

■ **Explanatory Notes**

- (1) Changes to major subsidiaries during the first quarter of FY2021: None
 (2) Application of special accounting treatment: Yes
 Note: Refer to “Consolidated Financial Statements and Related Notes” in section “(3) Notes Related to Consolidated Financial Statements (Adoption of special accounting treatment)” on page 5 of Supporting Information.

- (3) Changes to accounting policies, estimates, and restatements
 ① Changes to accounting policies due to revision of accounting standards: Yes
 ② Changes other than ①: None
 ③ Changes to accounting estimates: None
 ④ Restatements: None

(4) Number of outstanding shares (common shares)

| | | | | |
|--|----------------------------|-------------------|----------------------------|-------------------|
| ① Period end outstanding shares (including treasury shares) | First quarter of FY2022 | 38,631,100 shares | FY2021 | 38,631,100 shares |
| ② Period end treasury shares | First quarter of FY2022 | 641,500 shares | FY2021 | 641,500 shares |
| ③ Average outstanding shares during the period | First quarter of FY2022 | 37,989,600 shares | First quarter of FY2021 | 38,491,277 shares |

■ **Note Regarding Quarterly Review Procedures**

Quarterly financial results summaries are not subject to quarterly review procedures.

■ **Note Regarding the Appropriate Usage of Forecasts and Other Special Instructions**

(Notes on Forward-Looking Statements)

The earnings forecast and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from these forecasts for a number of reasons.

(Method of Obtaining Supplementary Presentation Materials on Quarterly Financial Results)

For an overview of the financial results, please refer to the quarterly Financial Results Presentation Slides posted on the Company website.

<https://www.klab.com/en/ir/library/presentations/>

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Consolidated Financial Statements and Related Notes

(1) Consolidated Balance Sheets

(In thousands of yen)

| | FY2021 (Dec. 31, 2021) | First quarter of FY2022 (Mar. 31, 2022) |
|---|---------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,816,978 | 4,751,319 |
| Accounts receivable | 2,259,169 | 1,273,034 |
| Securities | 936,120 | 957,797 |
| Income taxes receivable | 189,013 | 178,453 |
| Other | 2,723,081 | 2,114,269 |
| Allowance for doubtful accounts | (28,553) | (29,442) |
| Total current assets | 9,895,809 | 9,245,431 |
| Non-current assets | | |
| Property, plant, and equipment | 325,296 | 303,585 |
| Intangible assets | | |
| Software | 619,691 | 590,776 |
| Software in progress | 1,444,880 | 2,111,384 |
| Goodwill | 822,029 | 799,812 |
| Other | 672 | 672 |
| Total intangible assets | 2,887,274 | 3,502,646 |
| Investments and other assets | | |
| Investment securities | 3,234,012 | 3,256,096 |
| Other | 2,377,021 | 2,411,758 |
| Allowance for doubtful accounts | (11,901) | — |
| Total investments and other assets | 5,599,131 | 5,667,855 |
| Total non-current assets | 8,811,702 | 9,474,087 |
| Total assets | 18,707,512 | 18,719,518 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 1,916,692 | 1,366,500 |
| Long-term debt to be repaid within one year | 541,788 | 893,814 |
| Provision for bonuses | 132,521 | 33,771 |
| Other | 2,527,912 | 2,202,904 |
| Total current liabilities | 5,118,914 | 4,496,990 |
| Non-current liabilities | | |
| Long-term debt | 462,044 | 1,352,310 |
| Other | 320,000 | 240,000 |
| Total non-current liabilities | 782,044 | 1,592,310 |
| Total liabilities | 5,900,958 | 6,089,300 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 4,957,479 | 4,957,479 |
| Capital surplus | 4,707,029 | 4,707,029 |
| Retained earnings | 3,322,329 | 3,193,472 |
| Treasury shares | (397,362) | (397,362) |
| Total shareholders' equity | 12,589,476 | 12,460,618 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 240,027 | 255,442 |
| Foreign currency translation adjustment | (33,033) | (95,876) |
| Total accumulated other comprehensive income | 206,994 | 159,565 |
| Subscription rights to shares | 10,083 | 10,033 |
| Total net assets | 12,806,554 | 12,630,217 |
| Total liabilities and net assets | 18,707,512 | 18,719,518 |

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income
First Quarter Consolidated Cumulative Period

(In thousands of yen)

| | First quarter of FY2021 (Jan. 1, 2021 - Mar. 31, 2021) | First quarter of FY2022 (Jan. 1, 2022 - Mar. 31, 2022) |
|--|---|---|
| Revenue | 6,392,934 | 4,111,138 |
| Cost of sales | 6,064,633 | 3,502,224 |
| Gross profit | 328,301 | 608,913 |
| Selling, general, and administrative expenses | 833,343 | 890,799 |
| Operating income (loss) | (505,042) | (281,885) |
| Non-operating income | | |
| Interest income | 10,470 | 3,923 |
| Dividend income | 9,115 | 10,974 |
| Investment gains using equity method | 6,766 | — |
| Foreign exchange gains | 120,743 | 158,143 |
| Other | 3,568 | 5,858 |
| Total non-operating income | 150,664 | 178,899 |
| Non-operating expenses | | |
| Interest expense | 1,190 | 1,913 |
| Investment loss using equity method | — | 306 |
| Investment loss in investment partnerships | 5,236 | 15,290 |
| Other | 25,749 | 2,507 |
| Total non-operating expenses | 32,175 | 20,018 |
| Ordinary income (loss) | (386,554) | (123,003) |
| Extraordinary income | | |
| Gain on cancellation of own share acquisition rights | 60 | 50 |
| Gain on sale of investment securities | 31,130 | — |
| Total extraordinary income | 31,191 | 50 |
| Extraordinary loss | | |
| Impairment loss | 1,540,574 | — |
| Loss on disposal of fixed assets | 78 | 0 |
| Total extraordinary loss | 1,540,653 | 0 |
| Income (loss) before income taxes | (1,896,015) | (122,953) |
| Income taxes | (512,058) | 54,253 |
| Net income (loss) | (1,383,957) | (177,206) |
| Net income (loss) attributable to owners of parent | (1,383,957) | (177,206) |

Consolidated Statements of Comprehensive Income
First Quarter Consolidated Cumulative Period

(In thousands of yen)

| | First quarter of FY2021 (Jan. 1, 2021 - Mar. 31, 2021) | First quarter of FY2022 (Jan. 1, 2022 - Mar. 31, 2022) |
|--|---|---|
| Net income (loss) | (1,383,957) | (177,206) |
| Other comprehensive income | | |
| Valuation on difference on available-for-sale securities | 16,805 | 15,415 |
| Foreign currency translation adjustment | (30,546) | (62,843) |
| Total other comprehensive income | (13,740) | (47,428) |
| Comprehensive income | (1,397,698) | (224,635) |
| (Breakdown) | | |
| Comprehensive income attributable to owners of Parent | (1,397,698) | (224,635) |

(3) Notes Related to Consolidated Financial Statements

(Notes Related to Ongoing Concern Assumptions)

Not applicable

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

First quarter of FY2021 (January 1, 2021 – March 31, 2021)

1. Matters Concerning Dividends
Not applicable
2. Significant Change in Shareholders' Equity
Not applicable

First quarter of FY2022 (January 1, 2022 – March 31, 2022)

1. Matters Concerning Dividends
Not applicable
2. Significant Change in Shareholders' Equity
Not applicable

(Application of Special Accounting Treatment)

The effective tax rate is rationally estimated using the accounting for income taxes and includes the before tax net income from the consolidated financial results up until the first quarter of the current fiscal year, which is multiplied against the applicable effective tax rate when calculating tax expenses.

However, the statutory tax rate shall be used in cases where the applicable effective tax rate cannot be rationally estimated for calculating tax expenses.

(Change in Accounting Policy)

[Application of Accounting Standards for Revenue Recognition]

The Accounting Standard for Revenue Recognition, etc. (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other standards are applied from the beginning of the first quarter of the fiscal year under review to recognize revenue when the control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services.

As a result, revenue from paying users was previously recognized when users consume the payable currency in the game and exchange it for an item. However, depending on the nature of the items consumed and obtained by users, the period of use of the payable currency has been estimated and revenue is recognized based on the estimated period of use. In addition, for some of the transactions in which licenses are granted, revenue was previously recognized at the amount of the invoice when the invoice was issued under the contract. However, if the nature of the commitment to grant licenses to customers is the right to use the intellectual property at the time the license is granted, the Company will change to a one-time method for recognizing revenue.

The Company follows the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition. However, there is no impact on retained earnings at the beginning of the first quarter of the fiscal year under review and no impact on profits and losses for the first quarter of the fiscal year under review.

As a result, for the first quarter of the current fiscal year under review, revenue increased by 9,070 thousand yen, the operating loss decreased by 9,070 thousand yen, and the ordinary loss and loss before income taxes decreased by 13,123 thousand yen respectively. In addition, the balance of retained earnings at the beginning of the fiscal year under review increased by 48,349 thousand yen.

In accordance with the transitional treatment set forth in paragraph 89-2 of the Accounting Standard for Revenue Recognition, no new reclassifications have been made to the prior fiscal year under the new presentation method. In addition, in accordance with the transitional treatment stipulated in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information broken down revenues from contracts with customers for the first quarter of the previous fiscal year is not presented.

[Application of Accounting Standards Pertaining to Estimation of Market Value]

The Accounting Standard for Fair Value Measurement, etc. (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") and other standards have been applied from the beginning of the first quarter of the fiscal year under review, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting

Standard for Fair Value Measurement will be applied in the future. There is no impact on the quarterly consolidated financial statements.

(Segment Information)

[Segment Information]

I. First quarter of FY2021 (January 1, 2021 – March 31, 2021)

1. Pertaining to Revenue and Profit or Loss Per Reported Segment

(In thousands of yen)

| | Reported Segment | Other (Note 1) | Consolidated Income Basis (Note 2) |
|--|------------------|-------------------|--|
| | Game Business | | |
| Revenue: | | | |
| Revenue from External Customer | 6,273,456 | 119,478 | 6,392,934 |
| Intersegment Internal Revenue or Account Transfer Amount | — | — | — |
| Total | 6,273,456 | 119,478 | 6,392,934 |
| Segment Profit | 257,720 | 70,580 | 328,301 |

Notes:

1. "Other" refers to the business segment of research & consulting business, and other businesses not included in the "Reported Segment."

2. "Segment Profit" has not been adjusted as it is the same as the gross profit in the consolidated statements of income.

2. Pertaining to Impairment Loss for Non-Current Assets and Goodwill Per Reported Segment

(Significant Impairment Loss Concerning Non-Current Assets)

The "Game Business" segment recorded an impairment loss on software. The amount of impairment loss recorded in the first quarter of the fiscal year under review was 1,540,574 thousand yen.

II. First quarter of FY2022 (January 1, 2022 – March 31, 2022)

1. Pertaining to Revenue and Profit or Loss Per Reported Segment

(In thousands of yen)

| | Reported Segment | Other (Note 1) | Amount Listed on Consolidated Statement of Income (Note 2) |
|--|------------------|-------------------|--|
| | Game Business | | |
| Revenue: | | | |
| Revenue from Paid Customers | 3,442,944 | — | 3,442,944 |
| Other | 528,295 | 139,898 | 668,194 |
| Revenue from Contracts with Customers | 3,971,240 | 139,898 | 4,111,138 |
| Other Revenue | — | — | — |
| Revenue from External Customers | 3,971,240 | 139,898 | 4,111,138 |
| Intersegment Internal Revenue or Account Transfer Amount | — | — | — |

| | | | |
|-----------------------|-----------|----------|-----------|
| Total | 3,971,240 | 139,898 | 4,111,138 |
| Segment Profit (Loss) | 644,237 | (35,323) | 608,913 |

Notes:

1. "Other" refers to the business segment of research & consulting business, and other businesses not included in the "Reported Segment."
2. "Segment Profit" has not been adjusted as it is the same as the gross profit in the consolidated statements of income.

2. Pertaining to Changes in the Segment Information

As stated in Change in Accounting Policy, the Company has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter of the fiscal year under review, and changed the accounting method for revenue recognition. As a result, the method of calculating profit or loss for business segments has been changed in the same manner.

Due to this change, compared to the previous method, revenue in the game business for the first quarter of the fiscal year under review increased by 9,070 thousand yen and segment profit increased by 9,070 thousand yen.