

■ **Explanatory Notes**

- (1) Changes to major subsidiaries during the first quarter of FY2023: No
 (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 (Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)” 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: No
 ③ Changes to accounting estimates: No
 ④ Restatements: No

(4) Number of outstanding shares (common shares)

① Period end outstanding shares (including treasury shares)	First quarter of FY2023	41,092,200 shares	FY2022	41,092,200 shares
② Period end treasury shares	First quarter of FY2023	641,531 shares	FY2022	641,531 shares
③ Average outstanding shares during the period	First quarter of FY2023	40,450,669 shares	First quarter of FY2022	37,989,600 shares

- Financial statements are not subject to audits by certified public accountants or audit firms

- 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 various 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)

	FY2022 (Dec. 31, 2022)	First quarter of FY2023 (Mar. 31, 2023)
Assets		
Current assets		
Cash and deposits	6,017,468	6,419,761
Accounts receivable	1,768,227	1,251,714
Income taxes receivable	10,274	—
Other	2,576,297	2,313,654
Allowance for doubtful accounts	(28,649)	(29,603)
Total current assets	10,343,618	9,955,526
Non-current assets		
Property, plant, and equipment	216,210	219,130
Intangible assets		
Goodwill	733,161	710,944
Software	55,620	97,516
Software in progress	4,023,684	4,657,869
Other	672	5,328
Total intangible assets	4,813,138	5,471,659
Investments and other assets		
Investment securities	2,893,484	2,987,301
Other	2,593,335	2,313,103
Total investments and other assets	5,486,820	5,300,405
Total non-current assets	10,516,169	10,991,196
Total assets	20,859,788	20,946,722
Liabilities		
Current liabilities		
Accounts payable	1,315,661	906,127
Short-term debt	1,000,000	1,000,000
Long-term debt to be repaid within one year	1,070,669	1,275,133
Income taxes payable	135,473	38,919
Provision for bonuses	134,106	36,456
Other	2,374,744	2,319,496
Total current liabilities	6,030,655	5,576,133
Non-current liabilities		
Long-term debt	1,435,575	2,418,839
Other	240,000	160,000
Total non-current liabilities	1,675,575	2,578,839
Total liabilities	7,706,230	8,154,972
Net assets		
Shareholders' equity		
Capital stock	5,457,956	5,457,956
Capital surplus	5,212,506	5,212,506
Retained earnings	2,828,756	2,463,407
Treasury shares	(397,377)	(397,377)
Total shareholders' equity	13,101,841	12,736,492
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	262,246	279,689
Foreign currency translation adjustment	(240,894)	(254,740)
Total accumulated other comprehensive income	21,351	24,949
Subscription rights to shares	30,364	30,308
Total net assets	13,153,557	12,791,750
Total liabilities and net assets	20,859,788	20,946,722

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

(In thousands of yen)

	First quarter of FY2022 (Jan. 1, 2022 - Mar. 31, 2022)	First quarter of FY2023 (Jan. 1, 2023 - Mar. 31, 2023)
Revenue	4,111,138	2,891,143
Cost of sales	3,502,224	2,440,706
Gross profit	608,913	450,436
Selling, general, and administrative expenses	890,799	759,110
Operating income (loss)	(281,885)	(308,674)
Non-operating income		
Interest income	3,923	8,401
Dividend income	10,974	9,000
Foreign exchange gains	158,143	47,962
Other	5,858	4,718
Total non-operating income	178,899	70,082
Non-operating expenses		
Interest expense	1,913	8,452
Investment loss using equity method	306	—
Investment loss in investment partnerships	15,290	30,556
Commission paid	—	50,243
Other	2,507	1,115
Total non-operating expenses	20,018	90,368
Ordinary income (loss)	(123,003)	(328,959)
Extraordinary income		
Gain on sale of investment securities	—	20,234
Other	50	56
Total extraordinary income	50	20,290
Extraordinary loss		
Loss on disposal of fixed assets	0	0
Total extraordinary loss	0	0
Income (loss) before income taxes	(122,953)	(308,669)
Income taxes	54,253	56,679
Net income (loss)	(177,206)	(365,348)
Profit (loss) attributable to owners of parent	(177,206)	(365,348)

Consolidated Statements of Comprehensive Income
First Quarter Consolidated Cumulative Period

(In thousands of yen)

	First quarter of FY2022 (Jan. 1, 2022 - Mar. 31, 2022)	First quarter of FY2023 (Jan. 1, 2023 - Mar. 31, 2023)
Net income (loss)	(177,206)	(365,348)
Other comprehensive income		
Valuation on difference on available-for-sale securities	15,415	17,570
Foreign currency translation adjustment	(62,843)	(13,845)
Amount equivalent to equity in equity method affiliates	—	(127)
Total other comprehensive income	(47,428)	3,597
Comprehensive income	(224,635)	(361,751)
(Breakdown)		
Comprehensive income attributable to owners of parent	(224,635)	(361,751)

(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 FY2022 (January 1, 2022 – March 31, 2022)

1. Matters Concerning Dividends
Not applicable

2. Significant Change in Shareholders' Equity
Not applicable

First quarter of FY2023 (January 1, 2023 – March 31, 2023)

1. Matters Concerning Dividends
Not applicable

2. Significant Change in Shareholders' Equity
Not applicable

(Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)

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 Pertaining to Estimation of Market Value]

The Accounting Standard for Fair Value Measurement, etc. (ASBJ Statement No. 31, June 17, 2021, 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 27-2 of the Accounting Standard for Fair Value Measurement, 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 and Other Information)

[Segment Information]

I. 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			
Income from Paid Users	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 Income	—	—	—
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 (Loss)" has not been adjusted as it is the same as the gross profit in the consolidated statements of income.

II. First quarter of FY2023 (January 1, 2023 – March 31, 2023)

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			
Income from Paid Users	2,216,829	—	2,216,829
Other	388,562	285,751	674,314
Revenue from Contracts with Customers	2,605,391	285,751	2,891,143
Other Income	—	—	—
Revenue from External Customers	2,605,391	285,751	2,891,143
Intersegment Internal Revenue or Account Transfer Amount	—	—	—
Total	2,605,391	285,751	2,891,143
Segment Profit	359,929	90,507	450,436

Notes:

1. "Other" refers to the business segment of blockchain-related 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.