the Play To Earn (P2E)(*4) elements using blockchain technology. We are currently preparing for the release of the NFT game/blockchain game "Flyff Universe" but the service launch date has not been determined at this time for the same reason as "Rappelz Universe."

Gala Lab Corp. is currently developing an HTML5 version of a game utilizing the IP of "AniPang," a mobile game developed by Wemade Play Co., Ltd. which became a huge hit in Korea. We will also focus on the development of HTML5 games using IP from other companies' games and the Group's HTML5 game development capabilities.

In the Smartphone app business, net sales were 66,598 thousand yen. Currently, Gala Lab Corp. provides the smartphone game application "Flyff Legacy," and consolidated subsidiary Gala Mix Inc. provides the pedometer application "winwalk," the smartphone application "winQuiz," and the smartphone application "Poll Cash."

In the Online game business, net sales were 116,688 thousand yen. The Company provides services for "Flyff Online" and "Rappelz Online," the flagship games of Gala Lab Corp. Currently, the Company is promoting licensing and channeling (*5) development.

In addition, as another measure to contribute to earnings of the Group, Gala Lab Corp. has entered into the metaverse (*6) campus platform "UVERSE" business (hereinafter referred to as "Meta Campus business") with LG Uplus Corp., a major electronics and telecommunications company in Korea, and Megazone Corporation, one of the largest digital IT companies in Korea. The Meta Campus business develops and builds virtual campuses using the metaverse platform, and provides universities and other educational institutions with the metaverse platform as a community space for students and a venue for events such as university entrance exam briefings. Gala Lab Corp. develops the metaverse platform, LG Uplus Corp. is in charge of attracting schools and marketing, and Megazone Corporation provides cloud computing and other infrastructure. The Meta Campus business currently provides services to several prestigious universities and generated net sales of 13,685 thousand yen.

Net sales from the VFX business conducted by consolidated subsidiary ROAD101 Co., Ltd. totaled 18,478 thousand yen.

VFX stands for visual effects and refers to technology used to achieve screen effects that cannot be seen in reality in movies, TV dramas, and other visual productions. The VFX business is a movie and commercial content production business that uses VFX technology.

On the expense side, the Company recorded 222,373 thousand yen in cost of sales and 292,556 thousand yen in selling, general and administrative expenses. The main components of selling, general and administrative expenses were directors' compensations of 45,513 thousand yen, salaries and allowances of 95,412 thousand yen and commission fees of 45,435 thousand yen. Commission fees were mainly outsourcing expenses related to Meta Campus business.

As a result, the Korea segment reported net sales of 499,633 thousand yen (including internal transactions) and a segment loss of 15,296 thousand yen.

- (*1) NFT game/blockchain game is the game in which in-game items are “NFT(*3)ized” using the blockchain (*2), a fundamental technology of crypto assets. It is also called as GameFi (a coinage combining the words Game and Decentralized Finance).
- (*2) Blockchain is a method of synchronizing and recording data (such as transaction information) by combining cryptography and multiple computers comprising a distributed network. In this mechanism, transaction data during a certain period is gathered into a block unit and correct records are connected like chains and accumulated while validated among computers.
- (*3) NFT (Non-Fungible Token) is “digital data with an unforgeable certificate of authenticity or proof of ownership”. As with crypto assets, it is digital data issued and traded on the blockchain.
- (*4) A blockchain game is called Play To Earn (P2E) if income and points obtained in the game can be changed to crypto assets and traded on an exchange or other market so that users can earn an income by playing the game.
- (*5) Channeling is a service that enables users to play online games and other games on the game portal site of other companies.
- (*6) Metaverse is a combination term derived from “meta” and “universe” and refers to a 3D virtual space structured on the Internet where massive users can join and act on their own. The users can explore the metaverse world and communicate with other users by joining the virtual space via their own avatars. The users can also create their own games and monetize them by inviting other users to play the games or create a mechanism in which users can purchase and sell the in-game items as an NFT (*3) using crypto assets.

(2) Explanation of Financial Position

The Group's net assets at the end of the current first quarter increased by 39,487 thousand yen from the end of the previous fiscal year to 2,054,043 thousand yen.

The main changes in assets were a 133,075 thousand yen decrease in cash and deposits and a 23,772 thousand yen decrease in accounts receivable-trade and contract assets, while accounts receivable-other increased by 97,357 thousand yen. The increase in accounts receivable-other was mainly due to the conclusion of the metaverse platform construction contract related to the Meta Campus business.

In liabilities, advances received increased by 87,184 thousand yen and net defined benefit liability increased by 15,503 thousand yen, while accounts payable-other decreased by 56,066 thousand yen, accrued expenses decreased by 27,607 thousand yen, and long-term unearned revenue decreased by 27,932 thousand yen. Advances received increased mainly due to the metaverse platform construction contract related to the Meta Campus business.

In net assets, capital surplus and retained earnings decreased by 216,556 thousand yen and 106,327 thousand yen, respectively, while capital stock and non-controlling interests increased by 50,477 thousand yen and 300,472 thousand yen, respectively. Capital surplus decreased mainly due to the Company's underwriting of a third-party allotment of new shares conducted by Treeful Inc. in January 2024, while retained earnings decreased due to the loss attributable to owners of parent for the period. The increase in capital stock was due to the exercise of share acquisition rights, and non-controlling interest was mainly due to the change in equity resulting from the third-party allotment of new shares conducted by Treeful Inc. in January 2024.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

In the Smartphone app business, it is extremely difficult for the Group to predict the possibility of delays in development and download delivery as well as income from app charges after the start of download delivery. In the Online game business, it is extremely difficult for the Group to forecast the financial results of the upgrade of existing titles. In the HTML5 game business, it is extremely difficult to predict the possibility that development will not proceed as planned or the revenues from billing. In addition, for the Group's new businesses, the Cloud-related business, the Treehouse resort business, the Meta Campus business, and the VFX business, it is extremely difficult for the Group to forecast the financial results appropriately as their profit or loss is highly contingent on changes in the environment surrounding the businesses and other factors. Therefore, the Group withholds publication of the forecasts of the financial results.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year As of December 31, 2023	Current first quarter As of March 31, 2024
Assets		
Current assets		
Cash and deposits	1,345,086	1,212,010
Accounts receivable – trade and contract assets	262,512	238,739
Inventories	3,735	3,335
Accounts receivable – other	22,126	119,484
Crypto assets	33,514	55,821
Prepaid expenses	29,231	30,974
Other	25,821	74,080
Allowance for doubtful accounts	△853	△1,019
Total current assets	1,721,174	1,733,427
Non-current assets		
Property, plant and equipment		
Buildings, net	167,834	171,344
Land	46,294	46,294
Other, net	346,385	357,838
Total property, plant and equipment	560,514	575,478
Intangible assets		
Goodwill	447,296	440,580
Other	64,027	60,413
Total intangible assets	511,324	500,994
Investments and other assets		
Investment securities	250	237
Lease and guarantee deposits	65,719	70,274
Long-term prepaid expenses	208,175	211,835
Deferred tax assets	288,684	292,051
Other	—	24
Total investments and other assets	562,829	574,423
Total non-current assets	1,634,668	1,650,896
Total assets	3,355,843	3,384,323
Liabilities		
Current liabilities		
Accounts payable – trade	3,321	3,383
Short-term loans payable	270,000	260,959
Current portion of long-term loans payable	15,623	16,377
Accounts payable – other	173,614	117,547
Accrued expenses	82,095	54,488
Advances received	66,800	153,984
Unearned revenue	128,333	130,666
Income taxes payable	5,914	2,333
Provision for reward	20,446	25,328
Provision for bonuses	820	1,734
Other	29,165	34,267
Total current liabilities	796,134	801,069
Non-current liabilities		
Long-term loans payable	51,179	47,699
Long-term unearned revenue	260,385	232,453
Deferred tax liabilities	5,751	5,636
Net defined benefit liability	225,223	240,726
Other	2,612	2,694
Total non-current liabilities	545,152	529,210
Total liabilities	1,341,287	1,330,279

(Thousands of yen)

	Previous fiscal year As of December 31, 2023	Current first quarter As of March 31, 2024
Net assets		
Shareholders' equity		
Capital stock	4,213,860	4,264,338
Capital surplus	2,857,691	2,641,134
Retained earnings	$\triangle 5,121,383$	$\triangle 5,227,711$
Total shareholders' equity	1,950,168	1,677,761
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	172	163
Foreign currency translation adjustment	$\triangle 350,117$	$\triangle 337,735$
Total accumulated other comprehensive income	$\triangle 349,945$	$\triangle 337,571$
Share acquisition rights	29,438	28,487
Non-controlling interests	384,894	685,366
Total net assets	2,014,555	2,054,043
Total liabilities and net assets	3,355,843	3,384,323

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Quarterly Consolidated Statement of Income
(For the Three-month Period)

(Thousands of yen)

	Three-month period ended June 30, 2023	Three-month period ended March 31, 2024
Net sales	545,611	505,099
Cost of sales	200,234	223,408
Gross profit	345,377	281,691
Selling, general and administrative expenses	356,154	411,744
Operating loss	△10,777	△130,052
Non-operating income		
Interest income	3,227	8,424
Gain on valuation of crypto assets	—	21,697
Foreign exchange gains	16,130	18,779
Secondment fee received	—	3,010
Other	3,122	2,108
Total non-operating income	22,480	54,020
Non-operating expenses		
Interest expenses	30	3,875
Loss on valuation of crypto assets	2,286	—
Other	331	202
Total non-operating expenses	2,648	4,077
Ordinary profit (loss)	9,053	△80,110
Extraordinary losses		
Loss on sales of non-current assets	—	445
Loss on retirement of non-current assets	—	5,476
Total extraordinary losses	—	5,922
Profit (loss) before income taxes	9,053	△86,032
Income taxes – current	1,775	1,380
Income taxes – deferred	4,368	1,667
Total income taxes	6,143	3,048
Profit (loss)	2,910	△89,081
Profit attributable to non-controlling interests	1,676	17,246
Profit (loss) attributable to owners of parent	1,233	△106,327

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

(Thousands of yen)

	Three-month period ended June 30, 2023	Three-month period ended March 31, 2024
Profit (loss)	2,910	△89,081
Other comprehensive income		
Valuation difference on available-for-sale securities	△15	△8
Foreign currency translation adjustment	30,336	16,229
Total other comprehensive income	30,321	16,220
Comprehensive income	33,231	△72,860
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	22,745	△93,954
Comprehensive income attributable to non-controlling interests	10,486	21,093

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Capital stock and capital surplus increased by 50,477 thousand yen and 50,477 thousand yen, respectively, due to the issuance of new shares upon the exercise of a portion of the 7th series of share acquisition rights. In addition, capital surplus decreased by 266,961 thousand yen due to a change in the parent company's interest following the Company's underwriting of a third-party allocation of new shares by its consolidated subsidiary Treeful Inc. As a result, capital stock and capital surplus amounted to 4,264,338 thousand yen and 2,641,134 thousand yen, respectively, at the end of the current first quarter.

(Segment Information)

I Three-month period ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

1. Information on the Amount of Net Sales and Profit (loss) and Disaggregated Information on Revenues by Reportable Segment

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Japan	Korea	Total		
Net sales					
Online game business	—	69,230	69,230	—	69,230
Smartphone app business	—	57,360	57,360	—	57,360
HTML5 game business	—	410,204	410,204	—	410,204
Other businesses	6,686	2,128	8,815	—	8,815
Revenue from contracts with customers	6,686	538,924	545,611	—	545,611
Net sales to external customers	6,686	538,924	545,611	—	545,611
Intersegment net sales and transfer	7,297	5,305	12,603	△12,603	—
Total	13,984	544,229	558,214	△12,603	545,611
Segment profit (loss)	△68,881	62,145	△6,735	△4,041	△10,777

(Note 1) The segment profit (loss) adjustment of △4,041 thousand yen consists of the elimination of intersegment transactions of △226 thousand yen and the amortization of goodwill of △3,815 thousand yen

(Note 2) Segment profit (loss) is adjusted with operating loss in the quarterly consolidated statement of income.

2. Information on Assets by Reportable Segment

Not applicable.

II Three-month period ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

1. Information on the Amount of Net Sales and Profit (loss) and Disaggregated Information on Revenues by Reportable Segment

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Japan	Korea	Total		
Net sales					
Online game business	—	116,688	116,688	—	116,688
Smartphone app business	—	66,598	66,598	—	66,598
HTML5 game business	—	251,415	251,415	—	251,415
Meta Campus business	—	13,685	13,685	—	13,685
VFX business	—	18,478	18,478	—	18,478
Other businesses	11,125	27,108	38,233	—	38,233
Revenue from contracts with customers	11,125	493,974	505,099	—	505,099
Net sales to external customers	11,125	493,974	505,099	—	505,099
Intersegment net sales and transfer	5,820	5,659	11,479	△11,479	—
Total	16,945	499,633	516,579	△11,479	505,099
Segment loss	△100,762	△15,296	△116,059	△13,993	△130,052

(Note 1) The segment loss adjustment of △13,993 thousand yen consists of the elimination of intersegment transactions of △625 thousand yen and the amortization of goodwill of △13,368 thousand yen.

(Note 2) The segment loss is adjusted with operating loss in the quarterly consolidated statement of income.

2. Information on Assets by Reportable Segment

Not applicable.