

■ **Explanatory Notes**

- (1) Changes to major subsidiaries during the first nine months 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 Special 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)	Third quarter of FY2023	41,092,200 shares	FY2022	41,092,200 shares
② Period end treasury shares	Third quarter of FY2023	641,531 shares	FY2022	641,531 shares
③ Average outstanding shares during the period	Third quarter of FY2023	40,450,669 shares	Third quarter of FY2022	38,338,164 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 of reasons.

(Method of obtaining supplementary 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)	Third quarter of FY2023 (Sept. 30, 2023)
Assets		
Current assets		
Cash and deposits	6,017,468	3,140,536
Accounts receivable	1,768,227	1,618,707
Income taxes receivable	10,274	—
Other	2,576,297	2,255,019
Allowance for doubtful accounts	(28,649)	(39,720)
Total current assets	10,343,618	6,974,543
Non-current assets		
Property, plant, and equipment	216,210	193,273
Intangible assets		
Goodwill	733,161	666,510
Software	55,620	949,587
Software in progress	4,023,684	5,062,093
Other	672	2,973
Total intangible assets	4,813,138	6,681,166
Investments and other assets		
Investment securities	2,893,484	3,214,668
Other	2,593,335	2,279,727
Total investments and other assets	5,486,820	5,494,396
Total non-current assets	10,516,169	12,368,835
Total assets	20,859,788	19,343,379
Liabilities		
Current liabilities		
Accounts payable	1,315,661	817,634
Short-term debt	1,000,000	—
Long-term debt to be repaid within one year	1,070,669	1,416,609
Income taxes payable	135,473	50,610
Provision for bonuses	134,106	38,712
Other	2,374,744	2,090,807
Total current liabilities	6,030,655	4,414,374
Non-current liabilities		
Long-term debt	1,435,575	2,102,368
Other	240,000	160,000
Total non-current liabilities	1,675,575	2,262,368
Total liabilities	7,706,230	6,676,742
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	2,237,058
Treasury shares	(397,377)	(397,377)
Total shareholders' equity	13,101,841	12,510,143
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	262,246	453,559
Foreign currency translation adjustment	(240,894)	(344,469)
Total accumulated other comprehensive income	21,351	109,089
Subscription rights to shares	30,364	47,403
Total net assets	13,153,557	12,666,637
Total liabilities and net assets	20,859,788	19,343,379

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

(In thousands of yen)

	Third quarter of FY2022 (Jan. 1, 2022 – Sept. 30, 2022)	Third quarter of FY2023 (Jan. 1, 2023 – Sept. 30, 2023)
Revenue	12,511,446	8,355,895
Cost of sales	10,463,512	6,942,818
Gross profit	2,047,934	1,413,077
Selling, general, and administrative expenses	2,617,977	2,144,253
Operating income (loss)	(570,042)	(731,175)
Non-operating income		
Interest income	10,721	18,523
Dividend income	44,794	45,187
Investment gains using equity method	—	7,001
Foreign exchange gains	628,468	364,816
Other	100,298	11,892
Total non-operating income	784,282	447,422
Non-operating expenses		
Interest expense	9,144	27,835
Commission paid	—	62,184
Investment loss using equity method	3,499	—
Investment loss in investment partnerships	—	69,569
Other	6,088	11,273
Total non-operating expenses	18,731	170,862
Ordinary income (loss)	195,507	(454,615)
Extraordinary income		
Gain on sale of investment securities	154,576	32,036
Other	7,394	2,960
Total extraordinary income	161,970	34,997
Extraordinary loss		
Impairment loss	410,263	33,831
Other	118,646	760
Total extraordinary loss	528,910	34,591
Income (loss) before income taxes	(171,432)	(454,210)
Income taxes	135,816	137,487
Net income (loss)	(307,248)	(591,697)
Profit (loss) attributable to owners of parent	(307,248)	(591,697)

Consolidated Statement of Comprehensive Income
Third Quarter Consolidated Cumulative Period

(In thousands of yen)

	Third quarter of FY2022 (Jan. 1, 2022 – Sept. 30, 2022)	Third quarter of FY2023 (Jan. 1, 2023 – Sept. 30, 2023)
Net income (loss)	(307,248)	(591,697)
Other comprehensive income		
Valuation on difference on available-for-sale securities	155,066	193,807
Foreign currency translation adjustment	(220,638)	(103,574)
Amount equivalent to equity in equity method affiliates	(386)	(2,494)
Total other comprehensive income	(65,959)	87,738
Comprehensive income	(373,207)	(503,959)
(Breakdown)		
Comprehensive income attributable to owners of parent	(373,207)	(503,959)

(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 nine months of FY2022 (January 1, 2022 – September 30, 2022)

1. Matters Concerning Dividends

Not applicable

2. Significant Change in Shareholders' Equity

Due to the exercise of stock acquisition rights, capital stock and capital surplus each increased by 406,163 thousand yen. As a result, capital stock was 5,363,642 yen and capital surplus was 5,113,192 thousand yen at the end of the first nine months of the fiscal year under review.

First nine months of FY2023 (January 1, 2023 – September 30, 2023)

1. Matters Concerning Dividends

Not applicable

2. Significant Change in Shareholders' Equity

Not applicable

(Application of Special 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 from the third quarter of the fiscal year under review, 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 Implementation Guidance on Accounting Standard for Fair Value Measurement]

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as the "Implementation Guidance on Accounting Standard for Fair Value Measurement") has 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 Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policy stipulated by the Implementation Guidance on 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 nine months of FY2022 (January 1, 2022 – September 30, 2022)

1. Information on the Amount of Revenue and Profit or Loss by Reportable Segment and Breakdown of Income

(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	10,832,805	—	10,832,805
Other	1,362,346	316,294	1,678,641
Revenue from Contracts with Customers	12,195,151	316,294	12,511,446
Other Income	—	—	—
Revenue from External Customers	12,195,151	316,294	12,511,446
Intersegment Internal Revenue or Account Transfer Amount	—	—	—
Total	12,195,151	316,294	12,511,446
Segment Profit (Loss)	2,152,829	(104,895)	2,047,934

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 nine months of FY2023 (January 1, 2023 – September 30, 2023)

1. Information on the Amount of Revenue and Profit or Loss by Reportable Segment and Breakdown of Income

(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	6,483,119	—	6,483,119
Other	1,289,099	583,677	1,872,776
Revenue from Contracts with Customers	7,772,218	583,677	8,355,895
Other Income	—	—	—
Revenue from External Customers	7,772,218	583,677	8,355,895
Intersegment Internal Revenue or Account Transfer Amount	—	—	—
Total	7,772,218	583,677	8,355,895
Segment Profit	1,121,749	291,328	1,413,077

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.