

Message from the CFO

Balancing Growth in Operating Profit with Financial Discipline Supporting Ongoing Efforts to Reach the World's Top 10

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1. Review of FY2025

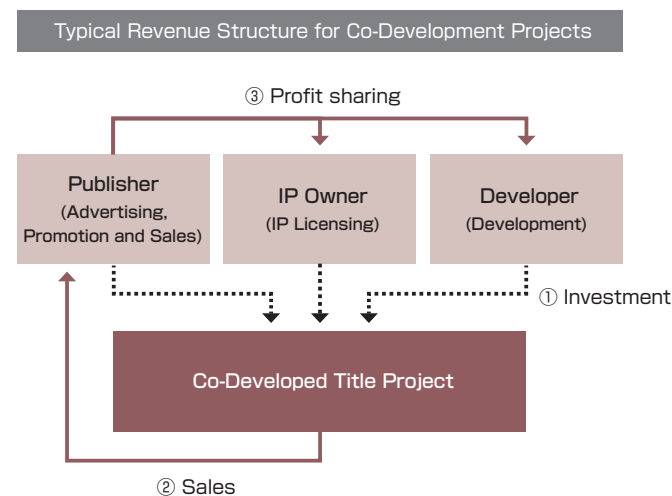
Q In FY2025, net sales, ordinary income, and net income all reached record highs, while operating profit also exceeded our earnings forecast, coming in at 37.0 billion yen. What do you see as the key factors behind these strong results?

A The strong results were driven by a number of successful hit titles. Compared to our forecast, net sales fell short, but operating profit exceeded expectations. This was due to a difference between the actual mix of in-house and collaboration titles and what we had planned. For titles we develop and publish ourselves, we record the full sales amount. For co-developed titles where another company handles publishing, we record only our share of revenue after deducting costs such as sales and marketing. In our earnings forecast, we had budgeted more aggressively for in-house titles and more conservatively for co-developed titles, which resulted in this performance.

Q What do you see as the benefits of co-developed titles?

A Co-developed titles allow us to collaborate with other companies and gain their support in development and sales. This gives us valuable opportunities to tackle genres and game systems that would involve significant risk and be difficult for us to pursue alone. The knowledge and development expertise gained from these new opportunities are important assets

that strengthen our development capabilities and lead to the creation of new IP. We view co-developed titles as one of the strengths of our multilayered revenue structure and as part of the growth platform that underpins our medium- to long-term growth. In FY2025, we released *Pokémon Pokopia*, a slow-life sandbox game. This title was made possible by the know-how we accumulated from past craft-genre projects, and it exemplifies how collaborative challenges can broaden our development genres.



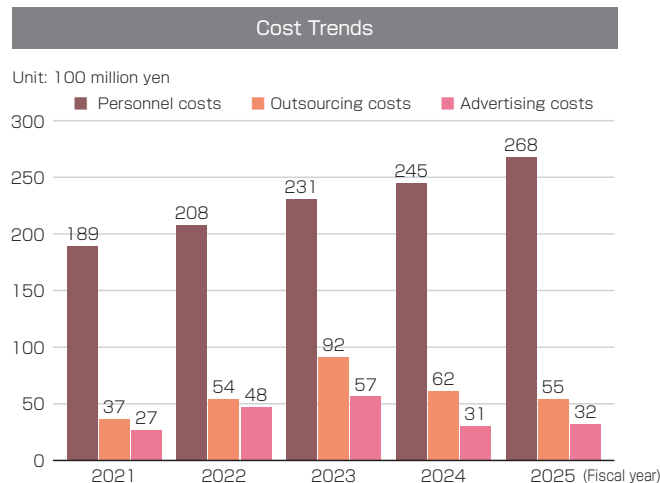
Message from the CFO

Q Could you tell us about your cost situation?

A Because we develop games in-house, our largest expense—and a key growth investment—is personnel costs. We expect personnel costs to increase by around 10% annually, driven by a combination of workforce growth through new graduate hiring and higher per-employee salaries from improved compensation and base-pay increases.

Recruitment is progressing smoothly in line with our plans, both in Japan and overseas. For FY2025, we initially budgeted approximately 27.0 billion yen in personnel costs, and we kept within that range.

For FY2026, we expect personnel costs to reach around 30.0 billion yen.



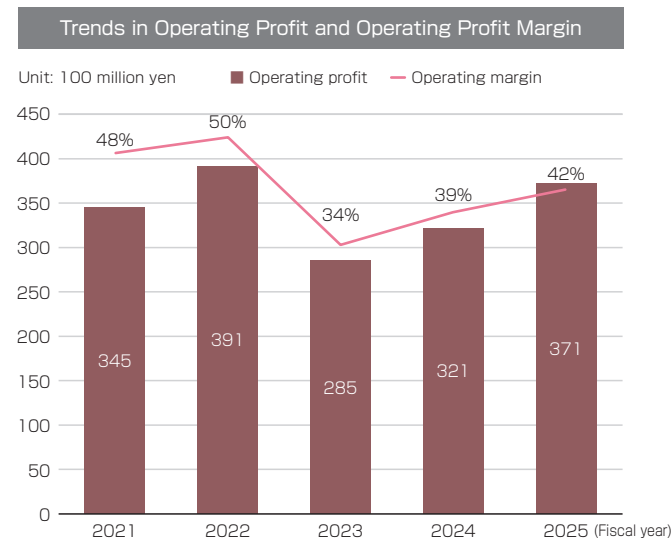
We formulate our plans on the assumption that our workforce will increase steadily each year while focusing on long-term growth. By ensuring that our management of development costs and other expenses functions effectively, we will work to prevent any financial concerns or issues from arising.

We are also actively conducting trials and studying use cases for introducing AI. These initiatives are being carried out strictly within the scope of our fixed overhead costs for our R&D division, information systems division, and quality management division—which handles localization and debugging. As a result, they have not created any significant new expenses.

2. Approach to Growth and Financial Discipline

Q Could you share your thinking on your recent operating margin and operating profit?

A From a financial standpoint, the basic premise is to ensure efficiency of output relative to input for growth investment. However, to achieve our goal of breaking into the global top 10 as a digital entertainment company within 10 years, we are prioritizing growth in operating profit itself, not just efficiency as measured by operating margin. At the same time, we consider achieving an operating profit margin of 30% to be a must-achieve target.



If we focus too much on efficiency, we could fall into a downward spiral of avoiding risks and new challenges simply because a stable business already secures a healthy margin. That would not lead to significant growth. To use a baseball analogy, it would be like saying, "If I get a hit in each of my first three at-bats, I should sit out my fourth so I don't lower my batting average." Of course, stepping up to the plate carries the risk of striking out, but if you get a hit, you can score even more runs.

Looking at the global game market, we still have significant room for growth. Even when risks are involved, our policy is to actively pursue challenges and make investments that increase profits. From a financial perspective too, we will continue to allocate sufficient resources to new challenges and pursue opportunities to create new forms of entertainment.

Q What is an appropriate level of surplus funds in your view?

A Large-scale game development is said to take three to five years or more. To ensure we can invest in development with confidence despite these lengthy cycles, we believe we need to maintain enough surplus funds to cover personnel costs for at least the length of a development cycle, or roughly five years. For example, if we had only 10 billion yen in surplus funds and invested 10 billion yen in development, a failure would leave us unable to pursue our next title. Rather than withdrawing after a single failure, we believe it is important to be prepared to try again two or three times. To give our employees the confidence to focus on development, our policy is to keep enough cash on hand to cover personnel costs for the duration of development.

In addition, we still have many opportunities for growth, including through M&A and the creation of new IP. A company with opportunities for growth should maintain sufficient resources to take on challenges. To pursue growth investment aggressively, a thicker financial cushion is essential, and we also need a certain amount of funds that we can deploy flexibly. We therefore do not see our current level of surplus funds as excessive.

Q What's your approach to managing projects?

A We monitor individual titles through weekly group management meetings, a project budget-to-actual management system, and alpha and beta review meetings. By closely tracking development costs and progress, we ensure that not only the project team but also management can see whether it is safe to continue a project as is or whether action is needed. Extended development periods pose a major risk for both project operations and project management, so this monitoring is extremely important. Conversely, if development progresses according to plan, we can not only keep unnecessary costs down but also reduce risks such as obsolescence from shifts in market trends or technology. Through this framework, we constantly check not only title quality but also the balance with deadlines and budgets.

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Q Could you tell us about the profitability of your projects?

A Our profitability benchmark is a project operating profit margin of at least 30%. Under our management accounting system, we allocate head office and administrative costs to individual projects and target a project operating profit margin of 30%. While this is a demanding target for our development teams, linking individual project profitability to the company-wide operating profit margin through this system gives us highly transparent management.

Q What initiatives are you taking to ensure stable earnings for the company as a whole?

A Beyond managing the progress and profitability of individual projects, it is essential to assess the overall risk of our title portfolio. To do this, we build buffers into our plans that account for performance variability between titles. While setting high targets for our development teams and encouraging them to take on challenges, management takes a conservative approach to planning. This allows us to manage risk appropriately across the company.

Under our 3rd Medium-Term Management Plan, we were overly concentrated on large-scale titles, which resulted in greater earnings fluctuations. Learning from that experience, we are now working to build a well-balanced portfolio of large, medium, and small titles. However, since our development structure is centered on in-house production, it is difficult to expand development capacity rapidly. We therefore intend to gradually achieve the right balance over time while recruiting and developing talent.

Q Could you explain the timing of accounting expenses and revenue recognition?

A A key feature of our accounting is our accrual-based approach. Development costs are recognized as expenses when incurred during the development period, while sales are recognized when the products are sold. At many other companies, development costs during production are capitalized as software assets, and as revenue is recognized, the corresponding asset balance is written down as an expense. Because our accounting inherently creates a time lag between expenses and revenue, our income statement records sales from products released in the current

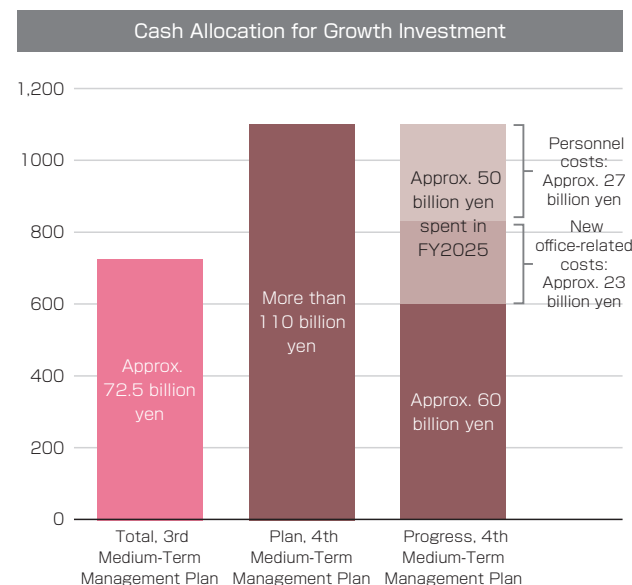
period while also recording development costs for products scheduled for future release as expenses.

This accrual-based approach makes the relationship between the income statement and cash flow clear and supports sound, conservative management. Although our balance sheet may appear smaller than the actual scale of our business, our conservative accounting recognizes expenses ahead of revenue. This approach enables us to consistently achieve a high operating profit margin.

3. Growth Investment

Q Could you update us on the progress of the 110 billion yen in growth investments set out in the 4th Medium-Term Management Plan?

A First, the breakdown of the 110 billion yen in growth investments is centered on personnel expenses and capital investment to improve the workplace environment. In FY2025, we recorded just under 27 billion yen in personnel expenses and over 23 billion yen for Yokohama Symphostage, our new office, including land, building, and interior fit-out. This brings total spending already recognized to around 50 billion yen.

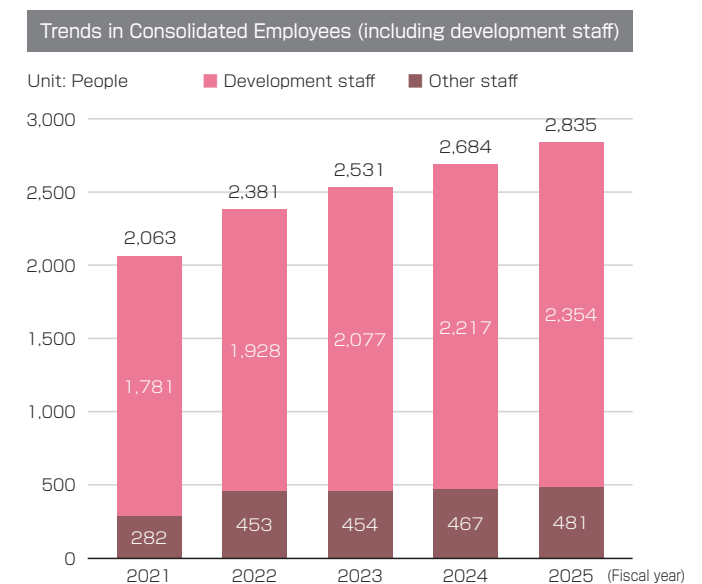


The remaining roughly 60 billion yen will mainly go toward personnel expenses for FY2026 and FY2027, so it will be spent as planned over the three-year period of the 4th Medium-Term Management Plan.

We are constantly looking for M&A and other investment opportunities, and we maintain sufficient cash to respond quickly and flexibly when they arise. However, because we cannot determine at this point when an acquisition might take place or its potential size, M&A and similar investments are not included in the 110-billion-yen framework.

Q Could you share your thinking on your human resources strategy and specific initiatives for talent development?

A To develop a well-balanced mix of large, medium, and small titles and build a stable portfolio, expanding development capacity is essential. We believe we will eventually need a development structure of around 5,000 people. Our consolidated workforce grew from 1,570 employees in the fiscal year ending March 2016 to 2,835 in the fiscal year ending March 2026, an increase of more than 1,200 over the past 10 years. We are currently growing at a pace of 150 to 200 people per year, so the quantitative expansion of our workforce is progressing steadily.



Message from the CFO

In addition to the quantity of our talent, it is essential to ensure quality—in other words, an effective training system. By strengthening both the quality and quantity of our talent, we aim to maximize our company's overall output.

We currently hire around 200 new graduates per year in Japan, and we have a system in place to develop this many new hires. After completing their initial training, new employees are assigned to their teams and participate in our "Brother System," under which a more senior employee of similar age serves as their mentor for one year. Given the number of employees available to provide training and mentoring, we believe our current hiring pace is appropriate.

The KOEI TECMO Group also tracks training hours per employee as a key metric. Within the Group, we primarily share knowledge through on-the-job training and in-house study sessions. Training can also be measured by external training expenses, but we believe the key to talent development is not how much we spend, but how much time we devote to it.

More recently, projects for medium-sized and smaller titles, including remakes and remasters, have provided valuable opportunities for younger employees who will go on to become directors and producers to gain experience. On large-scale titles involving hundreds of people, it can be difficult to see how your role fits into the bigger picture. On titles with several dozen people, however, each person's role is clearer, making it easier to grasp the game as a whole.

Because we have established a system for nurturing new graduates and younger employees within the company, we believe this has contributed to our high employee retention, with our turnover rate remaining in the 4% range.

Q What is your policy on M&A?

A As a company with a development-oriented culture, we primarily consider M&A candidates that own attractive game IPs, have the potential to create synergies with our IP, or own IPs with strong affinity for games.

IPs that have already achieved global success tends to command a high price. From an investment efficiency perspective, we are therefore constantly looking for opportunities to acquire promising IPs at an earlier stage of their growth, and we have a financial structure in place that allows us to respond quickly and flexibly when opportunities arise.

4. Management of Surplus Funds

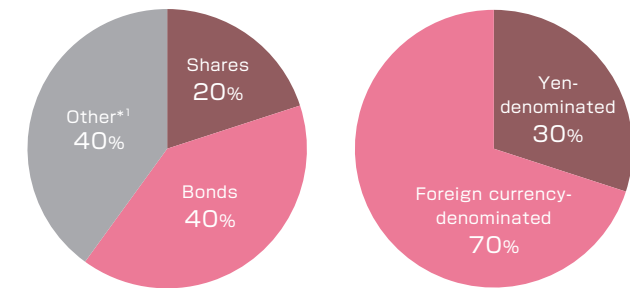
Q Could you tell us about your policy for managing surplus funds and how you manage the associated risks?

A The management of surplus funds is ultimately intended to support our core business of game development. Non-operating income and expenditure has performed extremely well in recent years, thanks in part to favorable conditions. However, we do not assume this will continue, and we do not take excessive risks in pursuit of high returns. In managing surplus funds, we place particular importance on three aspects of financial discipline: sustainability, which means generating stable returns on an ongoing basis; flexibility, which means responding quickly to changes in financial markets; and soundness, which means maintaining a sound asset portfolio.

For risk management, we use a matrix of financial instruments and currencies to review our portfolio monthly. While we do make some risk-taking investments, we limit them to investments where the source of risk is clearly identifiable, and only handle short-term instruments of one year or less. We strictly adhere to a rule of investing only in highly transparent instruments where we ourselves can understand both the risk and the impact when indicators change.

The soundness of our investment assets has also improved significantly over the past year. By closely monitoring financial market conditions and reviewing our portfolio through actions such as selling financial instruments with unrealized losses, we have further strengthened our financial base. Sound asset composition is the foundation that supports stable management over the medium to long term.

Investment Portfolio Breakdown (As of March 31, 2026)



*1 "Other" includes cash and cash equivalents on hand

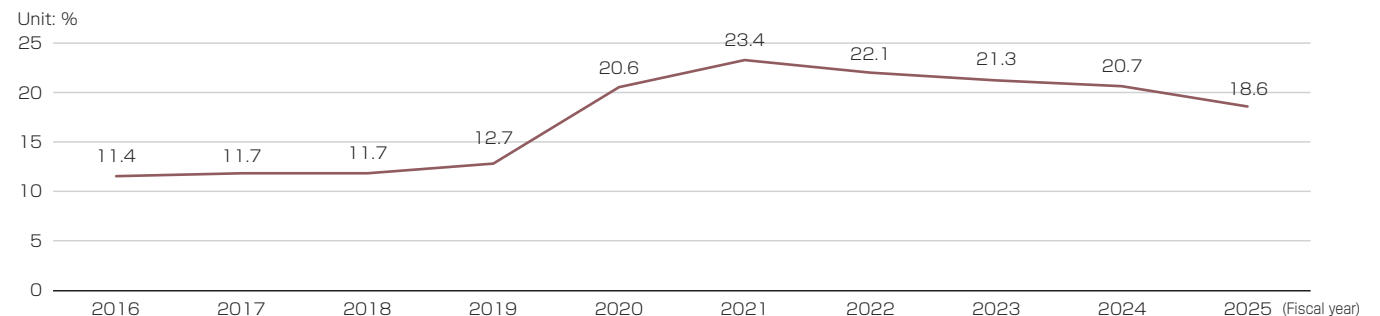
5. Enhancing Corporate Value and Returning Profits to Shareholders

Q How do you view the current level of ROE and its future outlook?

A While we regard operating profit as our most important KPI for growth, from a financial standpoint, we also consider it essential to maintain an ROE that exceeds our cost of capital.

In the growing digital entertainment market, we see ourselves on a growth trajectory toward becoming one of the world's top 10 companies, and we place a strong emphasis on expanding operating profit. While maintaining sufficient resources to fund growth investments, we will also remain mindful of efficiency.

ROE Trends



Message from the CFO

We expect ROE to decline toward the fiscal year ending March 2027. This is because shareholders' equity, which serves as the denominator of ROE, is expected to increase significantly. This increase is driven by the disposal of treasury stock carried out to meet the Prime Market's listing maintenance criteria, the accumulation of net income, and higher unrealized gains on investment securities held. Even so, we believe we will maintain ROE above our estimated cost of capital. Going forward, we aim to achieve ROE above our cost of capital on this larger equity base. To achieve this, we will work to generate profits above our published earnings forecasts and use that to enhance corporate value.

Q What is your policy on shareholder returns?

A With regard to shareholder returns, we will maintain our profit distribution policy: a consolidated annual total payout ratio of 50%, or an annual dividend of 50 yen per share (whichever is higher). Since the management integration in FY2009, total annual dividends have increased approximately 16-fold, demonstrating our track record of steadily increasing shareholder returns in line with profit growth. Going forward, our basic policy will remain to return profits through dividends, aiming to increase total dividends through operating profit growth.

We believe a strong financial foundation is essential to continue making higher-risk growth investments and to capture further business opportunities, including the creation of new IP. We therefore believe our current shareholder return policy is appropriate in this respect as well.

Q How do you view the current share price, and what are your expectations going forward?

A We take seriously the fact that our PBR (price-to-book ratio) is currently depressed, as this indicates that market expectations for our future growth have weakened. PBR will not improve unless we generate positive expectations for our growth. We believe the best way to improve our stock market valuation, even if only incrementally, is to steadily deliver results across our businesses and increase operating profit.

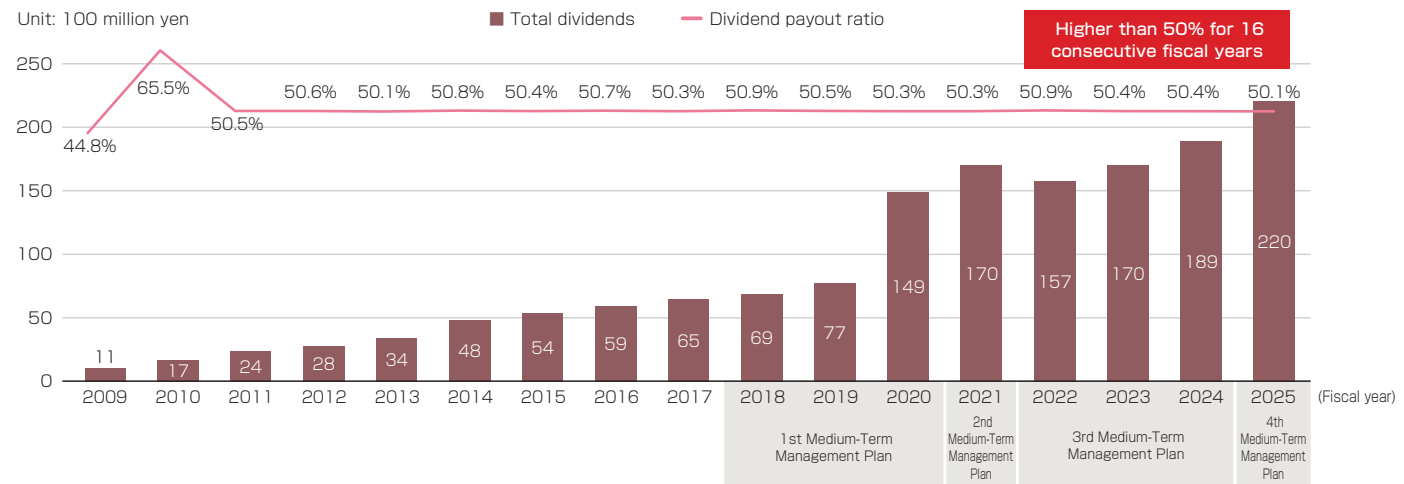
We also feel that excessive concerns over the advancement of generative AI are one factor behind the recent decline in share prices across the gaming sector. Some argue that if generative

AI makes it possible for anyone to create games, the value of major game companies that invest significant human resources in development could disappear. Nonetheless, there is also high-quality, professionally produced content that only major game companies can create. By continuing to deliver solid, valuable content to our customers, we believe we can further grow our business in the years ahead.

We have established a system to ensure that feedback

and requests from investors received through IR activities and other channels are properly communicated and reported to management and the Board of Directors. We will continue strengthening investor dialogue and our management structure so that stakeholders recognize our steady progress toward our long-term vision of becoming a global top-10 company and view us as a business with strong investment efficiency and growth potential.

Trends in Total Dividends and Payout Ratio



One-year Share-price Trend

