[These documents are based on the Company's Annual Securities Report (Japanese only) prepared following the Financial Instruments and Exchange Act for the purpose of providing accurate financial information and other information in a manner that is easy to understand. In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translations.]

Annual Securities Report

(The 19th Fiscal Year)

From January 1, 2020 to December 31, 2020

NEXON Co., Ltd

Table of Contents

Page

Annual Securities Report for the 19th Fiscal Year

【Cover】 …… 1

Part I 【Information on the Company】 …… 2

I. 【Overview of the Company】 …… 2

1 【Changes in Key Management Indicators】 …… 2

2 【History】 …… 6

3 【Description of Business】 …… 10

4 【Group Companies】 …… 18

5 【Employees】 …… 20

II. 【Business Overview】 …… 21

1 【Management Policy, Business Environment, Issues to be Addressed, etc.】 …… 21

2 【Risk Factors】 …… 23

3 【Management's Analysis of Financial Position, Operating Results and Cash Flows】 …… 31

4 【Material Agreements, etc. in Business Operation】 …… 36

5 【Research and Development】 …… 37

III. 【Property, Plant and Equipment】 …… 38

1 【Summary of Capital Investment, etc.】 …… 38

2 【Major Facilities】 …… 39

3 【Plans for Additions, Disposals, etc. of Property, Plant and Equipment】 …… 41

IV. 【Information on the Company】 …… 42

1 【Information on the Company's Stock, etc.】 …… 42

2 【Information on Purchase, etc. of Treasury Stock】 …… 84

3 【Dividend Policy】 …… 85

4 【Information on Corporate Governance, etc.】 …… 86

V. 【Financial Information】 …… 111

1 【Consolidated Financial Statements, etc.】 …… 112

2 【Non-Consolidated Financial Statements, etc.】 …… 201

VI. 【Stock-Related Administrative Information of the Company】 …… 213

VII. 【Reference Information on the Company】 …… 214

1 【Information on the Company's Parent Company, etc.】 …… 214

2 【Other Reference Information】 …… 214

Part II 【Information on Guarantors, etc. for the Company】 …… 216

【Cover】

【Document filed】	Annual Securities Report
【Governing law】	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
【Filed with】	Director, Kanto Local Finance Bureau
【Filing date】	March 26, 2021
【Fiscal year】	The 19th Fiscal Year (from January 1, 2020 to December 31, 2020)
【Company name】	Kabushiki Kaisha NEXON
【Company name in English】	NEXON Co., Ltd.
【Name and title of representative】	Owen Mahoney, Representative Director, President and Chief Executive Officer
【Address of head office】	1-4-5 Roppongi, Minato-ku, Tokyo
【Telephone number】	03-6629-5318 (main)
【Contact person】	Shiro Uemura, Representative Director and Chief Financial Officer
【Nearest contact address】	1-4-5 Roppongi, Minato-ku, Tokyo
【Telephone number】	03-6629-5318 (main)
【Contact person】	Shiro Uemura, Representative Director and Chief Financial Officer
【Place where a copy of this document is made available for public inspection】	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Part I 【Information on the Company】

I. 【Overview of the Company】

1 【Changes in Key Management Indicators】

(1) Consolidated management indicators, etc.

(Millions of yen, unless otherwise stated)

Term	International Accounting Standard				
	15th FY	16th FY	17th FY	18th FY	19th FY
Fiscal year-end	December 2016	December 2017	December 2018	December 2019	December 2020
Revenue	183,128	234,929	253,721	248,542	293,024
Income before income taxes	47,123	69,995	117,444	121,968	108,171
Net income attributable to owners of the parent company	20,133	56,750	107,672	115,664	56,220
Total comprehensive income	2,905	91,917	72,012	86,865	86,427
Total equity attributable to owners of the parent company	372,924	465,207	555,268	619,985	709,882
Total assets	441,832	543,231	649,998	719,088	862,161
Total equity attributable to owners of the parent company per share (yen)	428.78	528.42	620.91	702.59	800.35
Basic earnings per share (yen)	23.13	64.67	121.03	129.34	63.57
Diluted earnings per share (yen)	22.70	63.46	119.65	128.03	61.90
Ratio of equity attributable to owners of the parent company to total assets (%)	84.4	85.6	85.4	86.2	82.3
Return on equity (%)	5.4	13.5	21.1	19.7	8.5
Price earnings ratio (times)	36.6	25.4	11.7	11.2	50.0
Cash flows from operating activities	73,293	80,718	118,018	105,073	137,603
Cash flows from investing activities	(97,084)	(81,891)	(68,183)	(28,625)	(140,234)
Cash flows from financing activities	(9,275)	(3,019)	8,260	(27,742)	(2,626)
Cash and cash equivalents at end of year	152,683	153,242	205,292	253,636	252,570
Number of employees [average number of temporary workers] (persons)	5,525 [157]	5,768 [130]	6,441 [143]	6,428 [143]	6,288 (77)

(Notes) 1. Revenue does not include consumption taxes, etc.

2. The Company executed a two-for-one stock split of its common stock as of April 1, 2018. As a result, "Total equity attributable to owners of the parent company per share," "Basic earnings per share" and "Diluted earnings per share" are calculated assuming the stock split was executed on January 1, 2016.

3. During the 15th fiscal year, the total number of outstanding shares became 434,871,414 shares due to changes in common stock because of the following reasons:
   ・Decrease by 3,168,703 shares due to retirement of treasury stock on November 30, 2016
   ・Increase by 3,923,000 shares due to exercise of stock options

4. During the 16th fiscal year, the total number of outstanding shares became 440,184,332 shares due to changes in common stock because of the following reasons:
   ・Decrease by 3,103,082 shares due to retirement of treasury stock on December 29, 2017

・Increase by 8,416,000 shares due to exercise of stock options

5. During the 17th fiscal year, the total number of outstanding shares became 894,278,664 shares due to increases in common stock because of the following reasons:
   ・Increase by 443,794,332 shares due to a two-for-one stock split of common stock as of April 1, 2018
   ・Increase by 10,300,000 shares due to exercise of stock options
6. During the 17th fiscal year, the provisional accounting treatment related to the business combination was finalized and provisionally measured fair values were revised, and therefore the consolidated statement of financial position has been restated retrospectively. As a result, the relevant key management indicators for the 16th fiscal year reflect the restatement.
7. During the 18th fiscal year, the total number of outstanding shares increased to 901,530,560 shares due to increases in common stock for the following reasons:
   ・Increase by 5,852,000 shares due to exercise of stock options
   ・1,399,896 shares were issued by third-party allotment as part of the acquisition consideration due to the business combination of Embark Studios AB and in-kind contribution (45,003,500 shares of common stock of Embark Studios AB; ¥2,186 million) was received from the shareholders of Embark Studios AB who are the allottees. Refer to “V. Financial Information, 1 Consolidated Financial Statements, etc., Notes to consolidated financial statements, 38 Business combination” for details of the business combination.
8. During the 19th fiscal year, the total number of outstanding shares became 886,961,539 shares due to changes in common stock because of the following reasons:
   ・Decrease by 20,971,021 shares due to retirement of treasury stock on February 28, 2020
   ・Increase by 6,402,000 shares due to exercise of stock options

(2) The Company's management indicators, etc.

(Millions of yen, unless otherwise stated)

Term	15th FY	16th FY	17th FY	18th FY	19th FY
Fiscal year-end	December 2016	December 2017	December 2018	December 2019	December 2020
Net sales	5,208	5,927	7,024	6,016	5,411
Ordinary income (loss)	(5,852)	(1,372)	361	23,359	39,937
Net income (loss)	(44,372)	(11,191)	(423)	22,397	37,152
Capital stock	3,307	9,183	14,199	17,757	22,470
Total number of outstanding shares (thousands of shares)	434,871	440,184	894,278	901,530	886,961
Net assets	56,281	46,187	57,327	60,604	100,759
Total assets	59,070	48,440	60,045	63,004	103,313
Net assets per share (yen)	58.35	46.82	56.82	60.18	104.28
Dividend per share (yen) [of which, interim dividend per share]	5.0 [5.0]	— [—]	— [—]	2.5 [—]	5.0 [2.5]
Basic net income (loss) per share (yen)	(50.97)	(12.75)	(0.48)	25.04	42.01
Diluted net income per share (yen)	—	—	—	24.87	41.54
Shareholders' equity ratio (%)	85.9	85.1	84.6	84.3	89.5
Return on equity (%)	—	—	—	43.1	51.0
Price earnings ratio (times)	—	—	—	57.9	75.7
Dividend payout ratio (%)	—	—	—	10.0	11.9
Number of employees [average number of temporary workers] (persons)	253 [1]	285 [1]	322 [1]	311 [2]	268 [3]
Total shareholder return [benchmark: TOPIX including dividends] (%)	85.9 [100.3]	166.0 [122.6]	143.1 [103.0]	147.0 [121.7]	322.4 [130.7]
Highest stock price (yen)	2,071	3,530	1,845 [4,010]	1,823	3,445
Lowest stock price (yen)	1,270	1,637	1,074 [3,185]	1,225	1,302

(Notes) 1. Net sales do not include consumption taxes, etc.

2. The Company executed a two-for-one stock split of its common stock as of April 1, 2018. Accordingly, "Net assets per share," "Basic net income (loss) per share" and "Diluted net income per share" are calculated assuming the stock split was executed on January 1, 2016.
3. The highest and lowest stock prices were recorded on the First Section of the Tokyo Stock Exchange. The stock prices listed for the 17th fiscal year are the highest and lowest stock prices recorded after the stock split. The highest and lowest stock prices before the stock split are shown in bracket.
4. For the 15th, 16th and 17th fiscal years, diluted net income per share is not disclosed in spite of stock acquisition rights as net loss was recorded.
5. For the 15th, 16th and 17th fiscal years, return on equity is not disclosed as net loss was recorded.
6. For the 15th, 16th and 17th fiscal years, price earnings ratio and dividend payout ratio are not disclosed as net loss was recorded.
7. During the 15th fiscal year, the total number of outstanding shares became 434,871,414 shares due to changes in common stock because of the following reasons:
   - Decrease by 3,168,703 shares due to retirement of treasury stock on November 30, 2016
   - Increase by 3,923,000 shares due to exercise of stock options

8. During the 16th fiscal year, the total number of outstanding shares became 440,184,332 shares due to changes in common stock because of the following reasons:
   - Decrease by 3,103,082 shares due to retirement of treasury stock on December 29, 2017
   - Increase by 8,416,000 shares due to exercise of stock options
9. During the 17th fiscal year, the total number of outstanding shares became 894,278,664 shares due to increases in common stock because of the following reasons:
   - Increase by 443,794,332 shares due to a two-for-one stock split of common stock as of April 1, 2018
   - Increase by 10,300,000 shares due to exercise of stock options
10. During the 18th fiscal year, the total number of outstanding shares became 901,530,560 shares due to increases in common stock because of the following reasons:
   - Increase by 5,852,000 shares due to exercise of stock options
   - 1,399,896 shares were issued by third-party allotment as part of the acquisition consideration due to the business combination of Embark Studios AB and in-kind contribution (45,003,500 shares of common stock of Embark Studios AB; ¥2,186 million) was received from the shareholders of Embark Studios AB who are the allottees. Refer to “V. Financial Information, 1 Consolidated Financial Statements, etc., Notes to consolidated financial statements, 38 Business combination” for details of the business combination.
11. During the 19th fiscal year, the total number of outstanding shares became 886,961,539 shares due to changes in common stock because of the following reasons:
   - Decrease by 20,971,021 shares due to retirement of treasury stock on February 28, 2020
   - Increase by 6,402,000 shares due to exercise of stock options

2 【History】

In December 1994, Jungju Kim founded the former NEXON Corporation (current NXC Corporation) in Seoul, Korea, and started the online game business, which is the origin of Nexon Group.

The former NEXON Corporation (current NXC Corporation) entered Japan in September 2000 by acquiring 50% of outstanding shares of Solid Networks, Inc. (former NEXON Japan Co., Ltd.).

In December 2002, the Company (then, new NEXON Japan Co., Ltd.) was established with the aim of a full-scale entry into on-line game business in Japan. The Company's history subsequent to its establishment is summarized below.

(Note) Solid Networks, Inc. changed its name to the former NEXON Japan Co., Ltd. in October 2000 and then to Solid Networks, Inc. in October 2002.

<Subsequent to the establishment>

Date	Summary
December 2002	The former NEXON Corporation (current NXC Corporation) established the Company (new NEXON Japan Co., Ltd.) in Chuo-ku, Tokyo. The former NEXON Corporation (current NXC Corporation) sold its shareholding in Solid Networks, Inc. (former NEXON Japan Co., Ltd.).
January 2003	Following the dissolution of capital alliance between the former NEXON Corporation (current NXC Corporation) and Solid Networks, Inc. (former NEXON Japan Co., Ltd.), the Company took over the online game business from Solid Networks, Inc. (former NEXON Japan Co., Ltd.) and started full-scale operation of the online game business in Japan.
November 2003	The Company relocated its head office to 2-3-1 Shinkawa, Chuo-ku, Tokyo.
January 2004	The former NEXON Corporation (current NXC Corporation) established Lexian Software Development (Shanghai) Co., Ltd. in Shanghai, PRC.
September 2005	The Company established NX Games Inc. (current NEXON America Inc.) in the U.S.A.
October 2005	The former NEXON Corporation (current NXC Corporation) established new NEXON Corporation (current NEXON Korea Corporation) through a company split. The former NEXON Corporation (current NXC Corporation) changed its name to Nexon Holdings Corporation. The Company acquired new NEXON Corporation (current NEXON Korea Corporation) from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary. (Note) The new NEXON Corporation (current NEXON Korea Corporation) acquired Nexon Mobile Corporation from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary (merged into NEXON Korea Corporation in May 2012).
December 2005	The new NEXON Corporation (current NEXON Korea Corporation) acquired *MapleStory* from Wizet Corporation (current NX Properties Corporation).
March 2006	The new NEXON Corporation (current NEXON Korea Corporation) acquired Nexon SD Corporation (current Nexon Networks Corporation) and made it its subsidiary.
April 2006	The Company acquired Lexian Software Development (Shanghai) Co., Ltd. from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary. NX Games Inc. changed its name to Nexon America Inc.
July 2006	The Company established Nexon Publishing North America Inc. in Canada (liquidated in March 2009). The new NEXON Corporation (current NEXON Korea Corporation) acquired Doobic Entertainment Co., Ltd. and made it its subsidiary (liquidated in December 2007).
August 2006	The new NEXON Corporation (current NEXON Korea Corporation) acquired *KartRider* and *BnB* from MPlay Games Corporation.
September 2006	The new NEXON Corporation (current NEXON Korea Corporation) established Nexon DD Corporation (changed its name to Nova Studio Corporation in May 2009, to Nexon Nova Corporation in August 2009, and to Redcard Studio Co., Ltd. in March 2012)(liquidated in January 2013).

Date	Summary
March 2007	The Company established NEXON Europe Limited in the U.K. (liquidated in April 2012).
July 2008	The new NEXON Corporation (current NEXON Korea Corporation) acquired Xeogen, Inc. and made it its subsidiary (it became an affiliate as a result of partial sale of shares in April 2009).
August 2008	The new NEXON Corporation (current NEXON Korea Corporation) acquired NEOPLE INC. and made it its subsidiary.
October 2008	The new NEXON Corporation (current NEXON Korea Corporation) acquired Silverportion Co., Ltd. and made it its subsidiary (liquidated in June 2010).
March 2009	The new NEXON Corporation (current NEXON Korea Corporation) established Nextoric Corporation in Korea (merged into GameHi Co., Ltd. (current NEXON GT Co., Ltd.) in February 2014). Nexon Holdings Corporation changed its name to NXC Corporation.
April 2009	The Company changed its name to NEXON Co., Ltd. from NEXON Japan Co., Ltd.
July 2009	The new NEXON Corporation (current NEXON Korea Corporation) acquired Copersons Corporation (later changed its name to UbiFun Corporation) and made it its subsidiary (it became an affiliate as a result of partial sale of shares in May 2013, and all shares were sold in July 2020).
August 2009	The new NEXON Corporation (current NEXON Korea Corporation) acquired Symmetric Space Corporation and made it its subsidiary (merged into Nextoric Corporation in December 2011).
October 2009	The new NEXON Corporation (current NEXON Korea Corporation) established ExC Games Corporation (changed its name to Neon Studio Corporation in December 2012) in Korea (it became an affiliate as a result of partial sale of shares in February 2017, and all shares were sold in September 2020).
January 2010	The Company acquired Fantage.com Inc. and made it its subsidiary (sold in April 2017).
April 2010	Nexon SD Corporation changed its name to Nexon Networks Corporation. The new NEXON Corporation (current NEXON Korea Corporation) established Centum Interactive Co., Ltd. (changed its name to Qbious Co., Ltd. in August 2011 and to Wizet Corporation in June 2012) in Korea (liquidated in January 2013).
May 2010	The new NEXON Corporation (current NEXON Korea Corporation) acquired NDOORS Corporation and made it its subsidiary (merged into NEXON RED Corp. in March 2018).
July 2010	The new NEXON Corporation (current NEXON Korea Corporation) acquired GameHi Co., Ltd. (current NEXON GT Co., Ltd.) and made it its subsidiary.
October 2010	The new NEXON Corporation (current NEXON Korea Corporation) acquired NCLIPSE Corporation and made it its subsidiary (merged into Nextoric Corporation in December 2011). Fantage.com Inc. established Wawagames Inc. in the U.S.A. (liquidated in April 2012).
November 2010	The Company established NEXON Europe S.à.r.l. in Luxemburg (merged into Nexon Europe GmbH in December 2015).
December 2010	The Company acquired Quad Dimensions Co., Ltd. (changed its name to Rushmo Co., Ltd. in July 2012 and to BLOCKCHAIN ENTERTAINMENT LAB Co., Ltd. in May 2018) from NXC Corporation and made it its subsidiary (sold in September 2020).
February 2011	The new NEXON Corporation (current NEXON Korea Corporation) changed its name to NEXON Korea Corporation.
October 2011	NEXON Korea Corporation established NEXON COMMUNICATIONS Co., Ltd. in Korea.
December 2011	The Company was listed on the First Section of the Tokyo Stock Exchange.
June 2012	The Company acquired inBlue, Inc. and made it its subsidiary (merged into gloops, Inc. in May 2015).
October 2012	The Company acquired gloops, Inc. and made it its subsidiary (sold in February 2020).
July 2013	NEXON Korea Corporation established Nexon Space Co., Ltd. in Korea.
September 2013	The Company acquired gloops International Inc. (changed its name to Nexon M Inc. in September 2013) from gloops, Inc. and made it its subsidiary (liquidated in September 2020). NEOPLE INC. acquired Thingsoft Inc. and made it its subsidiary.
October 2013	NEXON Korea Corporation acquired Weclay Inc. and made it its subsidiary (merged into Nexon Korea Corporation in December 2014).

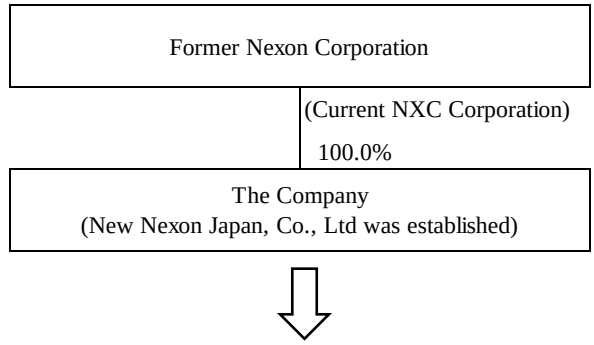
Date	Summary
March 2014	GameHi Co. Ltd. changed its name to Nexon GT Co., Ltd.
November 2014	Rushmo Co., Ltd. (changed its name to BLOCKCHAIN ENTERTAINMENT LAB Co., Ltd. in May 2018) established Rushmo America Inc. in the U.S.A. (liquidated in November 2019).
March 2015	The Company established Nexon Europe GmbH in Germany (liquidated in January 2019).
April 2015	NEXON Korea Corporation acquired BOOLEAN GAMES and made it its subsidiary (merged into NEXON Korea Corporation in January 2020).
December 2015	NEXON Korea Corporation established NEXON TAIWAN LIMITED in Taiwan.
February 2016	NEXON Korea Corporation established Nexon US Holding Inc. in the U.S.A.
March 2016	Nexon US Holding Inc. acquired Big Huge Games, Inc. and made it its subsidiary.
May 2016	Nexon GT Co., Ltd. acquired Wellgames Corporation (changed its name to NEXON RED Corp in March 2017) and made it its subsidiary (merged into NEXON Korea Corporation in February 2020).
July 2016	NEXON Korea Corporation acquired N Media Platform Co., LTD. and made it its subsidiary.
October 2016	NEXON Korea Corporation acquired i Digital Connect Co., Ltd. (changed its name to Nexon Thailand Co., Ltd. in September 2017) and made it its subsidiary.
November 2016	NEXON Korea Corporation acquired NSC Corporation and made it its subsidiary (merged into NEXON Korea Corporation in November 2017).
April 2017	Nexon US Holding Inc. established NEXON OC Studio in the U.S.A. (liquidated in October 2020)
September 2017	Nexon GT Co., Ltd. acquired JoongAng Pangyo Development Co., Ltd. and made it its subsidiary.
November 2017	Nexon US Holding Inc. acquired Pixelberry Studios and made it its subsidiary.
February 2018	NEXON Korea Corporation acquired Ngine Studios and made it its subsidiary.
March 2018	The Company relocated its headquarters to 1-4-5 Roppongi, Minato-ku, Tokyo.
April 2018	gloops, Inc. established PURERO, Inc. in Japan (sold in December 2019).
June 2018	NEXON Korea Corporation acquired additional shares of NAT GAMES Co., Ltd. and made it its subsidiary.
August 2018	N Media Platform Co., LTD. acquired 10 Years Co., Ltd. and made it its subsidiary (merged into N Media Platform in December 2019).
May 2019	Nexon Networks Corporation established NEXON NETWORKS VINA in Vietnam.
July 2019	The Company acquired additional shares of Embark Studios AB and made it its subsidiary.
December 2019	NEXON Korea Corporation established TDF Co., LTD in Korea.

(Notes) The former NEXON Corporation (current NXC Corporation) transferred its PC online business to the new NEXON Corporation (current NEXON Korea Corporation) in Korea through a company split on October 11, 2005 and assigned all of its shares to the Company on October 28, 2005. Since then, the former NEXON Corporation (current NXC Corporation) was engaged in investment business other than the game business as the Company's parent company, and the Company, as an operating holding company, is engaged in the online game business in Japan and also manages overseas group companies. However, the former NEXON Corporation (current NXC Corporation) sold part of its shareholding of the Company on January 30, 2018, and therefore is no longer the "parent company" and became an "other affiliate" of the Company.

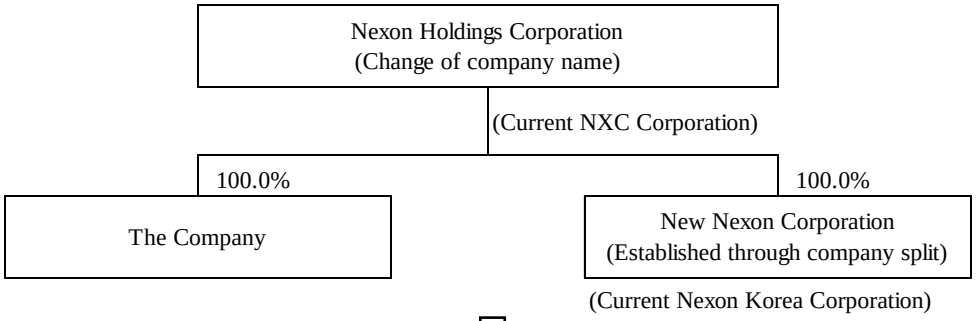
The capital relationship of the former NEXON Corporation (current NXC Corporation), the Company and the new NEXON Corporation (current NEXON Korea Corporation) subsequent to the establishment of the Company by the former NEXON Corporation (current NXC Corporation) in December 2002 is illustrated below.

<Chart>

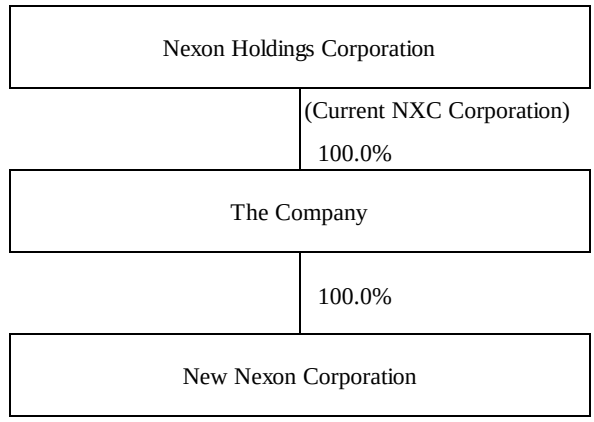
(December 2002)



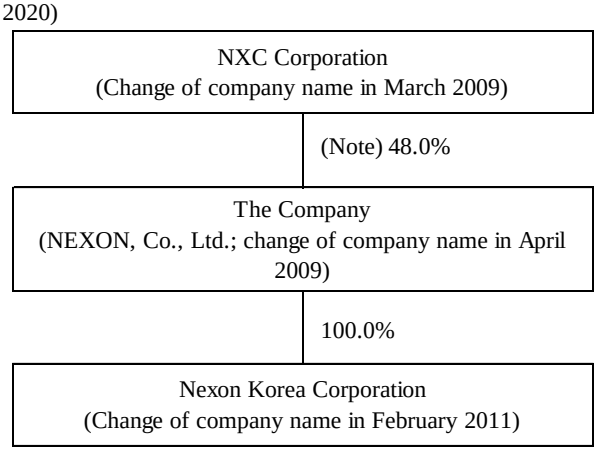
(October 11, 2005)



(October 28, 2005)



(As of December 31, 2020)



(Note) The ratio of the Company's shares held by NXC Corporation and persons closely related to it.

3 【Description of Business】

Nexon Group consists of the Company, its 24 consolidated subsidiaries and 12 affiliated companies and joint ventures (as of December 31, 2020), and is engaged in production, development and service of PC online and mobile games. In Japan, the Company is responsible for developing the overall strategies for our products and services and operating the business, while overseas, our local consolidated subsidiaries do so in their respective regions as independently managed entities.

Accordingly, Nexon Group consists of geographical segments based on production, development and service of PC online and mobile games. The reportable segments include "Japan," "Korea," "China," "North America," and "Other." European and Asian countries are included in "Other."

See ＜Business description and positioning of the Company and its consolidated subsidiaries＞ in "(5) Nexon Group" below for the business description of each company.

・Consolidated subsidiaries (as of December 31, 2020)

Japan:	NEXON Co., Ltd.
Korea:	NEXON Korea Corporation; NEOPLE INC.; Nexon Networks Corporation; NEXON GT Co., Ltd.; NEXON COMMUNICATIONS Co., Ltd.; Nexon Space Co., Ltd.; Thingsoft Inc.; N Media Platform Co., LTD.; JoongAng Pangyo Development Co., Ltd; Ngine Studios; NAT GAMES Co., Ltd.; TDF Co., Ltd.; Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust; VIP Global Super Growth Hedge Fund; Samsung Digital Innovation Equity Fund Private Investment Trust 1
China:	Lexian Software Development (Shanghai) Co., Ltd.
North America:	Nexon America Inc.; Nexon US Holding Inc.; Big Huge Games, Inc.; Pixelberry Studios
Other:	NEXON TAIWAN LIMITED; Nexon Thailand Co., Ltd.; Embark Studios AB; NEXON NETWORKS VINA COMPANY LIMITED

Nexon Group classifies its lines of business mainly into (a) PC online business and (b) Mobile business.

(1) Lines of business

(a) PC online business

The PC online business mostly involves the production, development and service of PC online games. Additional services we offer include consulting related to PC online game service, in-game advertising, and merchandising incidental to the PC online business.

Major PC online game titles serviced by Nexon Group include *MapleStory*, *Dungeon&Fighter* and *EA SPORTS™ FIFA ONLINE 4* ("*FIFA ONLINE 4*"). When we launch a new title, we flexibly adapt to market differences by conducting a test service of the game, taking into account the characteristics and preferences of users in the respective areas of the world and the genre of the game to be serviced.

PC online games developed within Nexon Group, by NEXON Korea Corporation, NEOPLE INC. or other group companies, are directly serviced by themselves or, in regions that have large markets, through other members of Nexon Group such as the Company, Nexon America Inc., NEXON TAIWAN LIMITED or Nexon Thailand Co., Ltd. We have endeavored to maximize business synergy effects by establishing a closely coordinated structure within Nexon Group for the production, development and service of PC online games. In addition, with regards to PC online games developed by non-Nexon Group developers and for which we have acquired publishing rights, we try to maximize revenues by publishing those games through Nexon Group so that they reach a large audience and we also build rapport with such developers as we service their games. In regions where Nexon Group does not directly service games, we go through local publishers to service in-house developed PC online games. Through such business initiatives as above, we are making the utmost effort to service fun and creative games to users all over the world.

As for the consulting business, Lexian Software Development (Shanghai) Co., Ltd. provides Chinese publishers with consulting services for setting up and maintaining billing systems (see the Note below) and membership systems, business strategy development, game operation and marketing.

In Korea, Nexon Networks Corporation provides services related to customer support and net-café operation when offering PC online and mobile games. N Media Platform Co., LTD. provides net-cafés with advertisement platform and operation management services.

The in-game advertisement business capitalizes on the strengths of ad placements within PC online games, i.e. ongoing updates of game contents and advertisement information, and leverages such features as that enabling direct exposure to players through in-game usage of functional items equipped with an advertisement function, or that enabling simultaneous exposure of different advertisements to their respective target users through dedicated servers that comprehensively manage all advertisements.

The merchandising business engages in the production and sales of goods that feature popular characters from games owned by Nexon Group.

(Note) Billing system: An electronic billing confirmation service related to the usage of internet or email services provided by enterprises.

＜List of major game titles＞

Title	Description	Genre	Major serviced area	Launched in
MapleStory	*MapleStory* is a side-scrolling 2D action MMORPG (Note 1) featuring cute characters and simple operation that can be played on low-spec PCs. Before the launch of *MapleStory*, MMORPGs were stereotyped as hard-core games, which was successfully overturned by the success of this title. Since its launch in Korea in 2003, *MapleStory* has actively introduced highly fashionable items, which played a role in establishing the microtransaction business model and became a major driving force in establishing the microtransaction revenue model in the online game industry. *MapleStory*'s IP (Note 2) is owned by NEXON Korea Corporation.	MMORPG	Japan Korea China North America Europe	Dec 2003 May 2003 Dec 2004 Oct 2005 May 2007
Dungeon&Fighter	*Dungeon&Fighter* is a side-scrolling action RPG featuring dynamic and speedy gameplay with a wide variety of skills and weapons, which are activated through simple operation, and various sound effects. It employs the stage-clear method where players can play the game casually because a play session ends every time a dungeon (Note 3) is cleared. This also creates a synergy with its thrilling arcade game-type combat method and the game has become a hit in all areas where it is serviced. *Dungeon&Fighter*'s IP is owned by NEOPLE INC.	MORPG (Note 4)	Japan Korea China	Mar 2009 Nov 2005 June 2008
FIFA ONLINE 4	*FIFA ONLINE 4* is the latest PC soccer game from the world-acclaimed FIFA games franchise. It features updated visuals, improvements in players' individual skills and ball movements, and improved AI and defense systems that allow for strategic play. *FIFA ONLINE 4*'s motion-capture technology and licensing agreements with worldwide soccer leagues, along with the sound of the crowd and commentary, recreate the vitality of real-life soccer matches.	Sports	Korea	May 2018

(Notes) 1. MMORPG: Massively multiplayer online role-playing game
2. IP: Intellectual property right which collectively refers to patent, trademark, copyright, etc.
3. Dungeon: A setting for the adventure in the game where various mysteries are hidden, including regions, labyrinths and other places where players earn experience points.
4. MORPG: Multiplayer online role-playing game. It is different from MMORPG in the number of players who actually play in the game world.

(b) Mobile business

The mobile business involves the development and service of mobile games playable on smartphones and tablet devices. Nexon Group develops and services mobile games in Japan and overseas. In Japan, the Company services mobile games. In Korea, mobile game development and service are conducted primarily through NEXON Korea Corporation, NEOPLE INC. and NAT GAMES Co., Ltd. In the U.S., mobile game development and service are conducted through Big Huge Games, Inc. and Pixelberry Studios.

(2) Business models for PC online and mobile games

The Company's PC online and mobile game business models can be categorized into the following three types:

(a) Self-publishing model

Self-publishing model is a model where a game developed by a Nexon Group member such as NEXON Korea Corporation or NEOPLE INC. is directly serviced (including the setup of a network environment, marketing and user support) by themselves or by the Company or a Nexon Group company including Nexon America Inc., NEXON TAIWAN LIMITED and Nexon Thailand Co., Ltd.

Once a game is launched, service fees are collected from users according to the pre-determined monetization method. In many cases, we pay fees to payment gateway providers to have them collect service fees from users on our behalf.

(b) Licensing model

Licensing model is a model where Nexon Group, as a copyright holder of commercialized games, enters into licensing agreements with outside publishers and grants them the right to publish our games.

A publisher who enters into a licensing agreement with us and acquires the publishing rights for a game will be responsible for setting up the network environment, marketing and user support necessary to service the game. The respective Nexon Group company holding the copyright will provide support for such activities to enable the publisher to generate greater revenues.

Nexon Group members engaged in the development of PC online games, including NEXON Korea Corporation and NEOPLE INC., grant publishing rights to non-Nexon Group publishers in China, for instance.

Under the licensing agreements where publishing rights are granted by Nexon Group, in principle, license is granted to a single publisher per country per game title. In other words, Nexon Group grants local exclusive publishing rights to a publisher. The respective Nexon Group company holding the game copyright will provide game content updates and technical support on an ongoing basis to the publisher and in return receive contract money at the time of entering into the agreement, and once the game is launched, receive a predetermined rate as royalty in accordance with the service fees that the publisher collects from users.

The conditions for royalty and other payments are determined individually for each agreement, taking into account the real local situation of the country in which the publisher is located.

(c) Licensed publishing model

Licensed publishing model is a model where Nexon Group enters into a licensing agreement with a non-Nexon Group developer of PC online games or mobile games to acquire exclusive publishing rights to a game within a specified region. Nexon Group will set up the network environment for such service, conduct marketing and user support, as well as service the licensed game.

In this case, we will collect service fees from users and pay a certain amount out of it as royalty to the outside PC online game or mobile game developer.

Nexon Group's deal with Valve Corporation related to *Counter-Strike Online*, the deals with Electronic Arts Inc. related to *FIFA ONLINE 4, EA SPORTS™ FIFA ONLINE 4 M* and *EA SPORTS™ FIFA MOBILE* ("*FIFA MOBILE*") fall into this category.

(3) Monetization models for PC online games

Currently, there are three types of monetization methods for PC online games as follows. Nexon Group mainly uses the method under (a) for monetization.

(a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new PC online game. This allows new users to casually start playing a game, but on the other hand, it means that revenues generated by a game could be impacted by how appealing the in-game items offered for purchase are. In recent years, with heightening market awareness of free-to-play games, there are more and more PC online games in the market as a whole which have adopted this model to acquire new users.

Nexon Group was early to adopt the microtransaction model to PC online games because we wish for more users to enjoy the services of games we offer.

(b) Pay-as-you-go according to the period of use (subscription model)

Pay-as-you-go (subscription) is a model where users are charged with a fixed service fee based on the number of months, days or hours of use as fee for playing a game.

Although this method can generate a constant level of revenue by securing a certain number of users, it is likely that, compared to free-to-play games, new users would find making fixed monthly payments burdensome when starting a game.

(c) Advertisement revenue model

Advertisement revenue model is a model where a game is free to play and revenue is generated through advertisements which are displayed on screen before, after or during the game.

Since advertisements under this model are primarily sponsored by businesses, it is typically used in combination with method (a) or (b) above, and the popularity of the game itself (i.e. user traffic) will have a direct impact on revenues.

(4) Monetization models for mobile games

Currently, there are two types of monetization methods for mobile games as follows. Nexon Group mainly uses the method under (a) for monetization.

(a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new mobile game. This allows new users to casually start playing a game, but on the other hand, it means that revenues generated by a game could be impacted by how appealing the in-game items offered for purchase are. The microtransaction model is the mainstream in the mobile game market.

(b) Advertisement revenue model

Advertisement revenue model is a model where a game is free to play and revenue is generated through advertisements which are displayed on screen before, after or during the game. Since advertisements under this model are primarily sponsored by businesses, it is typically used in combination with method (a) above, and the popularity of the game itself (i.e. user traffic) will have a direct impact on revenue.

(5) Nexon Group

The Company, an operating holding company, is engaged in game-related business, mainly service of PC online games, in Japan and also management of Group companies.

Nexon Group has consolidated subsidiaries that service PC online games in major overseas markets (NEXON Korea Corporation in Korea, Nexon America Inc. in the U.S.A. and Nexon Thailand Co., Ltd. in Southeast Asia), and Nexon Group owns 100% of their shares.

NEXON Korea Corporation in Korea and its affiliated developers are engaged in production and development of PC online games as well as own intellectual property rights such as game copyrights of the developed games. For each game, they enter into an exclusive publishing agreement with (grants a license to) a Nexon Group or third-party online game publisher in each region and receive royalty fees.

In China, the laws prohibit foreign invested companies to directly service PC online games, and therefore Lexian Software Development (Shanghai) Co., Ltd., a Chinese consolidated subsidiary, provides Chinese publishers with necessary infrastructures and consultation (on business strategy, game operation, and marketing) for servicing games. Korean consolidated subsidiaries, including NEXON Korea Corporation, which own IPs of PC online games directly grant licenses to publishers who have necessary infrastructure and know-how to operate PC online games. NEOPLE INC. services *Dungeon&Fighter* through Tencent Technology Shenzhen Company Limited and Shenzhen Tencent Computer Systems Co., Ltd.

While Nexon Group has in-house development team and develops world-class PC online game titles, it also acquires intellectual property rights of PC online games through joint development with other companies, investments in developers, or acquisition of other companies. NEOPLE INC. which we acquired in August 2008 has the IP of *Dungeon&Fighter*, one of our main titles, and receives royalty from publishers based on the exclusive publishing agreement.

In the mobile game business, primarily, NEXON Korea Corporation and Pixelberry Studios are engaged in the development and service, and NAT GAMES Co., Ltd. is engaged in the development.

The business description and positioning of the Company and its major consolidated subsidiaries are as follows:

＜Business description and positioning of the Company and its consolidated subsidiaries＞

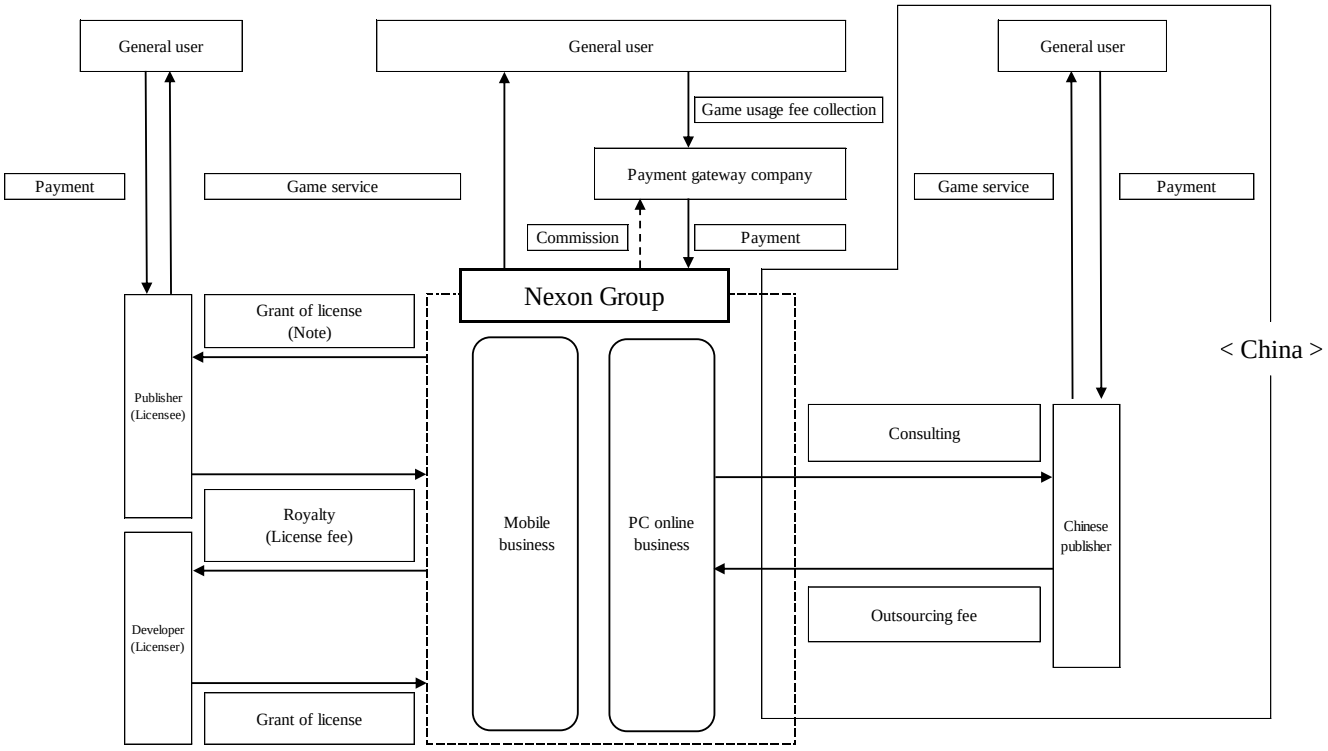
Company name	Business description	Capital relationship within Nexon Group	Main business		
			Service	Production/ Development	Other
NEXON Co., Ltd. (The Company) (Japan)	The Company is the core of game-related business, playing a leading role for overseas expansion of such game-related business as PC online and mobile games. It is also engaged in the PC and mobile game-related businesses in Japan and the management of its subsidiaries. It is also responsible for forming business partnerships with industry peers and other companies in Japan, as well as facilitating partnerships to globally service game titles developed by non-Nexon Group companies in Japan through Nexon Group.	The Company	○		
NEXON Korea Corporation (Korea)	Engaged in the development and management of PC online and mobile game-related business in Korea as well as in-house development of PC online and mobile game titles. It is also responsible for forming business partnerships to globally service game titles developed by non-Nexon Group companies in Korea through Nexon Group, as well as investing in and managing game developers in Korea. When a PC online game publisher services a PC online game whose IP is owned by NEXON Korea Corporation, NEXON Korea Corporation enters into an exclusive publishing agreement with (grants a license to) the publisher in the respective region and receives royalty. Major game titles developed include *MapleStory.*	Subsidiary of the Company	○	○	
Lexian Software Development (Shanghai) Co., Ltd. (PRC)	Provides publishers with necessary infrastructure and consultation (on business strategy, game operation and marketing) for servicing games in China.	Subsidiary of the Company			○
Nexon America Inc. (North America, U.S.A.)	Engaged in the service of PC online games mainly in North America.	Subsidiary of the Company	○		
NEOPLE INC. (Korea)	Engaged in the development of PC online and mobile games in Korea. It is the developer of the Company's key title *Dungeon&Fighter* and owns its IP.	Subsidiary of Nexon Korea Corporation	○	○	
NEXON GT Co., Ltd. (Korea)	Engaged in the development of PC online games in Korea.	Subsidiary of Nexon Korea Corporation		○	
JoongAng Pangyo Development Co., Ltd. (Korea)	Engaged in the real estate management service in Korea.	Subsidiary of Nexon GT Co., Ltd.			○
Pixelberry Studios (North America, U.S.A)	Engaged in the production, development and service of mobile games mainly in North America.	Subsidiary of Nexon US Holding Inc.	○	○	
NAT GAMES Co., Ltd. (Korea)	Engaged in the production and development of PC online games and mobile games in Korea	Subsidiary of Nexon Korea Corporation		○	
Embark Studios AB (Other, Sweden)	Engaged in the development of games as a key entity primarily in Europe.	Subsidiary of the Company		○	

Company name	Business description	Capital relationship within Nexon Group	Main service		
			Service	Production/ Development	Other
VIP Global Super Growth Hedge Fund (Korea)	Engaged in equity investment trust business in Korea.	Subsidiary of NEXON Korea Corporation			○
Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust (Korea)	Engaged in equity investment trust business in Korea.	Subsidiary of NEXON Korea Corporation			○
Samsung Digital Innovation Equity Fund Private Investment Trust 1 (Korea)	Engaged in equity investment trust business in Korea.	Subsidiary of NEXON Korea Corporation			○

［Business System Chart］

Chart 1 shows the matters described above.

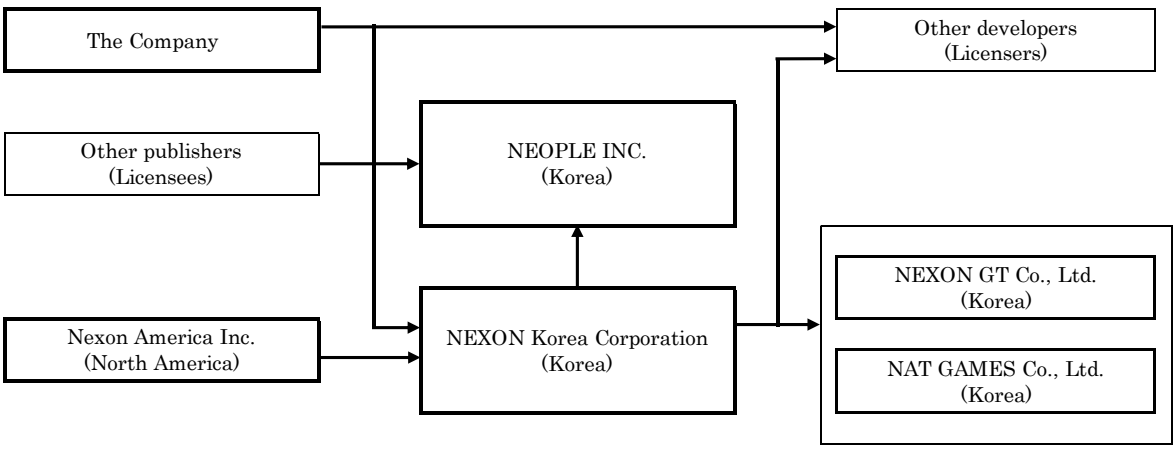
＜Chart 1＞



(Note) A local exclusive publishing right is granted to a single company per game per country.

The royalty income flow within Nexon Group is shown in Chart 2, covering the Company and its major subsidiaries.

＜Chart 2＞



4 【Group Companies】

As of December 31, 2020

Company name	Location	Capital stock	Principal business	Ownership ratio of voting rights (%)	Relationship
(Consolidated subsidiaries) NEXON Korea Corporation (Note) 3, 4	Seongnam, Gyeonggi-do, South Korea	KRW 32,000 million	Development and service of PC online and mobile games	100.0	Provide license of PC online and mobile games to the Company; Concurrent service of directors; Financial assistance (Note) 6
Lexian Software Development (Shanghai) Co., Ltd.	Shanghai, PRC	USD 4,100 thousand	Consulting	100.0	Concurrent service of directors
Nexon America Inc. (Note) 8	California, USA	USD 210	Service of PC online games	100.0	Financial assistance; Joint and several guarantee is provided for a building lease agreement; Concurrent service of directors
NEOPLE INC. (Note) 1, 3, 7	Jeju Self-Governing Province, South Korea	KRW 181 million	Development and service of PC online and mobile games	100.0 (100.0)	Provides license of PC online games to the Company
NEXON GT Co., Ltd. (Note) 1, 5	Seongnam, Gyeonggi-do, South Korea	KRW 17,687 million	Development of PC online games	65.1 (65.1)	Not applicable
JoongAng Pangyo Development Co., Ltd. (Note) 1, 3	Seongnam, Gyeonggi-do, South Korea	KRW 40,795 million	Real estate management	65.0 (99.9)	Not applicable
Pixelberry Studios (Note) 1	California, U.S.A.	USD 0.1	Development and service of mobile games	100.0 (100.0)	Not applicable
NAT GAMES Co., Ltd. (Note) 1, 5	Seoul, South Korea	KRW 14,419 million	Development of PC online games and mobile games	56.9 (56.9)	Not applicable
Embark Studios AB (Note) 1	Stockholm, Sweden	SEK 65 thousand	Development of games	73.0 (33.3)	Concurrent service of directors
VIP Global Super Growth Hedge Fund (Note) 1, 3	Seoul, South Korea	KRW 105,614 million	Equity investment trust	100.0 (100.0)	Not applicable
Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust (Note) 1, 3	Seoul, South Korea	KRW 63,000 million	Equity investment trust	100.0 (100.0)	Not applicable
Samsung Digital Innovation Equity Fund Private Investment Trust 1 (Note) 1, 3	Seoul, South Korea	KRW 33,000 million	Equity investment trust	100.0 (100.0)	Not applicable
Other 12 companies					

Company name	Location	Capital stock	Principal business	Ownership ratio of voting rights (%)	Relationship
(Equity-method affiliates) Six Waves Inc.	Hong Kong Special Administrative Region, PRC	USD 51,808 thousand	Development and service of mobile games	37.0	Not applicable
SUPERCAT Inc. (Note) 1	Seoul, South Korea	KRW 25 million	Development of mobile games	10.0 (10.0)	Not applicable
Sandbox Network (Note) 1	Seoul, South Korea	KRW 137 million	Production of online videos and contents	5.5 (5.5)	Not applicable
Other 7 companies					
(Equity-method joint ventures) DevCAT Co., Ltd. (Note) 1	Seoul, South Korea	KRW 100 million	Development of games	50.0 (50.0)	Not applicable
Nitro Studio Co., Ltd. (Note) 1	Seoul, South Korea	KRW 100 million	Development of games	50.0 (50.0)	Not applicable
(Other associate) NXC Corporation (Note) 1, 2	Jeju Self-Governing Province, South Korea	KRW 1,454 million	Investment business	Held 47.4 (18.8) [0.6]	Not applicable

(Notes) 1. Figures in parentheses in "Ownership ratio of voting rights" indicate indirect ownership ratio included in the total.

2. Figures in brackets in "Ownership ratio of voting rights" indicate the ratio of voting rights held by closely related persons or those who have agreed and not included in the total.

3. These companies fall under a category of specified subsidiary.

4. Revenue of NEXON Korea Corporation (excluding internal revenue between consolidated companies) account for more than 10% of revenue in the consolidated financial statements. Major profit or loss information of NEXON Korea Corporation for the year ended December 31, 2020 is as follows:

Major profit or loss information	(1) Revenue	¥195,508 million
	(2) Income before income taxes	¥54,606 million
	(3) Net income	¥41,751 million
	(4) Total equity	¥224,003 million
	(5) Total assets	¥445,911 million

5. Listed on KOSDAQ in Korea.

6. Financial assistance represents loans from Nexon Group.

7. Revenue of NEOPLE INC. (excluding internal revenue between consolidated companies) account for more than 10% of revenue in the consolidated financial statements. Major profit or loss information of NEOPLE INC. for the year ended December 31, 2020 is as follows:

Major profit or loss information	(1)Revenue	¥80,749 million
	(2) Income before income taxes	¥69,150 million
	(3) Net income	¥60,951 million
	(4) Total equity	¥505,359 million
	(5) Total assets	¥528,910 million

8. The company is insolvent with liabilities exceeding assets by ¥25,972 million as of December 31, 2020.

5 【Employees】

(1) Employees of Nexon Group

As of December 31, 2020

Name of reportable segment	Number of employees
Japan	268 (3)
Korea	5,107 (40)
China	210 (-)
North America	385 (32)
Other	318 (2)
Total	6,288 (77)

(Notes) 1. The number of employees represent full-time employees, excluding those seconded from Nexon Group to outside Nexon Group and including those seconded from outside Nexon Group to Nexon Group.

2. The average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.

(2) Employees of the Company

As of December 31, 2020

Number of employees	Average age	Average years of service	Average annual salary
268 (3)	37.0 years old	6.2 years	5,985 thousand yen

(Notes) 1. The number of employees represent full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.

2. Average annual salary includes regular bonuses.

3. The number of employees decreased by 43 from December 31, 2019 due mainly to a decrease in the number of titles in operation resulting in a decrease in the number of employees hired during the year.

(3) Labor union

No labor union is organized within the Company, but our group company NEXON Korea Corporation and some of its subsidiaries have formed the Nexon branch of the Korean Chemical & Textile & Food Workers' Union, which is affiliated with the Korean Confederation of Trade Unions. The management and employees maintain good relationship, and there are no matters between the labor union to be reported.

II. 【Business Overview】

1 【Management Policy, Business Environment, Issues to be Addressed, etc.】

Any forward-looking statements in the following discussion are based on the judgment of Nexon Group's management as of December 31, 2020.

(1) Basic management policy

Nexon Group is aiming to become the world's top game company. Our fundamental policy for new game titles is to provide exciting, creative and unique games with high quality, and that for existing game titles is to provide users with games that continue to be fun for a long period of time, through engaging content updates and satisfying game operation.

(2) Target management indicators

Nexon Group focuses on revenue and operating income as the key management indicators. We will increase our corporate value through the continuous growth of our revenue and operating income.

(3) Business environment

Nexon Group is a global leader in the virtual worlds (online multiplayer games offering deeply immersive game experience). We have produced popular game titles having devoted fan bases and developed them over the years through our best-in-class live operation. Our portfolio consisting of diversified titles constitutes our solid and stable revenue base.

Currently, the focus of the global entertainment industry is shifting from the entertainment based on the real world to virtual entertainment and from passive to participative experience. In addition to such structural change, a breakthrough in mobile technology has enabled virtual world games, our area of specialty, to be played not only on high-end PCs but also on mobile devices. As a result, our total addressable market has expanded from hundreds of millions of game players having high-end PCs to billions of players having mobile devices. Against such a backdrop, there is increasing demand for the virtual world games, our greatest strength, and we believe such movement will further accelerate in the future. Also, because there are few companies that can create exciting games and have operational capability to sustainably grow them in this field, we take this situation as a tremendous opportunity for us.

(4) Mid- to long-term management strategy and issues to be addressed

Under such business environment, we will further grow our business by growing our portfolio consisting of diversified titles sustainably, expanding our services to new platforms such as mobile devices, producing more new virtual worlds and piling them on top of our existing revenue base.

Meanwhile, the gaming market in which Nexon Group operates is expected to experience increasingly fast-paced technological evolution and changes in users' preference and ever-intensifying global competition. In light of such circumstances, Nexon Group recognizes the following matters as issues to be addressed in order to achieve future growth.

(a) Reinvest stable cash flows generated from our major titles to grow Nexon Group's global business

Nexon Group has hundreds of millions of fans around the world and owns intellectual property associated with multiple game titles ("game IPs") that are as big as, or even bigger than, international blockbuster movies and game series. So far, we have created and grown some of the biggest game IPs, including *MapleStory* (17 years), *KartRider* (16 years) and *Dungeon&Fighter* (15 years), all of which have grown significantly over the years. These game titles have grown and generated stable revenues over a long period of time through attractive and consistent content updates aiming to entertain users and our best-in-class live game operations. We will expand our global business by investing the stable cash flows in live operation to further grow our major titles, creation of new technologies, new game development, acquisition of game studios, and recruitment of top talent. Specifically, our growth strategy comprises four pillars as described below:

(i) Focus on virtual worlds

As a pioneer in the industry, Nexon Group has produced virtual worlds for more than the last two decades, demonstrating its greatest strength in growing them over a long period of time. We are focusing on the virtual worlds as one of our biggest opportunities as demand for them are increasing globally but with few companies in the world having strength in this field, and because we have the most knowhow in this field.

(ii) Offer service on multiple platforms including PC, console and mobile devices

Mobile devices now have nearly the same functions as PCs. And while the market size of PCs used for gameplay was hundreds of millions, billions of people are carrying mobile devices with high-end features today. Furthermore, thanks to the companies in the platform business making huge investments in the game business, highly sophisticated gaming platforms are about to be introduced to the enormous market which has grown incomparably bigger from the time when PC was the main device for gameplay. The current environment allows us to offer virtual worlds, in which we have a strong advantage, to incomparably larger group of users. Taking advantage of this situation, we will offer our service on multiple platforms.

(iii) Leverage our own IPs

Nexon Group has hundreds of millions of fans around the world and owns multiple game IPs that are as big as, or even bigger than, international blockbuster movies and game series. As our game IPs are familiar to hundreds of millions of users who have enjoyed them, new or extended version of games based on such IPs will have millions of fans at their launch who are eager to experience that world again. We will create virtual worlds that will generate stable revenues over a long period of time by taking best advantage of our IPs.

(iv) Invest in especially valuable new IPs

Nexon Group is currently at the growth stage. In order to accelerate the growth of our global business, we will proactively invest in new IPs that we believe have a special value. One of the examples of such investment is Embark Studios AB acquired in 2019.

(b) Strengthen information security

Nexon Group provides PC online game and mobile game service which handles game data and users' personal information through the information system, and accordingly, it is required to maintain the highest level of information systems infrastructure to prevent illegal access or illegal use by external parties, and to enhance information security structure including appropriate internal information management organization.

In response, Nexon Group has acquired ISMS certification in all relevant countries again to secure the same security level within Nexon Group. Also, we conduct 24/7 log monitoring for each game-related server as well as query monitoring and periodic diagnosis for critical database to maintain high-level security system. In addition, we convene internal information management committee meetings four times a year to monitor the maintenance of information security on a regular basis and to report to management.

Amid the spread of the COVID-19 infections, accelerated cloud shift of various tools and systems has further increased the importance of information security as well as the needs to enhance it. Nexon Group is committed to making continued efforts to strengthen the overall information security system in order to provide our users with reliable and secure services while focusing on the enhancement of the information security system in the business and cloud environment.

2 【Risk Factors】

The following section provides an overview of the matters related to our business and financial information stated in this report that may have a significant impact on investors' judgments. Matters that are not necessarily considered as such risk factors but are deemed important for investors in making investment decisions are also disclosed from the viewpoint of active information disclosure to investors.

Fully recognizing the possibility of these risks occurring, the Company's policy is to prevent their occurrence and to prepare countermeasures in case of occurrence; however, it is our view that investment decisions concerning the Company's shares should be made after carefully considering the matters specifically noted below as well as other information contained in this report.

Any forward-looking statements in the following discussion are based on the judgments of Nexon Group's management as of the filing date of this report and do not contain all risks that may arise in future.

(a) Risk concerning business environment

i) Growth potential of PC online and mobile game markets

In line with the growing number of Internet users in Asia and the increasing broadband penetration rate in China, Europe and North America, the Internet market is expected to keep expanding. The penetration rates of smartphones and tablets are also expected to increase globally. And above all, the Company expects to see further expansion of the global market of PC online and mobile games in which Nexon Group operates.

However, if the PC online and mobile game markets do not grow in the manner the Company expects, if game license fees soar or if a prolonged game development period causes delay or suspension in service, Nexon Group's financial results or future business development could be adversely affected.

ii) Market environment of PC online and mobile games

The Company's core business is PC online and mobile games. The expansion of our PC online business is based on the premise that the Internet market continues growing with the spread of broadband environment. For the mobile game business, the mobile game market is also expected to continue growing along with the global spread of smartphones.

However, if the development of the Internet-related market is impeded by unexpected factors including introduction of new legal regulations, delay in technological innovation and trends of telecommunication providers such as revision of fees for Internet or mobile phone service, Nexon Group's business development and financial results could be adversely affected.

iii) New entrants and competitors

There are substantial number of competitors in the PC online and mobile game markets which are the major markets for Nexon Group's business.

We are in competition with not only PC online and mobile games but also other games in various genres including PC packaged games, console games and social-network games. We also compete for users' time with other online services than gaming such as social network and music streaming services. If users spend more time on these competing games and online services, Nexon Group's business development and financial results could be adversely affected.

With an aim to attain market supremacy, Nexon Group strives to differentiate itself from its competitors by offering unique services and game titles through the use of our experiences, know-how and brand in the PC online business accumulated over the years, and to acquire new users steadily by constantly developing and servicing attractive and competitive new PC online and mobile game titles.

However, if an intensified competition or reputational damage results in a decrease in the number of users of our PC online and mobile games or if service of game contents is delayed, Nexon Group's business development and financial results could be adversely affected.

iv) Technological innovation

The PC online and mobile game markets in which Nexon Group operates are closely linked to the Internet environment and network technology and subject to extremely fast-paced technological innovation and rapid advancement of programs, etc.

In an effort to keep up with such technological innovation, Nexon Group continues to develop software and contents that correspond to changes in service models and new functions. However, if we cannot respond to unexpected new technology or new services developed by our competitors in a timely manner, the competitiveness of our services could decline relatively and it could adversely affect Nexon Group's business development and financial results.

(b) Risks concerning Nexon Group's services

i) Business expansion into overseas markets

Nexon Group services or grants licenses of PC online and mobile games globally including in Japan, Korea, China and the United States, and its operating results and financial position may be affected by changes in political, economic and geopolitical situations in these countries and regions, especially in Korea and China.

In promoting business expansion in overseas markets, Nexon Group considers business alliance with other companies, establishment of joint ventures, or M&A as necessary, but if such process is delayed due to various uncertainties, Nexon Group's business development and financial results could be adversely affected.

ii) Concentration of sales on major games

Nexon Group's revenue depends heavily on certain major game titles, and *Dungeon&Fighter* and *MapleStory* accounted for a large percentage of consolidated revenue for the year ended December 31, 2020. Although Nexon Group is striving to diversify its portfolio through developing competitive new game titles and obtaining licenses of or acquiring titles developed by other companies, changes in users' preference, unexpected failure in servers or other systems, or disputes concerning intellectual property right could have an adverse effect on Nexon Group's business development and financial results.

iii) Seasonal fluctuations in financial results and business characteristics

In the PC online game market in which Nexon Group operates, revenue tends to increase during holiday seasons such as the New Year holidays, summer vacation, long holiday season and Lunar New Year around the world including Japan, Korea, China, Europe and the United States. Although we recognize such seasonal fluctuations as one of the variable factors affecting the number of game users, a significant fluctuation could have an adverse effect on Nexon Group's financial results.

iv) Expansion of PC online and mobile game portfolios

With an aim to increase the number of users, Nexon Group seeks to expand its portfolios by continuously developing new PC online and mobile game titles, but it is possible that development does not go as planned. We also work on the portfolio expansion by obtaining licenses of or acquiring PC online and mobile game titles developed by other companies, but if we fail to develop or acquire PC online and mobile game titles as planned, it could have an adverse effect on Nexon Group's business development and financial results.

v) Updates of the existing titles of PC online and mobile games

Nexon Group offers updates for new stories and holds highly entertaining in-game events regularly for the existing PC online and mobile game titles in order to increase continued users and extend their life cycle.

However, if we fail to update or expand the existing PC online and mobile game titles as planned, it could have an adverse effect on Nexon Group's financial results.

vi) Risks associated with service

Nexon Group mostly develops its PC online and mobile game titles within the group, which enables us to accumulate its unique development know-how and have a flexible development system capable of promptly responding to changes in users' preferences that vary from country to country.

However, we cannot deny the possibility that we may not be able to understand customer demands in a timely and accurate manner for any reason, which may hinder enhancement of appropriate service for the existing game titles or development of new game titles meeting the users' preferences. In such an event, our appeal to users will deteriorate and Nexon Group's business development and financial results could be adversely affected.

vii) Microtransaction model

Nexon Group primarily offers PC online and mobile game services using free-to-play model whereby users can play games for free but pay to purchase items to enjoy the game including costumes, accessories, and weapons. While Nexon Group strives to develop an optimized revenue model by analyzing the item sales trend, there is a possibility that a different revenue model developed by our competitors may be accepted by users. If we fail to accommodate such new model, our appeal to users' may deteriorate and Nexon Group's business development and financial results could be adversely affected.

viii) Reputational damage and fraudulent act

Users' unfounded rumor about PC online and mobile games serviced by Nexon Group may damage our reputation and have an adverse effect on our financial results.

In addition, fraudulent act called "Real Money Trading" (Note) by certain malicious users was identified whereby in-game contents such as items, characters and non-cashable currency used within the games serviced by Nexon Group were obtained through illegal means and then used and transferred. In the past, there was an incident in one of our U.S. subsidiaries where its server was hacked from outside resulting in an anomalous increase in the in-game currency of certain users, and the subsidiary needed to terminate their access. Nexon Group works on preventing any illegal use or transactions of contents by introducing a system that enables in-game trading of contents among users. However, there are more ways of fraudulent act than we can imagine and we cannot assure that these countermeasures are sufficient.

In the event that a fraudulent act using our service is identified, the credibility of Nexon Group and the Company's services may be undermined, which could have an adverse effect on Nexon Group's business development and financial results.

(Note) Real Money Trading: Act to sell characters, items, in-game currency, etc. used in online games for real money.

ix) Damage to Nexon brand

Nexon Group enjoys high brand recognition in Korea, China and Japan, and we believe it is important to maintain and enhance such recognition in order to expand customer base and acquire new business partners.

If Nexon Group fails to make sufficient investment to maintain and enhance brand recognition, if our competitors establish a more competitive brand, or if the public image of the PC online and mobile game industry declines, it may damage Nexon Group's brand and could have an adverse effect on Nexon Group's business development and financial results.

(c) Risks concerning legal regulations

Nexon Group services or grants licenses of PC online and mobile games around the world including in Japan, Korea, China and the United States, and our business operation is subject to legal regulations in these countries and regions. Nexon Group operates its business faithfully in full compliance with laws and regulations. However, if Nexon Group receives administrative punishment for violating these regulations or judicial precedents, or if relevant laws and regulations are tightened or new laws and regulations or judicial precedents are established in the future and Nexon Group's business becomes subjected to the restrictions, Nexon Group's business development and financial results could be adversely affected.

Legal restrictions considered especially important are as follows:

i) Legal regulations concerning juveniles

On June 18, 2018, the World Health Organization (WHO) released the 11th Revision of the International Classification of Diseases (ICD-11), which officially includes "gaming disorder" as a disease. On May 25, 2019, the WHO ratified the text of ICD-11, which newly designates "gaming disorder" as an addictive behavior disorder. Due to this, ICD-11 is scheduled to come into effect from January 2022 and be utilized internationally by medical experts in diagnoses and examinations. Also, each country has regulations to prevent juveniles from becoming game addict and protect them from intense stimulus such as violence. For example, in 2011 the Korean government enacted an act requiring game publishers to block children under the age of 16 from playing online games from midnight to 6:00 a.m. In addition, the Ministry of Culture, Sports and Tourism of Korea advised to adopt measures to limit the connection speed of game users who have been connecting to online games for long hours. In China, "Online Games Ethics Committee (OGEC)," an organization to evaluate the appropriateness of game contents to be serviced in China, was established and measures for juveniles have been put in place to limit their play time of online games, as well as the amount of spending for in-game contents, according to their respective ages.

Nexon Group is striving to minimize potential impacts from these regulations by voluntarily introducing a game fatigue system and actively participating in social activities to prevent game addiction. However, if the interpretation of these regulations or judicial precedents is revised or new laws and regulations are established in the future, Nexon Group's business may be subjected to restrictions, or we may be required to take additional measures and spend more costs to comply with such regulations.

In addition, with the spread of smartphones, the number of juvenile users using the smartphone of their family members is increasing. The payment options for purchasing in-game items of our smartphone games include

payments through telecommunications carrier and payments through distribution platform linked to the smartphone, which could result in billing-related troubles such that juvenile users using their family members' smartphone mistakenly purchase in-game items with the payment method using the smartphone resulting in a large amount of bills.

Nexon Group is striving to form a sound market environment through measures such as information exchange with the supervisory authorities, but if billing-related troubles increase or an unexpectedly large-scale trouble occurs, or if new laws and regulations or self-regulations to deal with such troubles are established in the future, Nexon Group's financial results, financial position and future business development could be adversely affected.

ii) Assessment of game contents

Prior to releasing games, Nexon Group undergoes an assessment by supervisory authorities or a third party organization designated by the country in which games will be released or a platform on which games will be serviced. If issues related to violence, gambling property or sensational contents are identified in the assessment, we may be required to limit access by certain age group or revise game contents. In addition, if serious violation of the assessment items is identified after the launch, we may receive administrative punishment or other punishment including suspension of game service on the relevant platform. In such an event, the credibility and brand of Nexon Group's and the Company's services are undermined, which could have an adverse effect on Nexon Group's business development and financial results.

iii) Legal regulations concerning randomized items

Certain countries, states and regions, including Belgium, the Netherlands and the states of Washington and Hawaii of the United States, are moving toward tightening regulations on the service generally called loot boxes or gacha games focusing on its speculative and gambling nature as the service provides in-game items by deciding the type of items based on pure chance. Particularly, in Belgium, it was made clear that loot boxes offered for purchase would fall under gambling and be subject to gambling regulations. In the Netherlands, a lower court acknowledged that loot boxes fall under gambling in 2020, and the case is pending a ruling by a higher court. If countries, states or regions in which Nexon Group services online games establish such regulations or declare such judicial decisions, Nexon Group's business may be subjected to restrictions, or we may be required to take additional measures and spend more costs to comply with such regulations.

iv) Legal regulations in China

The Chinese government has been promoting to foster its domestic online game industry and regulates the operation of games developed by foreign companies in China. On May 1, 2017, the Ministry of Culture enacted a law strengthening regulations and administrative supervisory functions with respect to standard online game operation, and "Online Games Ethics Committee (OGEC)," an organization to evaluate the appropriateness of game contents to be serviced in China, was established in December 2018.

Nexon Group strives to minimize potential impacts of the above legal regulations mainly by forming partnership with local game publishers in China. However, if Nexon Group receives administrative punishment for violating these regulations due to unexpected circumstances, if the game approval procedures by the Chinese authorities is delayed or frozen, or if relevant laws and regulations are tightened or new laws and regulations are established in the future and Nexon Group's business is subjected to the restrictions, Nexon Group's business and financial results could be adversely affected.

v) Legal regulations in Japan

In Japan, it was clarified that "Kompu gacha (complete gacha)" falls under the category of "card matching" that is prohibited by the Act against Unjustifiable Premiums and Misleading Representations, and the industry group took the lead in establishing and releasing self-regulating guidelines. In-game currencies may also be subject to the Payment Services Act as "prepaid payment instruments." Nexon Group has always operated its business by placing the most importance on continuous use and support by users while ensuring compliance with the laws and regulations. However, Nexon Group may be required to put into place a new system or framework in order to comply with laws or judicial precedents that may be enacted or amended/revised as well as the industry group's guidelines that may be established in future. If we fail to establish such system or framework in a timely manner, or if we incur more costs than expected to take necessary measures, it could have an adverse effect on the Company's financial results.

(d) Risks concerning business structure

i) Human resources

Nexon Group's PC online and mobile game business has been growing rapidly in recent years, and for further business expansion and diversification, we need to increase talented people with various skills including creativity, technical skills, ability to act and management skills. In addition, as our overseas subsidiaries play an important role in our business development, we consider it is important to have in place and enhance an internal control system as well as governance system including securing qualified personnel for the management departments in overseas subsidiaries.

However, if, for example, a delay in recruiting talented people from outside or fostering within the group in line with the level of expansion and diversification of our business or resignation of key personnel causes problems in the operation or management systems, Nexon Group's business development and financial results could be adversely affected.

ii) Internal control framework

Nexon Group recognizes that effective corporate governance and internal control system is essential for continuous increase in corporate value.

Nexon Group is committed to ensuring proper operations and reliability of financial reporting as well as compliance with laws and regulations based on sound ethics. However, if we fail to maintain sufficient level of internal controls due to rapid growth of business, making it difficult to properly operate business, it could have an adverse effect on Nexon Group's business and financial results.

iii) Protection of personal information

In servicing or promoting PC online and mobile games and providing other services, Nexon Group may acquire personal information of existing and potential users, including their addresses, names, telephone numbers and e-mail addresses. With regard to such action, Nexon Group is subject to the Act on the Protection of Personal Information as a "business operator handling personal information" in Japan, and may be subject to administrative punishment, financial penalties or criminal charges in overseas in case of violating the laws and regulations on acquisition and safekeeping of personal information. Considering that an enormous amount of personal information is stored and managed in its server and that the cyber-attacks are increasing worldwide in recent years, Nexon Group has reinforced its security measures including by establishing "Global Security Center" responsible for sophisticated information security measures and acquiring certification of Information Security Management System (ISMS). Our privacy policy and our approach toward information security are disclosed on our website.

In addition, EU's "General Data Protection Regulation (GDPR)," which strictly regulates processing of personal data and its transfer outside EU, became effective on May 25, 2018. In the U.S., "California Consumer Privacy Act" became effective on January 1, 2020, and California Privacy Rights Act is scheduled to become effective on January 1, 2022. Any violation of these laws or regulations may result in imposition of substantial amount of fines. As these laws and regulations may also apply to foreign business operators, Nexon Group continues to improve and enhance systems to comply with them and prevent violations.

Nexon Group pays careful attention to prevent leakage of personal data by reinforcing security measures on an ongoing basis and ensuring thorough employee training. In the past, however, there was a leakage of personal information such as names due to our employees' negligence and an outflow of a large amount of personal information including users' names and encrypted resident registration numbers due to a hacking attempt against Nexon Group's server from outside. If personal information is leaked as a result of hacking attacks from outside or employees' willful intention or negligence, Nexon Group may face claim for damage from users, administrative punishment, or criminal charges, and the resulting damage to the credibility, which could have an adverse effect on Nexon Group's financial results.

iv) Dependence on specific persons

In determining and executing Nexon Group's management policy and business strategy, certain officers with abundant experience and knowledge about PC online and mobile game services as well as certain key employees including developers of major titles play very important roles, and the future success of Nexon Group's business depends on these specific officers and employees.

Although Nexon Group works on building a management structure that does not heavily depend on specific persons, if such officers or employees resign for any reason or if it becomes difficult for them to continue their

duties and their competent replacements cannot be found in a timely manner, Nexon Group's business development and financial results could be adversely affected.

In addition, although there are certain restrictions, if any of our officers or key employees joins a competitor or forms a competing company, our business know-how may be compromised, which could have an adverse effect on Nexon Group's business development and financial results.

(e) Risks concerning intellectual property rights

Intellectual property rights, including patent, copyright and trademark, of game titles owned by Nexon Group are essential to our business development, and we are making a special effort to protect and manage them. Certain PC online and mobile games serviced by Nexon Group may use third parties' intellectual property, and therefore we pay a special attention not to infringe on such intellectual property rights and conducts various investigation in advance. In the license agreements with licensers, we incorporate a warranty of non-infringement and limitation of liability clause to ensure smooth execution of our business.

If Nexon Group's intellectual property right is infringed by a third party, we will take adequate measures against such party, but there is a possibility that we may not be able to eliminate it. Or if an insufficient investigation results in an infringement by Nexon Group of an intellectual property right of a third party, Nexon Group may face a lawsuit claiming for damages or seeking an injunction prohibiting the use of the intellectual property and also may be subjected to injunction, or payment of consideration or damages related to such intellectual property. In such an event, Nexon Group's financial results could be adversely affected.

(f) Risks concerning systems, etc.

i) System failure

As PC online and mobile games offered by Nexon Group use a network system, any system failure due to natural disaster, computer virus, power outage, overload of server, fraudulent activities including hacking by third parties or other unexpected circumstances may cause suspension of Nexon Group's operations.

Nexon Group is prepared for the quick recovery by having in place a 24-hour management system and a system to promptly notify monitoring staffs. However, if we cannot restore our systems for any reasons and provide our services, or if data is lost or leaked, it may lead to claims for damages or undermine our credibility, which could have an adverse effect on Nexon Group's financial results.

ii) Program defects

PC online and mobile games offered by Nexon Group are complex programs and may contain defects as we launch new game titles or introduce updates of the existing titles. Although Nexon Group endeavors to improve game quality and prevent defects by conducting pre-release tests, it is not possible to completely eliminate the possibility of defects due to various factors including human errors.

As the impact of program defects on game has been growing in recent years, if Nexon Group fails to prevent defects in advance or fails to respond to defects adequately, game elements and credibility of our PC online and mobile games are undermined, which could have an adverse effect on Nexon Group's business and financial results.

(g) Risks concerning misappropriation of games

PC online games may be used illegally by certain users through illegal servers or illegal copies. As our efforts to prevent misappropriation of our PC online games, Nexon Group has established a security system to protect the source codes of the programs for our PC online games. However, because of factors including human errors in the security system, there is a possibility that illegal acquisition and use of our programs by third parties cannot be completely eliminated. Illegal servers and copies prevents us from collecting payments for purchased items from users who play pirated versions of our games and also impedes normal play by users due to its inferior game quality, which could have an adverse effect on Nexon Group's financial results and financial position.

(h) Risks concerning legal proceedings

Although Nexon Group has in place a compliance system primarily focusing on compliance with laws and regulations, there are possibilities that we may become subject to lawsuits filed by third parties or investigations by the supervisory authorities, in relation to default of contract, infringement of intellectual property rights, leak of personal information, violation of the Subcontract Act, the Act against Unjustifiable Premiums and Misleading Representations or labor issues during the course of our business operations. In addition to huge burden of responding to lawsuits or investigations, if unfavorable judgments, decisions or rulings are made, the resulting economic loss as well as damage to our brand image may adversely affect Nexon Group's financial results and financial position.

(i) Risks concerning M&A and business/capital alliance

i) Business expansion through M&A

Nexon Group has effectively utilized M&A targeting developers and operating companies of PC online and mobile games as an effective means to establish an effective business structure and accelerate business expansion and intends to continue M&A and investment activities to secure and enhance competitive business portfolios, IPs and development personnel. In doing so, we collect information on, scrutinize and consider business plans, financial condition and legal matters of target companies in advance to the extent considered necessary and sufficient in order to avoid risks as much as possible.

However, if certain items including contingent liabilities or unrecognized liabilities which we fail to identify in the pre-acquisition investigation or consideration are identified during the process of post-merger integration, if business development does not go as planned due to changes in market environment or competitive situation or delay in or unsuccessful post-merger integration, or if the investment value in the target companies is impaired, Nexon Group's financial results and financial position could be adversely affected.

ii) Business/capital alliance with other companies

Nexon Group services online games by granting licenses to local companies in countries in which we operate, including the exclusive license agreement of *Dungeon&Fighter* in China. While Nexon Group will continue to work on business expansion through these business alliances, if the effects originally expected is not realized, if such alliance is terminated or if a license agreement is not renewed, Nexon Group's business and financial results could be adversely affected.

(j) Risks concerning fluctuations of foreign exchange rates

Overseas business expansion involves the risk of exchange-rate fluctuations and is affected mainly by fluctuation of foreign exchanges rates of the Korean won, U.S. dollar and Chinese yuan. Nexon Group's consolidated financial statements are presented in Japanese yen, and fluctuations in exchange rates may have an adverse effect on Nexon Group's financial results as translation and transaction risk.

(k) Risks concerning fluctuations of stock price of publicly traded shares held

Nexon Group invests in publicly traded shares in Japan and overseas which have risks of stock-price fluctuations in the stock market. Accordingly, declines in stock prices could decrease fair values of publicly traded shares held by Nexon Group and have an adverse effect on our financial results and financial position.

(l) Changes in laws and regulations and accounting standards

Unexpected enactment or amendment of laws and regulations or introduction or amendment of accounting standards or taxation system may adversely affect Nexon Group's financial results and financial position. Also, differences in opinion with the tax authorities regarding tax returns may result in additional tax payments.

(m) Risks concerning natural disasters

While Nexon Group strives to prepare for a rapid restoration by setting up a 24-hour management system, if Nexon Group's major facilities are damaged or employees are affected by natural disasters such as earthquakes and typhoons, it may affect our operation and service of online games offered by Nexon Group. In addition, costs to repair damaged facilities and compensate affected employees could have an adverse effect on Nexon Group's financial results and financial position.

(n) Risks concerning the spread of COVID-19 infection

Nexon Group places highest priority on the safety of our various stakeholders including our employees, customers and business partners and has implemented measures to prevent the spread of COVID-19 infection such as working from home ("WFH"). We also reviewed operating processes and enhanced information security measures in implementing WFH to minimize the effect of the spread of COVID-19 infection on our business operation.

However, the end of COVID-19 pandemic is still nowhere in sight, and if this situation continues, it may affect our development or services. As a result, there is a possibility that our service may not be provided as planned, which may have an adverse effect on Nexon Group's business and financial results.

(o) Risks concerning dilution due to stock acquisition rights

Nexon Group has issued stock acquisition rights to provide incentives to our officers and employees. As a result of exercise of rights in the future, the Company's shares may be newly issued, resulting in dilution of existing shareholders' share value and the ownership ratio of voting rights. As of December 31, 2020, the number of underlying shares subject to outstanding stock acquisition rights accounted for 4.7% of the total number of outstanding shares.

(p) Relationship with NXC Corporation

NXC Corporation owns 253,262,800 shares, or voting right ratio of 28.6%, of the Company as of December 31, 2020, and accordingly, the company, even with its indirect shareholding, is no longer the parent company of the Company under the Companies Act and the Financial Instruments and Exchange Act.

As of the filing date of this report, NXC Corporation is the largest and major shareholder of the Company and engages in investment and other businesses that are not related to online game business which is Nexon Group's primary business. With regard to the company name trademark "NEXON" in Japan owned by NXC Corporation, the Company has entered into a trademark licensing agreement and agreed to pay license fee to NXC Corporation, which is set as the amount calculated as a certain percentage of the Company's revenue. NXC Corporation has agreed that the Company has a right to extend the trademark licensing agreement regarding the company name trademark "NEXON." Certain subsidiaries of the Company, including NEXON Korea Corporation and NEXON America, Inc., have also entered into a similar agreement with NXC Corporation.

Except for the licensing agreement described above, there are no other recurring transactions between Nexon Group and NXC Corporation.

3【Management's Analysis of Financial Position, Operating Results and Cash Flows】

(1) Summary of operating results, etc.

Financial position, operating results, and cash flows ("Operating Results, etc.") of Nexon Group for the year ended December 31, 2020 are as follows.

(a) Operating results

As for the global economy during the year ended December 31, 2020, although a gradual economic recovery was seen in China where the local COVID-19 infections had been almost fully contained and some signs of recovery were seen in the U.S., the extremely harsh conditions are expected to continue as the end of the COVID-19 pandemic is still out of sight. While there are hopes for the economy to continue to pick up as the restart of global economic activities is phased in, the road to economic recovery is yet uncertain and future outlook remains extremely unclear despite the move to develop effective coronavirus vaccines in countries around the world. As for the Japanese economy, the government declared a state of emergency again due to COVID-19 resurgence and we need to continue to keep an eye on the COVID-19 situation in Japan and abroad, as well as its financial, economic and social impact.

Under these circumstances, although the situation varies slightly depending on the region, Nexon Group has continued to operate its PC online and mobile businesses without its overall business being largely affected, endeavoring to provide users with an enjoyable game experience by developing high-quality games, acquiring more contents, servicing new titles, and updating existing titles. Specifically, we have established the following as Nexon's Focus Strategy: (i) focusing on massive multiplayer online games, (ii) enabling our service to be played across multiple platforms including PC, console and mobile, (iii) leveraging Nexon's IPs, and (iv) investing in new IPs that we think are really special. We have also worked on initiatives for the growth of our global business

As a result, for the year ended December 31, 2020, Nexon Group recorded revenue of ¥293,024 million (up 17.9% year-over-year), operating income of ¥111,450 million (up 17.9% year-over-year), income before income taxes of ¥108,171 million (down 11.3% year-over-year) and net income attributable to owners of the parent company of ¥56,220 million (down 51.4% year-over-year).

Performance results by reportable segments are as follows:

(i) Japan

Revenue for the year ended December 31, 2020 amounted to ¥4,316 million (down 43.6% year-over-year) and segment loss amounted to ¥4,338 million (segment loss of ¥3,490 million for the year ended December 31, 2019). PC and mobile revenues both decreased in Japan.

(ii) Korea

Revenue for the year ended December 31, 2020 amounted to ¥266,775 million (up 21.0% year-over-year) and segment profit amounted to ¥126,839 million (up 13.0% year-over-year). Revenue in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China.

(iii) China

Revenue for the year ended December 31, 2020 amounted to ¥3,058 million (up 8.4% year-over-year), and segment profit amounted to ¥1,891 million (up 21.5% year-over-year).

(iv) North America

Revenue for the year ended December 31, 2020 amounted to ¥16,907 million (up 6.0% year-over-year) and segment loss amounted to ¥1,263 million (segment loss of ¥5,527 million for the year ended December 31, 2019).

(v) Other

Revenue for the year ended December 31, 2020 amounted to ¥1,968 million (up 16.9% year-over-year) and segment loss amounted to ¥2,821 million (segment loss of ¥957 million for the year ended December 31, 2019).

(b) Financial position

(Assets)

Total assets as of December 31, 2020 amounted to ¥862,161 million, an increase of ¥143,073 million from December 31, 2019. Major components include an increase of ¥139,289 million in other financial assets.

(Liabilities)

Total liabilities as of December 31, 2020 amounted to ¥141,716 million, an increase of ¥53,759 million from December 31, 2019. Major components include an increase of ¥34,344 million in deferred tax liabilities and an increase of ¥8,371 million in income taxes payable.

(Equity)

Equity as of December 31, 2020 totaled ¥720,445 million, an increase of ¥89,314 million from December 31, 2019. Major components of changes in equity include an increase of ¥44,769 million in retained earnings primarily due to the recording of net income attributable to owners of the parent company and an increase of ¥31,464 million in other equity interest primarily due to an increase in financial assets measured at fair value through other comprehensive income.

(c) Cash flows

Cash and cash equivalents (collectively, "cash") as of December 31, 2020 were ¥252,570 million, a decrease of ¥1,066 million from December 31, 2019. The decrease includes ¥4,191 million in effects of exchange rate changes on cash.

Cash flows from each activity for the year ended December 31, 2020 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥137,603 million, compared to ¥105,073 million for the year ended December 31, 2019. Major components of the increase include income before income taxes of ¥108,171 million (¥121,968 million for the year ended December 31, 2019) and interest and dividends received of ¥11,353 million (¥11,992 million for the year ended December 31, 2019). While income before income taxes decreased due to the impact of exchange rates, net cash provided by operating activities increased year-over-year primarily driven by revenue growth.

(Cash flows from investing activities)

Net cash used in investing activities was ¥140,234 million, compared to ¥28,625 million for the year ended December 31, 2019. Major cash outflows include purchases of securities of ¥86,258 million (¥31,519 million for the year ended December 31, 2019) and purchases of securities by investment funds under consolidated subsidiaries of ¥31,867 million (¥- million for the year ended December 31, 2019). Net cash used in investing activities increased year-over-year as a result of an increase in purchases of securities primarily due to our consolidation of investment funds and strategic investments in global entertainment companies.

(Cash flows from financing activities)

Net cash used in financing activities was ¥2,626 million, compared to ¥27,742 million for the year ended December 31, 2019. Major cash inflows include proceeds from exercise of stock options of ¥7,050 million (¥3,127 million for the year ended December 31, 2019). Major cash outflows include cash dividends paid of ¥4,417 million (¥0 million for the year ended December 31, 2019), purchases of treasury stock of ¥2,783 million (¥27,225 million for the year ended December 31, 2019) and repayment of lease liability of ¥2,339 million (¥1,790 million for the year ended December 31, 2019). Net cash used in financing activities decreased year-over-year primarily due to a decrease in purchases of treasury stock and an increase in proceeds from exercise of stock options.

(d) Production, Orders Received and Sales

This section presents information by reportable segment for the year ended December 31, 2020.

(i) Production

The disclosure is omitted as the amount of Nexon Group's production is immaterial.

(ii) Orders received

Not applicable as Nexon Group does not receive orders.

(iii) Sales

Sales by reportable segment for the year ended December 31, 2020 are as follows:

Name of reportable segment	Year ended December 31, 2020 (¥ million)	Year-over-year (%)
Japan	4,316	56.4
Korea	266,775	121.0
China	3,058	108.4
North America	16,907	106.0
Other	1,968	116.9
Total	293,024	117.9

(Notes) 1. Intersegment transactions are eliminated.

2. The amount of sales by major counterparties and their ratio to the total sales for the recent two years are as follows:

Counterparty	Year ended December 31, 2019		Year ended December 31, 2020	
	Amount (¥ million)	Ratio (%)	Amount (¥ million)	Ratio (%)
Tencent Holdings Limited and its subsidiaries	102,443	41.2	71,694	24.5

3. The above figures do not include consumption taxes, etc.

(2) Management's analysis and discussion of Operating Results, etc.

Management's recognition, analysis and discussion of Operating Results, etc. is as follows. Any forward-looking statements in the following discussion are based on the judgment of Nexon Group's management as of December 31, 2020.

(a) Recognition, analysis and discussion of operating results

For the year ended December 31, 2020, Nexon Group recorded revenue of ¥293,024 million (up 17.9% year-over-year), operating income of ¥111,450 million (up 17.9% year-over-year), income before income taxes of ¥108,171 million (down 11.3% year-over-year) and net income attributable to owners of the parent company of ¥56,220 million (down 51.4% year-over-year).

(i) Analysis of revenue

Revenue for the year ended December 31, 2020 amounted to ¥293,024 million, up 17.9% year over year. For the year ended December 31, 2020, we achieved record-high full-year revenue despite a revenue decrease from our China business, as both our major titles and mobile business significantly grew due to the effect of the Focus Strategy. We have recorded revenue growth for nine consecutive years since we went public in 2011, excluding the impact of the foreign currency exchange.

In Korea, we saw strong results from all four of our major PC titles. *MapleStory*, *Dungeon&Fighter* and *FIFA ONLINE 4* all marked record-breaking full-year revenues. *MapleStory* and *Dungeon&Fighter* grew by 97% and 53%, respectively, year-over-year, while *FIFA ONLINE 4* also showed growth. Mobile revenue also increased significantly as we benefitted from the mobile versions of our hit titles, such as *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *FIFA MOBILE*, as well as *V4*. Accordingly, our Korea business overall grew by 84% year-over-year, achieving record-high full-year revenue and accounting for 56% of the consolidated group revenue in the year ended December 31, 2020.

In China, revenue decreased year-over-year due to a slowdown of our major PC title, *Dungeon&Fighter*, which has seen a decline in its user metrics since the second half of FY2019. We have worked to improve its user engagement by conducting major updates and constant events, but the numbers of its active and paying users remained low throughout the year and its revenue decreased year-over-year.

In Japan, while we benefitted from *TRAHA*, *V4* and *FIFA MOBILE*, which all launched in FY2020, revenue decreased year-over-year due to a slowdown of *MapleStory M*, which launched in FY2019, and the disposition of gloops, Inc., which was our consolidated subsidiary.

In North America and Europe, revenue slightly increased year-over-year primarily driven by increases in revenue from *MapleStory* and *MapleStory M*.

In Rest of Word, revenue increased year-over-year driven by contributions from *KartRider Rush+* and *V4*, which launched in FY2020, as well as *MapleStory*'s revenue growth.

(ii) Analysis of cost of sales

Cost of sales amounted to ¥69,009 million, up 15.8% year-over-year, due mainly to an increase in royalty costs in proportion to an increase in revenue from *The Kingdom of the Winds:Yeon* and *FIFA ONLINE 4*.

(iii) Analysis of selling, general and administrative expenses

Selling, general and administrative expenses amounted to ¥103,711 million, up 21.8% year-over-year primarily due to an increase in platform expense associated with strong performance of mobile games including *The Kingdom of the Winds:Yeon* and *KartRider Rush+* and *V4*.

(iv) Analysis of other income (expenses)

Other income amounted to ¥1,796 million, down 80.2% year-over-year, due mainly to an absence of gain on step acquisition associated with making Embark Studios AB a consolidated subsidiary which was recorded in the year ended December 31, 2019.

Other expenses amounted to ¥10,650 million, down 42.0% year-over-year, mainly due to an absence of impairment loss on goodwill and intangible assets related to Pixelberry Studios which was recorded in the year ended December 31, 2019.

(v) Analysis of finance income (costs)

Finance income amounted to ¥15,005 million, down 50.1% year-over-year, and finance cost amounted to ¥19,049 million, up 738.4% year-over-year, due mainly to recording foreign exchange losses related to cash and deposits denominated in foreign currency resulting in a year-over-year decrease in finance income and an increase in finance cost.

(vi) Analysis of share of loss (profit) of investments accounted for using equity method

Share of profit of investments accounted for using equity method amounted to ¥765 million (loss of ¥325 million for the year ended December 31, 2019) due to fluctuations in performance of investments accounted for using the equity method.

(vii) Analysis of income taxes expenses

Income taxes expenses amounted to ¥52,682 million, up 503.3% year-over-year, due mainly to additional recognition of deferred tax liabilities for undistributed retained earnings of overseas subsidiaries in the year ended December 31, 2020.

(b) Factors that have material impacts on operating results

See "II. Business Overview, 2 Risk Factors" for factors that have material impacts on Nexon Group's operating results.

(c) Recognition, analysis and discussion of financial position

See "II. Business Overview, 3 Management's Analysis of Financial Position, Operating Results and Cash Flows, (1) Summary of Operating Results, etc., (b) Financial position" for recognition, analysis and discussion of Nexon Group's financial position as of December 31, 2020.

(d) Analysis and discussion of cash flows and information on sources of funding and funds liquidity

(i) Analysis and discussion of cash flows

See "II. Business Overview, 3 Management's Analysis of Financial Position, Operating Results and Cash Flows, (1) Summary of Operating Results, etc., (c) Cash flows" for analysis and discussion of Nexon Group's cash flows for the year ended December 31, 2020.

(ii) Information on sources of funding and funds liquidity

The demand for funds of Nexon Group for the purpose of mid- and long-term business expansion and corporate value improvement consists mainly of operating expenses including cost of sales (e.g. outsourcing expense and personnel costs), selling, general and administrative expenses and research and development expense. The demand for funds for investment consists mostly of capital expenditures. Nexon Group generally allocates its own funds to these working capital and capital expenditures. In addition to own funds, certain overseas subsidiaries borrow funds from financial institutions to enable flexible response to demand for funds. Nexon Group maintains sufficient level of liquidity to meet funding requirements through these measures.

(e) Significant accounting estimates and assumptions used for the estimates

Nexon Group's consolidated financial statements are prepared in accordance with IFRS pursuant to provisions of Article 93 of the "Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements." These consolidated financial statements are prepared using estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expense, and figures based on these estimates and assumptions could differ from actual results.

See "V. Financial Information, 1 Consolidated Financial Statements, etc., (1) Consolidated financial statements, Notes to consolidated financial statements, 4 Critical accounting estimates and judgement" for critical estimates and assumptions used to prepare the consolidated financial statements.

(f) Awareness of the issues by management and future policies

See "II. Business Overview, 1 Management Policy, Business Environment, Issues to be Addressed, etc., (3) Business environment and (4) Mid- to long-term management strategy and issues to be addressed."

4 【Material Agreements, etc. in Business Operation】

License agreement

As of December 31, 2020

Contracting company	Counterparty	Country	Contract date	Contract description	Contract period
NEXON Korea Corporation (consolidated subsidiary)	Shanghai Posts & Telecommunications Technology Co., Ltd.	China	November 18, 2005	Exclusive license agreement for PC online game "*Kart Rider*" (licensing-out)	From November 18, 2005 to November 17, 2023 (Note) 1
NEOPLE INC. (consolidated subsidiary)	Tencent Technology (Shenzhen) Co., Ltd. Shenzhen Tencent Computer Systems Co., Ltd.	China	November 16, 2007	Exclusive license agreement for PC online game "*Dungeon&Fighter*" (licensing-out)	From November 16, 2007 to June 16, 2026 (Note) 2
NEXON Korea Corporation (consolidated subsidiary)	Lansha Information Technology (Shanghai) Co., Ltd.	China	April 21, 2004	Exclusive license agreement for PC online game "*MapleStory*" (licensing-out)	From April 21, 2004 to June 30, 2022 (Note) 3
NEXON Korea Corporation (consolidated subsidiary)	NXC Corporation	Worldwide	April 30, 2017	License agreement for company name trademark (licensing-in)	From May 1, 2017 to December 31, 2018, with automatic renewals for three-year periods thereafter
NEXON Korea Corporation (consolidated subsidiary)	Electronic Arts, Inc.	Korea	July 10, 2017	Exclusive license agreement for PC online game "*FIFA ONLINE 4*" (licensing-in)	From July 10, 2017 to the day on which three years have elapsed from the commercialization date, with automatic renewals for two-year periods thereafter if certain conditions are met
NEOPLE Inc. (consolidated subsidiary)	Shenzhen Tencent Computer Systems Co., Ltd. Tencent Technology (Shenzhen) Co., Ltd. Shenzhen Tencent Information Technology Co., Ltd.	China	October 8, 2018	Exclusive license agreement for online game "*Dungeon&Fighter*" (licensing-out)	From October 8, 2018 to the day on which ten years have elapsed from the initial commercialization date

(Notes) 1. The expiration date of the agreement was revised to November 17, 2023 by a renewal agreement dated November 16, 2020.
2. The expiration date of the agreement was revised to June 16, 2026 by a renewal agreement dated May 1, 2015.
3. The expiration date of the agreement was revised to June 30, 2022 by a renewal agreement dated June 30, 2019.

5 【Research and Development】

Overview of Nexon Group's research and development activities is as follows:

(1) Research and development system

Nexon Group does not conduct any activity equivalent to research and development such as basic research and new technology development and does not have an independent research and development organization.

However, Nexon Group considers the process from planning through commercialization of online game contents developed within Nexon Group as "research and development," which is conducted by development personnel within the group as part of our regular development activities.

(2) Research and development policy

Nexon Group has no specific research and development policy as our research and development activities are conducted by development personnel within the group as part of our regular development activities.

(3) Research and development expense

Nexon Group records expenses incurred from the approval of the plan up to the date of commercialization of online game contents developed by Nexon Group (labor cost, outsourcing cost and other expenses) as research and development expense, and ¥16,545 million was recorded as research and development expense for the year ended December 31, 2020.

Year ended December 31, 2020

Research and development expense by reportable segment for the year ended December 31, 2020 is as follows. There has been no significant change in the research and development activities during the year ended December 31, 2020.

Name of reportable segment	Research and development expense (¥ million)
Japan	40
Korea	14,123
China	—
North America	974
Other	1,697
Total reportable segments	16,834
Adjustments	(289)
Total (consolidated)	16,545

III. 【Property, Plant and Equipment】

1 【Summary of Capital Investment, etc.】

Total capital investment for the year ended December 31, 2020 amounted to ¥10,520 million, and capital investments by reportable segment are as follows.

There have been no disposals or sales of significant facilities during the year ended December 31, 2020.

Name of reportable segment	Capital investment (¥ million)
Japan	283
Korea	6,469
China	186
North America	69
Other	3,513
Total reportable segments	10,520
Adjustments	—
Total (consolidated)	10,520

(Note) Including investments in property, plant and equipment, intangible assets and right-of-use assets.

2 【Major Facilities】

Major facilities of Nexon Group are as follows:

(1) The Company

As of December 31, 2020

Office name (Location)	Reportable segment	Description of facility	Carrying amount						Number of employees (persons)
			Building and structures (¥ million)	Tools, furniture and fixtures (¥ million)	Land (¥ million) (Floor area m^2)	Right-of-use assets (¥ million)	Other (¥ million)	Total (¥ million)	
Head office (Minato-ku, Tokyo)	Japan	Facility for PC online/ mobile games	—	6	—	—	—	6	268 (3)

(Notes) 1. The number of employees represents full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parenthesis.

2. The above figures do not include consumption taxes, etc.

3. Impairment loss is recorded during the year ended December 31, 2020, and the carrying amounts are stated, net of impairment loss.

4. Right-of-use assets above include the following facility leased from a third party.

Office name (Location)	Description of facility	Leased facility	Floor area (m^2)	Annual rent (¥ million)
Head office (Minato-ku, Tokyo)	Business-use facility	Building	2,823.79	387

(2) Overseas subsidiaries

As of December 31, 2020

Company name	Location	Reportable segment	Description of facility	Carrying amount						Number of employees (persons)
				Building and structures (¥million)	Tools, furniture and fixtures (¥million)	Land (¥million) (Floor area m^2)	Right-of-use assets (¥million)	Other (¥million)	Total (¥million)	
NEXON Korea Corporation	Seongnam, Gyeonggi-do, South Korea	Korea	Facility for PC online/ mobile games	9,766	827	3,309 (10,818)	2,241	2,791	18,934	2,636 (16)
NEOPLE INC.	Jeju Self-Governing Province, South Korea	Korea	Facility for PC online/ mobile games	2,190	466	1,155 (21,402)	2,601	94	6,506	936 (10)
JoongAng Pangyo Development Co., Ltd.	Seongnam, Gyeonggi-do, South Korea	Korea	Property for lease	2,951	-	2,456 (8,510)	-	-	5,407	- (-)
NAT GAMES Co., Ltd.	Seoul, South Korea	Korea	Facility for PC online/ mobile games	27	97	1 (143)	1,123	8,173	9,421	534 (3)
Embark Studios AB	Stockholm, Sweden	Other	Facility for PC online games	183	240	-	3,136	3,742	7,301	145 (-)

(Notes) 1. The number of employees represents full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.
2. "Other" under carrying amount consists mainly of game copyrights.
3. The above figures do not include consumption taxes.
4. The amount of investment property is not included in the above table.
5. Impairment loss is recorded during the year ended December 31, 2020, and the carrying amounts are stated, net of impairment loss.
6. Right-of-use assets above include the following facilities leased from third parties.

Company name	Description of facility	Leased facility	Floor area (m^2)	Annual rent (¥ million)
NEXON Korea Corporation	Business-use facility	Building	39,272.19	475
NEOPLE INC.	Business-use facility	Building	13,611.69	166
NAT GAMES Co., Ltd.	Business-use facility	Building	8,490.08	167
Embark Studios AB	Business-use facility	Building	8,233.00	291

3 【Plans for Additions, Disposals, etc. of Property, Plant, and Equipment】

The facility planning of Nexon Group is developed taking into consideration economic forecast, industry trend, investment efficiency, etc. The facility planning is developed separately by each group company in principle but adjusted mainly by the Company.

The plans for additions and disposals of major facilities as of December 31, 2020 are as follows:

(1) New major facilities

Company name	Location	Reportable segment	Description of facility	Planned investment		Funding method	Scheduled start and completion date	
				Total (¥ million)	Paid (¥ million)		Start	Completion
NEXON Korea Corporation	Seongnam, Gyeonggi-do, South Korea	Korea	Facility for PC online/mobile games, etc.	535	—	Own capital	January 2021	December 2021
			Buildings and leasehold improvements	102	—	Own capital	April 2021	December 2021
			Software, etc.	711	—	Own capital	January 2021	December 2021
NEOPLE INC.	Jeju Self-Governing Province, South Korea	Korea	Facility for PC online/mobile games, etc.	108	—	Own capital	January 2021	December 2021
			Software, etc.	243	—	Own capital	January 2021	December 2021
NEXON GT Co., Ltd.	Seongnam, Gyeonggi-do, South Korea	Korea	Software, etc.	172	—	Own capital	January 2021	December 2021
			Right-of-use assets	159	—	Own capital	November 2021	November 2021
NAT GAMES CO., Ltd.	Seoul, Korea	Korea	Right-of-use assets	332	—	Own capital	January 2021	January 2021
Total	—	—	—	2,362	—	—	—	—

(Note) The disclosure of potential increase in capacity after completion is omitted as it is difficult to measure.

(2) Disposals of major facilities, etc.

Not applicable.

IV. 【Information on the Company】

1 【Information on the Company's Stock, etc.】

(1) 【Total number of shares, etc.】

(a) 【Total number of shares】

Class	Total number of authorized shares (shares)
Common stock	1,400,000,000
Total	1,400,000,000

(b) 【Outstanding shares】

Class	Number of outstanding shares as of December 31, 2020 (shares)	Number of outstanding shares as of the filing date (shares) (March 26, 2021)	Name of the financial instruments exchange of listing or authorized financial instruments firms association	Description
Common stock	886,961,539	888,307,539	First section of the Tokyo Stock Exchange	Shares with full voting rights, which are standard shares of the Company with no restrictions on rights. The number of shares per trading unit is 100 shares.
Total	886,961,539	888,307,539	—	—

(Note) "Number of outstanding shares as of the filing date" does not include the number of shares issued due to exercise of stock acquisition rights during the period from March 1, 2021 to the filing date of this annual securities report.

(2) 【Stock acquisition rights】

(a) Description of stock option plan

The Company has a stock option plan which issues stock acquisition rights in accordance with the Companies Act.

The description of the plan is as follows.

(i) Resolution at the Annual General Meeting of Shareholders held on March 26, 2013

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 26, 2013 to issue stock acquisition rights as equity-based stock options to directors of the Company.

1) Resolution at the Board of Directors meeting held on April 22, 2013

Date of resolution	March 26, 2013
Category and number of eligible persons (persons)	Directors of the Company: 3
Number of stock acquisition rights (units) *	75 (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 150,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1
Exercise period of stock acquisition rights *	From May 7, 2013 to May 6, 2043
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1 Amount of capital stock to be increased: 0.5
Conditions for exercise of stock acquisition rights*	Holders of stock acquisition rights may exercise their right within ten days from the following day of retirement from directorship during the exercise period (or during the calendar year in which the eligible person retires in case the holder resides in the U.S.). Holders who reside overseas may exercise their right during the period to be decided by the Board of Directors taking into consideration relevant overseas laws and regulations. Such retirement shall constitute "separation from service" provided in Section 409A of the Internal Revenue Code.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	When approval is granted for proposals i), ii), or iii) below at the Company's Annual General Meeting of Shareholders (or by resolution of the Company's Board of Directors if a resolution of the Annual General Meeting of Shareholders is not required), the Company shall grant stock acquisition rights of the stock company specified below according to the ratio of the restructuring. i) Proposal for the approval of a merger agreement in which the Company will become the extinct company Surviving company (in case of absorption-type merger) or newly formed company (in case of consolidation-type merger) ii) Proposal for the approval of a split agreement or a split plan in which the Company will become a split company Stock company succeeding to all or part of the rights and obligations relating to its business held by the stock company effecting the absorption-type company split (in case of absorption-type company split) or stock company to be incorporated by the incorporation-type company split (in case of incorporation-type company split) iii) Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary Stock company acquiring all outstanding shares of the stock company effecting the share exchange or stock company to be incorporated by the share transfer

* The information above is as of December 31, 2020 but remains the same as of February 28, 2021.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of

such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

2) Resolution at the Board of Directors meeting held on July 17, 2015

Date of resolution	March 26, 2013
Category and number of eligible persons (persons)	Director of the Company: 1
Number of stock acquisition rights (units) *	50 (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 100,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1
Exercise period of stock acquisition rights *	From August 3, 2015 to August 2, 2045
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1 Amount of capital stock to be increased: 0.5
Conditions for exercise of stock acquisition rights*	Holders of stock acquisition rights may exercise their right within ten days from the following day of retirement from directorship during the exercise period.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	When approval is granted for proposals i), ii), or iii) below at the Company's Annual General Meeting of Shareholders (or by resolution of the Company's Board of Directors if a resolution of the Annual General Meeting of Shareholders is not required), the Company shall grant stock acquisition rights of the stock company specified below according to the ratio of the restructuring. i) Proposal for the approval of a merger agreement in which the Company will become the extinct company Surviving company (in case of absorption-type merger) or newly formed company (in case of consolidation-type merger) ii) Proposal for the approval of a split agreement or a split plan in which the Company will become a split company Stock company succeeding to all or part of the rights and obligations relating to its business held by the stock company effecting the absorption-type company split (in case of absorption-type company split) or stock company to be incorporated by the incorporation-type company split (in case of incorporation-type company split) iii) Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary Stock company acquiring all outstanding shares of the stock company effecting the share exchange or stock company to be incorporated by the share transfer

* The information above is as of December 31, 2020 but remains the same as of February 28, 2021.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of Granted Shares after adjustment} = \text{Number of Granted Shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, or other events that compel the exercise price to be adjusted after the allotment date, the exercise price shall be adjusted to the extent reasonable based on the resolution at the Board of Directors meeting.

(ii) Resolution at the Annual General Meeting of Shareholders held on March 29, 2016

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 29, 2016 to issue stock acquisition rights to some directors and employees of the Company and directors and employees of its subsidiaries under particularly preferential terms.

Resolution at the Board of Directors meeting held on May 10, 2016

Date of resolution	March 29, 2016
Category and number of eligible persons (persons)	Employees of the Company: 16 Directors and employees of the Company's subsidiaries: 282
Number of stock acquisition rights (units) *	1,403 [1,146] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 2,806,000 [2,292,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	932 (Note) 3
Exercise period of stock acquisition rights *	(Qualified stock options) From May 10, 2018 to May 19, 2022 (Non-qualified stock options) From May 20, 2016 to May 19, 2022
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 932 Amount of capital stock to be increased: 466
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

(iii) Resolution at the Annual General Meeting of Shareholders held on March 28, 2017

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 28, 2017 to issue stock acquisition rights to certain directors and employees of the Company and directors and employees of its subsidiaries under particularly preferential terms.

1) Resolution at the Board of Directors meeting held on September 28, 2017

Date of resolution	March 28, 2017
Category and number of eligible persons (persons)	Employee of the Company: 1 Directors and employees of the Company's subsidiaries: 10
Number of stock acquisition rights (units) *	518 [485] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 1,036,000 [970,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,468 (Note) 3
Exercise period of stock acquisition rights *	(Qualified stock options) From September 28, 2019 to September 28, 2023 (Non-qualified stock options) From September 29, 2017 to September 28, 2023
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,468 Amount of capital stock to be increased: 734
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

2) Resolution at the Board of Directors meeting held on October 31, 2017

Date of resolution	March 28, 2017
Category and number of eligible persons (persons)	Employees of the Company: 34 Directors and employees of the Company's subsidiaries: 413
Number of stock acquisition rights (units) *	3,952 [3,432] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 7,904,000 [6,864,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,640 (Note) 3
Exercise period of stock acquisition rights *	(Qualified stock option) From October 31, 2019 to November 8, 2023 (Non-qualified stock option) From November 9, 2017 to November 8, 2023
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,640 Amount of capital stock to be increased: 820
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3) Resolution at the Board of Directors meeting held on January 30, 2018

Date of resolution	March 28, 2017
Category and number of eligible persons (persons)	Directors and employees of the Company's subsidiaries: 10
Number of stock acquisition rights (units) *	56 [27] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 112,000 [54,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,685 (Note) 3
Exercise period of stock acquisition rights *	From February 8, 2018 to February 7, 2024
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,685 Amount of capital stock to be increased: 843
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

(iv) Resolution at the Annual General Meeting of Shareholders held on March 27, 2018

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 27, 2018 to issue stock acquisition rights to directors (excluding those who are Audit and Supervisory Committee members) and employees of the Company and directors and employees of its subsidiaries under particularly preferential terms.

Resolution at the Board of Directors meeting held on March 27, 2018

Date of resolution	March 27, 2018
Category and number of eligible persons (persons)	Directors of the Company: 3 Directors and employees of the Company's subsidiaries: 2
Number of stock acquisition rights (units) *	831 [787] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 1,662,000 [1,574,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	0.0005 (Note) 3
Exercise period of stock acquisition rights *	From March 27, 2018 to March 15, 2022
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 0.0005 Amount of capital stock to be increased: 0.00025
Conditions for exercise of stock acquisition rights*	・Part of the units granted shall vest after each of the Annual General Meetings of Shareholders to be held one, two or three years after the allotment date, with the remainder to vest based on a predefined performance achievement rate during the period up to the date of the Annual General Meeting of Shareholders to be held three years after the allotment date. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary, or in a commissioned position such as honorary chairperson or advisor from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 27, 2018 to issue stock acquisition rights to certain employees of the Company and directors and employees of its subsidiaries under particularly preferential terms.

1) Resolution at the Board of Directors meeting held on July 25, 2018

Date of resolution	March 27, 2018
Category and number of eligible persons (persons)	Employees of the Company's subsidiaries: 6
Number of stock acquisition rights (units) *	117 [109] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 234,000 [218,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,699 (Note) 3
Exercise period of stock acquisition rights *	From July 26, 2018 to July 25, 2024
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,699 Amount of capital stock to be increased: 850
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

2) Resolution at the Board of Directors meeting held on October 24, 2018

Date of resolution	March 27, 2018
Category and number of eligible persons (persons)	Employees of the Company's subsidiaries: 2
Number of stock acquisition rights (units) *	63 [25] (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 126,000 [50,000] (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,377 (Note) 3
Exercise period of stock acquisition rights *	From November 2, 2018 to November 1, 2024
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,377 Amount of capital stock to be increased: 689
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021, except for the items modified during the period between December 31, 2020 and February 28, 2021, for which the information as of February 28, 2021 is shown in brackets.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

(v) Resolution at the Extraordinary General Meeting of Shareholders held on September 25, 2019

Pursuant to the Companies Act, on August 5, 2019, the Company's Board of Directors resolved the issuance of stock acquisition rights for the purpose of acquiring additional shares of Embark Studios AB, which is a consolidated subsidiary of Nexon Group. The issuance of these stock acquisition rights was approved at the Company's extraordinary general meeting of shareholders on September 25, 2019. The stock acquisition rights exercised due to Embark Studios AB shareholders' intent to sell (i.e. put) are called Put Share Options and those exercised due to the Company's intent to buy (i.e. call) are called Call Share Options herein.

1) Year 2 stock acquisition rights with put option ("Year 2 Put Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	59,384,380 (Note) 1
Class, description and number of underlying shares*	Common stock: 2,031,955 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 2 Put Share Option shall be two Yen (¥2) for each Year 2 Put Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 2 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning December 1, 2020 and ending September 30, 2021.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 2 Put Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 2 Put Share Option and the issue price of each Year 2 Put Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of Year 2 Put Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of Year 2 Put Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	・Year 2 Put Share Options will vest and become exercisable only to the extent to which the prescribed performance and continued employment criteria have been satisfied. ・Partial exercise of Year 2 Put Share Options is not allowed.
Assignment of stock acquisition rights*	Year 2 Put Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} \div 59{,}384{,}380$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such

adjustment shall be made only to those subject to Year 2 Put Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 2 Put Share Option shall be one (1) share of common stock of Embark Studios AB, and the value of such property under Article 236, Paragraph 1, Item 3 of the Companies Act is two Yen (¥2).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 2 Put Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 2 Put Share Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future, in accordance with the performance achievement level of Embark Studios AB.

2) Year 3 stock acquisition rights with put option ("Year 3 Put Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	50,420,701 (Note) 1
Class, description and number of underlying shares*	Common stock: 2,031,958 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 3 Put Share Option shall be two Yen (¥2) for each Year 3 Put Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 3 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning October 1, 2021 and ending June 30, 2022.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 3 Put Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 3 Put Share Option and the issue price of each Year 3 Put Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of Year 3 Put Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of Year 3 Put Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	・Year 3 Put Share Options will vest and become exercisable only to the extent to which the prescribed performance and continued employment criteria have been satisfied. ・Partial exercise of Year 3 Put Share Options is not allowed.
Assignment of stock acquisition rights*	Year 3 Put Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} \div 50{,}420{,}701$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such

adjustment shall be made only to those subject to Year 3 Put Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 3 Put Share Option shall be one (1) share of common stock of Embark Studios AB, and the value of such property under Article 236, Paragraph 1, Item 3 of the Companies Act is two Yen (¥2).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 3 Put Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 3 Put Share Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future, in accordance with the performance achievement level of Embark Studios AB.

3) Year 4 stock acquisition rights with put option ("Year 4 Put Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	36,112,123 (Note) 1
Class, description and number of underlying shares*	Common stock: 2,031,958 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 4 Put Share Option shall be two Yen (¥2) for each Year 4 Put Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 4 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning July 1, 2022 and ending June 30, 2023.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 4 Put Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 4 Put Share Option and the issue price of each Year 4 Put Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of Year 4 Put Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of Year 4 Put Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	・Year 4 Put Share Options will vest and become exercisable only to the extent to which the prescribed performance and continued employment criteria have been satisfied. ・Partial exercise of Year 4 Put Share Options is not allowed.
Assignment of stock acquisition rights*	Year 4 Put Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} \div 36{,}112{,}123$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such

adjustment shall be made only to those subject to Year 4 Put Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 4 Put Share Option shall be one (1) share of common stock of Embark Studios AB, and the value of such property under Article 236, Paragraph 1, Item 3 of the Companies Act is two Yen (¥2).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 4 Put Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 4 Put Share Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future, in accordance with the performance achievement level of Embark Studios AB.

4) Year 5 stock acquisition rights with put option ("Year 5 Put Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	30,552,585 (Note) 1
Class, description and number of underlying shares*	Common stock: 2,031,959 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 5 Put Share Option shall be two Yen (¥2) for each Year 5 Put Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 5 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning July 1, 2023 and ending June 30, 2024.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 5 Put Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 5 Put Share Option and the issue price of each Year 5 Put Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of Year 5 Put Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of Year 5 Put Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	・Year 5 Put Share Options will vest and become exercisable only to the extent to which the prescribed performance and continued employment criteria have been satisfied. ・Partial exercise of Year 5 Put Share Options is not allowed.
Assignment of stock acquisition rights*	Year 5 Put Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} \div 30{,}552{,}585$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such

adjustment shall be made only to those subject to Year 5 Put Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 5 Put Share Option shall be one (1) share of common stock of Embark Studios AB, and the value of such property under Article 236, Paragraph 1, Item 3 of the Companies Act is two Yen (¥2).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 5 Put Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 5 Put Share Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future, in accordance with the performance achievement level of Embark Studios AB.

5) Year 2 stock acquisition rights with call option ("Year 2 Call Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	59,384,380 (Note) 1
Class, description and number of underlying shares*	Common stock: 1,847,233 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 2 Call Share Option shall be one Yen (¥1) for each Year 2 Call Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, it shall be the 5th business day after the date on which the Company exercises the right to purchase the common stock of Embark Studios AB from the allottees based on the provisions of Year 2 Call Right Agreement.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 2 Call Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 2 Call Share Option and the issue price of each Year 2 Call Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of Year 2 Call Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of Year 2 Call Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	Partial exercise of Year 2 Call Share Options is not allowed.
Assignment of stock acquisition rights*	Year 2 Call Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \div 59{,}384{,}380$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such adjustment shall be made only to those subject to Year 2 Call Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 2 Call Share Option shall be the monetary claim for the purchase price corresponding to one (1) share of common stock of Embark Studios AB (which is a portion of the monetary claim for the purchase price that an allottee will have against the Company as a result of an exercise by the Company of its right to purchase the common shares of Embark Studios AB pursuant to the Year 2 Call Right Agreement entered into by and between the Company and the allottee as of August 5, 2019), the amount of which is equal to the product of (a) the closing price of the Company's stock in the Tokyo Stock Exchange on the 5th business day after the date on which the Company exercises the right described above, multiplied by (b) the Number of Shares Granted Per Option; and the value of such property is one Yen (¥1).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 2 Call Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 2 Call Share Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future.

6) Year 3 stock acquisition rights with call option ("Year 3 Call Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	50,420,701 (Note) 1
Class, description and number of underlying shares*	Common stock: 1,847,233 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 3 Call Share Option shall be one Yen (¥1) for each Year 3 Call Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, it shall be the 5th business day after the date on which the Company exercises the right to purchase the common stock of Embark Studios AB from the allottees based on the provisions of Year 3 Call Right Agreement.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 3 Call Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 3 Call Share Option and the issue price of each Year 3 Call Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of the Year 3 Call Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of the Year 3 Call Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	Partial exercise of Year 3 Call Share Options is not allowed.
Assignment of stock acquisition rights*	Year 3 Call Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \div 50{,}420{,}701$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such adjustment shall be made only to those subject to Year 3 Call Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 3 Call Share Option shall be the monetary claim for the purchase price corresponding to one (1) share of common stock of Embark Studios AB (which is a portion of the monetary claim for the purchase price that an allottee will have against the Company as a result of an exercise by the Company of its right to purchase the common shares of Embark Studios AB pursuant to the Year 3 Call Right Agreement entered into by and between the Company and the allottee as of August 5, 2019), the amount of which is equal to the product of (a) the closing price of the Company's stock in the Tokyo Stock Exchange on the 5th business day after the date on which the Company exercises the right described above, multiplied by (b) the Number of Shares Granted Per Option; and the value of such property is one Yen (¥1).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 3 Call Share Options, such fraction shall be rounded down to the nearest whole number.
5. Year 3 Call Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future.

7) Year 4 stock acquisition rights with call option ("Year 4 Call Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	36,112,123 (Note) 1
Class, description and number of underlying shares*	Common stock: 1,847,233 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 4 Call Share Option shall be one Yen (¥1) for each Year 4 Call Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, it shall be the 5th business day after the date on which the Company exercises the right to purchase the common stock of Embark Studios AB from the allottees based on the provisions of Year 4 Call Right Agreement.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 4 Call Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 4 Call Share Option and the issue price of each Year 4 Call Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of the Year 4 Call Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of the Year 4 Call Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	Partial exercise of Year 4 Call Share Options is not allowed.
Assignment of stock acquisition rights*	Year 4 Call Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \div 36{,}112{,}123$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such adjustment shall be made only to those subject to Year 4 Call Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 4 Call Share Option shall be the monetary claim for the purchase price corresponding to one (1) share of common stock of Embark Studios AB (which is a portion of the monetary claim for the purchase price that an allottee will have against the Company as a result of an exercise by the Company of its right to purchase the common stock of Embark Studios AB pursuant to the Year 4 Call Right Agreement entered into by and between the Company and the allottee as of August 5, 2019), the amount of which is equal to the product of (a) the closing price of the Company's stock in the Tokyo Stock Exchange on the 5th business day after the date on which the Company exercises the right described above, multiplied by (b) the Number of Shares Granted Per Option; and the value of such property is one Yen (¥1).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 4 Call Options, such fraction shall be rounded down to the nearest whole number.
5. Year 4 Call Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future.

8) Year 5 stock acquisition rights with call option ("Year 5 Call Share Option(s)")

Date of resolution	August 5, 2019
Category and number of eligible persons (persons)	Director of the Company: 1 Employees of the Company's subsidiary: 5
Number of stock acquisition rights (units)*	30,552,585 (Note) 1
Class, description and number of underlying shares*	Common stock: 1,847,235 shares (Notes) 1 and 2
Amount to be paid upon exercise of stock acquisition rights*	The value of the property to be contributed upon exercise of each Year 5 Call Share Option shall be one Yen (¥1) for each Year 5 Call Share Option. (Note) 3
Exercise period of stock acquisition rights*	For the period from October 1, 2019 to June 30, 2025, it shall be the 5th business day after the date on which the Company exercised the right to purchase the common stock of Embark Studios AB from the allottees based on the provisions of Year 5 Call Right Agreement.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights*	1. Issue price of shares when issuing shares upon exercise of the stock acquisition rights The issue price per share when issuing shares upon exercise of Year 5 Call Share Options shall be calculated by dividing (a) the sum of the value of the property to be contributed upon exercise of each Year 5 Call Share Option and the issue price of each Year 5 Call Share Option, by (b) the number of shares to be granted per stock acquisition right. 2. Capital stock to be increased by issuance of shares upon exercise of the stock acquisition rights (i) The amount of capital stock to be increased by issuance of shares upon exercise of the Year 5 Call Share Options shall be one-half (1/2) of the maximum limit on the increase in capital stock to be calculated pursuant to the provisions of Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by issuance of shares upon exercise of the Year 5 Call Share Options shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights*	Partial exercise of Year 5 Call Share Options is not allowed.
Assignment of stock acquisition rights*	Year 5 Call Share Options cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring*	Not applicable.

* The information above is as of December 31, 2020 and remains the same as of February 28, 2021.

(Notes) 1. Total number of underlying shares ("Total Number of Granted Shares") shall be the number of shares of common stock of the Company obtained by the following formula:

$$\text{Total Number of Granted Shares} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404}$$

The number of underlying shares per stock acquisition right ("Number of Shares Granted Per Option") shall be obtained by the following formula:

$$\text{Number of Shares Granted Per Option} = \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \div 30{,}552{,}585$$

2. If the Company carries out a stock split (including gratis allocation) or a stock consolidation, the number of underlying shares shall be adjusted in accordance with the following formula; provided, however, such adjustment shall be made only to those subject to Year 5 Call Share Options unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. The subject of the contribution to be made upon an exercise of each Year 5 Call Share Option shall be the monetary claim for the purchase price corresponding to one (1) share of common stock of Embark Studios AB (which is a portion of the monetary claim for the purchase price that an allottee will have against the Company as a result of an exercise by the Company of its right to purchase the common stock of Embark Studios AB pursuant to the Year 5 Call Right Agreement entered into by and between the Company and the allottee as of August 5, 2019), the amount of which is equal to the product of (a) the closing price of the Company's stock in the Tokyo Stock Exchange on the 5th business day after the date on which the Company exercises the right described above, multiplied by (b) the Number of Shares Granted Per Option; and the value of such property is one Yen (¥1).
4. If there is any fraction less than one share in the number of shares to be issued to the holder of the stock acquisition rights who has exercised the Year 5 Call Options, such fraction shall be rounded down to the nearest whole number.
5. Year 5 Call Options will be issued as a method of achieving the transaction to substantially exchange the common stock of the Company with the common stock of Embark Studios AB in the future.

(vi) Resolution at the Annual General Meeting of Shareholders held on March 25, 2020

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 25, 2020 to issue stock acquisition rights to certain employees of the Company and directors and employees of its subsidiaries under particularly preferential terms.

1) Resolution at the Board of Directors meeting held on April 2, 2020

Date of resolution	March 25, 2020
Category and number of eligible persons (persons)	Director of the Company's subsidiary: 1
Number of stock acquisition rights (units) *	250 (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 500,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,787 (Note) 3
Exercise period of stock acquisition rights *	From April 3, 2020 to April 2, 2026
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,787 Amount of capital stock to be increased: 894
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 but remains the same as of February 28, 2021.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In the event that the Company issues new shares or sells treasury shares of its common stock at below market price (except for exercise of stock acquisition rights), the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of previously issued shares} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Market price per share}}}{\text{Number of previously issued shares} + \text{Number of newly issued shares}}$$

For the purpose of the calculation above, “Number of previously issued shares” shall be the total number of shares of the Company’s common stock issued and outstanding less the total number of treasury shares, and in case of disposition of treasury stock, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed.”

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

2) Resolution at the Board of Directors meeting held on May 13, 2020

Date of resolution	March 25, 2020
Category and number of eligible persons (persons)	Directors and employees of the Company's subsidiaries: 5
Number of stock acquisition rights (units) *	740 (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 1,480,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	2,072 (Note) 3
Exercise period of stock acquisition rights *	From May 14, 2020 to May 13, 2026
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 2,072 Amount of capital stock to be increased: 1,036
Conditions for exercise of stock acquisition rights*	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 but remains the same as of February 28, 2021

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of granted shares to be adjusted, those subject to the stock acquisition rights unexercised at the time of such adjustment shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In the event that the Company issues new shares or sells treasury shares of its common stock at below market price (except for exercise of stock acquisition rights), the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of previously issued shares} + \frac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Market price per share}}}{\text{Number of previously issued shares} + \text{Number of newly issued shares}}$$

For the purpose of the calculation above, “Number of previously issued shares” shall be the total number of shares of the Company’s common stock issued and outstanding less the total number of treasury shares, and in case of disposition of treasury stock, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed.”
In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3) Resolution at the Board of Directors meeting held on October 30, 2020

Date of resolution	March 25, 2020
Category and number of eligible persons (persons)	Employees of the Company: 22 Directors and employees of the Company's subsidiaries: 185
Number of stock acquisition rights (units) *	5,010 (Note) 1
Class, description and number of underlying shares (shares) *	Common stock 10,020,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	3,055 (Note) 3
Exercise period of stock acquisition rights *	(Qualified stock option) From October 30, 2022 to November 8, 2026 (Non-qualified stock option) From November 9, 2020 to November 8, 2026
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 3,055 Amount of capital stock to be increased: 1,528
Conditions for exercise of stock acquisition rights *	・One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. ・In principle, holders of stock acquisition rights must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. ・Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with the Company's restructuring *	Not applicable

* The information above is as of December 31, 2020 but remains the same as of February 28, 2021

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of granted shares to be adjusted, those subject to stock acquisition rights unexercised at the time of such adjustment shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In the event that the Company issues new shares or sells treasury shares of its common stock at below market price (except for exercise of stock acquisition rights), the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of previously issued shares} + \dfrac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Market price per share}}}{\text{Number of previously issued shares} + \text{Number of newly issued shares}}$$

For the purpose of the calculation above, “Number of previously issued shares” shall be the total number of shares of the Company’s common stock issued and outstanding less the total number of treasury shares, and in case of disposition of treasury stock, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed.”
In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

(vii) Resolution at the Annual General Meeting of Shareholders held on March 25, 2021

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights as equity-based stock options to directors of the Company. This does not fall under issuance with preferential terms as stock acquisition rights are issued as directors' compensation, etc.

Resolution at the Board of Directors meeting held on March 25, 2021

Date of resolution	March 25, 2021
Category and number of eligible persons (persons)	Directors of the Company: 5
Number of stock acquisition rights (units)	1,672,866 (Note) 1
Class, description and number of underlying shares (shares)	Common stock 1,672,866 (Notes) 2 and 3
Amount to be paid upon exercise of stock acquisition rights (yen)	No cash payment or contribution of assets is required.
Exercise period of stock acquisition rights	Ten years from the date of allotment of stock acquisition rights. In case the last date of the exercise period is a non-business day of the Company, it will be the business day immediately preceding such date.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: to be determined based on the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the date of allotment of stock acquisition rights. Amount of capital stock to be increased: to be determined based on the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the date of allotment of stock acquisition rights.
Conditions for exercise of stock acquisition rights	Only directors (including former directors) may exercise stock acquisition rights. Specifically, the person must be a director of the Company at the time of the exercise to be eligible, and those who are no longer a director may exercise the stock acquisition rights only if they lose their position as a director due to retirement, resignation or dismissal (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors.
Assignment of stock acquisition rights	Acquisition of stock acquisition rights by assignment shall require approval of the Board of Directors.
Issuance of stock acquisition rights associated with the Company's restructuring	Not applicable

(Notes) 1. The number of underlying shares per unit of stock acquisition right is one share of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer, share issuance or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

3. Any fraction less than one share included in the number of shares to be issued to the holders of the stock acquisition rights who have exercised the rights shall be rounded down.

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights to certain employees of the Company and certain directors and employees of its subsidiaries under particularly preferential terms.

Date of resolution	March 25, 2021
Category and number of eligible persons (persons)	Employees of the Company and directors and employees of its subsidiaries
Number of stock acquisition rights (units)	Up to 14,000,000 (Note) 2
Class, description and number of underlying shares (shares)	Common stock up to 14,000,000 (Notes) 3 and 4
Amount to be paid upon exercise of stock acquisition rights (yen)	(Notes) 5 and 6
Exercise period of stock acquisition rights	Ten years from the date of allotment of stock acquisition rights. In case the last date of the exercise period is a non-business day of the Company, it shall be the business day immediately preceding such date.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen)	(i) The amount of capital stock to be increased by the issuance of shares upon exercise of stock acquisition rights shall be one-half (1/2) of the maximum limit on the increase in capital stock as calculated pursuant to Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. (ii) The amount of capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights shall be the maximum limit on the increase in capital stock provided in (i) above less the amount of increased capital stock stipulated in (i) above.
Conditions for exercise of stock acquisition rights	A person holding the stock acquisition rights must continue to be director or employee of the Company or its subsidiaries at the time of the exercise, except when a director or an employee of the Company or its subsidiaries has lost its position as a director or an employee due to resignation or retirement, dismissal or discharge (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors.
Assignment of stock acquisition rights	Acquisition of stock acquisition rights by assignment shall require approval of the Board of Directors.
Issuance of stock acquisition rights associated with the Company's restructuring	Not applicable

(Notes) 1. Matters not described above shall be determined pursuant to the resolution at the Board of Directors meeting to be held after the Annual General Meeting of Shareholders held on March 25, 2021.

2. The number of underlying shares per unit of stock acquisition right is one share of the Company's common stock.

3. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer, share issuance or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

4. Any fraction less than one share included in the number of shares to be issued to the holders of the stock acquisition rights who have exercised the rights shall be rounded down.

5. The amount to be paid upon exercise of stock acquisition rights shall be the closing price of the Company's common stock in regular transactions on the Tokyo Stock Exchange on the date of allotment of stock acquisition rights ("Allotment Date").

6. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the Allotment Date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In case of merger, company split, share exchange, share transfer, share issuance or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

(b) 【Contents of rights plan】
Not applicable.

(c) 【Other stock acquisition rights】
Not applicable.

(3) 【Exercise status of convertible bonds with an exercise price adjustment clause, etc.】
Not applicable.

(4) 【Changes in the total number of outstanding shares, capital stock, etc.】

Date	Changes in total number of outstanding shares (shares)	Total number of outstanding shares (shares)	Changes in capital stock (¥ million)	Balance of capital stock (¥ million)	Changes in capital reserve (¥ million)	Balance of capital reserve (¥ million)
January 1, 2016 to May 31, 2016 (Note) 1	2,121,000	436,238,117	1,208	57,435	1,208	7,295
May 31, 2016 (Note) 2	—	436,238,117	(55,227)	2,208	(5,837)	1,458
June 1, 2016 to November 30, 2016 (Note) 1	1,705,000	437,943,117	1,037	3,245	1,037	2,495
November 30, 2016 (Note) 3	(3,168,703)	434,774,414	—	3,245	—	2,495
December 1, 2016 to December 31, 2016 (Note) 1	97,000	434,871,414	62	3,307	62	2,557
January 1, 2017 to December 29, 2017 (Note) 1	8,416,000	443,287,414	5,876	9,183	5,876	8,433
December 29, 2017 (Note) 4	(3,103,082)	440,184,332	—	9,183	—	8,433
December 30, 2017 to December 31, 2017	—	440,184,332	—	9,183	—	8,433
January 1, 2018 to March 31, 2018 (Note) 1	3,610,000	443,794,332	2,438	11,621	2,438	10,871
April 1, 2018 (Note) 5	443,794,332	887,588,664	—	11,621	—	10,871
April 2, 2018 to December 31, 2018 (Note) 1	6,690,000	894,278,664	2,578	14,199	2,578	13,449
January 1, 2019 to September 30, 2019 (Note) 1	4,922,000	899,200,664	2,062	16,261	2,062	15,511
September 30, 2019 (Note) 6	1,399,896	900,600,560	1,093	17,354	1,093	16,604
October 1, 2019 to December 31, 2019 (Note) 1	930,000	901,530,560	403	17,757	403	17,007
January 1, 2020 to February 28, 2020 (Note) 1	2,046,000	903,576,560	879	18,636	879	17,886
February 28, 2020 (Note) 7	(20,971,021)	882,605,539	—	18,636	—	17,886
February 29, 2020 to December 31, 2020 (Note) 1	4,356,000	886,961,539	3,834	22,470	3,834	21,720

(Notes) 1. An increase due to exercise of stock acquisition rights.
2. At the Annual General Meeting of Shareholders held on March 29, 2016, a resolution was passed to reclassify capital stock of ¥55,227 million and capital reserve of ¥5,837 million to other capital surplus. As a result, capital stock of ¥55,227 million and capital reserve of ¥5,837 million were reclassified to other capital surplus on May 31, 2016.
3. Treasury stock purchased of 3,168,703 shares were all retired on November 30, 2016.

4. Treasury stock purchased of 3,103,082 shares were all retired on December 29, 2017.
5. Due to a two-for-one stock split of common stock.
6. Third-party allotment with payment (third-party allotment as part of acquisition consideration for the business combination of Embark Studios AB)
   Issue price: ¥1,561.22
   Capital incorporation: ¥780.61
   Allottees: Six shareholders of common stock of Embark Studios AB
   Refer to "V. Financial Information, 1. Consolidated Financial Statements, etc., Notes to consolidated financial statements, 38 Business combination" for details of the business combination.
7. Treasury stock purchased of 20,971,021 shares were all retired on February 28, 2020.
8. Between January 1, 2021 and February 28, 2021, the total number of outstanding shares increased by 1,346,000 shares and the amount of capital stock and capital reserve increased by ¥1,203 million, respectively, due to exercise of stock acquisition rights.

(5) 【Shareholdings by shareholder category】

As of December 31, 2020

Category	Stock information (One unit = 100 shares)								Shares less than one trading unit (shares)
	Government and local public authorities	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and other	Total	
					Other than individuals	Individuals			
Number of shareholders (persons)	—	35	23	24	823	43	2,061	3,009	—
Number of shares held (units)	—	1,569,450	80,413	251	7,004,022	114,637	100,646	8,869,419	19,639
Percentage of shares held (%)	—	17.7	0.9	0.0	79.0	1.3	1.1	100.0	—

(Note) "Shares less than one trading unit" above includes 44 shares of treasury stock.

(6) 【Major shareholders】

As of December 31, 2020

Name	Address	Number of shares held (shares)	Percentage of shares held to total outstanding shares (excluding treasury stock) (%)
NXC Corporation (Standing proxy: The Company) (Standing proxy: SMBC Nikko Securities Inc.)	17, EUNSU-GIL, JEJU-SI, JEJU-DO, 63141, KOREA (1-4-5 Roppongi, Minato-ku, Tokyo) (1-2-1 Ecchujima, Koto-ku, Tokyo)	253,262,800	28.6
NXMH BV (Standing proxy: The Company) (Standing proxy: Sumitomo Mitsui Banking Corporation) (Standing proxy: SMBC Nikko Securities Inc.)	LOUIZALAAN 326 BOX24, B-1050 ELSENE (BRUSSELS) BELGIUM (1-4-5 Roppongi, Minato-ku, Tokyo) (1-3-2 Marunouchi, Chiyoda-ku, Tokyo) (1-2-1 Ecchujima, Koto-ku, Tokyo)	167,186,400	18.8
The Master Trust Bank of Japan, Ltd. (trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	71,886,900	8.1
HSBC-FUND SERVICES CLIENTS A/C 006 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch, Custody services)	LEVEL 13, 1 QUEEN'S ROADCENTRAL, HONG KONG (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	38,511,300	4.3
Custody Bank of Japan, Ltd. (trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	33,348,500	3.8
KOREA SECURITIES DEPOSITORY-SAMSUNG (Standing proxy: Citibank, N.A., Tokyo branch)	34-6, YEOUIDO-DONG, YEONGDEUNGPO-GU, SEOUL, KOREA (6-27-30 Shinjuku, Shinjuku-ku, Tokyo)	10,984,000	1.2
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch, Custody services)	ONE LINCOLN STREET, BOSTON MA USA 02111 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	9,092,852	1.0
Min Seo	YONGSAN-GU, SEOUL, KOREA	8,715,000	1.0
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P. O. BOX 351 BOSTON MASSACHUSETTS 02101 U. S. A (2-15-1 Konan, Minato-ku, Tokyo)	8,565,935	1.0
Custody Bank of Japan, Ltd. (trust account 5)	1-8-12, Harumi, Chuo-ku, Tokyo	7,860,700	0.9
Total	—	609,414,387	68.7

(Note) The Amendment Report to the Large Shareholding Report made available for public inspection as of January 7, 2021, shows that Nomura Securities Co., Ltd. and its joint holder Nomura Asset Management Co., Ltd. hold the following shares as of December 31, 2020, but they are not included in the above table as the Company was not able to confirm the actual number of shares held as of December 31, 2020.
The information included in the Amendment Report to the Large Shareholding Report is as follows:

Name	Address	Number of shares held (shares)	Percentage of shares held (%)
Nomura Securities Co., Ltd.	1-13-1 Nihonbashi, Chuo-ku, Tokyo	2,444,257	0.28
Nomura Asset Management Co., Ltd.	2-2-1 Toyosu, Koto-ku, Tokyo	40,421,000	4.56

(7) 【Voting rights】

(a) 【Outstanding shares】

As of December 31, 2020

Category	Number of shares (shares)	Number of voting rights (units)	Description
Non-voting shares	—	—	—
Shares with restricted voting rights (treasury stock, etc.)	—	—	—
Shares with restricted voting rights (other)	—	—	—
Shares with full voting rights (treasury stock, etc.)	—	—	—
Shares with full voting rights (other)	Common stock 886,941,900	8,869,419	Standard shares of the Company with no restrictions on rights
Shares less than one trading unit	Common stock 19,639	—	Same as above
Total number of outstanding shares	886,961,539	—	—
Total number of voting rights	—	8,869,419	—

(Note) Common stock in “Shares less than one trading unit” includes treasury stock held by the Company of 44 shares.

(b) 【Treasury stock】

As of December 31, 2020

Name of the holder	Address of the holder	Number of shares held in their own name (shares)	Number of shares held in the name of another (shares)	Total number of shares held (shares)	Ratio of the number of shares held to the total number of outstanding shares (%)
—	—	—	—	—	—
Total	—	—	—	—	—

(Note) The Company owns 44 shares of treasury stock which is less than one trading unit.

2 【Information on Purchase, etc. of Treasury Stock】

【Class of shares】 Purchase of common stock under Article 155, Item 3 and Item 7 of the Companies Act.

(1) 【Purchase approved by the Annual General Meeting of Shareholders】

Not applicable.

(2) 【Purchase approved by the Board of Directors meeting】

Category	Number of shares (shares)	Total amount (yen)
Status of approval by the Board of Directors (September 9, 2019) (Acquisition period: September 10, 2019 to February 7, 2020)	32,000,000	30,000,000,000
Treasury stock purchased prior to the year ended December 31, 2020	19,108,700	27,218,595,200
Treasury stock purchased during the year ended December 31, 2020	1,862,000	2,781,329,900
Total number of remaining approved shares and their total value	11,029,300	74,900
Ratio unpurchased as of December 31, 2020 (%)	34.5	0.0
Treasury shares acquired during the current period	—	—
Ratio unexercised as of the filing date (%)	34.5	0.0

(3) 【Purchase not based on approval by the Annual General Meeting of Shareholders or Board of Directors meeting】

Category	Number of shares (shares)	Total amount (yen)
Treasury stock purchased during the year ended December 31, 2020	44	70,840
Treasury stock purchased during the current period	—	—

(Notes) Treasury stock purchased during the current period does not include the number of shares less than one trading unit purchased during the period from March 1, 2021 to the filing date of this annual securities report.

(4) 【Status of disposition and holding of purchased treasury stock】

Category	Year ended December 31, 2020		Current period	
	Number of shares (shares)	Total disposition amount (yen)	Number of shares (shares)	Total disposition amount (yen)
Purchased treasury stock offered to subscribers	—	—	—	—
Purchased treasury stock retired	20,971,021	30,000,484,379	—	—
Purchased treasury stock transferred due to merger, share exchange, share issuance or company split	—	—	—	—
Other	—	—	—	—
Number of treasury shares held	44	—	44	—

(Notes) Treasury stock held during the current period does not include the number of shares purchased during the period from March 1, 2021 to the filing date of this annual securities report.

3 【Dividend Policy】

The Company recognizes that the return of profits to shareholders is an important management issue. Our policy is to return profits to shareholders through dividend payments, share repurchases and other means depending on the results of operations and upon full consideration of factors including the state of shareholder equity, management results and revenue outlook. We intend to use our internal capital reserves by taking into account the balance between return of profits to shareholders and other considerations such as the expansion of our existing business and development of new businesses to strengthen our management base and enrich our future business domain, and effective investments, primarily M&As and acquisition of game publishing rights, to proactively develop our business for future growth.

In accordance with the policy above, we are scheduled to pay dividends of surplus of 5 yen per share for the fiscal year ended December 31, 2020 (including interim dividend of 2.5 yen per share). Furthermore, interim and year-end dividends of 2.5 yen per share are also scheduled for the fiscal year ending December 31, 2021.

The Company decides dividends of surplus by a resolution of the Board of Directors. Furthermore, the Company's Articles of Incorporation stipulates that "The decisions of the Company with regards to dividends of surplus and other matters as stipulated under each provision of Article 459, Paragraph 1 of the Companies Act shall not require a resolution of the General Meeting of Shareholders but shall be decided by a resolution of the Board of Directors, except when otherwise provided for by laws and regulations," and that "The record date for the Company's year-end dividends shall be December 31 of each year" and "The record date for the Company's interim dividends shall be June 30 of each year."

(Note) Dividends of surplus for which the record date belongs to the year ended December 31, 2020 are as follows:

Date of resolution	Total dividend amount (¥ million)	Dividend per share (yen)
Resolution by the Board of Directors on August 6, 2020	2,211	2.5
Resolution by the Board of Directors on February 17, 2021	2,217	2.5

4【Information on Corporate Governance, etc.】

(1) 【Overview of Corporate Governance】

(a) Fundamental philosophy of corporate governance

Recognizing that its most important management issue is to balance the maximization of its corporate value and securing of the soundness in business operations through efficient and highly transparent management, the Company has stipulated (i) the maximization of shareholder value, (ii) building of a good relationship of trust with stakeholders such as users, business partners, local communities and employees, and (iii) sustainable and stable growth, as its basic policy of corporate governance.

To that end, we have been striving so that we will realize strict and legitimate supervisory function over the execution of operations, and will focus on effective design and operation of internal control systems, management always mindful of compliance, and organization management through group governance, which is mindful of appropriate cooperation with subsidiaries.

(b) Corporate governance system, etc.

(i) Overview of corporate governance system and reason for adopting such system

The Company's corporate governance system consists of the Board of Directors and the Audit and Supervisory Committee. The Compensation Committee is also established as an advisory body of the Board of Directors.

The Company's Board of Directors, consisting of seven directors (including three who are Audit and Supervisory Committee members), convenes regular meetings at least every three months and special meetings, if necessary, to perform its function to mutually supervise directors' performance of their duties by exchanging opinions and deliberating.

The Company's Audit and Supervisory Committee, consisting of three Audit and Supervisory Committee members including two independent external directors, convenes, in principle, regular meetings at least every three months and special meetings, if necessary, and performs audit of the directors' performance of their duties through operational and financial audits based on the audit plan.

A majority of the members of the Company's Compensation Committee is independent external directors and its chairperson is served by an independent external director. It engages the service of a compensation consultant to introduce objective external perspectives and expert opinions into the operation of the Compensation Committee, and also refers to other investigation reports provided regarding directors' compensation. Specific compensation payment amounts and performance achievement rates are finalized and determined by a resolution of the Compensation Committee to ensure that the level and composition of directors' compensation are appropriate and to ensure the transparency of the process in which they are decided.

The systems of the Board of Directors (BOD), the Audit and Supervisory Committee (ASC) and the Compensation Committee (CC) render our corporate governance effective.

The corporate governance system consists of the following members (◎: chairperson):

Title	Name	BOD	ASC	CC
Representative Director, President and CEO	Owen Mahoney	◎		
Representative Director, Chief Financial Officer and Head of Corporate Management Division	Shiro Uemura	○		
Director	Patrick Söderlund	○		
Director	Kevin Mayer	○		
Director (ASC member)	Hongwoo Lee	○	◎	○
External director (ASC member)	Satoshi Honda	○	○	○
External director (ASC member)	Shiro Kuniya	○	○	◎

(ii) Internal control system

The Company has approved "NEXON Corporate Governance Basic Policy," "NEXON Group Code of Conduct and Business Ethics (Code of Conduct)," and "Basic Policies relating to Internal Control Systems" at the Board of Directors meeting in order to develop the internal control system.

(iii) Risk management system

Nexon Group believes that risk management is one of the important factors in internal control. In addition to developing the "Risk Management Rules," we set up the "Risk Management (Internal Control) Project," consisting of the head of the Internal Audit Section as the project leader and other department heads as members, and prepared "Risk Map" in order to prevent risk from arising. If any risks should arise and cause serious situation, department heads will be called up based on the predetermined emergency network and a task force will be set up to handle such situation.

We also believe that another important matter in internal control is compliance. Accordingly, the Company has approved the "Compliance Regulations" at the Board of Directors meeting, established the "Compliance Committee" chaired by the head of the Legal Department, and designated the Legal Department as a "department responsible for compliance," with the aim of developing in-house compliance system.

(iv) System to ensure proper operations of the Company's subsidiaries

Nexon Group ensures proper operations of the Company's subsidiaries by, while respecting the independence of each entity with consideration for unique local circumstances, establishing a subsidiary management system in accordance with the system to ensure proper operation of the Company as described below.

・System for reporting matters regarding performance of duties by subsidiaries' directors to the Company:

The Company shall request subsidiaries' directors to report important matters and other necessary matters regularly based on the "Affiliated Company Management Rules."

・System to manage potential risks of losses of subsidiaries:

The Company shall request subsidiaries to prepare internal rules based on the Company's "Risk Management Rules" and minimize potential exposure to risk of incurring losses and to establish a system enabling timely response in cooperation with the Company in the event of serious incidents.

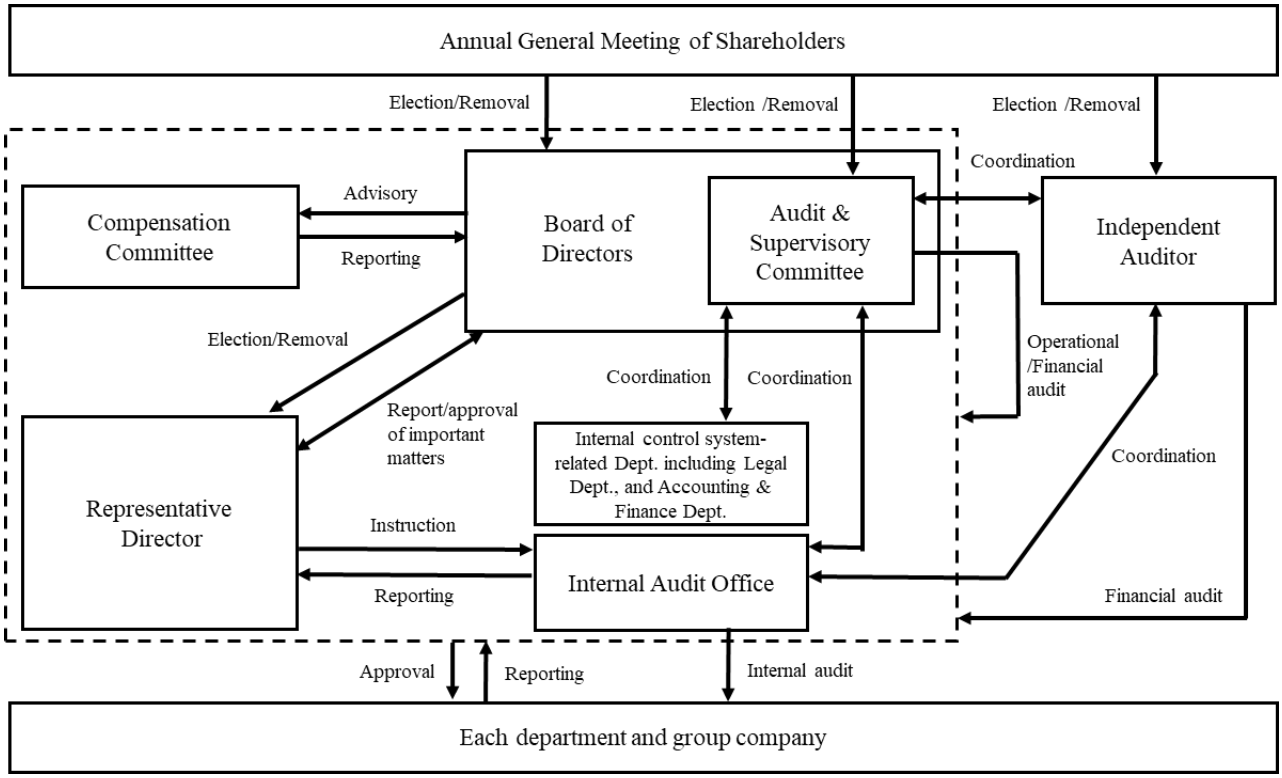
・System to ensure efficient performance of duties by subsidiaries' directors, etc.:

The Company shall request subsidiaries' directors to report the status of performance of their respective duties on a monthly basis and to improve obstructive factors in the execution of duties in a timely manner, if any.

・System to ensure that the performance of duties by directors and employees of subsidiaries complies with laws and regulations and the articles of incorporation:

The Company shall review the compliance status by collecting and obtaining relevant information through methods including audit and investigation by directors, the Internal Audit Section, the Legal Department and the Accounting & Finance Department of the Company. In addition, the Company shall request subsidiaries to take necessary measures including preventive measures.

(v) Below is a diagram of our corporate governance system described above.



(vi) Limited liability agreement

In order to ensure that they can fulfill their expected roles to the fullest extent, the Company's Articles of Incorporation stipulates that the Company may, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, enter into agreements with its non-executive directors to limit their liability with respect to any negligence in the performance of their duties. The Company entered into the agreement to limit liability with four non-executive directors in accordance with the Article of Incorporation.

(vii) Number of directors

The Company's Articles of Incorporation stipulates that the Company shall have no more than ten directors (excluding those who are Audit and Supervisory Committee members) and shall have no more than five directors who are Audit and Supervisory Committee members.

(viii) Election criteria for directors

The Company's Articles of Incorporation stipulates that the Company shall elect directors who are Audit and Supervisory Committee members and other directors separately at the General Meeting of Shareholders, and that resolutions to elect directors shall be made by a majority vote by shareholders present at the meeting where one third or more of the eligible shareholders are present.

The Company's Articles of Incorporation also stipulates that resolutions to elect directors shall not be based on cumulative voting.

(ix) Purchase of treasury stock

In accordance with Article 165, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulates that the Company may purchase own shares through market transactions based on resolutions of the Board of Directors in order to flexibly implement capital policies in response to changes in business environment.

(x) Dividends of surplus

The Company's Articles of Incorporation stipulates that "the decisions with regards to dividends from surplus and other matters as stipulated under each item of Article 459, Paragraph 1 of the Companies Act shall not require a resolution of the General Meeting of Shareholders but shall be decided by a resolution of the Board of Directors, except when otherwise provided for by laws and regulations," that "the record date for the Company's year-end dividends shall be December 31 of each year" and that "the record date for the Company's interim dividends shall be June 30 of each year." This is for the purpose of returning profits to shareholders flexibly.

(xi) Special resolutions of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulates that special resolutions of the General Meeting of Shareholders as provided by Article 309, Paragraph 2 of the Companies Act shall be made by two thirds or more of the votes of the shareholders present at the meeting where one third or more of the eligible shareholders are present.

This is for the purpose of ensuring smooth management of the General Meeting of Shareholders by easing the quorum for special resolutions of the General Meeting of Shareholders.

(xii) Guidelines on policy for protection of minority shareholders in transactions with controlling shareholders, etc.

In order not to undermine the interests of minority shareholders, Nexon Group determines terms and conditions applicable to transactions between the Company and its controlling shareholders, etc. in the same manner as general terms and conditions applicable to transactions with unaffiliated parties.

(xiii) Basic policy regarding control of a stock company

The Company has not established a basic policy regarding those who control the decisions on the financial and business policies of the stock company as stipulated by Article 118, Item 3 of the Ordinance for Enforcement of the Companies Act.

(2) 【Information on the Company's Officers】

(i) List of the Company's officers

Male: 7 Female: 0 (Ratio of female officers: 0 %)

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (shares)
Representative Director, President and Chief Executive Officer	Owen Mahoney	December 28, 1966	November 2000 September 2009 August 2010 September 2010 November 2010 March 2012 July 2012 August 2012 January 2013 March 2014 June 2015	Chief vice-president of Electronic Arts Inc. Representative Director of Outspark Inc. Chief Financial Officer of NEXON Co., Ltd. Director of NEXON Co., Ltd. Chief Administrative Officer of NEXON Co., Ltd. Director of NEXON Korea Corporation Director of inBlue.com Director of NEXON America, Inc. Director of gloops, Inc. Representative Director, President and Chief Executive Officer of NEXON Co., Ltd. (to present) Director of transcosmos inc.	(Note) 4	176,000
Representative Director, Chief Financial Officer and Head of Corporate Management Division	Shiro Uemura	December 31, 1970	December 2000 September 2003 December 2004 July 2011 March 2014 March 2014 March 2014 March 2015 April 2016 April 2016 April 2016 September 2016 January 2020	Joined Deloitte Touche Tohmatsu (current Deloitte Touche Tohmatsu LLC) Joined Pacific Golf Management K.K. Joined Pacific Golf International Holdings K.K (current PGM Holdings K.K.) Joined NEXON Co., Ltd. Chief Financial and Chief Administrative Officer of NEXON Co., Ltd. (to present) Director of gloops, Inc. Director of inBlue.com Representative Director of NEXON Co., Ltd. (to present) Director of NEXON America, Inc. (to present) Director of NEXON M Inc. Director of Lexian Software Development (Shanghai) Co., Ltd. (to present) Director of NEXON Europe GmbH Representative Director and President of gloops, Inc.	(Note) 4	91,900
Director	Patrick Söderlund	September 27, 1973	January 2000 October 2006 September 2013 April 2018 November 2018 November 2018 January 2019 March 2019 July 2019 November 2019 June 2020 August 2020	Chief Executive Officer of Digital Illusions Creative Entertainment Vice President & General Manager of Electronic Arts, Inc. Executive Vice President of Electronic Arts, Inc., EA Worldwide Studios Chief Design Officer of Electronic Arts, Inc Director of Sicalis AB (to present) Chief Executive Officer of Embark Studios AB (to present) Director of Fractal Gaming Group AB (to present) External director of NEXON Co., Ltd. Director of NEXON Co., Ltd. (to present) Director of Ortalis Group AB (to present) Director of Hexagon Aktiebolag (to present) Director of Surmount Together AB (to present)	(Note) 4	1,143,250

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (shares)
Director	Kevin Mayer	April 25, 1962	April 1993 February 2000 September 2000 February 2002 June 2005 October 2005 March 2018 May 2020 May 2020 December 2020 March 2021 March 2021	Joined The Walt Disney Company Chief Executive Officer of Playboy. com Chairman and Chief Executive Officer of Clear Channel Interactive Joined L.E.K Consulting Executive Vice President of The Walt Disney Company Chief Strategy Officer of The Walt Disney Company Chairman of Direct-to-Consumer & International of The Walt Disney Company Chief Executive Officer of TikTok Ltd. Chief Operating Officer of ByteDance Ltd. Executive Director of New Mountain Capital/Tinuity (to present) Chairman of the Board of DAZN Group Limited (to present) External Director of NEXON Co., Ltd. (to present)	(Note) 4	—
Director (Audit and Supervisory Committee member)	Hongwoo Lee	February 3, 1977	August 1999 February 2009 February 2009 February 2010 April 2011 August 2019 September 2019 September 2019 March 2020	Joined NEXON Corporation (current NXC Corporation) Registered as an attorney in Korea Joined J&P Law Firm, Associate Lawyer Legal Team Manager of NEXON Corporation (current NEXON Korea Corporation) General Legal Manager of NEXON Korea Corporation Director of NEXON Korea Corporation (to present) Joined NXC Corporation Director of NEXON Co., Ltd. Director (Audit and Supervisory Committee member) of NEXON Co., Ltd. (to present)	(Note) 5	—
Director (Audit and Supervisory Committee member)	Satoshi Honda	September 29, 1947	July 1971 June 1992 December 1992 August 1998 December 2009 November 2010 March 2012 March 2018	Joined Victor Company of Japan, Limited Director of Victor Entertainment Inc. Representative Director of Electronic Arts Victor Co., Ltd. (current Electronic Arts Co., Ltd.) Representative Director of Eidos Interactive KK Director of Spline Network Inc. Director of Software Imaging Technology Limited External director of NEXON Co., Ltd. External director (Audit and Supervisory Committee member) of NEXON Co., Ltd. (to present)	(Note) 5	—

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (shares)
Director (Audit and Supervisory Committee member)	Shiro Kuniya	February 22, 1957	April 1982	Registered as a lawyer Joined Oh-Ebashi Law Offices	(Note) 5	28,000
			July 1987	Registered as a lawyer in the State of New York		
			June 1997	Statutory Auditor of Sunstar Inc.		
			June 1999	Auditor of Kitano Hospital, The Tazuke Kofukai Medical Research Institute (to present)		
			April 2002	Managing partner of Oh-Ebashi LPC & Partners (to present)		
			June 2006	Statutory Auditor of Nidec Corporation		
			June 2009	Board member of the Japan Commercial Arbitration Association (to present)		
			April 2011	Board member of Japan Century Symphony Orchestra (to present)		
			April 2011	President of Inter-Pacific Bar Association (IPBA)		
			March 2012	External director of NEXON Co., Ltd.		
			June 2012	Director of Ebara Corporation		
			June 2013	Statutory Auditor of Takeda Pharmaceutical Company Limited		
			June 2013	Director of Sony Financial Holdings Inc. (to present)		
			June 2016	Director (Audit and Supervisory Committee member) of Takeda Pharmaceutical Company Ltd.		
			March 2018	External director (Audit and Supervisory Committee member) of NEXON Co., Ltd. (to present)		
			June 2019	External director of Takeda Pharmaceutical Company Ltd. (to present)		
			April 2020	Auditor of CiRA Foundation (to present)		
Total						1,439,150

(Notes) 1. The Audit and Supervisory Committee consists of the following members.
Chairperson: Hongwoo Lee Member: Satoshi Honda Member: Shiro Kuniya
2. Mr. Hongwoo Lee is not an executive director of the Company or any of its subsidiaries.
3. Mr. Kevin Mayer, Mr. Satoshi Honda and Mr. Shiro Kuniya are external directors.
4. From March 25, 2021 to the conclusion of the Annual General Meeting of Shareholders for the year ending December 31, 2021.
5. From March 25, 2020 to the conclusion of the Annual General Meeting of Shareholders for the year ending December 31, 2021.

(ii) External directors and non-executive directors

In order to ensure effectiveness of the Board of Directors' function to supervise business management, three of the seven members of the Company's Board of Directors are independent external directors who have no special interests in the Company. In addition, two of the three independent external directors are directors who are Audit and Supervisory Committee members in order to ensure independency and transparency of audit. The Company's policy on independence in appointing independent external directors is to observe the independence standards provided by the Companies Act and the Tokyo Stock Exchange, and independent external directors are appointed based on the premise that they can be sufficiently independent in executing their duties, taking into account their career history and relation with the Company.

(iii) Mutual cooperation between supervision or audit by external directors and internal audit, audit by the Audit and Supervisory Committee and financial audit, and relationship with the internal control division

Refer to "(3) State of audit, (b) State of internal audit."

(3) 【State of audit】

(a) State of audit by the Audit and Supervisory Committee

In coordination with the Internal Audit Section, the Legal Department and the Accounting & Finance Department, the Audit and Supervisory Committee members aim to enhance effectiveness of its function to audit directors' execution of their duties by improving design and operating effectiveness of the internal control system. They perform audits of the directors' execution of their duties through regular Audit and Supervisory Committee meetings to be held, in principle, at least once every three months and otherwise by holding an extraordinary Audit and Supervisory Committee meeting as necessary, as well as by performing operational and financial audits based on the audit plan. The number of the Company's Audit and Supervisory Committee meetings held during the year ended December 31, 2020 and the attendance status of each Audit and Supervisory Committee member is as follows:

Name	Number of meetings held	Number of attendance
Hongwoo Lee	6	6
Satoshi Honda	6	6
Shiro Kuniya	6	6

Major matters to be discussed at the Audit and Supervisory Committee meetings include audit of execution of duties by directors, development of audit policy and plan, preparation of audit report, design and operating status of internal control system, performance status of internal audit, evaluation of audit by independent auditors, and consent to fees, etc. of independent auditors.

The Audit and Supervisory Committee performs audits in accordance with the "Code of Audit and Supervisory Board Member Auditing Standards" by formulating an audit plan every fiscal year. In addition, Audit and Supervisory Committee members aim to enhance effectiveness of its function to audit directors' execution of their duties by improving design and operating effectiveness of the internal control system in coordination with the Internal Audit Section, the Legal Department and the Accounting & Finance Department, and accordingly the Company does not have full-time Audit and Supervisory Committee members. Two of the Company's Audit and Supervisory Committee members are vastly experienced lawyers in Japan or Korea who have extensive legal and audit knowledge.

(b) State of internal audit

(i) Organization, personnel and audit procedures of the Internal Audit Section and the Audit and Supervisory Committee

The Company has the Internal Audit Section, consisting of the head and one staff member, that directly reports to the Chief Executive Officer and President for the purpose of properly evaluating the effectiveness of internal controls and the operating status of departments so as to contribute to improvement of management.

The Internal Audit Section, in principle, performs internal audit for all departments once a year based on the internal audit plan developed for each year and approved by the Chief Executive Officer and President, in accordance with the Internal Audit Rules. With regard to consolidated subsidiaries, the Internal Audit Section of NEXON Korea Corporation performs internal audit of NEXON Korea Corporation and its consolidated subsidiaries, the Company's consolidated subsidiaries having a department in charge of internal audit are audited by such department, and those without such department are audited by the Company's Internal Audit Section on a regular basis.

The Audit and Supervisory Committee also performs audit based on the audit plan developed for each fiscal year in accordance with the "Code of Audit and Supervisory Board Member Auditing Standards." In coordination with the Internal Audit Section, the Legal Department and the Accounting & Finance Department, the Audit and Supervisory Committee members aim to enhance effectiveness of its function to supervise directors' execution of their duties by improving design and operating effectiveness of the internal control system. Two of the Company's Audit and Supervisory Committee members are vastly experienced lawyers in Japan or Korea who have extensive legal and audit knowledge.

(ii) Mutual cooperation among internal audit, audit by the Audit and Supervisory Committee, and financial audit, and the relationship between each audit and the internal control division

Audit and Supervisory Committee members and the head of the Internal Audit Section seek mutual cooperation by receiving reports on the results of the quarterly review or financial audit from our independent auditor at least on a quarterly basis.

In addition, the head of the Internal Audit Section who is the project leader of the "Risk Management (Internal Control) Project," which is an internal control division, and the head of the Legal Department who is the chairperson of the "Compliance Committee" frequently exchange information primarily by attending all of the Audit and Supervisory Committee meetings.

(c) State of financial audit

(i) Name of independent auditor
PricewaterhouseCoopers Aarata LLC

(ii) Number of years of continuous audit service
15 years since 2006

(iii) Certified public accountants who have performed audit
Yoshihiro Shiribiki, Limited Liability Representative Partner and Managing Partner
Soichiro Hayashi, Limited Liability Representative Partner and Managing Partner

(iv) Composition of assistants engaged in audit service
Certified public accountant: 5
Other: 21

(v) Policy and reason for the selection of the independent auditor; assessment of the independent auditor by the Audit and Supervisory Committee

In the event that the independent auditor receives disciplinary measures or disposition from the supervising authorities due to violation of laws and regulations such as the Companies Act or Certified Public Accountants Act, or is otherwise judged insufficient to execute the audits, primarily from the perspective of the independent auditor's quality of audit, quality control, independence and overall ability, the Audit and Supervisory Committee shall decide to propose the removal or non-reappointment of the independent auditor as an agenda of the general meeting of shareholders.

In cases that fall under the matters provided in each item of Article 340, Paragraph 1 of the Companies Act and which are also deemed appropriate, the independent auditor will be removed based on the unanimous consent of the Audit and Supervisory Committee members. In this case, an Audit and Supervisory Committee member selected by the Audit and Supervisory Committee will report the fact of removal of the independent auditor and the reason for the removal at the first general meeting of shareholders to be convened after the removal.

The Audit and Supervisory Committee has collected information on the independent auditor's quality of audit, quality control, independence and overall ability from the Company's Internal Audit Section, Legal Department, Accounting & Finance Department and the independent auditor itself, and acknowledged that the independent auditor's methods and results of audit to be reasonable. Furthermore, it has assessed that appropriate audit can continue to be expected based on the policy for the decision of removal or non-reappointment of the independent auditor and other assessment standards, and deems the reappointment of PwC Aarata to be reasonable.

(d) Details of audit fees

(i) Audit fees to independent auditor

Category	Year ended December 31, 2019		Year ended December 31, 2020	
	Fee for audit certificate service (¥ million)	Fee for non-audit service (¥ million)	Fee for audit certificate service (¥ million)	Fee for non-audit service (¥ million)
The Company	57	—	60	0
Consolidated subsidiary	—	—	—	—
Total	57	—	60	0

(Note) Non-audit service provided to the Company is mainly referred work that is other than the work stipulated by Article 2, Paragraph 1 of the Certified Public Accountants Act of Japan.

(ii) Fees to member firms of the same global network as the Company's independent auditor (PricewaterhouseCoopers) (excluding (i))

Category	Year ended December 31, 2019		Year ended December 31, 2020	
	Fee for audit certificate service (¥ million)	Fee for non-audit service (¥ million)	Fee for audit certificate service (¥ million)	Fee for non-audit service (¥ million)
The Company	—	2	—	1
Consolidated subsidiary	103	92	105	55
Total	103	94	105	56

(Note) Non-audit service provided to the Company is mainly tax consulting service.
Non-audit service provided to the consolidated subsidiaries is mainly preparation of tax returns and consulting services related to interpretation and application of tax laws.

(iii) Other material fees for audit certificate service

Not applicable.

(iv) Policy on determination of audit fee

The Company's policy on determination of audit fee for the Company's independent auditor is to draft the fee amount based on the consent from the independent auditor, taking into consideration the Company's size, business characteristics, and the number of days and personnel required for the audit, and obtain approval of the Audit and Supervisory Committee.

(v) Reason why the Audit and Supervisory Committee consented to the independent auditor fees

The Audit and Supervisory Committee provided consent under Article 399, Paragraph 1 of the Companies Act by determining its reasonableness based on the information confirmed, including the system of financial audit for the year ended December 31, 2020 as explained by the independent auditor, the details of the audit plan, the analyses of audit results including details of audit for the year ended December 31, 2019 and the status of execution, and the basis for the calculation of the estimated fee.

(4) 【Officers' compensation, etc.】

(a) Officers' compensation, etc.

(i) Total amount of compensation, etc. by officer category, total amount of compensation, etc. by type, and number of eligible officers

Officer category	Total amount of compensation, etc. (¥ million)	Total amount of compensation, etc. by type (¥ million)				Number of eligible officers (persons)
		Cash		Equity (Stock option)		
		Base salary	Performance-based bonus	Equity-based	Equity-based with performance conditions	
Directors (excluding Audit and Supervisory Committee members and external directors)	969	121	232	177	439	3
Directors (Audit and Supervisory Committee members) (excluding external directors)	—	—	—	—	—	—
External officers	24	24	—	—	—	2

(Notes) Nexon Group, excluding the Company, pays compensation totaling ¥98 million to the Company's two directors.

(ii) Total amount of consolidated compensation, etc. of officers whose total consolidated compensation exceeds ¥100 million

Name	Officer category	Company category	Consolidated compensation, etc. by type (¥ million)				Total amount of consolidated compensation, etc. (¥ million)
			Cash		Equity (Stock option)		
			Base salary	Performance-based bonus	Equity-based	Equity-based with performance conditions	
Owen Mahoney (Note)	Representative director	The Company	111	207	163	406	887
Shiro Uemura	Representative director	The Company	37	25	14	33	109

(Note) Owen Mahoney, Representative Director, President and Chief Executive Officer, received ¥35 million from certain subsidiaries other than the Company as basic compensation for Representative Director of Nexon Group and such payment is included in the base salary above.

(b) Policy and methodology for determining the amount of officers' compensation or its calculation method

The Company has formulated the "Directors' Compensation Policy" by resolution of the Board of Directors on February 23, 2018 (partially revised as of March 22, 2018).

The basic policy of directors' compensation under the "Directors' Compensation Policy" is as follows:

i. to contribute to Nexon Group's sustainable growth and enhancement of mid- to long-term corporate value;
ii. to be highly competitive in the global human resource market so as to be able to secure talented personnel for the management from a global perspective and maintain the relationship;
iii. to link directors' compensation with the Company's performance and corporate value so as to share interests with shareholders and raise management awareness with an emphasis on shareholders; and
iv. to ensure that the process to determine compensation is highly transparent and objective.

Furthermore, as part of the "Directors' Compensation Policy," the Company has established the Compensation Committee as an advisory body of the Board of Directors.

(Roles and activities of the Compensation Committee and the authority to decide on the amount of officers' compensation)

A majority of the members of the Company's Compensation Committee is independent external directors and its chairperson is served by an independent external director. It employs external compensation consultants to introduce objective external perspectives and expert opinions into the operation of the Compensation Committee, and also refers to other investigation reports provided regarding directors' compensation. Specific compensation payment amounts and performance achievement rates are finalized and determined by a resolution of the Compensation Committee to ensure that the level and composition of directors' compensation are appropriate and to ensure the transparency of the process in which they are decided.

The Board of Directors has the authority to decide on the policies regarding the determination of the amount or the calculation method of compensation of the Company's directors (excluding directors who are Audit and Supervisory Committee members). The scope of its authority and discretion are limited to the total amount approved at the general meeting of shareholders. Upon consideration of the directors' duties, the Company's situation and other matters, a plan for the compensation of the Company's Chief Executive Officer and President is prepared by the Compensation Committee and a plan for the compensation of other executive directors is prepared by the Chief Executive Officer and President, which are then decided by the Board of Directors based on the result of discussions between the Chief Executive Officer and President and the Compensation Committee.

The Compensation Committee has deliberated on the matters regarding the officers' compensation for the year ended December 31, 2020 as follows:

- March 12, 2020: Directors' compensation for FY2020
- March 25, 2020: indices for the calculation of performance-based bonus for FY2020
- February 10, 2021: payment of performance-based bonus for FY2020

During the period between October 23, 2020 and February 16, 2021, the Audit and Supervisory Committee has actively discussed the revision of the "Directors' Compensation Policy" via, for example, three video conferences and emails.

(Compensation program)

The compensation program applicable to the Company's executive directors consists of base salary, performance-based bonus linked to consolidated revenue and consolidated operating income of each fiscal year, equity-based stock options that link vesting of stock acquisition rights to the term of office, and equity-based stock options with performance conditions that link vesting of stock acquisition rights to consolidated operating income for the year ending December 31, 2020 and relative total shareholder return ("Relative TSR") for three years.

Under the present directors' compensation program, the ratio of performance-based compensation is not set at a certain level but is decided by considering business developments, the market situation and other factors. In order to align the interests of the Company's directors with those of the shareholders as much as possible, as an incentive to improve performance, the ratios of the base salary and performance-based compensation are arranged so that performance-based compensation is generally larger than the base salary.

The compensation of non-executive directors consists only of base salary in principle considering their role.

The maximum amount of compensation of the Company's directors (excluding Audit and Supervisory Committee members) is decided by a resolution of the general meeting of shareholders. At the 16th Annual General Meeting of Shareholders held on March 27, 2018, approval was given for an annual base salary of up to ¥500 million and an annual performance-based bonus of up to ¥1,000 million for four executive directors. In addition, equity-based stock options of up to ¥3,000 million at the 12th Annual General Meeting of Shareholders held on March 25, 2014, and equity-based stock options of up to ¥4,800 million at the 16th Annual General Meeting of Shareholders held on March 27, 2018 were separately approved for three executive directors. The maximum amount of compensation for three directors who are Audit and Supervisory Committee members approved at the 16th Annual General Meeting of Shareholders held on March 27, 2018 is an annual amount of up to ¥100 million (of which the portion for external directors is an annual amount of up to ¥50 million).

(Scheme of performance-based compensation)

The schemes for performance-based bonus and equity-based stock options with performance conditions and their specific calculation methods are as follows:

(i) Performance-based bonus

Performance-based bonus is paid to executive directors according to the Company's financial results of each fiscal year.

Performance-based bonus is determined within the range of 0% to 150% based on the evaluation of objective and transparent indicators (consolidated revenue and consolidated operating income of Nexon Group) with equal weight. These indices have been selected for the purpose of enhancement of the scale of business and improvement of business profitability and corporate value.

The targets and actual results of the indices for performance-based bonus for the year ended December 31, 2020 are as follows:

KPI	Assessment ratio	Range of fluctuation of assessment coefficients	Target	Actual	Assessment coefficient
Consolidated revenue	50%	0% ~ 150%	¥262,174 million	¥293,024 million	125.4
Consolidated operating income	50%	0% ~ 150%	¥88,860 million	¥120,375 million	150.0

(Note) 1. The "standard amount" to be paid when the target is achieved is set according to factors including job responsibility (the trend in the movements of the group of companies that are set as the compensation benchmark is taken into account).

2. Temporary effects of M&As and impairment of goodwill which occurred during the relevant fiscal year have been eliminated in the calculation of the actual values of consolidated revenue and operating income for the determination of the amount of performance-based bonus.

(ii) Equity-based stock options with performance conditions

i. Outline of system

Equity-based stock options with performance conditions with three-year evaluation period starting in FY2018 are granted to the Company's executive directors for the purpose of contributing to Nexon Group's sustainable growth and enhancement of mid- to long-term corporate value. The stock options will vest and become exercisable based on relative comparison of stock price movement with the industry peers and the achievement level of Nexon Group's consolidated performance target.

ii. Calculation method of stock options with performance conditions

The number of units to vest for each officer shall be determined based on the following calculation method.

A. Eligible officers

Executive directors of the Company.

B. Property to be granted as performance-based compensation

Stock acquisition rights to the Company's common stock. One unit of stock acquisition right shall give the holder the right to purchase 1,000 shares of the Company's common stock (2,000 shares of the Company's common stock per unit after the scheduled stock split becomes effective on April 1, 2018).

C. Calculation method of the number of options to vest

Base number of unit x vesting ratio (any fraction less than one unit shall be rounded down)

The total number of stock acquisition rights to be granted to executive directors of the Company pursuant to the resolution at the 16th Annual General Meeting of Shareholders shall not exceed 2,500 units.

Vesting ratio

The sum of a and b below.

a. Performance-linked coefficient for consolidated operating income for the year ended December 31, 2020 (Note 1) x 40%

b. Performance-linked coefficient for Relative TSR (Note 2) x 60%

(Notes) 1. Target achievement level: (Consolidated operating income – Operating income target ("I")) / Operating income target x 100 (%)
Target achievement level of 50% or higher: Performance-linked coefficient = 100 (%)
Target achievement level of between (50)% and 50%: Performance-linked coefficient = (Target achievement level + 50)(%)
Target achievement level of lower than (50)%: Performance-linked coefficient = 0 (%)

2. The deviation rate between the Company's TSR ("II") during the evaluation period for Relative TSR and the average TSR of comparative companies ("III") and the Company
Deviation rate of 50% or higher: Performance-linked coefficient = 100 (%)
Deviation rate of between (50)% and 50%: Performance-linked coefficient = (The Company's TSR – Average TSR) + 50 (%)
Deviation rate of lower than (50)%: Performance-linked coefficient = 0 (%)

The evaluation period for Relative TSR shall be from the date of the Annual General Meeting in 2018 to the date of the Annual General Meeting in 2021.

I. Operating income target
Operating income target used to calculate performance-linked coefficient shall be consolidated operating income for the year ended December 31, 2020.
(At present, mid- to long-term business performance forecast has not been released and the target is undisclosed.)

II. TSR (Total Shareholder Return) ＝ ((Stock price at the end of evaluation period - Stock price at the beginning of evaluation period) + Dividend per share during the evaluation period) / Stock price at the beginning of evaluation period

III. Comparative companies include Electronic Arts, Activision/Blizzard, Take-Two Interactive, Nintendo Co., Ltd. and BANDAI NAMCO Holdings Inc.

D. Evaluation period

From January 2018 to December 2020. The evaluation period for Relative TSR shall be from the date of the Annual General Meeting in 2018 to the date of the Annual General Meeting in 2021.

E. Vesting period

The Company's stock acquisition rights shall vest based on the calculation formula above and become exercisable until March 15 of the following year.

iii. Granting method of stock acquisition rights

Based on the number of stock acquisition rights to vest upon achieving 100% of predetermined performance target, the number of stock acquisition rights equivalent to 200% of the said number of units shall be granted to eligible officers, and the actual number of units to vest shall be determined according to the achievement level of the performance target.

iv. In the event of the Company's restructuring during the evaluation period

When approval is granted for proposals A, B, C, D, or E below at the Company's general meeting of shareholders (or by a resolution of the Board of Directors of the Company if a resolution of the general meeting of shareholders is not required), the Company may acquire stock acquisition rights without consideration on the date specified separately by the Board of Directors:

A. Proposal for the approval of a merger agreement in which the Company will become the extinct company;
B. Proposal for the approval of a split agreement or a split plan in which the Company will become a split company;
C. Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary;
D. Proposal for the approval of an amendment to the Articles of Incorporation to add provisions concerning all shares issued by the Company requiring the Company's approval for the acquisition of such shares by assignment; or
E. Proposal for the approval of an amendment to the Articles of Incorporation to add provisions concerning underlying shares of stock acquisition rights (i) requiring the Company's approval for the acquisition of such shares by assignment, or (ii) allowing the Company to acquire all shares of the relevant class based on a resolution of the general meeting of shareholders.

In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

v. Points of attention

If eligible directors voluntarily resign before the date of the Annual General Meeting of Shareholders in 2021, their rights for equity-based stock options with performance conditions will lapse.

<Directors' compensation system to be applied to directors who are holding office at the completion of the 19th Annual General Meeting of Shareholders>

It was resolved at the Company's Board of Directors meeting held on March 25, 2021 to revise our "Directors' Compensation Policy" to apply to directors who are holding office at the completion of the 19th Annual General Meeting of Shareholders held on March 25, 2021 ("19th Annual General Meeting of Shareholders"). The policy and method for the determination of the amount or its calculation method of directors' compensation, etc. according to the "Directors' Compensation Policy" are as follows.

The basic policy of directors' compensation in the "Directors' Compensation Policy" is to:

(a) contribute to the sustainable growth of Nexon Group and mid- and long-term improvement of corporate value;
(b) be competitive on the global HR market enough to acquire incredibly talented personnel for the management team from a global perspective and to maintain such a relationship;
(c) link directors' compensation with the company's business performance and corporate value to align their interests with those of shareholders and increase the management's focus on shareholders; and
(d) have a highly transparent and objective process for determining compensation.

In addition, as part of the "Directors' Compensation Policy," the Company has established the Compensation Committee as an advisory body to the Board of Directors.

(Roles and activities of the Compensation Committee and the authority to decide on the amount of officers' compensation)

The Committee consists mainly of independent external directors and is chaired by an independent external director. For the operation of the Compensation Committee, external compensation consultants may be engaged to introduce outside and objective perspective and professional insights, with other data including management compensation survey used as reference.

To ensure a reasonable level and composition of directors' compensation as well as transparency of its determination process, the specific compensation amounts to be paid and the performance achievement level will be first approved by the Compensation Committee and then finalized and determined by resolution of the Board of Directors.

The Board of Directors has authority to decide on the policy for the determination of the amount or its calculation method of compensation, etc. of the Company's directors (excluding those who are Audit and Supervisory Committee members). The scope of its authority and discretion is limited to the total amount approved at the annual general meeting of shareholders, and decisions are made in consideration of relevant duties and the Company's situation, etc.

The total amount and breakdown of compensation for Chief Executive Officer and President and other directors will be first discussed between Chief Executive Officer and President and the Compensation Committee and between Chief Executive Officer and President and each director, respectively, then deliberated and approved by the Compensation Committee and determined by resolution of the Board of Directors. The specific amount and timing of a payment of directors who are Audit and Supervisory Committee members will be determined based on the discussion by directors who are Audit and Supervisory Committee members.

(Rationale for Compensation Level)

In our aim to become the No.1 global company in the entertainment industry including the game industry, Nexon Group is engaged in intense competitions with leading companies in good standing from all over the world, including the competition for acquiring talented management personnel. The level of our directors' compensation is set by referencing directors' compensation levels at such global companies mainly in Japan and the U.S. In doing so, we will also utilize various data (e.g. the absolute amount and forms of compensation) provided by external compensation consultants and management compensation survey and ensure that the total amount of compensation as well as the amount of each component (base compensation, performance-based annual bonus and equity-based stock options) do not fall below median compensation amount in the management compensation survey data of Japanese companies, in principle.

(Composition of Compensation)

A. Executive Directors (directors who are not Audit and Supervisory Committee members or external directors; "Executive Directors")

Compensation for Executive Directors consists of base compensation, performance-based annual bonus and equity-based stock options. Specifically, (i) "base compensation" which is a fixed amount; (ii) "performance-based annual bonus" which is linked to the Company's performance for each fiscal year; (iii) "equity-based stock options (term-linked) which become exercisable at the completion of each of the first, second and third annual general meeting of shareholders to be held after the grant (stock acquisition rights to be issued as directors' compensation, etc. that do not require cash payment upon exercise and are not linked to the Company's performance, having a similar economic effect to Restricted Stock (RS) or Restricted Stock Unit (RSU)); and (iv) "equity-based stock options (performance-linked) which are linked to the Company's mid- to long-term performance (stock acquisition rights to be issued as directors' compensation, etc. that do not require cash payment upon exercise and are linked to the Company's performance, having a similar economic effect to Performance Share (PS)).

In order for directors' compensation to function as a sound incentive for sustainable growth, the proportion of each component of the compensation for Executive Directors will be determined so that the following conditions are met at 100% achievement of key performance indicator ("KPI") targets.

(a) Base amount of the portion whose amount or value is linked to performance or stock price ((ii) + (iii) + (iv)) is greater than the fixed portion (i). [(i) < ((ii) + (iii) + (iv))]

(b) Base amount of equity-based stock options ((iii) + (iv)) is greater than base amount of performance-based annual bonus (ii). [(ii) < ((iii) + (iv))]

(c) Base amount of equity-based stock options (performance-linked) (iv) is greater than base amount of equity-based stock options (term-linked) (iii). [(iii) < (iv)]

In addition, the compensation of Chief Executive Officer and President must meet the following condition: "Base compensation" ≦ "Performance-based annual bonus (base amount)" ≦ "Equity-based stock options (base amount)" [(i) ≦ (ii) ≦ ((iii) + (iv))]

(i) Base compensation	(ii) Performance-based annual bonus	(iii) Equity-based stock options (term-linked)	(iv) Equity-based stock options (performance-linked)

Cash compensation	Stock-based compensation (Equity-based substitute stock options)

Fixed compensation	Compensation linked to performance / stock price

Each component of compensation will be paid as follows:

(i) Base compensation: One twelfth of the predetermined annual base compensation amount will be paid monthly.

(ii) Performance-based annual bonus: To be paid after the achievement level of KPI targets for each fiscal year is determined.

(iii) Equity-based stock options (term-linked): Units attributable to three fiscal years will be granted in a lump sum every three years promptly after the annual general meeting of shareholders to be held in the grant year.

(iv) Equity-based stock options (performance-linked): A three-year performance evaluation period will be set and units attributable to such three fiscal years will be granted promptly after the first annual general meeting of shareholders to be held during the performance evaluation period.

B. Directors who are not Executive Directors (including external directors but excluding those who are Audit and Supervisory Committee members; "Non-Executive Directors")

Compensation for Non-Executive Directors, in principle, consists of (i) "base compensation" which is a fixed amount and (iii) "equity-based stock options (term-linked) which become exercisable at the completion of each of the first, second and third annual general meeting of shareholders to be held after the grant (stock acquisition rights to be issued as directors' compensation, etc. that do not require cash payment upon exercise and are not

linked to the Company's performance, having a similar economic effect to Restricted Stock (RS) or Restricted Stock Unit (RSU)). This reflects our aim to provide appropriate incentive to Non-Executive Directors to improve the company's mid- to long-term corporate value while considering the fact that it is pointed out that there may be potential adverse effects of paying them performance-linked compensation on their supervisory function as Non-Executive Directors, especially external directors, are expected to supervise business execution by Executive Directors.

However, the composition of each Non-Executive Director's compensation will be determined as follows so that stock-based compensation, which is incentive pay, will not be excessive in comparison with cash compensation: base amount of "equity-based stock options (term-linked)" will not exceed "base compensation" [(i) ≧ (iii)]

(i) Base compensation	(iii) Equity-based stock options (term-linked)

Cash compensation	Stock-based compensation (Equity-based substitute stock options)

Fixed compensation	Compensation linked to stock price

Each component of compensation will be paid as follows:

(i) Base compensation: One twelfth of the predetermined annual base compensation amount will be paid monthly.

(iii) Equity-based stock options (term-linked): Units attributable to three fiscal years will be granted in a lump sum every three years promptly after the annual general meeting of shareholders to be held in the grant year.

C. Directors who are Audit and Supervisory Committee members (including external directors; "Directors who are Audit and Supervisory Committee members")

Compensation for Directors who are Audit and Supervisory Committee members, in principle, consists of (i) "base compensation" which is a fixed amount and (iii) "equity-based stock options (term-linked) which become exercisable at the completion of the first annual general meeting of shareholders to be held after the grant (stock acquisition rights to be issued as directors' compensation, etc. that do not require cash payment upon exercise and are not linked to the Company's performance, having a similar economic effect to Restricted Stock (RS) or Restricted Stock Unit (RSU)). This reflects our aim to provide appropriate incentive to Directors who are Audit and Supervisory Committee members to improve the Company's mid- to long-term corporate value while considering the fact that it is pointed out that there may be potential adverse effects of paying them performance-linked compensation on their supervisory function as Directors who are Audit and Supervisory Committee members are expected to supervise business execution by Executive Directors.

However, the composition of compensation for each Director who is an Audit and Supervisory Committee member will be determined as follows so that stock-based compensation, which is incentive pay, will not be excessive in comparison with cash compensation: base amount of "equity-based stock options (term-linked)" will not exceed "base compensation" [(i) ≧ (iii)]

(i) Base compensation	(iii) Equity-based stock options (term-linked)

Cash compensation	Stock-based compensation (Equity-based substitute stock options)

Fixed compensation	Compensation linked to stock price

Each component of compensation will be paid as follows:

(i) Base compensation: One twelfth of the predetermined annual base compensation amount will be paid monthly.

(iii) Equity-based stock options (term-linked): To be granted every year promptly after the annual general meeting of shareholders

The upper limit of directors' compensation will be resolved at the general meeting of shareholders, and the details of each director's compensation, etc. will be determined within such limit in the manner described below. The upper limit of compensation of Executive Directors and Non-Executive Directors were resolved at the 19th Annual General Meeting of Shareholders to be fixed compensation at or below an annual amount of ¥600 million (including those for external director at or below an annual amount of ¥100 million), performance-based annual bonus at or below an annual amount of ¥1,000 million, equity-based stock options (term-linked) at or below ¥800 million as the lump-sum payment attributable to three fiscal years (including those for external directors at or below ¥100 million as the lump-sum payment attributable to three fiscal years), and equity-based stock options (performance-linked) for the three-year performance evaluation period starting from FY2021 at or below ¥6,500 million. The upper limit of compensation for Directors who are Audit and Supervisory Committee members were resolved at the 16th Annual General Meeting of Shareholders held on March 27, 2018 to be at or below an annual amount of ¥100 million (including those for external director at or below an annual amount of ¥50 million) for fixed compensation, and at the 19th Annual General Meeting of Shareholders to be at or below an annual amount of ¥100 million (including those for external director at or below an annual amount of ¥50 million) for equity-based stock option (term-linked).

(Details of Each Component of Compensation)

A. Fixed compensation

The fixed portion of directors' compensation will be as follows:

(i) Base compensation

The annual amount for each director will be determined based on their title, role and responsibility.

B. Compensation linked to performance/stock price

The portion of directors' compensation linked to the Company's performance or stock price will be as follows:

(ii) Performance-based annual bonus

The base amount for each Executive Director will be determined in consideration of base compensation determined in (i) above and the proportion set forth in "Composition of Compensation" above.

The level of achievement of performance targets will be assessed by giving a 50% weight each to consolidated revenue and consolidated operating income, which are deemed to be objective and transparent indices. This portion of compensation fluctuates within the range of 0% to 150% of the base amount based on the achievement level of the internal target set at the beginning of the fiscal year (e.g. 100% at 100% achievement of KPI targets). Consolidated revenue and consolidated operating income used in determining the amount of performance-based annual bonus exclude temporary effects arising from M&As and impairment loss on goodwill recorded during the fiscal year.

(iii) Equity-based stock options (term-linked)

Equity-based stock options (term-linked) are similar to Restricted Stock (RS) and Restricted Stock Unit (RSU). Executive Director and Non-Executive Director will be granted stock acquisition rights attributable to three fiscal years in a lump sum promptly after the annual general meeting of shareholders to be held in the grant year, one third of which vests and becomes exercisable upon conclusion of each of the first, second and third annual general meeting of shareholders to be held after the grant. Directors who are Audit and Supervisory Committee members will be granted stock acquisition rights every year promptly after the annual general meeting of shareholders, which vest and become exercisable upon conclusion of the first annual general meeting of shareholders to be held after the grant. This portion of compensation is not linked to the Company's performance but linked only to directors' term of office and the Company's stock price.

The number of equity-based stock options (term-linked) to be granted will be calculated by first determining the base amount of equity-based stock options (term-linked) for each director, in consideration of the base compensation determined in (i) above as well as the proportion set forth in "Composition of Compensation" above, and by dividing such base amount by the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the day immediately preceding the date of the resolution of the grant (or the most recent trade date if such date is not a trade date) (rounded down to the nearest whole number). The class and number of underlying shares per unit of stock acquisition rights will be one share of the Company' common stock.

(iv) Equity-based stock options (performance-linked)

This type of stock options, similar to performance shares (PS), vests and becomes exercisable after a certain performance evaluation period after the grant based on relative comparison of stock price movement with the industry peers and the achievement level of the consolidated performance targets stated in the internal management plan covering multiple years, with the aim of contributing to Nexon Group's sustainable growth and enhancement of mid- to long-term corporate value.

Specifically, as objective and transparent indices, (1) stock-price-based index (e.g. relative total shareholder returns (TSR) (Note 1)) and (2) financial index (e.g. consolidated operating income, and revenue, operating income, EBITDA, etc. of certain reportable segments (those selected as an appropriate KPI for each director based on their job position and associated business (Note 2), and the same applies hereinafter)) will be selected, and, in principle, the weight of 60% and 40% will be assigned for evaluation, respectively. The KPIs and weight will be revised as necessary in response to changes in each director's role and responsibility and the Company's business environment and review of management plan.

(Note 1) Comparable companies selected for the purpose of Relative TSR include Electronic Arts, Activision/Blizzard, Take-Two Interactive, Nintendo Co., Ltd., and BANDAI NAMCO Holdings Inc. Assessment will be made by comparing the Company's TSR and the average TSR value of comparable companies (i.e. represented in percentages based on dividends and stock price movements) of three years from the date of a given annual general meeting of shareholders to the date of an annual general meeting of shareholders three years later. We use Relative TSR as a KPI because we believe it is important to consider not only the Company's sustainable growth but also market and competition environment in the performance evaluation.

(Note 2) As for consolidated operating income, and revenue, operating income, EBITDA, etc. of certain reportable segments, the evaluation is performed based on the achievement level of those indices of the third year stated in the internal management plan (two years after the year during which equity-based stock options (performance-linked) are granted).

<Remarks>

Depending on the achievement level of KPI targets, reversal or additional provision of expense for performance-linked compensation, an increase or decrease in consolidated operating income, respectively, will be recorded in the final year of the performance evaluation period. However, such amount will not be included in calculating the achievement level of KPI targets.

C. The number of units of equity-based stock options (performance-linked) to vest for each Executive Director will be determined based on the following conditions and method, etc.

(a) Eligible officers

Executive Directors of the Company.

(b) Number of stock acquisition rights to be issued

The number of equity-based stock options (performance-linked) to be granted will be calculated by first determining the base amount of equity-based stock options (performance -linked) for each Executive Director (assuming approximately 200% achievement of KPI targets), in consideration of the base compensation determined for the fixed compensation as well as the proportion set forth in the Composition of Compensation and by dividing such base amount by the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the day immediately preceding the date of the resolution of the grant (or the most recent trade date if such date is not a trade date) (rounded down to the nearest whole number).

The maximum number of stock acquisition rights to be issued within one year from the date of the 19th Annual General Meeting of Shareholders will be 2,200,000 units.

(c) Class and number of underlying shares of stock acquisition rights

The number of underlying shares per unit of stock acquisition rights will be one share, and the maximum number of the Company's common stock subject to stock acquisition rights to be issued withing one year from the 19th Annual General Meeting of Shareholders will be 2,200,000 shares.

In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares will be adjusted according to the formula outlined below. However, such adjustment will be made only to the shares subject to the stock acquisition rights unexercised at the time of such adjustment.

Number of shares after adjustment = Number of shares before adjustment x Split/consolidation ratio

In case of merger, company split, share exchange, share transfer, share issuance or other events that compel the number of shares to be adjusted, the number of shares will be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange, share transfer, or share issuance, etc.

(d) Calculation method to determine the number of units of stock acquisition rights to vest

The number of stock acquisition rights subject to the performance-linked compensation to vest during the three fiscal years from FY2021 to FY2023 will be calculated as follows:

Total number of units to vest = Number of units to vest (1) + Number of units to vest (2)

Base number of units (1) x Vesting ratio (1) = Number of units to vest (1) (any fraction in the product less than one unit will be rounded down)

Vesting ratio (1)

The sum of a and b below.

a. Performance-linked coefficient for consolidated operating income for the year ending December 31, 2023 (Note 1) x 40%

b. Performance-linked coefficient for Relative TSR (Note 2) x 60%

(Notes) 1. Financial-base performance-linked coefficient is set as 40% of performance-linked coefficient for consolidated operating income.

Performance-linked coefficient for consolidated operating income

Target achievement level: (Consolidated operating income – Operating income target ("I")) / Operating income target x 100 (%)

Target achievement level of 50% or higher: Performance-linked coefficient = 100 (%)

Target achievement level of between (50)% and 50%: Performance-linked coefficient = (Target achievement level + 50)(%)

Target achievement level of lower than (50)%: Performance-linked coefficient = 0 (%)

I. Operating income target

Operating income target used to calculate performance-linked coefficient is consolidated operating income for the year ending December 31, 2023. (At present, mid- to long-term business performance forecast has not been released, and the target is undisclosed.)

2. The deviation rate between the Company's TSR ("II") during the evaluation period for Relative TSR and the average TSR ("II") of comparative companies ("III")

Deviation rate of 50% or higher: Performance-linked coefficient = 100 (%)

Deviation rate of between (50)% and 50%: Performance-linked coefficient = (The Company's TSR – Average TSR of comparative companies) + 50 (%)

Deviation rate of lower than (50)%: Performance-linked coefficient = 0 (%)

II. TSR (Total Shareholder Return) ＝ ((Stock price at the end of evaluation period – Stock price at the beginning of evaluation period) + Dividend per share during the evaluation period) / Stock price at the beginning of evaluation period

III. Comparative companies include Electronic Arts, Activision/Blizzard, Take-Two Interactive, Nintendo Co., Ltd. and BANDAI NAMCO Holdings Inc.

Base number of units (2) x Vesting ratio (2) = Number of units to vest (2) (any fraction in the product less than one unit will be rounded down)

Vesting ratio (2)

The sum of a and b below.

a. Up to 40% depending on the achievement level of performance target on EBITDA in the European and U.S. market for the year ending December 31, 2022
b. Up to 60% depending on the achievement level of performance target on EBITDA in the European and U.S. market for the year ending December 31, 2023

- Performance-linked evaluation index for revenue, operating income, EBITDA, etc. of certain reportable segments

The performance-linked evaluation index of certain reportable segments for the period between January 1, 2021 and December 31, 2023 is EBITDA in the European and U.S. market (Consolidated operating income under IFRS of the Company's consolidated subsidiaries headquartered in Europe and North America with certain adjustments as shown below, the same shall apply hereinafter).

EBITDA in the European and U.S. market is calculated as follows:

"EBITDA in the European and U.S. market = operating income + adjustments (depreciation and amortization + stock-based compensation expense – other income + other expenses)"

Depending on the achievement level of the relevant targets, up to 40% and 60% of stock acquisition rights linked to EBITDA in the European and U.S. market will vest in the year ending December 31, 2022 (the second year of the three-year period from January 1, 2021 to December 31, 2023) and in the year ending December 31, 2023 (the third year of the three-year period from January 1, 2021 to December 31, 2023), respectively. (At present, business performance forecast has not been released, and the target is undisclosed.)

(e) Evaluation period

From January 1, 2021 to December 31, 2023. The evaluation period for Relative TSR will be from the date of the 19th Annual General Meeting of Shareholders to the date of the Annual General Meeting of Shareholders to be held in 2024.

(f) Exercise period

Stock acquisition rights may be exercised after the number of units of stock acquisition rights to vest is determined based on (d) above until March 15 of the following year.

(g) Conditions for exercise of stock acquisition rights

As the stock acquisition rights are granted as directors' compensation, etc. pursuant to Article 361, Paragraph 1, Item 4 of the Companies Act, only directors (including former directors) subject to this policy may exercise them.

The person must be a director of the Company at the time of the exercise to be eligible, and those who are no longer a director may exercise the stock acquisition rights only if they lose their position as a director due to retirement, resignation or dismissal (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors.

For equity-based stock options (performance-linked), stock acquisition rights will be granted in advance promptly after the first annual general meeting of shareholders to be held during the performance evaluation period assuming approximately 200% achievement of KPI targets. Equity-based stock options (performance-linked) will fluctuate within the range of 0% to 200% based on the achievement level (100% at 100% achievement of KPI targets). However, the actual number of units to vest and become exercisable will be limited to the portion that is evaluated, fixed and determined based on the achievement level.

(h) Treatment of a fraction less than one share resulting from the exercise of stock acquisition rights

Any fraction less than one share included in the number of shares to be issued to the holders of the stock acquisition rights who have exercised the rights will be rounded down.

(i) Treatment of stock acquisition rights at the Company's restructuring and other activities

When approval is granted for proposals a, b, c, d, or e below at an annual general meeting of shareholders (or by a resolution of the Board of Directors of the Company if a resolution of the annual general meeting of shareholders is not required), the Company may acquire stock acquisition rights without compensation on the date specifically stipulated by the Board of Directors:

a. Proposal for the approval of a merger agreement in which the Company will become the extinct company;
b. Proposal for the approval of a split agreement or a split plan in which the Company will become a split company;
c. Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary;
d. Proposal for the approval of an amendment to the Articles of Incorporation to add provisions concerning all shares issued by the Company requiring the Company's approval for the acquisition of such shares through transfer; or
e. Proposal for the approval of an amendment to the Articles of Incorporation to add provisions concerning underlying shares of stock acquisition rights requiring the Company's approval for the acquisition of such shares through transfer, or allowing the Company to acquire all shares of the relevant class based on a resolution of the annual general meeting of shareholders.

(j) Treatment in case of retirement from the position of director before vesting

If a director resigns from the position of director before the stock acquisition rights as equity-based stock options vest, his/her right to unvested portion will be forfeited, but such director may exercise the stock acquisition rights to the extent allowed in consideration of the term of office and the level of achievement of performance targets if he or she retires due to the expiration of his/her term of office or when there is any other reason specifically provided by the Board of Directors.

(5) 【Information on shareholdings】

(a) Standard and way of thinking of the categorization of investment securities

As for the categorization of investment securities held for the purpose of pure investments and those held for purposes other than pure investments, the Company deems the shares held for the purpose of securing profits from changes in the stock price and receipt of dividends to be investment securities held for the purpose of pure investments and deems the shares held for the purpose of generating business opportunities and strengthening relationships with business partners to be investment securities held for purposes other than pure investments.

(b) Investment securities held for purposes other than pure investments

(i) Holding policy and the method for the verification of reasonableness of holding, as well as the details of the verification by the Board of Directors, etc. regarding the appropriateness of holding of individual stock

The Company intends to acquire and hold its business partners' stock, etc. when it judges that it would contribute to the maintenance and improvement of Nexon Group's corporate value by strengthening business cooperation with the investees upon comprehensively taking into account such relationship and materiality in terms of management strategy. The appropriateness of holding of any stock for which we can no longer expect the synergy effect or business opportunities as initially expected will be individually verified by the Board of Directors. If the meaning and effect of continually holding such stock is found to be lacking, we will endeavor to sequentially decrease such holding.

(ii) Number of stocks and the amount recorded in the balance sheet

	Number of stocks	Total amount recorded in the balance sheet (¥ million)
Non-listed stock	1	—
Stock other than non-listed stock	—	—

(Stocks for which the number of shares increased in the year ended December 31, 2020)

	Number of stocks	Total acquisition consideration of the increased number of shares (¥ million)	Reason for the increase in the number of shares
Non-listed stock	—	—	—
Stock other than non-listed stock	—	—	—

(Stocks for which the number of shares decreased in the year ended December 31, 2020)

	Number of stocks	Total sale value of the decreased number of shares (¥ million)
Non-listed stock	2	—
Stock other than non-listed stock	—	—

(Note) The number of shares of two non-listed stocks decreased due to completion of liquidation proceedings of their respective issuers.

(iii) Information on the number of shares and the amount recorded in the balance sheet by stock for specific investment shares and deemed holding shares

Not applicable.

(c) Investment securities held for the purpose of pure investments

Not applicable.

(d) Investment securities for which the purpose of holding changed from pure investments to purposes other than pure investments in the year ended December 31, 2020

Not applicable.

(e) Investment securities for which the purpose of holding changed from purposes other than pure investments to pure investments in the year ended December 31, 2020

Not applicable.

V. 【Financial Information】

1. Preparation of consolidated financial statements and non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards pursuant to provisions of Article 93 of the "Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976).

In the consolidated financial statements in this report, amounts less than one million yen are rounded to the nearest million yen.

(2) The non-consolidated financial statements of the Company are prepared in accordance with the "Regulation for Terminology, Forms and Preparation of Financial Statements" (Ministry of Finance Ordinance No. 59, 1963, "Regulation for Non-Consolidated Financial Statements").

Also, the non-consolidated financial statements are prepared in accordance with provisions of Article 127 of the Regulation for Non-Consolidated Financial Statements as the Company falls under the category of company that may be allowed to prepare its financial statements in accordance with special provisions. In the non-consolidated financial statements in this report, amounts less than one million yen are rounded to the nearest million yen.

2. Audit certificate

The Company's consolidated financial statements for the consolidated fiscal year from January 1, 2020 to December 31, 2020 and the non-consolidated financial statements for the fiscal year from January 1, 2020 to December 31, 2020 were audited by PricewaterhouseCoopers Aarata LLC, in accordance with provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special measures to ensure appropriateness of the consolidated financial statements and a system to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS

(1) To establish a system that enables proper understanding of accounting standards, etc. and timely and appropriate response to changes in accounting standards, etc., the Company strives to accumulate technical knowledge by joining the Financial Accounting Standards Foundation of Japan, participating in seminars organized by bodies having technical knowledge and subscribing to accounting magazines.

(2) In applying IFRS, the Company has developed Group accounting policies in accordance with IFRS and conducted accounting treatments based on these policies. The Company also obtains press releases and standards released by the International Accounting Standards Board on a regular basis to understand the latest standards and assess their potential impact on the Company, and update the Group accounting policies in a timely manner.

1 【Consolidated Financial Statements, etc.】

(1) 【Consolidated financial statements】

(a) 【Consolidated statement of financial position】

(Millions of yen)

	Notes	As of December 31, 2019	As of December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	6, 25, 26	253,636	252,570
Trade and other receivables	7, 25, 26	28,643	20,935
Other deposits	8, 26	257,331	273,132
Other financial assets	12, 17, 25, 26	8,418	27,343
Other current assets	13, 30	5,468	4,552
Total current assets		553,496	578,532
Non-current assets			
Property, plant and equipment	9	23,481	24,191
Goodwill	10	42,480	38,425
Intangible assets	10	21,519	14,935
Right-of-use assets	19, 34	6,612	10,029
Investments accounted for using equity method	11,31	2,515	5,195
Other financial assets	12, 25, 26	47,256	167,620
Other non-current assets	13, 30	243	1,277
Deferred tax assets	14	21,486	21,957
Total non-current assets		165,592	283,629
Total assets		719,088	862,161

(Millions of yen)

	Notes	As of December 31, 2019	As of December 31, 2020
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	15, 25, 26	7,753	10,668
Deferred income	16	10,250	11,505
Borrowings	17, 25, 26, 35	2,223	2,094
Income taxes payable		7,403	15,774
Lease liabilities	19, 25, 35	2,129	2,657
Provisions	20	4,099	6,881
Other current liabilities	21	7,311	8,388
Total current liabilities		41,168	57,967
Non-current liabilities			
Deferred income	16	15,950	15,180
Lease liabilities	19, 25, 35	8,507	11,842
Other financial liabilities	18, 25, 26	826	868
Provisions	20	260	304
Other non-current liabilities	21	4,472	4,437
Deferred tax liabilities	14	16,774	51,118
Total non-current liabilities		46,789	83,749
Total liabilities		87,957	141,716
Equity			
Capital stock	22	17,967	22,679
Capital surplus	22	35,688	17,421
Treasury stock	22	(27,219)	(0)
Other equity interest	22	38,511	69,975
Retained earnings	22	555,038	599,807
Total equity attributable to owners of the parent company		619,985	709,882
Non-controlling interests	36	11,146	10,563
Total equity	25	631,131	720,445
Total liabilities and equity		719,088	862,161

(b) 【Consolidated statement of income】

(Millions of yen)

	Notes	Year ended December 31, 2019	Year ended December 31, 2020
Revenue	5, 27	248,542	293,024
Cost of sales	10, 28	(59,586)	(69,009)
Gross profit		188,956	224,015
Selling, general and administrative expenses	10, 29	(85,117)	(103,711)
Other income	30, 38	9,059	1,796
Other expenses	9, 10, 19, 30	(18,373)	(10,650)
Operating income		94,525	111,450
Finance income	19, 26, 31	30,040	15,005
Finance costs	26, 31	(2,272)	(19,049)
Share of profit (loss) of investments accounted for using equity method	11	(325)	765
Income before income taxes		121,968	108,171
Income taxes expense	14	(8,732)	(52,682)
Net income		113,236	55,489
Attributable to:			
Owners of the parent company		115,664	56,220
Non-controlling interests	36	(2,428)	(731)
Net income		113,236	55,489
Earnings per share (attributable to owners of the parent company)		(yen)	(yen)
Basic earnings per share	33	129.34	63.57
Diluted earnings per share	33	128.03	61.90

(c) 【Consolidated statement of comprehensive income】

(Millions of yen)

	Notes	Year ended December 31, 2019	Year ended December 31, 2020
Net income		113,236	55,489
Other comprehensive income			
Items that will not be reclassified to net income			
Financial assets measured at fair value through other comprehensive income	26, 32	(2,151)	28,150
Remeasurement of defined benefit pension plans	32	(91)	8
Income taxes	32	474	(6,844)
Total items that will not be reclassified to net income	32	(1,768)	21,314
Items that may be reclassified subsequently to net income			
Exchange differences on translating foreign operations	32	(24,602)	9,628
Other comprehensive income under equity method	11, 32	(1)	(4)
Total items that may be reclassified subsequently to net income	32	(24,603)	9,624
Total other comprehensive income	32	(26,371)	30,938
Total comprehensive income		86,865	86,427
Attributable to:			
Owners of the parent company		89,686	87,067
Non-controlling interests		(2,821)	(640)
Total comprehensive income		86,865	86,427

(d) 【Consolidated statement of changes in equity】

Year ended December 31, 2019

(Millions of yen)

	Notes	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2019		14,402	34,814	(1)	64,068	441,985	555,268	10,209	565,477
Adjustment at IFRS 16 application (net of tax)	19	—	—	—	—	(2,965)	(2,965)	—	(2,965)
Beginning balance reflecting changes in accounting policy		14,402	34,814	(1)	64,068	439,020	552,303	10,209	562,512
Net income		—	—	—	—	115,664	115,664	(2,428)	113,236
Other comprehensive income		—	—	—	(25,978)	—	(25,978)	(393)	(26,371)
Total comprehensive income		—	—	—	(25,978)	115,664	89,686	(2,821)	86,865
Reclassification from capital surplus to retained earnings	22	—	(423)	—	—	423	—	—	—
Issue of shares	22	3,565	3,565	—	—	—	7,130	—	7,130
Stock issue cost		—	(26)	—	—	—	(26)	—	(26)
Share-based compensation	24	—	—	—	352	—	352	—	352
Non-controlling interests on acquisition of subsidiaries	38	—	—	—	—	—	—	1,516	1,516
Changes in interests in subsidiaries	36	—	(2,235)	—	—	—	(2,235)	2,242	7
Purchase of treasury stock	22	—	(7)	(27,218)	—	—	(27,225)	—	(27,225)
Reclassification from other equity interest to retained earnings	12, 22	—	—	—	69	(69)	—	—	—
Total transactions with the owners		3,565	874	(27,218)	421	354	(22,004)	3,758	(18,246)
Balance at December 31, 2019		17,967	35,688	(27,219)	38,511	555,038	619,985	11,146	631,131

Year ended December 31, 2020

(Millions of yen)

	Notes	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2020		17,967	35,688	(27,219)	38,511	555,038	619,985	11,146	631,131
Net income		—	—	—	—	56,220	56,220	(731)	55,489
Other comprehensive income		—	—	—	30,847	—	30,847	91	30,938
Total comprehensive income		—	—	—	30,847	56,220	87,067	(640)	86,427
Issue of shares	22	4,712	4,712	—	—	—	9,424	—	9,424
Stock issue cost		—	(32)	—	—	—	(32)	—	(32)
Payment of dividends	23	—	—	—	—	(4,417)	(4,417)	—	(4,417)
Share-based compensation	24	—	—	—	611	—	611	—	611
Changes in interests in subsidiaries	36	—	27	—	—	—	27	57	84
Purchase of treasury stock	22	—	(2)	(2,781)	—	—	(2,783)	—	(2,783)
Retirement of treasury stock	22	—	(22,972)	30,000	—	(7,028)	—	—	—
Reclassification from other equity interest to retained earnings	22	—	—	—	6	(6)	—	—	—
Total transactions with the owners		4,712	(18,267)	27,219	617	(11,451)	2,830	57	2,887
Balance at December 31, 2020		22,679	17,421	(0)	69,975	599,807	709,882	10,563	720,445

(e) 【Consolidated statement of cash flows】

(Millions of yen)

	Notes	Year ended December 31, 2019	Year ended December 31, 2020
Cash flows from operating activities			
Income before income taxes		121,968	108,171
Depreciation and amortization	5	7,694	8,574
Share-based compensation expenses	24	2,133	3,002
Interest and dividend income	31	(13,376)	(8,275)
Interest expense	31	401	357
Impairment loss	5, 30	18,006	9,655
Share of loss (profit) of investments accounted for using equity method		325	(765)
(Gain) loss on step acquisitions	30, 38	(7,480)	―
(Gain) loss on valuation of securities	31	(107)	(4,382)
Exchange (gain) loss		(14,065)	15,306
(Increase) decrease in trade and other receivables		(301)	5,855
(Increase) decrease in other current assets		(850)	419
(Decrease) increase in trade and other payables		448	2,691
(Decrease) increase in deferred income		(2,612)	437
(Decrease) increase in provisions		1,268	2,796
(Decrease) increase in other current liabilities		515	758
Other		51	(64)
Subtotal		114,018	144,535
Interest and dividends received		11,992	11,353
Interest paid		(397)	(408)
Income taxes paid		(20,540)	(17,877)
Net cash provided by operating activities		105,073	137,603
Cash flows from investing activities			
Net decrease (increase) in restricted deposit		(39)	(3,443)
Net decrease (increase) in time deposit		9,958	(32,736)
Purchases of property, plant and equipment		(1,425)	(2,342)
Proceeds from sale of property, plant and equipment		149	77
Purchases of intangible assets		(690)	(890)
Payments associated with increase in long-term prepaid expenses		(185)	(1,441)
Purchases of securities by investment funds under consolidated subsidiaries		―	(31,867)
Proceeds from sale of securities by investment funds under consolidated subsidiaries		―	20,423
Purchases of investment securities		(31,519)	(86,258)
Proceeds from sale and redemption of investment securities		2,395	865
Purchase of investments accounted for using equity method		―	(2,075)
Proceeds from sale of investments accounted for using equity method		146	55
Purchases of subsidiaries	38	(6,864)	―
Proceeds from sale of subsidiaries		284	―
Other		(835)	(602)
Net cash used in investing activities		(28,625)	(140,234)

(Millions of yen)

	Notes	Year ended December 31, 2019	Year ended December 31, 2020
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	35	(1,852)	(137)
Proceeds from exercise of stock options		3,127	7,050
Purchases of treasury stock	22	(27,225)	(2,783)
Cash dividends paid	23	(0)	(4,417)
Repayment of lease liability	35	(1,790)	(2,339)
Other		(2)	—
Net cash used in financing activities		(27,742)	(2,626)
Net (decrease) increase in cash and cash equivalents		48,706	(5,257)
Cash and cash equivalents at beginning of year	6	205,292	253,636
Effects of exchange rate changes on cash and cash equivalents		(362)	4,191
Cash and cash equivalents at end of year	6	253,636	252,570

【Notes to consolidated financial statements】

1 Reporting entity

NEXON Co., Ltd. (the "Company") is a company incorporated in Japan. The accompanying consolidated financial statements comprise Nexon Group. Nexon Group is engaged mainly in the production, development and service of PC online and mobile games. Details of each business are described in "5 Segment information."

NXC Corporation is the Company's parent company and also the ultimate parent company of Nexon Group under IFRS.

2 Basis of preparation

(1) Compliance with IFRS

The consolidated financial statements of Nexon Group are prepared in accordance with IFRS pursuant to provisions of Article 93 of the "Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" (Ministry of Finance Ordinance No. 28, 1976) as Nexon Group satisfies all requirements for a "Specified Company Complying with Designated International Accounting Standards" defined in Article 1-2 of the Regulation.

The consolidated financial statements are approved by Owen Mahoney, Representative Director, President and Chief Executive Officer, and Shiro Uemura, Representative Director and Chief Financial Officer, on March 25, 2021.

(2) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for the following material items in the consolidated statement of financial position.

- Derivative financial assets and liabilities (measured at fair value)
- Financial instruments measured at fair value with changes to be recognized in profit or loss
- Financial instruments measured at fair value with changes to be recognized in other comprehensive income

(3) Presentation currency

The consolidated financial statements are presented in millions of Japanese yen which is the functional currency of the Company. Amounts less than one million yen are rounded to the nearest million yen.

(4) Application of new standards and interpretations

The major standards and interpretations newly applied by Nexon Group from the year ended December 31, 2020 are as follows. The impact of the application of these standards on the consolidated financial statements for the year ended December 31, 2020 was insignificant.

Standards	Title	Overview of New or Revised Standard
IFRS 3	Business Combinations	Improved the definition of "business"
IAS 1	Presentation of Financial Statements	Clarified the definition of "material"
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	
IFRS 9	Financial Instruments	Revised the requirements for certain hedge accounting to mitigate the potential impact of uncertainties caused by the IBOR reform
IAS 39	Financial Instruments: Recognition and Measurement	
IFRS 7	Financial Instruments: Disclosures	

(5) Early application of standards and interpretations

Not applicable.

(6) New standards and interpretation not yet applied

New and amended standards and new interpretations issued but not yet effective as of December 31, 2020 have not been applied in preparation of the consolidated financial statements.

Major amended standards, etc. not applied as of December 31, 2020 are as follows.

The impact of the standards not yet applied on the consolidated financial statements of Nexon Group is deemed insignificant.

Standard	Title	Mandatory effective date (year beginning on)	Application by the Company	Overview of new and amend standard
IAS 1	Presentation of Financial Statements	January 1, 2023	Year ending December 31, 2023	Clarified how to classify debt and other liabilities as current or non-current
IFRS 3	Business Combinations	January 1, 2022	Year ending December 31, 2022	Updated the reference to the “Conceptual Framework for Financial Reporting”
IAS 16	Property, Plant and Equipment	January 1, 2022	Year ending December 31, 2022	Clarified that the deduction of proceeds from selling items produced before an item of PPE is available for use from the cost of that PPE is prohibited
IAS 37	Provisions Contingent Liabilities and Contingent Assets	January 1, 2022	Year ending December 31, 2022	Clarified what costs an entity considers in assessing whether a contract is onerous
IFRS 9	Financial Instruments	January 1, 2022	Year ending December 31, 2022	Clarified the fees an entity includes in the test for derecognition of financial liabilities
IFRS 16	Leases	June 1, 2020	Year ending December 31, 2021	Amended to extend support for lessees accounting for COVID-19-related rent concessions such as rent holidays and temporary rent reductions
IFRS 9 IAS 39 IFRS 7 IFRS 4 IFRS 16	Financial Instruments Financial Instruments: Recognition and Measurement Financial Instruments: Disclosures Insurance Contracts Leases	January 1, 2021	Year ending December 31, 2021	Clarified the treatment when replacing an existing interest rate benchmark with an alternative benchmark interest rate as a result of IBOR reform
IAS 1 IAS 8	Presentation of financial statements Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023	Year ending December 31, 2023	Improved accounting policy disclosures and clarified distinction between accounting policies and accounting estimates

3 Significant accounting policies

The accounting policies described below have been applied in preparation of the consolidated financial statements in a consistent manner for all periods presented, unless otherwise stated.

(1) Basis of consolidation

(a) Subsidiaries

A subsidiary is an entity controlled by Nexon Group. Nexon Group controls enterprises where it is exposed, or has rights, to variable returns arising from its involvement in those enterprises and is able to have an impact on the said variable returns through its power over those enterprises. A subsidiary's financial statements are incorporated into the Company's consolidated financial statements from the date on which Nexon Group obtains control until the date that Nexon Group loses control.

Comprehensive income of a subsidiary is attributed to owners of the parent company and non-controlling interests, even if it results in non-controlling interests having a deficit balance.

All intra-group balances and transactions within Nexon Group as well as unrealized gains and losses resulting from transactions within Nexon Group are eliminated in preparation of the consolidated financial statements.

(b) Changes in ownership interests in subsidiaries not resulting in a loss of control

Changes in ownership interests in subsidiaries not resulting in a loss of control are accounted for as equity transactions. The carrying amount of Nexon Group's equity and non-controlling interests is adjusted to reflect changes in ownership interests in subsidiaries. Any difference between the adjustment to non-controlling interests and the fair value of consideration paid or received is recognized directly in equity as equity attributable to owners of the parent.

(c) Disposal of subsidiaries

In the event that Nexon Group loses control over a subsidiary, any gain or loss on disposal is calculated as a difference between the total of the fair value of consideration received and the fair value of remaining interests and the previous carrying amount of assets including goodwill, liabilities and non-controlling interests of the said subsidiary, and recognized in profit or loss.

(d) Affiliates and joint ventures

Affiliates are entities which Nexon Group has significant influence over their financial and operating policies but which Nexon Group does not control or jointly control. If Nexon Group holds at least 20% but less than 50% of the voting rights of another entity, it is presumed that Nexon Group has a significant influence over the entity. Even if Nexon Group holds less than 20% of the voting rights of another entity, if it is explicitly demonstrated that Nexon Group has a significant influence over the entity, then it is presumed that Nexon Group has a significant influence over the entity.

A joint venture is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is defined as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in affiliates and joint ventures are recognized at acquisition consideration at the time of acquisition and accounted for using the equity method. Under the equity method, investments in affiliates and joint ventures are initially recognized at acquisition consideration and adjusted by recognizing Nexon Group's interests in profit or loss and other comprehensive income (after adjustments to comply with Nexon Group's accounting policies) of affiliates and joint ventures from the date on which Nexon Group obtains a significant influence over them until the date on which Nexon Group loses such influence.

If Nexon Group's interests in loss of affiliates or joint ventures exceed investments in those affiliates or joint ventures (including long-term investments that are virtually part of net investments in those affiliates or joint ventures), Nexon Group does not recognize such excess amount unless it bears or pays the obligations (legal or constructive) on behalf of those affiliates or joint ventures.

Any excess of "acquisition consideration" over "Nexon Group's interests in the net fair value of identifiable assets and liabilities and contingent liabilities" of affiliates or joint ventures recognized on the acquisition date is recognized as goodwill and included in the carrying amount of investments in affiliates or joint ventures. Any

excess of "Nexon Group's interests in the net fair value of identifiable assets and liabilities and contingent liabilities" of affiliates or joint ventures recognized on the acquisition date over "acquisition consideration" is recognized in profit or loss immediately.

Nexon Group does not recognize goodwill comprising part of the carrying amount of investments in affiliates or joint ventures separately and does not perform impairment test individually, but performs impairment test on investments in affiliates or joint ventures as a single asset if there is an objective evidence that investments in affiliates or joint ventures is impaired.

Unrealized gains arising from transactions with affiliates or joint ventures are deducted from investments to the extent of the amount of Nexon Group's interests in those affiliates or joint ventures. Unrealized losses are deducted in the same manner as unrealized gains unless there is objective evidence of impairment.

(2) Business combination

Nexon Group accounts for business combinations using the "acquisition method." The acquisition consideration includes the fair values of assets transferred from the Company to the previous owners of the acquiree, liabilities incurred, equity interests issued by the Company and liabilities resulting from contingent consideration arrangements.

Transaction costs incurred by Nexon Group in relation to business combination are expensed as incurred, except for those related to issuance of debt or equity securities.

Identifiable assets and liabilities and contingent liabilities of the acquiree that meet recognition criteria under IFRS 3 *Business Combinations* are measured at fair value at the acquisition date, except for:

- deferred tax assets and liabilities that are recognized and measured in accordance with IAS 12 *Income Taxes*, and liabilities (or assets) related to employee benefit contracts that are recognized and measured in accordance with IAS 19 *Employee Benefits*.

Nexon Group measures goodwill as the excess of the sum of acquisition-date fair value of acquisition consideration and non-controlling interests in the acquiree over the net of identifiable assets acquired and liabilities assumed on the date of acquisition. If the difference is negative, it is recognized in profit or loss.

On the date of acquisition, Nexon Group determines for each transaction whether to measure non-controlling interests at fair value or at proportionate share in the recognized amount of identifiable net asset.

Subsequently, goodwill is measured at cost less accumulated impairment losses. The carrying amount of investments accounted for using equity method includes the carrying amount of goodwill.

Goodwill arising from acquisitions before the date of transition to IFRS is reported at the carrying amount as of the date of transition to IFRS under the previous generally accepted accounting principles after the impairment test under IFRS performed at the date of transition to IFRS.

(3) Foreign currencies

(a) Functional currency and presentation currency

In preparing the financial statements, each of Nexon Group companies translates transactions denominated in currencies other than its functional currency into the functional currency using the exchange rates at the dates of the transactions. The presentation currency of Nexon Group's consolidated financial statements is Japanese yen which is the Company's functional currency.

(b) Translation of items denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency using the exchange rates at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are retranslated into the functional currency using the exchange rates at the date the fair value is determined. Foreign exchange differences arising from the retranslation are recognized in profit or loss, except for those arising from retranslation of financial instruments measured at fair value with changes in fair value recognized in other comprehensive income and those arising from cash flow hedge, which are recognized in other comprehensive income. Non-monetary items denominated in foreign currencies measured at cost are translated using the exchange rates at the dates of the transactions.

(c) Foreign operations

Group companies (mainly foreign operations) that have a functional currency different from the presentation currency translate their assets and liabilities, including goodwill arising from the acquisition of the foreign operations, identified assets and liabilities and related fair value adjustments, into the presentation currency using the exchange rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency using the average exchange rates of the reporting period unless the exchange rates significantly fluctuated during that period.

Foreign exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income. On the disposal of the entire interest in a foreign operation and on the partial disposal of the interest resulting in loss of control or significant influence, the cumulative translation differences are reclassified into profit or loss as part of gains or losses on disposal.

(4) Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and subject to an insignificant risk of change in value with original maturities of three months or less from the date of acquisition.

(5) Financial instruments

(a) Financial assets

Financial assets are initially recognized on the date when Nexon Group becomes a party to the contractual terms of such financial assets.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. If not, they are classified as financial assets measured at fair value.

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount

Financial assets measured at fair value are classified into financial assets measured at fair value through profit or loss (FVTPL) and measured at fair value through profit or loss.

Equity instruments, except for those held for trading purpose, that are designated as financial instruments measured at fair value through other comprehensive income (FVTOCI) at initial recognition are classified into financial assets measured at FVTOCI and measured at fair value through other comprehensive income. Such designation is made for individual equity instrument as an irrevocable election and applied consistently.

(Financial assets measured at amortized cost)

Financial assets measured at amortized cost are initially recognized at fair value plus directly attributable transaction costs.

Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less accumulated impairment loss, if any. Interest income calculated using the effective interest method is recognized in profit or loss.

(Financial assets measured at FVTPL)

Financial assets measured at FVTPL are initially recognized at fair value, and transaction costs are recognized in profit or loss when incurred. Subsequently, they are measured at fair value, with changes in fair value recognized in profit or loss.

(Financial assets measured at FVTOCI)

Financial assets measured at FVTOCI are initially recognized at fair value plus directly attributable transaction costs. Subsequently, they are measured at fair value, with changes in fair value recognized in other comprehensive income. If they are derecognized or their fair value substantially declines, the accumulated gains or losses recognized through other comprehensive income are reclassified into retained earnings.

Dividends earned from these investments are recognized in profit or loss unless they clearly represent return of initial investment.

Nexon Group derecognizes financial assets when the contractual rights to cash flows from the asset is extinguished, or when Nexon Group transfers the contractual rights to receive cash flows from financial assets in transactions in which substantially all risks and rewards of ownership of the asset are transferred.

(b) Impairment of financial assets measured at amortized cost

Nexon Group recognizes loss allowance to provide for expected credit loss for financial assets measured at amortized cost. In recognizing loss allowance, we assess whether there has been a significant increase in credit risk since initial recognition of financial assets or a group of similar financial assets measured at amortized cost at each reporting date and recognize expected credit loss. At the reporting date, if credit risk for financial instruments has not increased significantly since initial recognition, we recognize expected credit losses that result from default events that are possible within 12 months after the reporting date (12-month expected credit losses). On the other hand, at the reporting date, if the credit risk has increased significantly since initial recognition, we recognize expected credit losses that result from all possible default events over the expected life of the financial instruments (lifetime expected credit losses). For trade and other receivables, however, we recognize lifetime expected credit losses as a practical expedient based on historical credit loss rates.

The amount of expected credit loss is measured as the present value of cash shortfalls between the total contractual cash flows that are due to Nexon Group and estimated future cash flows Nexon Group expects to receive, and recognized in profit or loss.

When there is objective evidence that the financial assets are impaired such as significant deterioration in the financial condition of the debtor or violation of the contract terms by the debtor such as default or delinquency in payments, we measure interest income by applying the effective interest method to the net carrying amount adjusted for the loss allowance.

When there is no reasonable expectations of recovering all or part of the financial assets, the gross carrying amount of the financial assets are directly reduced.

(c) Financial liabilities

Financial liabilities are recognized at the transaction date on which Nexon Group becomes a party to the agreement of the said financial instrument.

Financial liabilities held by Nexon Group include accounts payable, borrowings, and other short-term liabilities and are initially recognized at fair value less transaction costs directly attributable to the financial liabilities. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Nexon Group derecognizes financial liabilities when they are extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

(d) Derivative and hedge accounting

Derivative transactions of Nexon Group are executed and managed in accordance with the derivative transaction management rules by the Accounting & Finance Department of the Company based on the approval of authorized personnel. Use of derivatives are limited to transactions with high-rated financial institutions in order to mitigate credit risk.

At the inception of a hedge transaction, Nexon Group formally designates and documents the hedging relationship to which hedge accounting is applied and risk management objectives and strategies for undertaking

the hedge. The documentation includes identification of hedging instruments, hedged items or transactions, the nature of the risks being hedged and the method to assess the effectiveness of hedging relationship.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and subsequently measured at fair value with effective portion of changes in fair value recognized in other comprehensive income and ineffective portion recognized in profit or loss immediately. The cumulative amount of gains or losses recognized through other comprehensive income is reclassified into profit or loss in the consolidated statement of comprehensive income in the same period during which cash flows of the hedged item affect profit or loss.

Application of the hedge accounting is discontinued prospectively if the hedge no longer meets requirements for the hedge accounting, the hedging instrument expires or is sold, terminated, or exercised. If the hedge accounting is discontinued, Nexon Group continues to report any balance related to the discontinued cash flow hedge previously recognized in other comprehensive income until the forecasted transaction affects profit or loss. If the forecasted transaction is no longer considered probable, the balance related to the cash flow hedge is recognized in profit or loss immediately.

(e) Presentation of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Fair value of financial instruments

Fair values of financial instruments are determined based on quoted market prices if they are traded on active financial markets at the end of each reporting period.

If an active market does not exist, fair values of financial instruments are determined using appropriate valuation techniques (e.g. income approach, market approach).

See “26 Fair value of financial instruments” for calculation method of fair value.

(6) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment losses.

The cost includes costs directly attributable to the acquisition of the assets, costs of dismantling and removing the assets and restoring the site on which they are located and borrowing costs to be capitalized.

Items of property, plant and equipment that have different useful lives are recorded as separate items.

(b) Depreciation

Depreciation is calculated based on the depreciable amount, which is calculated as the cost of an asset less its residual value.

Each item of property, plant and equipment is depreciated using the straight-line method over the estimated useful life. Land is not depreciated.

The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structure: 3 to 45 years
- Tools, furniture and fixtures: 2 to 15 years

The depreciation methods, useful lives and residual values are reviewed at the end of each consolidated fiscal year and revised if necessary.

(7) Goodwill and intangible assets

(a) Intangible assets acquired through business combination (goodwill and other intangible assets)

See “(2) Business combination” for measurement of goodwill at initial recognition.

Intangible assets acquired through business combination and recognized separately from goodwill are initially recognized at fair value on the date of acquisition.

Intangible assets excluding goodwill are carried at cost less accumulated amortization and accumulated impairment losses in the same manner as intangible assets acquired individually.

(b) Software

Nexon Group incurs certain costs to purchase or develop software for internal use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when incurred. Expenditures arising from development activities are capitalized as intangible assets, if, and only if, they are reliably measurable, developments are technically feasible, it is highly probable to generate future economic benefits, and Nexon Group has an intention and adequate resources to complete the development of the assets to use or sell them.

Capitalized software costs are carried at cost less accumulated amortization and accumulated impairment losses.

(c) Research and development costs

Expenditures arising from research activities to obtain new scientific or technical knowledge and understanding are recognized in profit or loss when incurred. Development costs that satisfy certain conditions are capitalized and carried at cost less accumulated amortization and accumulated impairment losses.

(d) Game copyrights and other intangible assets (individually acquired intangible assets)

Nexon Group purchases publishing rights for online games developed by other companies and recognizes them as intangible assets. Game copyrights and other intangible assets acquired by Nexon Group with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. There are no intangible assets with indefinite useful lives.

(e) Amortization

Amortization is calculated based on the cost of an asset less its residual value. Amortization of intangible assets is computed using the straight-line method over their estimated useful lives from the date when the assets become available for use.

Estimated useful lives for major intangible assets are as follows:

・Game copyrights 3 to 10 years

The amortization methods, useful lives and residual values are reviewed at the end of each consolidated fiscal year and revised if necessary. Residual values are considered to be zero.

(8) Leases

Nexon Group assesses whether a contract is, or contains, a lease at inception of the contract. It is deemed that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Nexon Group reviews the following matters in the assessment of whether or not a contract conveys the right to control the use of an identified asset:

- whether the use of an identified asset is included in the contract;
- whether Nexon Group has the right to receive almost all the economic benefits from the use of the asset over the entire period of usage; and
- whether Nexon Group has the right to give instructions on the use of the asset.

When Nexon Group enters into or reviews a contract that contains lease components, the consideration in the contract is allocated to each component on the basis of the relative stand-alone prices of lease and non-lease components.

However, with regards to leases of a building or similar asset for which Nexon Group is the lessee, we have elected not to separate non-lease components from lease components, and instead account for lease and non-lease components as a single lease component.

Nexon Group determines the lease term as the non-cancellable period during which the lessee has the right to use the underlying asset, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(Lease as a lessee)

Nexon Group recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is derived by adjusting the amount of the initial measurement of the lease liability by any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred in dismantling and removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

After initial recognition, a right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined in the same way as property, plant and equipment. In addition, the carrying amount of the right-of-use asset is reduced due to impairment losses and adjusted at remeasurement of the corresponding lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used. The lessee's incremental borrowing rate is calculated by, for example, adding credit risk to a risk-free rate of government bonds, etc., and using the most recent interest rate of borrowing from a financial institution.

The total lease payments included in the measurement of the lease liability comprise the following payments:

- fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate (initial measurement uses an index or rate as at the commencement date);
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if Nexon Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the carrying amount of lease liability increases to reflect interest on the lease liability and decreases to reflect lease payments made. The lease liability will be remeasured if there is any change in future lease payments due to a change in an index or a rate, if there is any change in the amounts expected to be payable under residual value guarantees, or if there is any change in the certainty to exercise the purchase, extension, or termination option.

At remeasurement of the lease liability, corresponding adjustment is made to the carrying amount of the right-of-use asset, or if the carrying amount of the right-of-use asset is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss.

In the consolidated statement of financial position, Nexon Group presents right-of-use assets that do not satisfy the definition of investment property under "right-of-use assets," and lease liabilities under "lease liabilities (current)" and "lease liabilities (non-current)."

(Short-term and low-value leases)

Nexon Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases for which the underlying asset is of low-value.

Nexon Group recognizes lease payments for these leases as expenses over the lease term on a straight-line basis.

(Lease as a lessor)

In cases where Nexon Group is the lessor, each lease is classified as either a finance lease or an operating lease at the inception date of the lease. To classify each lease, we make an overall assessment as to whether or not it transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. If it does, a lease is classified as a finance lease. If not, it is classified as an operating lease.

As a part of this assessment, we review certain indexes including whether or not the lease term is for the major part of the economic life of the underlying asset.

- In cases where Nexon Group is an intermediate lessor, the head lease and the sublease are accounted for separately.
- The classification of a sublease is determined upon referring, not to the underlying asset, but to the right-of-use asset that arise from the head lease.
- If the head lease is a short-term lease to be accounted for by applying the provision for exemption as above, the sublease is classified as an operating lease.
- If a contract contains lease and non-lease components, Nexon Group applies IFRS 16 and allocates the consideration in the contract to each component proportionately.

Nexon Group recognizes lease payments from operating leases as income on a straight-line basis over the lease term and presents them in “other income.”

For lease payments from finance leases, assets held under a finance lease are recognized in the statement of financial position at the commencement date and presented as receivables under “trade and other receivables” and “other financial assets (non-current)” at an amount equal to the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term which are not received at the commencement date:

- fixed lease payments (including in-substance fixed lease payments), less any lease incentives payable;
- variable lease payments that depend on an index or a rate (initial measurement uses an index or rate as at the commencement date);
- any residual value guarantees provided to the lessor by the lessee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Nexon Group recognizes lease payments from finance leases as “finance income” over the lease term based on a pattern that reflects the rate of return from Nexon Group’s net investment in the lease over a certain period.

(9) Impairment loss of non-financial assets

The carrying amounts of Nexon Group’s non-financial assets, excluding inventories and deferred tax assets, are assessed on a quarterly basis as to whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated. Regarding goodwill and intangible assets with indeterminable useful lives or not yet available for use, the recoverable amount is estimated at the end of each consolidated fiscal year and when any indication of impairment is identified.

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less cost to sell. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. A CGU is the smallest group of assets which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

The CGU of goodwill is determined based on the unit by which the goodwill is monitored for internal management purposes and does not exceed an operating segment.

Because corporate assets do not generate independent cash inflows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment loss is recognized through profit or loss. The impairment loss recognized related to a CGU is allocated to reduce the carrying amount of the goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a prorated basis.

Nexon Group assesses on a quarterly basis as to whether there is any indication that an impairment loss recognized in prior years for an asset may have decreased or may no longer exist. An impairment loss is reversed if an indication of reversal exists and there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed to the extent the carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Impairment losses recognized for goodwill are not reversed.

(10) Employee benefits

(a) Defined contribution pension plan

The Company and certain subsidiaries have defined contribution pension plans. A defined contribution pension plan is a post-retirement benefit plan under which the employer pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions. Contributions under the defined contribution pension plans are expensed during the period in which employees have rendered their services.

(b) Defined benefit pension plan

Certain subsidiaries have defined benefit pension plans. A defined benefit pension plan is any post-retirement benefit plan other than a defined contribution pension plan. These subsidiaries calculate obligations related to the defined benefit pension plans by estimating the ultimate cost to the company of the benefits that employees have earned in return for their services in the current and prior periods and discounting such amount to determine the present value.

(c) Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount and expensed when relevant services have been rendered.

Nexon Group recognizes the estimated cost of bonus payments based on the plan as a liability when it has a present legal or constructive obligation to make such payments as a result of services rendered by employees in the past and a reliable estimate of the expected obligation can be made.

(11) Share-based compensation

Nexon Group has stock option plans as incentives to its directors and employees. The fair value of stock option on the grant date is recognized as expenses over the vesting period and the corresponding amount is recognized as an increase in other equity interest. The fair value of option granted is determined using the Black-Scholes model taking into consideration various conditions of the option. Nexon Group reviews these conditions regularly and revises the estimate of the number of rights expected to vest, as necessary.

When stock options are exercised, the Company will issue new shares and account for in the manner described in "(13) Shareholders' equity."

(12) Provisions

Provisions are recognized when Nexon Group has a present legal or constructive obligation that can be reasonably estimated as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are calculated as the estimated future cash flows discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount due to the passage of time is recognized as finance cost.

Asset retirement obligations are recognized to provide for obligations to restore leased offices and other premises to their original conditions. The amount of the obligations is estimated, recognized and measured considering the conditions of each property individually and specifically, based on factors including Nexon Group's past experience of restoration and the expected period of use determined taking into account the useful lives of leasehold improvements.

(13) Shareholders' equity

Common stock

The issue price of common stock issued by the Company is recorded in capital stock and capital surplus, and direct issue cost, net of taxes, is deducted from capital surplus.

(14) Revenue

Nexon Group is engaged in PC online business, mobile business, consulting business related to PC online game services and internet advertisement business. Revenue is measured at the fair value of the consideration received for services rendered in the ordinary course of business less sales-related taxes.

Revenue from contracts with customers for transactions involving the rendering of services is recognized based on the following 5-step approach:

Step 1: Identify contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognize revenue when (or as) performance obligations are satisfied

Nexon Group has neither incremental cost for the acquisition of contracts with customers, nor any incidental part that is deemed recoverable, which we need to recognize under assets. "Deferred income" in consolidated statements of financial position falls under contract liability under IFRS 15.

Nexon Group identifies different assets or services included in contracts with customers and uses them as transactional units in the identification of our performance obligations. As we identify our performance obligations, we conduct a review as to whether we are a principal or agent. Revenue recognition criteria and basis for gross versus net presentation of revenue for major revenue categories are as follows.

(A) Revenue recognition criteria by major revenue category

Nexon Group generates revenue primarily from (a) sales of items used in PC online business and mobile business (revenue from item charging); (b) royalty income from granting publishing rights for PC online games developed and commercialized by Nexon Group; and (c) revenue from consulting business for PC online game services and in-game advertisement business.

(a) Revenue from sales of items used in PC online business and mobile business (revenue from item charging)

PC online business services PC online games developed by Nexon Group or other companies. Nexon Group's PC online games are basically free to play, but certain fees are charged to purchase necessary items or use certain services. In PC online game, revenue is recognized over the estimated usage period during which the game items purchased in exchange for game points are expected to be used.

Mobile business services mobile games developed by Nexon Group or other companies through mobile devices such as smartphones and tablets. Mobile games are basically free to play, but certain fees are charged to purchase necessary items or use certain services. In mobile game, revenue is recognized over the estimated usage period during which the game items purchased in exchange for game points are expected to be used.

In our PC online and mobiles businesses, we mostly provide services as a principal, but we also provide some services as an agent.

(b) Royalty income from granting publishing rights for PC online games developed and commercialized by Nexon Group

As the owner of the copyright, Nexon Group enters into a licensing agreement with third party publishers and grants publishing rights for PC online games developed and commercialized by Nexon Group.

We recognize the performance obligations for royalty income arising from granting publishing rights to third parties to be satisfied over the contract term of the relevant royalty agreement when it is probable that the economic benefits associated with the transaction will flow to Nexon Group and such income amount can be measured reliably.

For the granting of publishing rights through licensing agreements, we conduct transactions as a principal.

(c) Revenue from consulting business for PC online game services and in-game advertisement business

In consulting business, a subsidiary provides Chinese domestic publishers with consulting services for setting up and maintaining billing systems and membership systems, business strategy development, game operation, and marketing, and recognizes revenue for rendered services by reference to the stage of completion of the transaction. We provide services in our consulting business as a principal.

In in-game advertisement business, advertisements are directly exposed to users through their usage of functional items that are equipped with advertisement function in the game, and revenue is recognized over the advertisement period. For our in-game advertisement business, we decide whether we are a principal or an agent on a case-by-case basis.

(B) Revenue recognition based on satisfaction of performance obligations

Nexon Group recognizes revenue when, or as, we satisfy our performance obligations by transferring services to customers.

We recognize that performance obligations are satisfied over time in our PC online business, mobile business, consulting business for PC online game services, and internet advertisement business. In segment information, revenue from our consulting business for PC online game services is included in PC online, and revenue from our internet advertisement business is included in Other.

(a) Performance obligations satisfied at a point in time

Nexon Group recognizes revenue at a point in time as the transfer of control occurs upon delivery to customers.

(b) Performance obligations satisfied over time

If any one of the following criteria is met, control of a service is transferred over time, and therefore, performance obligations are satisfied and revenue is recognized over time.

(i) The customer simultaneously receives and consumes the benefit provided by Nexon Group's performance as Nexon Group performs.

(ii) Nexon Group's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced.

(iii) Nexon Group's performance does not create an asset with an alternative use to Nexon Group and Nexon Group has an enforceable right to payment for performance completed to date.

We recognize performance obligations for revenue from item charging by estimating the service period of items sold for each game. We assume the period for satisfying performance obligations to be the same as the estimated service period, which is calculated by classifying the items sold into 3 types (i.e. consumable, temporary, permanent) according to their specifications.

For permanent items for which our performance obligations continue on a permanent basis, we have adopted a method of calculating users' service usage periods by weighted average.

For royalty income, we recognize revenue assuming the contract term of copyrights, etc. owned by Nexon Group to be the period for satisfying performance obligations.

(C) Gross versus net presentation of revenue

In the ordinary course of business, there are cases where Nexon Group acts as an intermediary or agent. In reporting revenue arising from these transactions, Nexon Group determines whether to present revenue in the gross amount of the consideration received from customers or in the amount of consideration net of commissions and other fees payable to third parties. However, the decision as to whether revenue is presented in gross or net amount has no impact on profit or loss.

Determination of whether to present revenue in the gross or net amount is based on whether the nature of our performance obligation under the relevant transaction requires us to provide particular goods or services ourselves (i.e. we are a "principal") or to arrange for another party to provide particular goods or services (i.e. we are an "agent"). For transactions in which Nexon Group acts as a "principal," we recognize revenue on a gross basis when or as the performance obligation is satisfied. For transactions in which Nexon Group acts as an "agent," we recognize as revenue the net amount it retains as consideration or commission which we expect to become entitled to receive in exchange for arranging for another party to provide particular goods or services

when or as the performance obligation is satisfied. Whether Nexon Group acts as a principal or an agent is determined based on an assessment of terms and conditions of each arrangement with respect to exposure to the significant risks and rewards associated with sale of goods or provision of services.

In addition, we are a "principal" if we control the good or service before transferring it to the customer.

Factors to be considered as requirements for gross presentation of revenue arising from a transaction in which Nexon Group acts as a principal include:

(a) We have primary responsibility to provide a service to a customer or to fulfill an order.

(b) We have discretion to directly or indirectly establish pricing.

(c) We are exposed to credit risk for the amount receivable from the customer.

(15) Finance income and finance costs

Finance income mainly consists of interest income, dividend income and changes in fair value of financial assets measured at fair value through profit or loss. Interest income is recognized on an accrual basis using the effective interest rate method. Dividend income is recognized on the date when Nexon Group's right to dividend is fixed. Finance costs mainly consist of interest expense and changes in fair value of financial assets measured at FVTPL. Interest expense is recognized on an accrual basis using the effective interest rate method.

(16) Income taxes

Income taxes comprise current and deferred taxes. They are recognized in profit or loss, except for those related to business combination and items recognized directly in equity or other comprehensive income.

Current taxes are measured at the amount expected to be paid to (or recovered from) taxation authorities on taxable income or loss for the current year, using the rates that have been enacted or substantively enacted on each reporting date.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of an asset or liability for accounting purposes and its tax base. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Future taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit;
- Future taxable temporary differences associated with investments in subsidiaries, affiliates and joint ventures to the extent that it is possible to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future; or
- Future deductible temporary differences associated with investments in subsidiaries, affiliates and joint ventures to the extent that it is not probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if, and only if, the entity has a legally enforceable right to set off the current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(17) Earnings per share

Nexon Group discloses basic and diluted earnings (attributable to owners of the parent company) per share of common stock. Basic earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of common stock outstanding during the period adjusted for treasury stock. Diluted earnings per share is calculated by adjusting net income attributable to owners of the parent company and the weighted average number of common stock outstanding adjusted for treasury stock for the effects of all dilutive potential common stock. All potential common stock of Nexon Group relates to our stock option plans.

(18) Dividends

Dividends to the Company's shareholders are recognized as a liability in the period in which the Board of Directors of the Company approves them.

(19) Segment information

Business segments are components of business activities that earn revenues and incur expenses including transactions with other business segments. Results of all business segments for which separate financial information is available are reviewed regularly by the Board of Directors of the Company in deciding how to allocate management resources and in assessing performance.

4 Critical accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the period in which the estimates have been reviewed and in future periods.

The judgment made in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is as follows:

・Determination of the scope of subsidiaries, affiliates and joint ventures (3 Significant accounting policies (1) Basis of consolidation)

Information on assumptions about the future that have a risk of resulting in material adjustments in the current and following fiscal years and other estimation uncertainty at the end of the current fiscal year is as follows:

・Method of measuring fair value of financial instruments (3 Significant accounting policies (5) Financial instruments and 26 Fair value of financial instruments)
・Valuation of goodwill and intangible assets (3 Significant accounting policies (7) Goodwill and intangible assets and 10 Goodwill and intangible assets)
・Recoverability of deferred tax assets (3 Significant accounting policies (16) Income taxes and 14 Deferred tax assets and deferred tax liabilities)

(Impact of COVID-19 on critical accounting estimates and judgement)

While the economic situation has deteriorated due to sluggish consumption, rises in the unemployment rate and corporate bankruptcies as a consequence of the global pandemic of COVID-19, in light of the nature of Nexon Group's business to offer online game service to customers, COVID-19 does not have significant impact on critical accounting estimates made by management and their underlying assumptions as well as accounting judgement.

5 Segment information

(1) Outline of reportable segments

Reportable segments of Nexon Group are components of Nexon Group, for which separate financial statements are available, that are evaluated regularly by the Board of Directors in deciding how to allocate management resources and in assessing performance.

Nexon Group is engaged in production, development and service of PC online games and mobile games, and the Company (in Japan) and its local consolidated subsidiaries (overseas) develop overall strategies for their respective products and services in each region and operate business activities as independent units. Accordingly, Nexon Group is comprised of geographical business segments based on production, development, and service of PC online games and mobile games. Nexon Group has formed its reportable segments by consolidating business segments based on the geographic location since subsidiaries in the same region, due to their business characteristics, receive similar impact of the foreign exchange fluctuation risk on their operating results and the ratio of the impact to operating results is high. There are five reportable segments: “Japan,” “Korea,” “China,” “North America” and “Other” which includes Europe and Asian countries.

Nexon Group applied IFRS 15. As a result, Nexon Group has divided revenue generated from contracts with customers into PC online, mobile and other based on such contracts with customers.

(2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Year ended December 31, 2019

(Millions of yen)

	Reportable Segments						Adjust-ments (Note 4)	Consoli-dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,496	173,797	2,821	3,920	1,680	185,714	—	185,714
Mobile	4,084	44,530	—	11,962	1	60,577	—	60,577
Other	69	2,106	—	74	2	2,251	—	2,251
Total revenue from external customers	7,649	220,433	2,821	15,956	1,683	248,542	—	248,542
Intersegment revenue	1,058	2,153	—	952	318	4,481	(4,481)	—
Total	8,707	222,586	2,821	16,908	2,001	253,023	(4,481)	248,542
Segment profit or loss (Note 1)	(3,490)	112,265	1,557	(5,527)	(957)	103,848	(9)	103,839
Other income (expense), net	—	—	—	—	—	—	—	(9,314)
Operating income	—	—	—	—	—	—	—	94,525
Finance income (costs), net (Note 6)	—	—	—	—	—	—	—	27,768
Share of loss of investments accounted for using equity method	—	—	—	—	—	—	—	(325)
Income before income taxes	—	—	—	—	—	—	—	121,968
(Other items)								
Depreciation and amortization (Note 5)	17	6,194	89	1,164	230	7,694	—	7,694
Impairment loss	84	3,421	—	14,501	—	18,006	—	18,006
Capital expenditures (Note 3)	87	7,018	58	1,404	267	8,834	—	8,834

(Notes) 1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

2. Price for intersegment transactions is based on the general market price.

3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.
Nexon Group did not include investments in right-of-use assets in capital expenditures for the year ended December 31, 2019 but, after reviewing the scope, decided to include them in light of their materiality from the year ended December 31, 2020. As a result, the figures for the year ended December 31, 2019 were revised to include investments in right-of-use assets. Capital expenditures for the year ended December 31, 2019 before the revision were ¥79 million for Japan, ¥1,652 million for Korea, ¥51 million for China, ¥265 million for North America, ¥113 million for Other and ¥2,160 million for Total.

4. Adjustments in segment profit or loss of ¥(9) million represent elimination of intersegment transactions.

5. In addition to property, plant and equipment and intangible assets, depreciation arising from right-of-use assets is included.

6. A major component of finance income is foreign exchange gain of ¥16,232 million.

7. For PC online and mobile, performance obligations are satisfied and revenue is recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

Year ended December 31, 2020

(Millions of yen)

	Reportable Segments						Adjust-ments (Note 4)	Consoli-dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,249	181,594	3,058	5,029	1,313	194,243	—	194,243
Mobile	1,001	83,630	—	11,790	653	97,074	—	97,074
Other	66	1,551	—	88	2	1,707	—	1,707
Total revenue from external customers	4,316	266,775	3,058	16,907	1,968	293,024	—	293,024
Intersegment revenue	938	2,635	—	717	396	4,686	(4,686)	—
Total	5,254	269,410	3,058	17,624	2,364	297,710	(4,686)	293,024
Segment profit or loss (Note 1)	(4,338)	126,839	1,891	(1,263)	(2,821)	120,308	(4)	120,304
Other income (expense), net	—	—	—	—	—	—	—	(8,854)
Operating income	—	—	—	—	—	—	—	111,450
Finance income (costs), net (Note 5)	—	—	—	—	—	—	—	(4,044)
Share of profit of investments accounted for using equity method	—	—	—	—	—	—	—	765
Income before income taxes	—	—	—	—	—	—	—	108,171
(Other items)								
Depreciation and amortization (Note 6)	3	7,578	96	329	568	8,574	—	8,574
Impairment loss	491	3,698	—	5,466	—	9,655	—	9,655
Capital expenditures (Note 3)	283	6,469	186	69	3,513	10,520	—	10,520

(Notes) 1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.
2. Price for intersegment transactions is based on the general market price.
3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.
4. Adjustments in segment profit or loss of ¥(4) million represent elimination of intersegment transactions.
5. A major component of finance cost is foreign exchange loss of ¥17,744 million.
6. In addition to property, plant and equipment and intangible assets, depreciation arising from right-of-use assets is included.
7. For PC online and mobile, performance obligations are satisfied and revenue is recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

(3) Revenue from major products and services

Revenue from major products and services is as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
In-game microtransactions	131,967	206,103
Royalty	111,577	82,225
Other	4,998	4,696
Total	248,542	293,024

(4) Information by region

The carrying amounts of non-current assets (excluding financial assets and deferred tax assets) are as follows:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Japan	107	7
Korea	60,350	55,632
China	140	244
North America	6,249	235
Other	27,489	32,739
Total	94,335	88,857

(Notes) 1. Non-current assets are classified into country or region category based on the location.
2. Categorization by country or region is based on geographic proximity.
3. Main countries or regions in each category:
(1) North America: USA
(2) Other: Europe and Asian countries
4. While IFRS 16 *Leases* was applied from the year ended December 31, 2019, the balance of right-of-use assets was not included in the carrying amount of non-current assets. Therefore, the balance of non-current assets as of December 31, 2019 was revised to include it. The figures by region as of December 31, 2019 before the revision were ¥107 million for Japan, ¥54,701 million for Korea, ¥120 million for China, ¥5,733 million for North America, ¥27,062 million for Other and ¥87,723 million for Total.

Revenue from external customers is as follows.

Nexon Group has made a partial change to its regional segmentation of revenue from external customers from the year ended December 31, 2020. The figures for the year ended December 31, 2019 were also revised accordingly.

For the year ended December 31, 2019

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	3,516	10,312	26	13,854
Korea	64,018	24,118	1,658	89,794
China	109,850	2,319	78	112,247
North America and Europe	3,539	15,559	354	19,452
Rest of World	4,791	8,269	135	13,195
Total	185,714	60,577	2,251	248,542

(Notes) 1. Revenue is classified to country or region based on customer location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions in each category:
(1) North America and Europe: USA, Canada and Europe
(2) Rest of World: Central and South America and Asian countries

For the year ended December 31, 2020

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	3,250	7,100	68	10,418
Korea	99,829	63,765	1,386	164,980
China	80,194	1,033	13	81,240
North America and Europe	4,485	15,195	183	19,863
Rest of World	6,485	9,981	57	16,523
Total	194,243	97,074	1,707	293,024

(Notes) 1. Revenue is classified to country or region based on customer location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions in each category:
(1) North America and Europe: USA, Canada and Europe
(2) Rest of World: Central and South America and Asian countries

(Change in presentation method)

From the three months ended March 31, 2020, revenue from Europe, which was previously included in "Rest of World," is included along with "North America" under the category of "North America and Europe." This is due to increasing similarity between these regions attributable to the same service being provided by Nexon Group in North America and Europe.

As a result, for the year ended December 31, 2019, ¥4,765 million was reclassified from "Rest of World" to "North America and Europe."

(5) Information on major customers

For the years ended December 31, 2019 and 2020, one customer accounted for more than 10% of Nexon Group's consolidated revenue, and revenue earned from the customer was ¥102,443 million (Korea segment) and ¥71,694 million (Korea segment), respectively.

6 Cash and cash equivalents

Cash and cash equivalents consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Cash	2	2
Demand deposit	253,634	252,568
Total	253,636	252,570

7 Trade and other receivables

Trade and other receivables consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Accounts receivable	28,533	20,227
Other receivables	1,023	1,392
Lease receivables	153	386
Loss allowance	(1,066)	(1,076)
Other	—	6
Total	28,643	20,935

The following table shows aging analysis and loss allowance for trade and other receivables.

(Millions of yen)

	As of December 31, 2019		As of December 31, 2020	
	Trade and other receivables	Loss allowance	Trade and other receivables	Loss allowance
Before due date	27,954	(276)	21,129	(274)
3 months or less	811	(0)	60	(0)
Over 3 months up to 6 months	83	(14)	40	(20)
Over 6 months up to 1 year	86	(1)	2	(2)
Over 1 year	775	(775)	780	(780)
Total	29,709	(1,066)	22,011	(1,076)

Refer to “25 Financial risk management” for credit risk management policy. Changes in loss allowance for impairment of trade and other receivables are as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Beginning balance	1,072	1,066
Increase in loss allowance recognized in profit or loss during the current year	158	17
Unrecoverable receivables directly written off during the current year	(119)	(14)
Exchange differences on translating foreign operations	(45)	7
Ending balance	1,066	1,076

(Notes) 1. For trade and other receivables, Nexon Group recognizes lifetime expected credit losses as a practical expedient based on historical credit loss rates.
2. There was no significant change in the carrying amount in aggregate which affected the changes in loss allowance during the year ended December 31, 2020.

8 Other deposits

Other deposits consist only of term deposits with maturity of over three months.

9 Property, plant and equipment

Changes in costs, accumulated depreciation and accumulated impairment loss, and the carrying amounts of property, plant and equipment are as follows:

(Millions of yen)

Cost	Buildings and structures	Vehicles	Tools, furniture and fixtures	Land	Construc-tion in progress	Total
January 1, 2019	20,188	34	14,013	7,247	20	41,502
Adjustment at IFRS 16 application (net of tax)	—	—	(784)	—	—	(784)
Acquisition of new subsidiaries	9	—	89	—	—	98
Decrease due to change in scope of consolidation	—	—	(131)	—	—	(131)
Additions	116	—	1,096	—	302	1,514
Retirement	(127)	—	(1,707)	—	—	(1,834)
Sales or disposals	(27)	(9)	(1,054)	(3)	—	(1,093)
Transfers between accounts	292	—	70	(10)	(310)	42
Other	4	—	—	—	—	4
Exchange differences on translating foreign operations	(935)	(2)	(519)	(350)	(12)	(1,818)
December 31, 2019	19,520	23	11,073	6,884	—	37,500
Decrease due to change in scope of consolidation	(0)	—	(115)	—	—	(115)
Additions	379	7	1,411	—	525	2,322
Retirement	(365)	—	(375)	—	—	(740)
Sales or disposals	(435)	—	(946)	—	—	(1,381)
Transfers between accounts	650	—	67	—	(501)	216
Other	74	—	—	—	—	74
Exchange differences on translating foreign operations	135	1	72	43	7	258
December 31, 2020	19,958	31	11,187	6,927	31	38,134

(Millions of yen)

Accumulated depreciation and accumulated impairment loss	Buildings and structures	Vehicles	Tools, furniture and fixtures	Land	Construc-tion in progress	Total
January 1, 2019	(4,111)	(27)	(12,198)	—	—	(16,336)
Adjustment at IFRS 16 application (net of tax)	—	—	784	—	—	784
Acquisition of new subsidiaries	(1)	—	(8)	—	—	(9)
Decrease due to change in scope of consolidation	—	—	124	—	—	124
Depreciation	(648)	(3)	(1,154)	—	—	(1,805)
Impairment loss (Note)	(73)	—	(164)	—	—	(237)
Retirement	93	—	1,704	—	—	1,797
Sales or disposals	9	9	1,046	—	—	1,064
Transfers between accounts	(0)	—	(19)	—	—	(19)
Exchange differences on translating foreign operations	169	1	448	—	—	618
December 31, 2019	(4,562)	(20)	(9,437)	—	—	(14,019)
Decrease due to change in scope of consolidation	0	—	109	—	—	109
Depreciation	(576)	(3)	(1,071)	—	—	(1,650)
Impairment loss (Note)	(104)	—	(20)	—	—	(124)
Retirement	332	—	361	—	—	693
Sales or disposals	432	—	896	—	—	1,328
Transfers between accounts	(212)	—	6	—	—	(206)
Other	0	—	—	—	—	0
Exchange differences on translating foreign operations	(33)	(0)	(41)	—	—	(74)
December 31, 2020	(4,723)	(23)	(9,197)	—	—	(13,943)

(Note) Nexon Group recognized impairment losses for the years ended December 31, 2019 and 2020 as realization of profits originally expected was no longer probable. Those impairment losses are included in “Other expenses” in the consolidated statement of income.

(Millions of yen)

Carrying amount	Buildings and structures	Vehicles	Tools, furniture and fixtures	Land	Construc-tion in progress	Total
January 1, 2019	16,077	7	1,815	7,247	20	25,166
December 31, 2019	14,958	3	1,636	6,884	—	23,481
December 31, 2020	15,235	8	1,990	6,927	31	24,191

10 Goodwill and intangible assets

Changes in costs, accumulated amortization and accumulated impairment loss, and the carrying amounts of goodwill and intangible assets are as follows:

(Millions of yen)

Cost	Goodwill	Intangible assets			
		Game copyrights (Note 4)	Software	Other (Note 5)	Total
January 1, 2019	82,954	103,319	8,484	6,874	118,677
Acquisitions of new subsidiaries (Note 1)	21,731	3,308	3	—	3,311
Decrease due to change in scope of consolidation	—	—	(6)	(195)	(201)
Additions	—	64	523	74	661
Retirement	—	(788)	(943)	(1,276)	(3,007)
Sales or disposals	—	(744)	(8)	—	(752)
Transfers between accounts	—	14	(4)	1,450	1,460
Exchange differences on translating foreign operations	(504)	(4,428)	(366)	(296)	(5,090)
December 31, 2019	104,181	100,745	7,683	6,631	115,059
Decrease due to change in scope of consolidation	(35,200)	—	(39)	(130)	(169)
Additions	—	34	671	197	902
Retirement	—	—	(44)	(114)	(158)
Sales or disposals	—	—	(51)	—	(51)
Transfers between accounts	—	10	(48)	830	792
Exchange differences on translating foreign operations	1,458	227	73	88	388
December 31, 2020	70,439	101,016	8,245	7,502	116,763

(Millions of yen)

Accumulated amortization and accumulated impairment	Goodwill	Intangible assets			
		Game copyrights (Note 4)	Software	Other (Note 5)	Total
January 1, 2019	(56,425)	(81,504)	(7,419)	(3,733)	(92,656)
Acquisitions of new subsidiaries (Note 1)	—	—	(0)	—	(0)
Decrease due to change in scope of consolidation	—	—	5	195	200
Amortization	—	(2,514)	(624)	(1,421)	(4,559)
Impairment loss	(6,237)	(4,040)	(3)	(433)	(4,476)
Retirement	—	788	943	1,276	3,007
Sales or disposals	—	744	8	—	752
Transfers between accounts	—	—	4	(1)	3
Exchange differences on translating foreign operations	961	3,766	313	110	4,189
December 31, 2019	(61,701)	(82,760)	(6,773)	(4,007)	(93,540)
Decrease due to change in scope of consolidation	35,200	—	39	130	169
Amortization	—	(3,325)	(566)	(1,277)	(5,168)
Impairment loss	(5,697)	(2,909)	(3)	(377)	(3,289)
Retirement	—	—	43	114	157
Sales or disposals	—	—	29	—	29
Transfers between accounts	—	4	43	(6)	41
Exchange differences on translating foreign operations	184	(73)	(67)	(87)	(227)
December 31, 2020	(32,014)	(89,063)	(7,255)	(5,510)	(101,828)

(Millions of yen)

Carrying amount	Goodwill	Intangible assets			
		Game copyrights (Note 4)	Software	Other (Note 5)	Total
January 1, 2019	26,529	21,815	1,065	3,141	26,021
December 31, 2019	42,480	17,985	910	2,624	21,519
December 31, 2020	38,425	11,953	990	1,992	14,935

(Notes) 1. Acquisitions of new subsidiaries relate to the acquisition of Embark Studios AB in a business combination during the year ended December 31, 2019. Refer to "38 Business combination" for details of the business combination.
2. Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.
3. There are no material internally-generated intangible assets as of December 31, 2019 and 2020.
4. Certain game copyrights include related brands.
5. Game publishing right is included in Other.
6. The carrying amount and the remaining amortization period as of December 31, 2020 of major game copyrights of Nexon Group are as follows:

Reportable segment	Company	As of December 31, 2019	As of December 31, 2020	Remaining amortization period
		(¥ million)	(¥ million)	(Years)
Korea	NAT GAMES Co., Ltd.	11,262	8,060	3
North America	Pixelberry Studios	2,974	—	—
Other	Embark Studios AB	3,472	3,733	5

Nexon Group conducts impairment test on goodwill at least annually. In addition, Nexon Group conducts impairment test each time when there is an indication that goodwill and intangible assets are impaired. The recoverable amount in the impairment test for goodwill and intangible assets is calculated based on the value in use, but those for NEXON GT Co., Ltd. and NAT GAMES Co., Ltd. are calculated based on higher of the value in use and the fair value less disposal cost.

The fair value less disposal cost is calculated based on quoted price in the active market.

The value in use is calculated by discounting estimated future cash flows expected to be generated by a cash generating unit to the present value.

The estimated future cash flows are based on cash flow projections included in the latest business plan approved by the management with the projection period of less than five years unless there is a justifiable reason to choose otherwise. After the fifth year, a certain growth rate that takes into account the long-term average growth rate of the market is used, and the growth rate used to measure the value in use was up to 1% as of December 31, 2019 and 2020, respectively. This growth rate is lower than the long-term average growth rate of the market.

The pre-tax discount rate used to measure the value in use was between 13.9% and 22.4% and between 14.4% and 23.3% as of December 31, 2019 and 2020, respectively.

The management believes that it is unlikely that a change within a reasonable range of the growth rate and the discount rate used for the impairment test will result in material impairment loss in the relevant cash generating units. However, in certain subsidiaries where the recoverable amount exceeds the carrying amount only slightly, a decrease in the estimated future cash flows may result in impairment loss.

Goodwill arising from business combination is allocated on the acquisition date to cash generating units that are expected to benefit from the business combination. The carrying amounts of goodwill by reportable segment are as follows:

(Millions of yen)

Reportable segment	As of December 31, 2019	As of December 31, 2020
Japan	—	—
Korea	16,483	13,352
China	—	—
North America	2,671	—
Other	23,326	25,073
Total	42,480	38,425

Of those, major goodwill by reportable segment of Nexon Group is as follows:

(Millions of yen)

Reportable segment	Company	As of December 31, 2019	As of December 31, 2020
Korea	NEXON GT Co., Ltd.	5,559	2,434
	NAT GAMES Co., Ltd.	8,085	8,136
North America	Big Huge Games, Inc.	2,671	—
Other	Embark Studios AB	23,326	25,073

Nexon Group recognized impairment losses as realization of profits originally expected was no longer probable. Those impairment losses are included in “Other expenses” in the consolidated statement of income. The major components of impairment losses are as follows:

Year ended December 31, 2019

Item	Reportable segment	Company	Impairment loss (¥ million)
Goodwill	North America	Pixelberry Studios	4,494
	Korea	BOOLEAN GAMES (Note)	1,478
Game copyright	North America	Pixelberry Studios	3,985

(Note) In January 2020, our consolidated subsidiary NEXON Korea Corporation merged BOOLEAN GAMES.

Year ended December 31, 2020

Item	Reportable segment	Company	Impairment loss (¥ million)
Goodwill	Korea	NEXON GT Co., Ltd.	3,038
	North America	Big Huge Games, Inc.	2,589
Game copyright	North America	Pixelberry Studios	2,864

11 Investments accounted for using equity method

(1) Investments in affiliates

The following table shows information on the Company's affiliates. While there are no material affiliates for the Company, certain affiliates in which the Company holds less than 20% of the voting rights are included in the Company's affiliates as the Company has significant influence over their financial and management policies through the right to appoint their officers and material business agreements entered into between these affiliates and Nexon Group.

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Carrying amount of investments accounted for using equity method (Note)	2,515	4,879
Nexon Group's share in net income	(325)	1,155
Nexon Group's share in other comprehensive income	(1)	(4)
Nexon Group's share in total comprehensive income	(326)	1,151

(Note) Due to Nexon Group's acquisition of control of Embark Studios AB by business combination in the year ended December 31, 2019, the carrying amount of investments held by Nexon Group on the date of acquisition of ¥5,776 million was remeasured at fair value. Refer to "38 Business combination" for details on the business combination.

Nexon Group did not recognize certain share in loss of investees accounted for using equity method as the cumulative loss of such investees exceeded their carrying amount. Unrecognized share in such loss was ¥7 million and ¥746 million for the years ended December 31, 2020 and 2019, respectively. Accumulated unrecognized share in loss was ¥25 million and ¥883 million as of December 31, 2020 and 2019, respectively.

(2) Investments in joint ventures

The following table shows information on the Company's joint ventures. There are no material joint ventures for the Company.

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Carrying amount of investments accounted for using equity method	—	316
Nexon Group's share in net income	—	(390)
Nexon Group's share in total comprehensive income	—	(390)

12 Other financial assets

Other financial assets consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Financial assets measured at FVTPL		
Securities	2,779	21,438
Financial assets measured at FVTOCI		
Securities	33,551	153,492
Financial assets measures at amortized cost		
Security deposits and guarantees	6,556	6,989
Restricted deposit	3,485	7,214
Loans receivable	704	876
Accrued interest	4,802	1,232
Long-term deposit	1,654	—
Lease receivables	1,202	2,882
Other	941	840
Total	55,674	194,963
Current assets	8,418	27,343
Non-current assets	47,256	167,620
Total	55,674	194,963

Nexon Group designates investments held for maintaining and reinforcing business relationship with investees and non-held for trading investments as financial assets measured at FVTOCI.

The following table presents the fair value and dividend income of financial assets measured at FVTOCI that are recorded in other financial assets in the consolidated statement of financial position.

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Fair value		
Listed	1,444	126,969
Unlisted	32,107	26,523
Total	33,551	153,492

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Dividend income		
Listed	—	1,384
Unlisted	1	1
Total	1	1,385

The following table presents the fair value of major issues of financial assets measured at FVTOCI that are recorded in other financial assets in the consolidated statement of financial position.

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Hasbro, Inc.	—	53,915
BANDAI NAMCO Holdings Inc.	—	29,859
Wonder Holdings Co., Ltd.	31,872	26,304
KONAMI HOLDINGS CORPORATION	—	20,525
SEGA SAMMY HOLDINGS INC.	—	9,179

JOYCITY Corporation and Neptune Company, which were included in the table until the year ended December 31, 2019, are omitted as they became immaterial. Their fair value as of December 31, 2019 were ¥833 million and ¥611 million, respectively.

Financial assets measured at FVTOCI disposed of during the year are as follows:

(Millions of yen)

Year ended December 31, 2019			Year ended December 31, 2020		
Fair value at the date of sale	Accumulated gain (loss)	Dividend income	Fair value at the date of sale	Accumulated gain (loss)	Dividend income
308	(32)	—	855	—	—

Nexon Group sells or derecognizes financial assets measured at FVTOCI for streamlining and effective use of assets held. For the year ended December 31, 2019, accumulated losses (net of tax) reclassified from other equity interest to retained earnings were ¥(36) million.

13 Other assets

Other assets consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Prepaid expenses	4,746	3,615
Long-term prepaid expenses	149	1,183
Advance payment	493	241
Other	323	790
Total	5,711	5,829
Current assets	5,468	4,552
Non-current assets	243	1,277
Total	5,711	5,829

14 Deferred tax assets and deferred tax liabilities

(1) Deferred tax

The following table presents major components of and changes in deferred tax assets and liabilities:

Year ended December 31, 2019

(Millions of yen)

	January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 3)	December 31, 2019
Deferred tax assets					
Unrealized gains (losses) on available-for-sale securities	1,180	(176)	441	(58)	1,387
Deferred income	6,075	(113)	—	(296)	5,666
Provisions	484	314	—	(16)	782
Carryforward of unused tax losses (Note 1)	3,961	(2,283)	—	(238)	1,440
Impairment loss	17	(2)	—	1	16
Unused tax credits (Note 2)	341	10,744	—	215	11,300
Other payables and accrued expenses	394	(271)	—	(30)	93
Other	908	89	—	27	1,024
Total	13,360	8,302	441	(395)	21,708
Deferred tax liabilities					
Unrealized gains (losses) on intangible assets of subsidiaries	3,013	(339)	—	614	3,288
Undistributed profits of overseas subsidiaries	14,938	(1,955)	—	—	12,983
Amortization	249	(241)	—	17	25
Other	691	16	—	(7)	700
Total	18,891	(2,519)	—	624	16,996

(Notes) 1. Deferred tax assets are recognized mostly for carryforward of unused tax losses of NEXON Korea Corporation.

2. Deferred tax assets are recognized mostly for carryforward of foreign tax credit of NEOPLE INC.

3. Other includes exchange differences on translating foreign operations and the effect of new consolidation of Embark Studios AB.

Year ended December 31, 2020

(Millions of yen)

	January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 3)	December 31, 2020
Deferred tax assets					
Unrealized gains (losses) on available-for-sale securities	1,387	275	1,096	275	3,033
Deferred income	5,666	199	—	39	5,904
Depreciation and amortization	—	479	—	5	484
Provisions	782	413	—	(2)	1,193
Carryforward of unused tax losses	1,440	(1,054)	—	(7)	379
Impairment loss	16	(2)	—	(14)	0
Unused tax credits (Note 1)	11,300	1,678	—	100	13,078
Other payables and accrued expenses	93	(157)	—	64	—
Other	1,024	(17)	—	46	1,053
Total	21,708	1,814	1,096	506	25,124
Deferred tax liabilities					
Unrealized gains (losses) on securities	—	213	7,861	290	8,364
Unrealized gains (losses) on intangible assets of subsidiaries	3,288	(777)	—	37	2,548
Undistributed profits of overseas subsidiaries (Note 2)	12,983	29,712	—	—	42,695
Depreciation and amortization	25	3	—	(2)	26
Other	700	(105)	—	57	652
Total	16,996	29,046	7,861	382	54,285

(Notes) 1. Deferred tax assets are recognized mostly for carryforward of foreign tax credit of NEOPLE INC.
2. The increase is mainly due to deferred tax liabilities of ¥29,519 million newly recognized for undistributed profits of NEOPLE INC. in the year ended December 31, 2020.
3. Other includes exchange differences on translating foreign operations.

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position are as follows:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Deferred tax assets		
Within 1 year	13,260	15,654
Over 1 year	8,226	6,303
Total	21,486	21,957
Deferred tax liabilities		
Within 1 year	—	—
Over 1 year	16,774	51,118
Total	16,774	51,118

Nexon Group recognizes deferred tax assets taking into consideration the possibility that part or all of future deductible temporary differences or carryforward of unused tax losses can be utilized against future taxable profits. Nexon Group assesses recoverability of deferred tax assets taking into consideration scheduled reversal of deferred tax liabilities, projected future taxable profits and tax planning. Nexon Group determined that it is highly likely that tax benefit will be realized for recognized deferred tax assets based on the level of taxable profits in the past and the projected future taxable profits for the periods during which deferred tax assets can be recognized.

The amounts of future deductible temporary differences and the carryforwards of unused tax losses and unused tax credits for which no deferred tax asset is recognized are as follows:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Future deductible temporary differences	29,158	25,081
Carryforward of unused tax losses	81,596	110,201
Carryforward of unused tax credits	35,005	32,922
Total	145,759	168,204

The following table summarizes the amount and expiry date of the carryforward of unused tax losses for which no deferred tax asset is recognized:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
1st year	797	1,282
2nd year	1,484	911
3rd year	907	992
4th year	1,277	1,212
5th year and thereafter	77,131	105,804
Total	81,596	110,201

The following table summarizes the amount and expiry date of the carryforward of unused tax credits for which no deferred tax asset is recognized:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
1st year	56	42
2nd year	1,395	591
3rd year	9,603	12,998
4th year	12,924	10,413
5th year and thereafter	11,027	8,878
Total	35,005	32,922

Nexon Group recorded losses for the years ended December 31, 2019 and 2020. It also recognized deferred tax assets in excess of deferred tax liabilities of ¥664 million and ¥75 million for the years ended December 31, 2019 and 2020, respectively, relating to certain subsidiaries where the recoverability of their deferred tax assets are dependent on future taxable profits. This is based on the management assessment that it is highly likely that these

subsidiaries will generate taxable profits against which the carryforwards of unused tax losses and unused tax credits and future deductible temporary differences can be utilized.

As of December 31, 2019 and 2020, future taxable temporary differences associated with investments in subsidiaries and affiliates for which no deferred tax liability is recognized were ¥208,954 million and ¥5,009 million, respectively.

(2) Income tax expense

Income tax expense consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Income tax expense - current	19,553	25,450
Income tax expense - deferred	(10,821)	27,232
Total	8,732	52,682

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the statutory effective tax rate calculated based on these taxes was 30.6% for the years ended December 31, 2019 and 2020. Overseas subsidiaries are subject to local corporate tax, etc. in countries where they are located.

The reconciliation of the statutory effective tax rate to the average actual rate of tax burden in the consolidated statement of income is as follows:

	Year ended December 31, 2019	Year ended December 31, 2020
	%	%
Statutory effective tax rate	30.6	30.6
Permanent differences	0.6	3.0
Difference in tax rates of overseas subsidiaries	(4.2)	(8.2)
Tax relief associated with tax incentives for overseas subsidiaries (Note 1)	(23.1)	(13.4)
Changes in temporary differences for which deferred tax assets are not recognized	3.4	1.1
Foreign taxes	10.1	9.2
Unused tax credits	(9.4)	(1.7)
Effects of companies accounted for using equity method	(0.0)	(0.7)
Impairment loss of goodwill	1.2	0.9
Undistributed profits of overseas subsidiaries (Note 2)	(1.6)	27.5
Additional corporate taxes	0.0	0.1
Gain on step acquisition	(1.9)	—
Other	1.5	0.3
Average actual rate of tax burden	7.2	48.7

(Notes) 1. Tax relief associated with tax incentives for overseas subsidiaries represents corporate tax incentives received by our Korean subsidiary NEOPLE INC. upon its relocation to Jeju in Korea.

2. The increase for the year ended December 31, 2020 is mainly due to deferred tax liabilities newly recognized for undistributed profits of NEOPLE INC.

15 Trade and other payables

Trade and other payables consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Accounts payable	2,859	5,278
Other payables	4,894	5,390
Total	7,753	10,668

16 Deferred income

(1) Contractual liabilities

(Millions of yen)

	As of December 31, 2019		As of December 31, 2020	
	Current	Non-current	Current	Non-current
In-game microtransactions (Note 1)	8,539	551	9,909	803
Royalty (Note 2)	1,703	15,399	1,574	14,377
Other	8	—	22	—
Total	10,250	15,950	11,505	15,180

(Notes) 1. Nexon Group defers revenue from item sales and other sales in PC online business and mobile business in order to recognize it over the estimated usage period of game items. See "3 Significant accounting policies (14) Revenue" for the method of estimating the usage period.

2. Royalty includes royalty income related to licensing out *Dungeon&Fighter* in China and unearned royalty related to development.
Unearned royalty related to development is expected to be recognized as revenue over a certain period after the game is launched.

(2) Contractual liabilities as of January 1 and revenue recognized from performance obligations satisfied in previous periods.

Of revenue recognized, the amount included in contractual liabilities as of January 1 was as follows.

There was no revenue recognized from performance obligations satisfied in previous periods.

(Millions of yen)

	As of December 31, 2019		As of December 31, 2020	
	Current	Non-current	Current	Non-current
Amount included in contractual liabilities as of January 1	8,570	400	8,836	294

(3) Total transaction price allocated to unsatisfied performance obligations

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Total transaction price allocated	26,200	26,685
Expected timing of revenue recognition		
1st year	10,250	11,505
2nd year	1,644	1,725
3rd year	977	816
4th year	769	774
5th year	769	774
6th year and thereafter	11,791	11,091

(Note) Unearned royalty related to development is included in 6th year and thereafter.

17 Borrowings

(1) Breakdown of borrowings

Borrowings consisted of the following:

	As of December 31, 2019	As of December 31, 2020	Average interest rates (Note)	Repayment date
	(¥ million)	(¥ million)	%	
Short-term borrowings	2,223	2,094	1.75	—
Total	2,223	2,094		

(Note) Average interest rates are calculated based on interest rates and balances as of December 31, 2020.

(2) Assets pledged as collateral

Assets pledged as collateral for borrowings are as follows:

(Millions of yen)

		As of December 31, 2019	As of December 31, 2020
Other financial assets (current)	Term deposits	2,223	2,094
Total		2,223	2,094

Short-term borrowings corresponding to these assets pledged as collateral are as follows:

(Millions of yen)

		As of December 31, 2019	As of December 31, 2020
Borrowings (current)	Short-term borrowings	2,223	2,094
Total		2,223	2,094

18 Other financial liabilities

Other financial liabilities consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Financial liabilities measured at FVTPL		
Derivative liabilities	761	615
Financial liabilities measured at amortized cost		
Other	65	253
Total	826	868
Non-current liabilities	826	868
Total	826	868

19 Lease transactions

Nexon Group has applied IFRS 16 from the year ended December 31, 2019. In accordance with transitional reliefs for IFRS 16, Nexon Group recognized the cumulative effect of initial application at the date of initial application (January 1, 2019) instead of retrospective application with full restatement for each of the previous reporting periods. Nexon Group applied the practical expedient and did not reassess whether a contract is or contains a lease at the date of initial application. Therefore, Nexon Group applies IFRS 16 to all contracts entered into before January 1, 2019 and identified as a lease under IAS 17 *Leases* ("IAS 17") and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

Due to the transition to IFRS 16, we have additionally recognized ¥2,499 million of right-of-use assets and ¥6,254 million of lease liabilities. The difference of ¥3,755 million was recognized as retained earnings of ¥2,965 million and lease receivables of ¥790 million at the date of initial application. The weighted average of the lessee's incremental borrowing rate applied to lease liabilities recognized at the date of initial application of IFRS 16 is 2.1%. The impact of the application of IFRS 16 on earnings per share is insignificant.

For non-cancellable operating lease agreements disclosed as of December 31, 2018 under IAS 17, the reconciliation between the amount discounted at the incremental borrowing rate at the date of initial application and the amount of lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows:

(Millions of yen)

For non-cancellable operating lease agreements disclosed as of December 31, 2018 under IAS 17, the amount discounted at the incremental borrowing rate at the date of initial application (January 1, 2019)	2,966
(a) Finance lease liabilities recognized as of December 31, 2018	103
(b) Adjustment from the differences in treatment of the extension option and cancellation option	4,299
(c) Amount of adjustment for contracts prior to the commencement of the lease	(1,008)
(d) Leases of low-value assets recognized as expenses on a straight-line basis	(3)
Amount of lease liabilities recognized in the consolidated statement of financial position at the date of initial application (January 1, 2019)	6,357

The Company has applied the following practical expedients in applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- recognition exemption of short-term leases and leases for which the underlying asset is of low value;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

For leases classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are deemed to be the carrying amounts of lease assets and liabilities measured under IAS 17 on the immediately preceding day.

(1) Lease as a lessee

Nexon Group has been leasing assets including buildings and structures, vehicles, tools, furniture and fixtures for its business activities. Many of these lease contracts include extension and cancellation options. The terms and conditions of lease contracts were negotiated individually and those terms and conditions included are wide-ranging and diverse. The extension option (or the term after the cancellation option) is included in the lease term to the extent it is reasonably certain that the lease term will be extended (or will not be cancelled).

The carrying amount of right-of-use assets consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Buildings and structures	6,085	9,678
Vehicles	17	32
Tools, furniture and fixtures	510	319
Total	6,612	10,029

(Note) Nexon Group recognized impairment losses on right-of-use assets of ¥1,004 million and ¥60 million for the years ended December 31, 2019 and 2020, respectively, as realization of profits originally expected was no longer probable. This impairment loss is included in "Other expenses" in the consolidated statements of income.

During the years ended December 31, 2019 and 2020, the amount of increase in right-of-use assets was ¥6,825 million and ¥7,573 million, respectively, and the total amount of cash outflows related to leases was ¥2,697 million and ¥3,161 million, respectively.

Nexon Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases for which the underlying asset is of low-value. Nexon Group recognizes lease payments for these leases as expenses over the lease term on a straight-line basis.

Profits or losses recognized in connection with leases are as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Depreciation of right-of-use assets		
Buildings and structures	1,254	1,561
Vehicles	7	11
Tools, furniture and fixtures	68	184
Total	1,329	1,756
Cost of interest rates on lease liabilities	291	319
Cost of short-term leases (excluding the cost of leases with a lease term of one month or less)	548	448
Cost of leases of low-value assets (excluding the cost of short-term leases of low-value assets)	68	55

Refer to "25 Financial Risk Management, (4) Liquidity risk" for details on the maturity analyses of Nexon Group's lease liabilities.

(2) Lease as a lessor

Nexon Group rents out the unused portion of its real estates, including the buildings and structures leased for its business activities, through finance leases. Nexon Group accepts security deposits to secure the collection of lease payments from the lease and costs for the restoration of the real estate.

Maturity analyses of lease payments receivable from finance leases are as follows:

Year ended December 31, 2019

(Millions of yen)

	Within 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years	Total
Undiscounted lease payments	194	209	213	218	235	449	1,518
Unearned finance income	—	—	—	—	—	—	(163)
Net investment in the lease	—	—	—	—	—	—	1,355

During the year ended December 31, 2019, finance income recognized for net investment in the lease was ¥37 million.

Year ended December 31, 2020

(Millions of yen)

	Within 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years	Total
Undiscounted lease payments	425	440	451	473	475	1,555	3,819
Unearned finance income	—	—	—	—	—	—	(551)
Net investment in the lease	—	—	—	—	—	—	3,268

During the year ended December 31, 2020, finance income recognized for net investment in the lease was ¥40 million.

20 Provisions

The components and changes in provisions are as follows:

(Millions of yen)

	Asset retirement obligations	Provisions for employee benefits	Total
January 1, 2019	313	2,880	3,193
Decrease due to change in scope of consolidation	—	(12)	(12)
Additions	5	5,467	5,472
Utilized for intended purpose	(20)	(3,979)	(3,999)
Reversal	(6)	(203)	(209)
Exchange differences on translating foreign operations	(1)	(85)	(86)
December 31, 2019	291	4,068	4,359
Decrease due to change in scope of consolidation	—	(23)	(23)
Additions	113	7,844	7,957
Utilized for intended purpose	(94)	(4,670)	(4,764)
Reversal	—	(298)	(298)
Increase due to passage of time	1	—	1
Exchange differences on translating foreign operations	(1)	(46)	(47)
December 31, 2020	310	6,875	7,185
Current liabilities	6	6,875	6,881
Non-current liabilities	304	—	304
Total	310	6,875	7,185

Asset retirement obligations are provided for the obligations to restore property that Nexon Group leases, including offices and buildings, to its original state for the amount of estimated future expenditures based on past experience. These expenditures are expected to be paid after the expected period of use determined taking into account the useful lives of the leasehold improvements but will be affected by future business plans.

Provisions for employee benefits consist of provisions for bonuses and are mostly expected to be paid within a year.

21 Other liabilities

Other liabilities consisted of the following:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Deposits received	789	976
Consumption taxes payable	2,070	3,289
Accrued expenses	1,676	1,765
Accrued vacation pay	1,507	1,696
Other	5,741	5,099
Total	11,783	12,825
Current liabilities	7,311	8,388
Non-current liabilities	4,472	4,437
Total	11,783	12,825

22 Equity and other equity interest

(1) Capital stock and treasury stock

Total number of authorized shares and outstanding shares of the Company is as follows:

	Year ended December 31, 2019		Year ended December 31, 2020	
	Shares		Shares	
Total number of authorized shares				
Common stock (Note 1)	1,400,000,000		1,400,000,000	
Total number of outstanding shares				
January 1	894,278,664		901,530,560	
Increase	7,251,896	(Note 2, 3)	6,402,000	(Note 4)
Decrease	—		(20,971,021)	(Note 5)
December 31	901,530,560		886,961,539	

(Notes) 1. All shares issued by the Company are no-par value common stock with no restrictions on rights, and outstanding shares are fully paid.
2. An increase of 5,852,000 shares due to exercise of stock acquisition rights.
3. 1,399,896 shares were issued by third-party allotment as part of the acquisition consideration due to the business combination of Embark Studios AB and in-kind contribution (45,003,500 shares of common stock of Embark Studios AB; ¥2,186 million) was received from the shareholders of Embark Studios AB who are the allottees. Refer to “38 Business combination” for details of the business combination.
4. An increase due to exercise of stock acquisition rights.
5. A decrease due to retirement of treasury stock based on the resolution at the Board of Directors meeting held on February 13, 2020.

The number of treasury stock included in the total number of outstanding shares above is as follows:

	Year ended December 31, 2019		Year ended December 31, 2020	
	Shares		Shares	
Number of treasury stock				
January 1	290		19,109,021	
Increase	19,108,731	(Note 1, 2)	1,862,044	(Note 3, 4)
Decrease	—		(20,971,021)	(Note 5)
December 31	19,109,021		44	

(Notes) 1. An increase of 31 shares due to purchase demand of shares less than one trading unit.
2. An increase of 19,108,700 shares due to share buyback based on the resolution at the Board of Directors meeting held on September 9, 2019.
3. An increase of 44 shares due to purchase demand of shares less than one trading unit.
4. An increase of 1,862,000 shares due to share buyback based on the resolution at the Board of Directors meeting held on September 9, 2019.
5. A decrease due to retirement of treasury stock based on the resolution at the Board of Directors meeting held on February 13, 2020.

(2) Capital surplus

The Companies Act of Japan provides that at least 50% of the amount paid or contributed upon issuance of shares shall be included in capital stock with the remainder to be included in capital reserve which is a component of capital surplus. The Companies Act also provides that the amount of capital reserve may be reclassified to capital stock based on a resolution at the general meeting of shareholders.

(3) Retained earnings

The Companies Act of Japan provides that an amount equal to 10% of a decrease in surplus due to distribution of surplus shall be appropriated and set aside as capital reserve or retained earnings reserve until the sum of capital reserve and retained earnings reserve equals 25% of capital stock. The accumulated retained earnings reserve may be used to offset losses. Also, retained earnings reserve may be reversed based on a resolution at the general meeting of shareholders.

(4) Other equity interest

Changes in other equity interest are as follows:

(Millions of yen)

	Other equity interest				
	Exchange differences on translating foreign operations	Financial assets measured at FVTOCI	Stock acquisition rights	Other	Total
January 1, 2019	55,283	(505)	9,331	(41)	64,068
Changes during the year	(24,244)	(1,677)	352	(57)	(25,626)
Reclassification to retained earnings	—	36	—	33	69
December 31, 2019	31,039	(2,146)	9,683	(65)	38,511
Changes during the year	9,528	21,306	612	12	31,458
Reclassification to retained earnings	—	—	—	6	6
December 31, 2020	40,567	19,160	10,295	(47)	69,975

(5) Other

(Year ended December 31, 2019)

In accordance with Article 452 and Article 459, Paragraph 1, Item 3 of the Companies Act and Article 38, Paragraph 1 of the Articles of Incorporation of the Company, the Company reclassified ¥423 million from other capital surplus to retained earnings brought forward to offset a loss based on the resolution at the Board of Directors meeting held on February 22, 2019.

(Year ended December 31, 2020)

Not applicable.

23 Dividends

The amount of dividends paid during the years ended December 31, 2019 and 2020 is as follows.

Year ended December 31, 2019

Not applicable.

Year ended December 31, 2020

	Class of stock	Total dividend amount	Dividend per share	Record date	Effective date
		(¥ million)	(¥)		
Resolution by the Board of Directors on February 20, 2020	Common stock	2,206	2.5	December 31, 2019	March 26, 2020
Resolution by the Board of Directors on August 6, 2020	Common stock	2,211	2.5	June 30, 2020	September 28, 2020

Of the dividends for which the record date belongs to the year ended December 31, 2020, that for which the effective date of dividends is in the following fiscal year is as follows:

	Class of stock	Total dividend amount	Dividend per share	Record date	Effective date
		(¥ million)	(¥)		
Resolution by the Board of Directors on February 17, 2021	Common stock	2,217	2.5	December 31, 2020	March 26, 2021

24 Share-based compensation

(1) Description of share-based compensation plan

Nexon Group has a stock option plan with an aim to raise its directors' and employees' motivation and morale to improve Nexon Group's performance and corporate value as well as to secure talented people.

Options are granted to eligible persons approved by the Board of Directors of the Company and its subsidiaries without consideration based on the plan details approved at the general meeting of shareholders of the Company and its subsidiaries. The exercise period is provided by the allotment agreement, and options not exercised during such exercise period will lapse. If eligible persons leave Nexon Group during the vesting period, their options will lapse.

Stock option plan No. 14 includes stock options that link vesting of stock acquisition rights to the term of office and equity-based stock options with performance conditions that link vesting of stock acquisition rights to consolidated operating income for the year ended December 31, 2020 (referred to as "Performance-linked" in the table below) and relative total shareholder return ("Relative TSR") for the three years from the date of the Annual General Meeting of Shareholders in 2018 to the date of the Annual General Meeting of Shareholders in 2021. Details are as follows.

The number of stock acquisition rights to vest shall be calculated as base number of unit multiplied by vesting ratio.

The vesting ratio shall be the sum of a and b described below.

a. Performance-linked coefficient for consolidated operating income for the year ended December 31, 2020 (Note 1) x 40%

b. Performance-linked coefficient for relative TSR (Note 2) x 60%

(Notes) 1. Target achievement level: (Consolidated operating income – Operating income target ("I")) / Operating income target x 100 (%)
Target achievement level of 50% or higher: Performance-linked coefficient = 100 (%)
Target achievement level of between (50%) and 50%: Performance-linked coefficient = (Target achievement level + 50 (%))
Target achievement level of lower than (50%): Performance-linked coefficient = 0 (%)

2. Deviation rate between the Company's TSR ("II") during the evaluation period for Relative TSR and the average TSR of comparative companies ("III") and the Company
Deviation rate of 50% or higher: Performance-linked coefficient = 100 (%)
Deviation rate of between (50%) and 50%: Performance-linked coefficient = (The Company's TSR – Average TSR) + 50 (%)
Deviation rate of lower than (50%): Performance-linked coefficient = 0 (%)

I. Operating income target
Operating income target used to calculate performance-linked coefficient shall be consolidated operating income for the year ended December 31, 2020.

II. TSR (Total Shareholder Return) ＝ ((Stock price at the end of evaluation period – Stock price at the beginning of evaluation period) + Dividend per share during the evaluation period) / Stock price at the beginning of evaluation period

III. Comparative companies include Electronic Arts, Activision/Blizzard, Take-Two Interactive, Nintendo Co., Ltd. and BANDAI NAMCO Holdings Inc.

Based on the number of stock acquisition rights to vest upon achieving 100% of the predetermined performance target, the number of stock acquisition rights equivalent to 200% of the said units shall be granted and the actual number of units to vest shall be determined according to the achievement level of performance target.

Stock options granted to eligible persons are accounted for as equity-settled share-based compensation, and expenses relating to equity-settled share-based compensation transactions for the years ended December 31, 2019 and 2020 were ¥2,133 million and ¥3,002 million, respectively.

Details of Nexon Group's stock option plan in effect during the years ended December 31, 2020 and 2019 are as follows:

	Number granted	Grant date	Exercise period	Exercise price	Fair value on grant date (Note 1)
	Shares			Yen	Yen
No. 6	500,000	May 7, 2013	May 6, 2043	1	472
No. 7	25,998,000	March 3, 2014	March 2, 2020	427	134
No. 8	6,050,000	March 25, 2014	March 24, 2021	0.0005	(Note 2)
No. 9-1	3,662,000	May 9, 2014	May 8, 2021	405	134
No. 10	100,000	August 3, 2015	August 2, 2045	1	779
No. 11	160,000	January 25, 2016	January 24, 2022	920	313
No. 12-1	10,526,000	May 20, 2016	May 19, 2022	932	317
No. 12-2	30,000	July 25, 2016	July 24, 2022	825	276
No. 13-1	1,560,000	September 29, 2017	September 28, 2023	1,468	466
No. 13-2	11,818,000	November 9, 2017	November 8, 2023	1,640	514
No. 13-3	296,000	February 8, 2018	February 7, 2024	1,685	522
No. 14	568,000	March 27, 2018	March 15, 2022	0.0005	1,843
No. 14 (Performance-linked)	835,200	March 27, 2018	March 15, 2022	0.0005	1,843
No. 14 (Relative TSR)	1,252,800	March 27, 2018	March 15, 2022	0.0005	1,125
No. 15-1	246,000	July 26, 2018	July 25, 2024	1,699	532
No. 15-2	300,000	November 2, 2018	November 1, 2024	1,377	429
No. 18-1	500,000	April 3, 2020	April 2, 2026	1,787	543
No. 18-2	1,480,000	May 14, 2020	May 13, 2026	2,072	635
No. 18-3	10,020,000	November 9, 2020	November 8, 2026	3,055	1,180

(Notes) 1. Stock options of No. 7, No. 8, No. 9-1, No. 11, No. 12-1, No. 12-2, No. 13-1, No. 13-2, No. 13-3 No. 14 (excluding Performance-linked and Relative TSR), No. 15-1, No. 15-2, No. 18-1 and No. 18-2 become exercisable in multiple installments in a phased manner over time, and therefore their fair unit value on grant date vary for each start date of the exercise period. The fair value on grant date of these options represents the weighted average of the fair unit value on grant date for each start date of the exercise period calculated using the number of shares that become exercisable on such date.

2. There are three eligible persons for Stock Option No. 8 granted on March 25, 2014, and because each person is subject to different terms and conditions of the stock acquisition rights allotment agreement, the fair unit value on grant date is also different. The fair unit values on grant date for each eligible person were ¥397, ¥395 and ¥395, respectively.

3. A two-for-one stock split was executed as of April 1, 2018. As a result, Number granted, Exercise price, and Fair value on grant date presented above have been adjusted to correspond to the number of shares after the stock split.

(2) Option pricing

The weighted average fair value of stock options granted during the year ended December 31, 2020 was ¥1,086.

The Monte-Carlo Simulation is used for No. 14 (Relative TSR), the binomial model is used for No. 18-3 and the Black-Scholes model is used for all the other stock options to evaluate options in calculating share-based compensation expenses.

The assumptions used in the Black-Scholes model and the binomial model for stock options granted during the year ended December 31, 2020 are as follows. Expected volatility is calculated based on the historical stock prices for the latest period corresponding to the expected life of options from the grant date, with stock information collected on a daily basis.

	Share price on grant date	Exercise price	Expected volatility	Expected life	Expected dividend	Risk-free rate
	Yen	Yen	%	Years	Yen	%
No. 18-1	1,787	1,787	39.9～42.4	4 to 5	5	(0.1)
No. 18-2	2,072	2,072	40.3～42.6	4 to 5	5	(0.1)～(0.2)
No. 18-3	3,055	3,055	42.0	6	5	(0.1)

(3) Total number of exercisable shares and average exercise price

	Year ended December 31, 2019		Year ended December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	Shares	Yen	Shares	Yen
Outstanding at beginning of year	28,374,000	1,058	20,688,000	1,218
Granted	—	—	12,000,000	2,881
Forfeited	(1,834,000)	912	(618,000)	1,617
Exercised	(5,852,000)	538	(6,402,000)	1,107
Expired	—	—	—	—
Outstanding at end of year	20,688,000	1,218	25,668,000	2,014
Exercisable at end of year	14,372,000	1,262	11,674,000	1,443

The weighted average remaining contractual lives for the years ended December 31, 2019 and 2020 were 3.4 years and 4.2 years, respectively.

The weighted average stock prices at the time of exercise of stock options exercised during the years ended December 31, 2019 and 2020 were ¥1,499 and ¥2,213, respectively.

25 Financial risk management

(1) Capital management

Nexon Group has a basic policy of maintaining adequate level of capital and liabilities/capital composition corresponding to its business risk, with the aim of maintaining financial soundness and efficiencies as well as achieving sustainable growth. Nexon Group focuses on the balance between cash and cash equivalents, interest-bearing liabilities and equity, and their balances are as follows:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Cash and cash equivalents	253,636	252,570
Interest-bearing liabilities (Note)	12,859	16,593
Equity	631,131	720,445

(Note) Interest-bearing liabilities include borrowings (current), lease liabilities (current) and lease liabilities (non-current) for the years ended December 31, 2019 and 2020.

Nexon Group promotes cash flow-oriented management and maintained cash and cash equivalents in excess of interest-bearing liabilities as of December 31, 2019 and 2020. Nexon Group is not subject to any material capital control.

(2) Financial risk management policy

Nexon Group is exposed to financial risks during the course of its business operations. The Company developed the risk management rules to prevent risks from arising and mitigate risks. Nexon Group also has a policy to use derivative contracts only for the purpose of mitigating financial risks and prohibit the use of derivative contracts for speculative purposes.

(3) Credit risk

Receivables arising from Nexon Group's operating activities are exposed to credit risk of customers.

Trade and other receivables are exposed to credit risk of customers. With regard to the credit risk, the Company and its consolidated subsidiaries, based on the respective receivables management rules, regularly conduct credit reviews of their customers to obtain their credit information and manage due dates and outstanding credit balances by customer, in order to detect signs of deteriorating financial conditions of customers at an early stage and mitigate potential risks regarding collectability.

For trade receivables, we measure lifetime expected credit losses as a practical expedient based on historical credit loss, qualitative factors available to us at this point as well as overall macroeconomic trends. However, delinquent receivables which are overdue and considered to have solvency issues based on the understanding and consideration of financial condition of the debtors are treated as impaired trade receivables. When there is no reasonable expectations of recovering receivables, for example when the legal proceedings of the debtors are completed or if it becomes clear that all of the outstanding balance cannot be recovered based on the debtor's payment ability, the carrying amount of the receivables are directly reduced.

As of December 31, 2019 and 2020, trade and other receivables of Nexon Group from one particular corporate group (Korea segment) amounted to ¥13,809 million (48.2% of trade and other receivables as of December 31, 2019) and ¥5,887 million (28.1% of trade and other receivables as of December 31, 2020), respectively, resulting in concentration of credit risk.

The carrying amounts of financial assets, net of impairment loss, presented in the consolidated financial statements are the maximum exposure to credit risk associated with financial assets of Nexon Group without considering the value of related collaterals.

(4) Liquidity risk

Nexon Group raises funds through borrowings and is exposed to liquidity risk that Nexon Group is unable to meet its obligations as they come due.

Nexon Group monitors liquidity risk by preparing a funding plan based on the business plan and assessing the positions of cash in hand and interest-bearing liabilities on a regular basis.

The following table summarizes Nexon Group's financial liabilities by maturity dates:

Year ended December 31, 2019

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Trade and other payables	7,753	7,753	7,753	—	—	—	—	—
Borrowings (current)	2,223	2,223	2,223	—	—	—	—	—
Lease liabilities (current)	2,129	2,410	2,410	—	—	—	—	—
Lease liabilities (non-current)	8,507	9,113	—	2,288	2,042	1,709	1,200	1,874
Other financial liabilities (non-current)	826	826	—	65	—	—	—	761

Year ended December 31, 2020

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Trade and other payables	10,668	10,668	10,668	—	—	—	—	—
Borrowings (current)	2,094	2,094	2,094	—	—	—	—	—
Lease liabilities (current)	2,657	2,749	2,749	—	—	—	—	—
Lease liabilities (non-current)	11,842	13,231	—	2,628	2,266	2,013	1,791	4,533
Other financial liabilities (non-current)	868	868	—	3	—	—	38	827

(5) Foreign exchange risk

Nexon Group operates global business and is exposed to foreign exchange fluctuation risk related mainly to the Korean won, U.S. dollar and Chinese yuan.

Assuming a 1% rise in all foreign currencies against the functional currency for financial instruments held by Nexon Group that are denominated in foreign currencies, income before income taxes in the consolidated statement of income would increase by ¥5,949 million and ¥6,901 million for the years ended December 31, 2019 and 2020, respectively.

(6) Interest rate risk

Nexon Group raises funds through borrowings from leading financial institutions and is exposed to interest rate fluctuation risk.

Assuming a 1% rise in interest rates on borrowings held by Nexon Group, the impact on income before income taxes in the consolidated statement of income for the years ended December 31, 2019 and 2020 would be a decrease of ¥38 million and ¥21 million, respectively.

(7) Market price fluctuation risk

Nexon Group is exposed to price fluctuation risk associated with securities recognized in the consolidated statement of financial position.

Assuming a 1% increase in the fair value of marketable securities held by Nexon Group, other comprehensive income before income taxes in the consolidated statement of comprehensive income for the years ended December 31, 2019 and 2020 would increase by ¥14 million and ¥1,270 million, respectively, and income before income taxes in the consolidated statement of income would be unchanged for the year ended December 31, 2019 and increase by ¥188 million for the year ended December 31, 2020.

(8) Derivatives and hedge accounting

The disclosure is omitted as the amount is immaterial.

26 Fair value of financial instruments

(1) Calculation method of fair value

(Millions of yen)

	As of December 31, 2019				
	Carrying amount				Fair value
	Financial assets/liabilities measured at FVTPL	Financial assets/ liabilities measured at FVTOCI	Financial assets/ liabilities measured at amortized cost	Total	
Cash and cash equivalents	—	—	253,636	253,636	253,636
Trade and other receivables	—	—	28,643	28,643	28,643
Other deposits	—	—	257,331	257,331	257,331
Other financial assets (current)	—	—	8,418	8,418	8,418
Other financial assets (non-current)	2,779	33,551	10,926	47,256	47,256
Trade and other payables	—	—	7,753	7,753	7,753
Borrowings (current)	—	—	2,223	2,223	2,223
Other financial liabilities (non-current)	761	—	65	826	826

(Millions of yen)

	As of December 31, 2020				
	Carrying amount				Fair value
	Financial assets/liabilities measured at FVTPL	Financial assets/ liabilities measured at FVTOCI	Financial assets/ liabilities measured at amortized cost	Total	
Cash and cash equivalents	—	—	252,570	252,570	252,570
Trade and other receivables	—	—	20,935	20,935	20,935
Other deposits	—	—	273,132	273,132	273,132
Other financial assets (current)	18,790	—	8,553	27,343	27,343
Other financial assets (non-current)	2,648	153,492	11,480	167,620	167,620
Trade and other payables	—	—	10,668	10,668	10,668
Borrowings (current)	—	—	2,094	2,094	2,094
Other financial liabilities (non-current)	615	—	253	868	868

The fair value of financial assets and liabilities is determined as follows. The fair value of financial instruments is estimated using their market price or discounting future cash flows when the market price is not available.

Cash and cash equivalents, other deposits, trade and other payables

They are stated at carrying amount as it approximates fair value because of the short period of time until its maturity or settlement.

Trade and other receivables

The fair value is estimated based on the present value of future cash flows of receivables grouped by category discounted at the appropriate rate such as government bonds yields adjusted with credit risk. Trade and other receivables with short maturities are stated at carrying amount as it approximates fair value.

Other financial assets (current)

Marketable securities are classified as financial assets measured at fair value through profit or loss (FVTPL) and measured at fair value at the end of the reporting period. Fair values are based on market prices.

Other items presented in this category are stated at carrying amount as it approximates fair value because of the short period of time until its maturity or settlement.

Other financial assets (non-current)

Marketable equity securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI) and measured at fair value at the end of reporting period. Fair values are based on market prices.

Unlisted stocks classified as financial assets measured at FVTOCI are measured at fair value at the end of reporting period. Fair values are estimated primarily by discounting future cash flows.

Other securities are classified as financial assets measured at FVTPL and measured at fair value at the end of reporting period. Fair values are based on market prices.

For other items presented in this category, fair values are estimated primarily by discounting future cash flows.

Borrowings (current)

The carrying amount of borrowings with floating interest rates approximates fair value as it reflects market interest rate within a short period of time and the credit condition of Nexon Group companies are not expected to have changed significantly since the drawdown. The fair value of borrowings with fixed interest rates is estimated by discounting the sum of principal and interest at the rate adjusted for the remaining period and credit risk. Borrowings with short maturity are stated at the carrying amount as it approximates fair value.

Other financial liabilities (non-current)

The fair value of contingent consideration included in other financial liabilities (non-current) is determined by discounting future cash flows. Other items presented in this category are mainly classified as financial liabilities measured at FVTPL and measured at fair value at the end of the reporting period.

(2) Financial instruments measured at fair value

IFRS 13 *Fair Value Measurement* requires fair value measurements to be categorized using the fair value hierarchy based on the significance of the inputs used to measure fair value.

The fair value hierarchy consists of the following three levels:

- Level 1: Quoted prices for identical assets or liabilities in active markets
- Level 2: Inputs made up of prices, other than quoted prices, that are observable, either directly or indirectly
- Level 3: Inputs that include unobservable prices

The level of the fair value used to measure fair value is determined based on the lowest level input that is significant to the fair value measurement. Transfers between levels are recognized on the date of the event or change in circumstances that caused the transfer.

The following tables present the financial assets and liabilities recognized at fair value in the consolidated statement of financial position on a recurring basis by fair value hierarchy level.

(Millions of yen)

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Other financial assets (non-current)				
Financial assets measured at FVTPL				
Securities	—	—	2,779	2,779
Financial assets measured at FVTOCI				
Securities	1,444	—	32,107	33,551
Total financial assets	1,444	—	34,886	36,330
Other financial liabilities (non-current)				
Financial liabilities measured at FVTPL				
Derivative liabilities without hedge accounting application	—	—	761	761
Total financial liabilities	—	—	761	761

(Millions of yen)

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Other financial assets (current)				
Financial assets measured at FVTPL				
Securities	18,790	—	—	18,790
Other financial assets (non-current)				
Financial assets measured at FVTPL				
Securities	—	—	2,648	2,648
Financial assets measured at FVTOCI				
Securities	126,969	—	26,523	153,492
Total financial assets	145,759	—	29,171	174,930
Other financial liabilities (non-current)				
Financial liabilities measured at FVTPL				
Derivative liabilities without hedge accounting application	—	—	615	615
Total financial liabilities	—	—	615	615

The following table presents changes in financial instruments measured at fair value on a recurring basis classified as Level 3:

(Millions of yen)

	Year ended December 31, 2019		Year ended December 31, 2020	
	Other financial assets	Other financial liabilities	Other financial assets	Other financial liabilities
Balance at January 1	3,464	322	34,886	761
Gains or losses (Note 1)				
Net income	(47)	440	(357)	(149)
Other comprehensive income	(1,675)	—	(5,670)	—
Purchases	31,916	—	374	—
Sales	(340)	—	(175)	—
Transfer from investments accounted for using equity method (Note 2)	108	—	—	—
Exchange differences on translating foreign operations	1,460	9	113	3
Payments of contingent consideration	—	(407)	—	—
Recognition of derivative liabilities	—	397	—	—
Balance at December 31	34,886	761	29,171	615
Unrealized gains (losses) recognized in profit or loss relating to assets held at the end of the previous consolidated fiscal year	—	—	—	—

(Notes) 1. Gains or losses recognized in net income are presented in finance income or expenses. Gains or losses recognized in other comprehensive income are presented in financial assets measured at fair value through other comprehensive income.

2. Transfer from investments accounted for using the equity method for the year ended December 31, 2019 represents a transfer from stocks of subsidiaries and affiliates to equity financial instruments due to a partial sale of shares of Human works Co., LTD. by the Company's consolidated subsidiary NEXON Korea Corporation during Q1 FY2019.

Fair values of financial instruments classified as Level 3 are measured by the Accounting & Finance Department of the Company and its consolidated subsidiaries in accordance with relevant internal rules. Fair values are measured with reasonably estimated inputs using the most appropriate valuation model determined based on the nature of the assets, etc., and a proper internal approval process is followed in making such decisions to ensure the validity of the valuation of fair values.

The valuation technique used to measure fair values of financial instruments measured at fair value on a recurring basis that are classified as Level 3 is mainly the discounted cash flow method, and the significant unobservable input is usually a discount rate. The weighted average capital cost used as the discount rate in the years ended December 31, 2019 and 2020 is from 9.1% to 14.1% and 10.1% to 15.4%, respectively. A rise or fall in discount rates result in a decrease or increase in these fair values, respectively. The effect on fair values of using reasonably possible alternative assumptions as inputs are insignificant.

(3) Financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position but whose fair value is disclosed

Classification by hierarchy of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position but whose fair value is disclosed is as follows. Financial assets and liabilities whose carrying amounts approximate their fair values are excluded.

(Millions of yen)

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Other financial assets (non-current)				
Term deposits	—	2,186	—	2,186
Security deposits and guarantees	—	—	6,555	6,555
Lease receivables	—	—	1,202	1,202
Other	—	—	982	982
Total other financial assets (non-current)	—	2,186	8,739	10,925
Other financial liabilities (non-current)				
Other	—	—	65	65
Total other financial liabilities (non-current)	—	—	65	65

(Millions of yen)

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Other financial assets (non-current)				
Term deposits	—	594	—	594
Security deposits and guarantees	—	—	6,989	6,989
Lease receivables	—	—	2,882	2,882
Other	—	—	1,016	1,016
Total other financial assets (non-current)	—	594	10,887	11,481
Other financial liabilities (non-current)				
Other	—	—	253	253
Total other financial liabilities (non-current)	—	—	253	253

27 Revenue

Revenue is generated mostly by provision of services and royalty. See “5 Segment Information” for details of revenue.

28 Cost of sales

Cost of sales consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Outsourcing cost	2,503	2,132
HR costs	27,225	28,041
Data center usage fee	7,052	5,760
Royalty	16,668	27,836
Depreciation and amortization	3,141	2,678
Rent	23	22
Other costs	2,974	2,540
Total	59,586	69,009

HR costs consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Salary and bonus	21,912	23,145
Share-based compensation expense	98	113
Retirement benefit expense	1,372	1,282
Employee benefit expense	1,699	1,547
Statutory welfare expense	2,144	1,952
Other	0	2
Total	27,225	28,041

29 Selling, general and administrative expenses

Selling, general and administrative expenses consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
HR costs	17,964	19,047
PG fees	5,322	6,624
Marketing costs	18,721	20,416
Depreciation and amortization	3,968	5,252
Research and development expense	14,895	16,545
Platform usage fee	17,228	28,750
Other	7,019	7,077
Total	85,117	103,711

HR costs consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Officers' compensation (Note)	1,538	1,854
Salary and bonus	11,404	11,638
Share-based compensation expense	1,565	2,140
Retirement benefit expense	648	558
Employee benefit expense	1,549	1,659
Statutory welfare expense	1,260	1,198
Total	17,964	19,047

(Note) Officers' compensation includes officers' share-based compensation.

30 Other income and other expenses

(1) Other income

Other income consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Gain on cancellation of points	87	88
Gain on liquidation of subsidiaries	391	105
Gain on sale of subsidiaries' stock	293	204
Gain on step acquisition (Note)	7,480	—
Other	808	1,399
Total	9,059	1,796

(Note) Gain on step acquisition is due to the acquisition by business combination of Embark Studios AB in the year ended December 31, 2019. Refer to "38 Business combination" for details of the business combinations.

(2) Other expenses

Other expenses consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Impairment loss (Note)	18,006	9,655
Loss on sales or disposals of fixed assets	43	56
Loss on sale of subsidiaries' stock	—	347
Loss on change in equity	8	297
Other	316	295
Total	18,373	10,650

(Note) Includes impairment loss on prepaid expenses (prepaid royalty) and long-term prepaid expenses recorded in other current assets and other non-current assets of ¥6,052 million and ¥485 million for the years ended December 31, 2019 and 2020, respectively.

31 Finance income and finance costs

(1) Finance income

Finance income consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Interest income		
Financial assets measured at amortized cost	13,375	6,858
Dividend income		
Financial assets measured at FVTPL	—	32
Financial assets measured at FVTOCI	1	1,385
Unrealized gains on securities		
Financial assets measured at FVTPL	107	4,382
Gain on sale of securities		
Financial assets measured at FVTPL	114	1,866
Foreign exchange gain	16,232	—
Other	211	482
Total	30,040	15,005

(2) Finance costs

Finance costs consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Interest expense		
Financial liabilities measured at amortized cost	401	357
Impairment loss on investments in affiliates (Note)	1,322	277
Loss on sale of investment securities		
Financial assets measured at FVTPL	44	—
Foreign exchange loss	—	17,744
Other	505	671
Total	2,272	19,049

(Note) Impairment loss was recognized on investments in certain affiliates as their recoverable amount fell below their carrying amount.

32 Other comprehensive income

The amounts recorded during the year and reclassified to profit or loss and income tax effect by other comprehensive income item are as follows:

Year ended December 31, 2019

(Millions of yen)

	Recorded	Reclassified	Before tax	Income tax	After tax
Items that will not be reclassified to profit or loss					
Financial assets measured at FVTOCI	(2,151)	—	(2,151)	474	(1,677)
Remeasurement of defined benefit pension plans	(91)	—	(91)	—	(91)
Total items that will not be reclassified to profit or loss	(2,242)	—	(2,242)	474	(1,768)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	(24,529)	(73)	(24,602)	—	(24,602)
Other comprehensive income under equity method	(1)	—	(1)	—	(1)
Total items that may be reclassified subsequently to profit or loss	(24,530)	(73)	(24,603)	—	(24,603)
Total other comprehensive income	(26,772)	(73)	(26,845)	474	(26,371)

Year ended December 31, 2020

(Millions of yen)

	Recorded	Reclassified	Before tax	Income tax	After tax
Items that will not be reclassified to profit or loss					
Financial assets measured at FVTOCI	28,150	—	28,150	(6,844)	21,306
Remeasurement of defined benefit pension plans	8	—	8	—	8
Total items that will not be reclassified to profit or loss	28,158	—	28,158	(6,844)	21,314
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	9,920	(292)	9,628	—	9,628
Other comprehensive income under equity method	(4)	—	(4)	—	(4)
Total items that may be reclassified subsequently to profit or loss	9,916	(292)	9,624	—	9,624
Total other comprehensive income	38,074	(292)	37,782	(6,844)	30,938

33 Earnings per share

Basic and diluted earnings per share attributable to owners of the parent company are calculated based on the following information:

	Year ended December 31, 2019	Year ended December 31, 2020
Net income attributable to owners of the parent company (millions of yen)	115,664	56,220
Adjustments to net income used to calculate diluted earnings per share		
Adjustment due to dilutive shares of consolidated subsidiaries (millions of yen)	(293)	(891)
Diluted net income attributable to owners of the parent company (millions of yen)	115,371	55,329
Number of weighted-average common stock applicable to basic EPS (shares)	894,277,145	884,335,963
Dilution: Stock options (shares)	6,825,815	9,543,454
Number of adjusted weighted-average common stock applicable to diluted EPS (shares)	901,102,960	893,879,417
Earnings per share (attributable to owners of the parent company)		
Basic (yen)	129.34	63.57
Diluted (yen) (Note)	128.03	61.90

(Note) Some of the stock acquisition rights issued by the Company were not included in the calculation of diluted earnings per share because they were anti-dilutive.

34 Non-cash transactions

Non-cash transactions (investments and financing transactions not needing the use of cash and cash equivalents) executed during the years ended December 31, 2019 and 2020 were purchases of right-of-use assets associated with leases amounting to ¥6,825 million and ¥7,573 million, respectively.

35 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Year ended December 31, 2019

(Millions of yen)

	Borrowings (current)	Lease liabilities (current)	Lease liabilities (non-current)	Total liabilities arising from financing activities
January 1, 2019	4,324	35	68	4,427
Cash flows				
Repayment	(1,852)	(1,790)	(0)	(3,642)
Non-cash activities				
Adjustment at IFRS 16 application (net of tax)	—	1,415	4,839	6,254
Acquisition of new subsidiaries	—	140	212	352
New lease	—	376	1,910	2,286
Impact of remeasurement of lease liabilities	—	147	3,463	3,610
Transfers between accounts	—	1,821	(1,821)	—
Termination of lease contracts	—	(29)	(238)	(267)
Exchange differences on translating foreign operations	(249)	14	74	(161)
December 31, 2019	2,223	2,129	8,507	12,859

Year ended December 31, 2020

(Millions of yen)

	Borrowings (current)	Lease liabilities (current)	Lease liabilities (non-current)	Total liabilities arising from financing activities
January 1, 2020	2,223	2,129	8,507	12,859
Cash flows				
Repayment	(137)	(2,019)	(320)	(2,476)
Non-cash activities				
Decrease due to change in scope of consolidation	—	(485)	(1,443)	(1,928)
New lease	—	805	6,721	7,526
Impact of remeasurement of lease liabilities	—	16	1,059	1,075
Transfers between accounts	—	2,331	(2,331)	—
Termination of lease contracts	—	(149)	(527)	(676)
Exchange differences on translating foreign operations	8	29	176	213
December 31, 2020	2,094	2,657	11,842	16,593

36 Subsidiaries

(1) Composition of the corporate group

Composition of Nexon Group is as follows:

Reportable segment	As of December 31, 2019		As of December 31, 2020	
	Wholly-owned subsidiaries	Subsidiaries with non-controlling interests	Wholly-owned subsidiaries	Subsidiaries with non-controlling interests
	Number of companies	Number of companies	Number of companies	Number of companies
Japan	1	—	—	—
Korea	12	3	12	3
China	1	—	1	—
North America	6	—	4	—
Other	2	2	3	1
Total	22	5	20	4

(2) Major subsidiaries

Major subsidiaries as of December 31, 2020 are as follows:

Company	Reportable segment	Location	Capital stock	Ownership ratio (%)	
				FY2019	FY2020
NEXON Korea Corporation	Korea	Seongnam, Gyeonggi-do, South Korea	KRW 32,000 million	100.0	100.0
Lexian Software Development (Shanghai) Co., Ltd.	China	Shanghai, PRC	USD 4,100 thousand	100.0	100.0
NEXON America, Inc.	North America	California, USA	USD 210	100.0	100.0
NEOPLE INC.	Korea	Jeju Self-Governing Province, South Korea	KRW 181 million	100.0	100.0
NEXON GT Co., Ltd.	Korea	Seongnam, Gyeonggi-do, South Korea	KRW 17,687 million	65.1	65.1
Pixelberry Studios	North America	California, USA	USD 0.1	100.0	100.0
NAT GAMES Co., Ltd.	Korea	Seoul, South Korea	KRW 14,419 million	57.1	56.9
Embark Studios AB	Other	Stockholm, Sweden	SEK 65 thousand	73.0	73.0

(Note) All shares of gloops, Inc. which was included in major subsidiaries as of December 31, 2019 were sold during the year ended December 31, 2020. In addition, liquidation procedures of NEXON M Inc. which was included in major subsidiaries as of December 31, 2019 were completed during the year ended December 31, 2020.

(3) Subsidiaries with non-controlling interests

The Company's subsidiaries with material non-controlling interests are as follows:

(Millions of yen)

Company name	Location of subsidiaries	Ratio of non-controlling interests		Net income/loss allocated to non-controlling interests		Cumulative amount of non-controlling interests	
		FY2019	FY2020	FY2019	FY2020	FY2019	FY2020
NEXON GT Co., Ltd.	Korea	34.9%	34.9%	(62)	97	4,635	4,767
NAT GAMES Co., Ltd.	Korea	42.9%	43.1%	(1,312)	25	5,218	5,325

The condensed financial statements of NEXON GT Co., Ltd. are as follows:

(Millions of yen)

Statement of financial position	As of December 31, 2019	As of December 31, 2020
Total assets	11,131	11,430
Total liabilities	912	830
Total equity	10,219	10,600

(Millions of yen)

Statement of comprehensive income	Year ended December 31, 2019	Year ended December 31, 2020
Revenue	2,705	2,401
Net (loss) income	(1,040)	285
Comprehensive income	(1,040)	285

(Millions of yen)

Statement of cash flows	Year ended December 31, 2019	Year ended December 31, 2020
Cash flows from operating activities	72	156
Cash flows from investing activities	(35)	(404)
Cash flows from financing activities	(58)	(53)
Net decrease in cash and cash equivalents	(21)	(301)
Cash and cash equivalents at beginning of year	1,275	1,185
Effects of exchange rate changes on cash and cash equivalents	(69)	(21)
Cash and cash equivalents at end of year	1,185	863

The condensed financial statements of NAT GAMES Co., Ltd. are as follows:

(Millions of yen)

Statement of financial position	As of December 31, 2019	As of December 31, 2020
Total assets	6,901	8,989
Total liabilities	3,292	2,669
Total equity	3,609	6,320

(Millions of yen)

Statement of comprehensive income	Year ended December 31, 2019	Year ended December 31, 2020
Revenue	2,653	7,383
Net (loss) income	(1,611)	2,376
Comprehensive income	(1,678)	2,367

(Millions of yen)

Statement of cash flows	Year ended December 31, 2019	Year ended December 31, 2020
Cash flows from operating activities	(1,026)	1,129
Cash flows from investing activities	(2,366)	(111)
Cash flows from financing activities	3,052	(120)
Net (decrease) increase in cash and cash equivalents	(340)	898
Cash and cash equivalents at beginning of year	1,249	846
Effects of exchange rate changes on cash and cash equivalents	(63)	56
Cash and cash equivalents at end of year	846	1,800

(4) Outcome of changes in parent company's ownership interest in subsidiaries that do not result in a loss of control

The impact on capital surplus of changes in parent company's ownership interest in subsidiaries that do not result in a loss of control is as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Amount of impact of capital transaction with non-controlling interest	(2,235)	27

37 Related party transactions

(1) Transactions with related parties

Nexon Group conducts transactions with the following related parties:

Year ended December 31, 2019

(Millions of yen)

Attribute	Name	Relation	Description of transactions with related parties	Transaction amount	Outstanding balance
Officer	Jiwon Park (Note 2)	Director of the Company	Exercise of stock options (Note 3)	121	—
Officer	Patrick Söderlund	Director of the Company	Acquisition of affiliated company's shares (Note 4)	10,267	—

(Note) 1. Terms and conditions and its determination policies, etc.
See "24 Share-based compensation" for exercise price, etc. of stock options.

2. The Company's Director Jiwon Park is no longer a related party due to resignation from his post as of September 20, 2019. Therefore, the transaction amount shows the amount of transactions during the term he was a related party and the outstanding balance shows the balance as at the time he ceased to be a related party.

3. Exercise of stock acquisition rights as stock options for years 2013, 2014 and 2018 in the year ended December 31, 2019.

4. Related party transactions associated with the acquisition of common stock of Embark Studios AB conducted between the Company and Patrick Söderlund in Q3 FY2019 are as follows. Refer to "38 Business combination" for details of the business combination.

(Millions of yen)

Details of related party transactions (Note)	Transaction amount	Outstanding balance
Cash transactions for assignment of common stock of Embark Studios AB	8,482	—
Transactions related to the grant of common stock of Embark Studios AB as in-kind contribution for the issuance of new shares by third-party allotment, and the issuance of common stock of the Company	1,785	—

(Note) The value per share of common stock of Embark Studios AB in this transaction was decided by taking into account a valuation report prepared by a third party with no special interest in the Company and the business plan, etc. of Embark Studios AB.

In Q3 2019, a commitment on stock acquisition rights was entered into by and between the Company and Patrick Söderlund for the additional acquisition of Embark Studios' shares. The number of stock acquisition rights allotted to Patrick Söderlund under this commitment, the number of underlying shares of the stock acquisition rights, and the number of common stock of Embark Studios to be granted to the Company by Patrick Söderlund upon exercise of the stock acquisition rights, as well as the exercise period and conditions for the exercise of the stock acquisition rights are as follows:

	Number of allotted stock acquisition rights (Number of underlying shares) (Note 2)	Number of common stock of Embark Studios AB to be granted to the Company upon exercise of the stock acquisition rights (Note 2)	Exercise period of the stock acquisition rights	Conditions for the exercise of the stock acquisition rights
Year 2 Put Share Options	48,497,246 (1,659,434 shares)	48,497,246 shares	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 2 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning December 1, 2020 and ending September 30, 2021.	・Put Share Options for the respective year will vest and become exercisable only to the extent to which the prescribed performance and continued employment criteria have been satisfied. ・Partial exercise of Put Share Options for the respective year is not allowed.
Year 3 Put Share Options	41,176,907 (1,659,434 shares)	41,176,907 shares	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 3 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning October 1, 2021 and ending June 30, 2022.	
Year 4 Put Share Options	29,491,568 (1,659,434 shares)	29,491,568 shares	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 4 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning July 1, 2022 and ending June 30, 2023.	
Year 5 Put Share Options	24,951,269 (1,659,433 shares)	24,951,269 shares	For the period from October 1, 2019 to June 30, 2025, the exercise period of Year 5 Put Share Options shall be the 30-day period commencing on the day that is 31 days following the date of final agreement of the achievement level of the prescribed performance criteria applicable to the period beginning July 1, 2023 and ending June 30, 2024.	

(Note) 1. The stock acquisition rights exercised due to Embark Studios AB shareholders' intent to sell (i.e. put) are called Put Share Options.

2. The ratios of common stock of Embark Studios AB to be exchanged for the common stock of the Company upon exercise of Put Share Options differ from year to year because we expect a future increase in the corporate value of Embark Studios AB. (That is, it is arranged so that the number of the Company's common stock to be exchanged for a single share of common stock of Embark Studios AB relatively increases as years go by.)

	Number of allotted stock acquisition rights (Number of underlying shares) (Note 2)	Number of common stock of Embark Studios AB to be granted to the Company upon exercise of the stock acquisition rights (Note 2)	Exercise period of the stock acquisition rights	Conditions for the exercise of the stock acquisition rights
Year 2 Call Share Options	48,497,246 (1,508,576 shares)	48,497,246 shares	For the period from October 1, 2019 to June 30, 2025, the 5th business day after the date on which the Company exercised the right to purchase the common stock of Embark Studios AB from Mr. Söderlund based on the provisions of Year 2 Call Right Agreement entered into by and between the Company and Mr. Söderlund.	Partial exercise of Call Share Options for the respective year is not allowed.
Year 3 Call Share Options	41,176,907 (1,508,576 shares)	41,176,907 shares	For the period from October 1, 2019 to June 30, 2025, the 5th business day after the date on which the Company exercised the right to purchase the common shares of Embark Studios AB from Mr. Söderlund based on the provisions of Year 3 Call Right Agreement entered into by and between the Company and Mr. Söderlund.	
Year 4 Call Share Options	29,491,568 (1,508,576 shares)	29,491,568 shares	For the period from October 1, 2019 to June 30, 2025, the 5th business day after the date on which the Company exercised the right to purchase the common shares of Embark Studios AB from Mr. Söderlund based on the provisions of Year 4 Call Right Agreement entered into by and between the Company and Mr. Söderlund.	
Year 5 Call Share Options	24,951,269 (1,508,576 shares)	24,951,269 shares	For the period from October 1, 2019 to June 30, 2025, the 5th business day after the date on which the Company exercised the right to purchase the common shares of Embark Studios AB from Mr. Söderlund based on the provisions of Year 5 Call Right Agreement entered into by and between the Company and Mr. Söderlund.	

(Note) 1. The stock acquisition rights exercised due to the Company's intent to buy (i.e. call) are called Call Share Options.

2. The ratios of common stock of Embark Studios AB to be exchanged for the common stock of the Company upon exercise of Call Share Options differ from year to year because we expect a future increase in the corporate value of Embark Studios AB. (That is, it is arranged so that the number of the Company's common stock to be exchanged for a single share of common stock of Embark Studios AB relatively increases as years go by.)

Year ended December 31, 2020

The disclosure is omitted as the amount is immaterial.

(2) Compensation to key management personnel

Compensation to key management personnel of Nexon Group is as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Compensation and bonus	473	476
Share-based compensation	295	512
Total	768	988

(3) Information on the parent company

The parent company of the Company is NXC Corporation, which is the ultimate controlling party of Nexon Group.

38 Business combination

(1) For the year ended December 31, 2019

Acquisition of Embark Studios AB

(a) Overview of the business combination

During the three months ended September 30, 2019, Nexon Group acquired additional 39.7% of total outstanding shares of its equity method affiliate Embark Studios AB ("Embark Studios") and made the company its consolidated subsidiary.

In November 2018, Nexon Group made a strategic investment in Embark Studios and made the company its equity method affiliate to strengthen Nexon Group's lineup of games in the Western online game markets. Nexon Group has now acquired additional interest in Embark Studios and made the company its consolidated subsidiary to maximize synergy and to accelerate the sharing of knowhow across studios.

As a result of the additional acquisition of Embark Studios' shares, the ownership ratio of voting rights of Nexon Group in Embark Studios totaled 73.0%.

The calculation of consideration for the acquisition was provisional for the three months ended September 30, 2019 because a portion of the allocation of the acquisition consideration for the business combination to assets acquired and liabilities assumed was not yet complete. The allocation of the acquisition consideration associated with the business combination into assets acquired and liabilities assumed was completed during the three months ended December 31, 2019 based on the fair values on the date of acquisition of control. Due to this, on the acquisition date, goodwill of ¥1,883 million decreased from the provisional amount in the three months ended September 30, 2019, while intangible assets, deferred tax liabilities and non-controlling interests increased by ¥3,308 million, ¥728 million and ¥697 million, respectively.

(b) Overview of the acquiree

Name of the acquiree:	Embark Studios AB
Line of business:	Game development business

(c) Date of acquisition of control: July 1, 2019

(d) Consideration and its components

(Millions of yen)

	Acquisition consideration
Cash paid	10,387
Fair value of equity interests held immediately before the date of acquisition	13,256
Fair value of the Company's common stock (1,399,896 shares) granted on the date of acquisition (Note)	2,186
Total acquisition consideration	25,829

(Note) Fair value per share of 1,399,896 shares of the Company's common stock granted on the date of acquisition is based on the volume weighted average stock price of the Company's common stock on the Tokyo Stock Exchange for the 10 trading days right up to the end of June 2019.

(e) Gain on step acquisition

As a result of remeasuring 33.3% held by Nexon Group as of the date of acquisition at fair value on the date of acquisition, gain on step acquisition of ¥7,480 million was recognized from the business combination and is included in Other income in the consolidated statement of income.

(f) Cash flows associated with the acquisition

	(Millions of yen)
	Amount
Cash and cash equivalents paid for the acquisition	10,387
Cash and cash equivalents held by the acquiree at the date of acquisition	(3,523)
Total cash paid	6,864

(g) Fair value of assets, liabilities and goodwill on the acquisition date

	(Millions of yen)
	Fair value
Cash and cash equivalent	3,523
Other current assets	93
Property, plant and equipment	89
Right-of-use assets	351
Intangible assets	3,311
Other financial assets (non-current)	143
Other	1
Total assets	7,511
Current liabilities	956
Non-current liabilities	941
Total liabilities	1,897
Non-controlling interests	1,516
Goodwill	21,731

(Note) Non-controlling interests are measured using the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Goodwill reflects excess earning power expected from the business integration, including expansion of the business base in relevant markets. Goodwill recognized is not expected to be deductible for tax purposes. The fair values of assets acquired and liabilities assumed above are the amounts recognized as of the date of acquisition and have been adjusted (e.g. amortization, translation) at the year-end closing process.

The disclosure of revenue and net income of the acquiree subsequent to the date of acquisition, revenue and net income of the acquiree assuming that the acquisition had taken place on January 1, 2019, and the acquisition-related expenses associated with the business combination is omitted as the effect is insignificant.

(h) Related-party transactions

Nexon Group has conducted transactions in connection with its acquisition of Embark Studios AB and for the additional acquisition of Embark Studios' shares with Patrick Söderlund, a major shareholder and CEO of Embark Studios. Since Patrick Söderlund is also serving as a director of the Company, these transactions fall under related-party transactions.

The transactions conducted between the Company and Patrick Söderlund in connection with the acquisition of Embark Studios AB in the three months ended September 30, 2019 are described in "37 Related party transactions."

(2) For the year ended December 31, 2020

Not applicable.

39 Sale of subsidiaries

(1) Year ended December 31, 2019

The disclosure is omitted as the amount is immaterial.

(2) Year ended December 31, 2020

The disclosure is omitted as the amount is immaterial.

40 Contingent liabilities

Not applicable.

41 Subsequent events

(1) Issuance of stock option (stock acquisition rights)

Pursuant to Articles 236, 238 and 239 of the Companies Act, it was resolved at the Company's Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights as stock options without consideration to certain employees of the Company and directors and employees of its subsidiaries and to delegate to the Company's Board of Directors the authority to determine the subscription requirements.

Date of resolution	March 25, 2021
Category and number of eligible persons (persons)	Employees of the Company and directors and employees of its subsidiaries
Number of stock acquisition rights (units)	Up to 14,000,000 (Note) 2
Class, description and number of underlying shares (shares)	Common stock up to 14,000,000 (Notes) 3 and 4
Amount to be paid upon exercise of stock acquisition rights (yen)	(Notes) 5 and 6
Exercise period of stock acquisition rights	Ten years from the allotment date of the stock acquisition rights. If the last date of the exercise period is a non-business day of the Company, it shall be the business day immediately preceding such date.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen)	i) The amount of capital stock to be increased by the issuance of shares upon exercise of stock acquisition rights shall be one-half of the maximum limit on the increase in capital stock as calculated pursuant to Article 17, Paragraph 1 of the Regulation on Corporate Accounting. Any fraction of less than one yen shall be rounded up. ii) The amount of capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights shall be the maximum limit on the increase in capital stock provided in i) above less the amount of increased capital stock stipulated in i) above.
Conditions for the exercise of stock acquisition rights	A person holding the stock acquisition rights must be a director or an employee of the Company or its subsidiaries at the time of the exercise, except when a director or an employee of the Company or its subsidiaries has lost its position as a director or an employee due to retirement or resignation, dismissal or discharge (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors.
Assignment of stock acquisition rights	Acquisition of stock acquisition rights by assignment shall require approval of the Board of Directors.
Issuance of stock acquisition rights associated with the Company's restructuring	Not applicable.

(Notes) 1. Matters not described above shall be determined pursuant to the resolution of the Board of Directors meeting held after the Annual General Meeting of Shareholders held on March 25, 2021.

2. The number of underlying shares per unit of stock acquisition right is one share of the Company's common stock.

3. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer, share issuance or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent

reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

4. Any fraction less than one share included in the number of shares to be issued to the holders of the stock acquisition rights who have exercised the rights shall be rounded down.
5. The amount to be paid upon exercise of stock acquisition rights shall be the closing price of the Company's common stock in regular transactions on the Tokyo Stock Exchange on the date of allotment of stock acquisition rights ("Allotment Date").
6. In the event that the Company carries out a stock split (including gratis allocation) or a consolidation of its common stock after the Allotment Date, the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen resulting from such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer, share issuance or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

(2) Issuance of equity-based stock option (stock acquisition rights)

Pursuant to Articles 361 of the Companies Act, it was resolved at the Company's Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights as equity-based stock options as directors' compensation, etc. to directors of the Company.

Based on the resolution, it was resolved at the Board of Directors meeting held on that day to issue stock acquisition rights as equity-based stock options to the Company's directors pursuant to Articles 236, 238 and 240 of the Companies Act. This issuance will not be considered as issuance under particularly preferential terms as stock acquisition rights will be issued as directors' compensation, etc.

Details are as follows:

Date of resolution	March 25, 2021
Category and number of eligible persons (persons)	Directors of the Company: 5
Number of stock acquisition rights (units)	1,672,866 (Note) 1
Class, description and number of underlying shares (shares)	Common stock 1,672,866 (Notes) 2 and 3
Amount to be paid upon exercise of stock acquisition rights (yen)	No cash payment or contribution of non-cash assets is required.
Exercise period of stock acquisition rights	Ten years from the allotment date of the stock acquisition rights. If the last date of the exercise period is a non-business day of the Company, it shall be the business day immediately preceding such date.
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen)	Issue price: to be determined based on the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the date of allotment of stock acquisition rights. Amount of capital stock to be increased: to be determined based on the closing price of the Company's common stock in regular transactions on Tokyo Stock Exchange on the date of allotment of stock acquisition rights.
Conditions for the exercise of stock acquisition rights	Only directors (including former directors) may exercise stock acquisition rights. Specifically, the person must be a director of the Company at the time of the exercise to be eligible, and those who are no longer a director may exercise the stock acquisition rights only if they lose their position as a director due to retirement, resignation or dismissal (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors.
Assignment of stock acquisition rights	Acquisition of stock acquisition rights by assignment shall require approval of the Board of Directors.
Issuance of stock acquisition rights associated with the Company's restructuring	Not applicable.

(Notes) 1. The number of underlying shares per unit of stock acquisition right is one share of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer, share issuance or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange, share transfer or share issuance.

3. Any fraction less than one share included in the number of shares to be issued to the holders of the stock acquisition rights who have exercised the rights shall be rounded down.

(2) 【Other】

(a) Quarterly information for the year ended December 31, 2020

(Cumulative)	First three months	First six months	First nine months	Full-year
Revenue (millions of yen)	82,762	147,228	226,640	293,024
Income before income taxes (millions of yen)	61,989	86,667	109,568	108,171
Net income attributable to owners of the parent company (millions of yen)	49,911	69,674	86,004	56,220
Basic earnings per share attributable to owners of the parent company (yen)	56.57	78.91	97.32	63.57

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share attributable to owners of the parent company (yen)	56.57	22.37	18.45	(33.60)

(b) Conditions subsequent to the fiscal year-end

There are no special matters that need to be reported.

(c) Legal proceedings

Not applicable.

2 【Non-Consolidated Financial Statements, etc.】

(1) 【Non-consolidated financial statements】

(a) 【Non-consolidated balance sheet】

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	43,100	83,523
Accounts receivable-trade	※1 686	※1 946
Prepaid expenses	95	66
Short-term loans receivable from subsidiaries and affiliates	1,089	—
Other receivables	※1 194	※1 632
Income taxes receivable	2	—
Other	※1 208	※1 295
Total current assets	45,374	85,462
Non-current assets		
Tangible fixed assets		
Buildings	—	163
Leasehold improvements	31	84
Tools, furniture and fixtures	407	86
Accumulated impairment loss	(274)	(308)
Accumulated depreciation	(163)	(19)
Total tangible fixed assets	1	6
Investments and other assets		
Investment securities	97	90
Stocks of subsidiaries and affiliates	17,141	17,141
Long-term loans receivable from subsidiaries and affiliates	35,705	23,655
Other	※1 737	※1 797
Allowance for doubtful accounts	(36,051)	(23,838)
Total investments and other assets	17,629	17,845
Total non-current assets	17,630	17,851
Total assets	63,004	103,313

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable-trade	※1 204	※1 255
Other payables	※1 605	※1 511
Accrued expenses	258	334
Income taxes payable	—	23
Provision for bonuses	166	162
Unearned revenue	509	411
Consumption taxes payable	17	—
Deposits received	66	132
Other	212	257
Total current liabilities	2,037	2,085
Non-current liabilities		
Lease obligations	35	2
Long-term unearned revenue	168	143
Provision for retirement benefits	160	157
Asset retirement obligations	—	167
Total non-current liabilities	363	469
Total liabilities	2,400	2,554
Net assets		
Shareholders' equity		
Capital stock	17,757	22,470
Capital surplus		
Capital reserve	17,007	21,720
Other capital surplus	22,974	—
Total capital surplus	39,981	21,720
Retained earnings		
Retained earnings reserve	217	217
Other retained earnings		
Retained earnings brought forward	22,397	48,103
Total retained earnings	22,614	48,320
Treasury stock	(27,219)	(0)
Total shareholders' equity	53,133	92,510
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(28)	(21)
Total valuation and translation adjustments	(28)	(21)
Stock acquisition rights	7,499	8,270
Total net assets	60,604	100,759
Total liabilities and net assets	63,004	103,313

(b) 【Non-consolidated statement of income】

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Net sales	※1 6,016	※1 5,411
Cost of sales	※1 3,249	※1 2,681
Gross profit	2,767	2,730
Selling, general and administrative expenses	※1,※2 7,910	※1,※2 7,893
Operating loss	(5,143)	(5,163)
Non-operating income		
Interest income	※1 704	※1 634
Dividend income	※1 30,313	※1 46,460
Foreign exchange gains	379	—
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	※3 1,104	※3 719
Other	65	89
Total non-operating income	32,565	47,902
Non-operating expenses		
Foreign exchange loss	—	2,589
Provision of allowance for doubtful accounts for subsidiaries and affiliates	※4 3,980	※4 —
Stock issue cost	24	32
Treasury stock purchase cost	7	2
Other	52	179
Total non-operating expenses	4,063	2,802
Ordinary income	23,359	39,937
Extraordinary gain		
Gain from reversal of stock acquisition rights	635	189
Total extraordinary gain	635	189
Extraordinary loss		
Impairment loss	77	647
Total extraordinary loss	77	647
Income before income taxes	23,917	39,479
Income taxes	1,520	2,327
Total taxes	1,520	2,327
Net income	22,397	37,152

【Details of cost of sales】

Category	Note	Year ended December 31, 2019		Year ended December 31, 2020	
		Amount (¥ million)	Ratio (%)	Amount (¥ million)	Ratio (%)
I Outsourcing cost		300	9.2	204	7.6
II Labor cost		913	28.1	867	32.3
III Other costs	*1	2,036	62.7	1,610	60.1
Cost of sales		3,249	100.0	2,681	100.0

(Note) *1. Major components are as follows:

Item	Year ended December 31, 2019	Year ended December 31, 2020
Royalty (millions of yen)	1,375	1,173
Data center & AWS usage fee (millions of yen)	285	145
Rental fee (millions of yen)	142	175

(c) 【Non-consolidated statement of changes in net assets】

Year ended December 31, 2019

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Capital reserve	Other capital surplus	Total capital surplus	Retained earnings reserve	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at January 1	14,199	13,449	23,397	36,846	217	(423)	(206)
Changes during the year							
Issue of new stock	3,558	3,558	—	3,558	—	—	—
Net income	—	—	—	—	—	22,397	22,397
Reclassification from capital surplus to retained earnings	—	—	(423)	(423)	—	423	423
Purchase of treasury stock	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—
Total changes during the year	3,558	3,558	(423)	3,135	—	22,820	22,820
Balance at December 31	17,757	17,007	22,974	39,981	217	22,397	22,614

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at January 1	(1)	50,838	(21)	(21)	6,510	57,327
Changes during the year						
Issue of new stock	—	7,116	—	—	—	7,116
Net income	—	22,397	—	—	—	22,397
Reclassification from capital surplus to retained earnings	—	—	—	—	—	—
Purchase of treasury stock	(27,218)	(27,218)	—	—	—	(27,218)
Net changes of items other than shareholders' equity	—	—	(7)	(7)	989	982
Total changes during the year	(27,218)	2,295	(7)	(7)	989	3,277
Balance at December 31	(27,219)	53,133	(28)	(28)	7,499	60,604

Year ended December 31, 2020

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Capital reserve	Other capital surplus	Total capital surplus	Retained earnings reserve	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at January 1	17,757	17,007	22,974	39,981	217	22,397	22,614
Changes during the year							
Issue of new stock	4,713	4,713	—	4,713	—	—	—
Payment of dividends	—	—	—	—	—	(4,418)	(4,418)
Net income	—	—	—	—	—	37,152	37,152
Purchase of treasury stock	—	—	—	—	—	—	—
Retirement of treasury stock	—	—	(22,974)	(22,974)	—	(7,028)	(7,028)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—
Total changes during the year	4,713	4,713	(22,974)	(18,261)	—	25,706	25,706
Balance at December 31	22,470	21,720	—	21,720	217	48,103	48,320

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at January 1	(27,219)	53,133	(28)	(28)	7,499	60,604
Changes during the year						
Issue of new stock	—	9,426	—	—	—	9,426
Payment of dividends	—	(4,418)	—	—	—	(4,418)
Net income	—	37,152	—	—	—	37,152
Purchase of treasury stock	(2,783)	(2,783)	—	—	—	(2,783)
Retirement of treasury stock	30,002	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	7	7	771	778
Total changes during the year	27,219	39,377	7	7	771	40,155
Balance at December 31	(0)	92,510	(21)	(21)	8,270	100,759

【Notes to non-consolidated financial statements】

(Significant accounting policies)

1. Valuation basis and method for securities

(1) Stocks of subsidiaries and affiliates

Stocks of subsidiaries and affiliates are stated at cost based on the moving-average method.

(2) Available-for-sale securities

(a) With fair value

Securities with fair values are stated at fair market value at year-end. Unrealized gains and losses, net of applicable taxes, are directly recorded in net assets and cost of securities sold is calculated using the moving-average method.

(b) Without fair value

Securities without fair values are stated at cost based on the moving-average method.

2. Valuation basis and method for derivatives

Marked-to-market method

3. Depreciation method for non-current assets

(1) Tangible fixed assets, excluding lease assets

Straight-line method

Useful lives of major assets are as follows:

Buildings:	5 to 50 years
Leasehold improvements:	10 to 15 years
Tools, furniture and fixtures:	4 to 5 years

(2) Intangible fixed assets, excluding lease assets

Software for internal use is amortized using the straight-line method over the expected useful life (five years).

(3) Lease assets

Finance lease transactions that do not transfer ownership

Finance lease assets without ownership transfer are depreciated using the straight-line method over the lease period, assuming no residual value.

4. Accounting for allowance

(1) Allowance for doubtful accounts

Allowance for performing receivables is provided based on the actual credit loss ratio. Allowance for specific receivables such as those with doubtful collectibility is provided for the expected uncollectible amount based on the individual assessment for collectibility.

(2) Provision for bonuses

Provision for bonuses is provided for the estimated bonus amount to be paid to employees attributable to the current fiscal year.

(3) Provision for retirement benefits

Provision for employees' retirement benefits is provided for the amount of obligation expected to have been incurred at year-end based on the estimated retirement benefit obligation as of year-end.

5. Revenue recognition

In the PC online business, "Service period method" is applied whereby revenue is recognized ratably over the estimated period during which game users can use in-game items purchased in exchange for game points.

6. Basis for translation of assets and liabilities denominated in foreign currencies to Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen using spot foreign exchange rates at year-end, with resulting gains and losses included in profit or loss.

7. Hedge accounting

The Company hedges risks arising from fluctuations in interest rates and foreign exchange rates, in accordance with the Company's internal regulation "Derivative Transaction Management Rules."

8. Other significant matters in preparation of non-consolidated financial statements

Accounting for consumption taxes

Transactions subject to consumption taxes are stated at the amount, net of consumption taxes.

(Notes to non-consolidated balance sheet)

*1 Assets and liabilities related to subsidiaries and affiliates (excluding those presented separately)

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Short-term monetary claims	496	840
Long-term monetary claims	334	172
Short-term monetary debts	557	283

2 Contingent liabilities

Debt guarantee

The Company provides guarantee for the following subsidiaries as follows:

(Millions of yen)

As of December 31, 2019		As of December 31, 2020	
Nexon America Inc.		Nexon America Inc.	
Joint and several guarantee for rent agreement	1,510	Joint and several guarantee for rent agreement	1,311
NEXON M Inc.		NEXON M Inc.	
Joint and several guarantee for rent agreement	361	Joint and several guarantee for rent agreement	—

(Notes to non-consolidated statement of income)

*1 Transactions with subsidiaries and affiliates

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Operating transactions		
Net sales	1,163	1,078
Purchases	1,486	1,048
Selling, general and administrative expenses	365	597
Non-operating transactions	32,079	46,487

*2 The ratio of selling expenses and general and administrative expenses is approximately 37.4% and 62.6%, respectively, for the year ended December 31, 2019 and 36.2% and 63.8%, respectively, for the year ended December 31, 2020.

Major components and amounts are as follows:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Sales commission	531	444
Marketing expenses	754	906
PG fees	264	247
Salary and bonus	1,176	1,192
Provision for bonuses	100	83
Share-based compensation expense	2,660	2,645
Directors' share-based compensation expense	714	615

*3 Reversal of allowance for doubtful accounts for subsidiaries and affiliates consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
NEXON M Inc.	—	450
gloops, Inc.	1,089	269
Other	15	—
Total	1,104	719

*4 Provision of allowance for doubtful accounts for subsidiaries and affiliates consisted of the following:

(Millions of yen)

	Year ended December 31, 2019	Year ended December 31, 2020
Nexon America Inc.	3,980	—
Total	3,980	—

(Securities)

The fair values of stocks of subsidiaries and affiliates (the carrying amount on the balance sheet of subsidiaries' stock and affiliates' stock was ¥15,542 million and ¥1,599 million, respectively, as of December 31, 2019 and 2020) are not disclosed as their market prices are not available and it is extremely difficult to determine their fair values.

(Deferred tax accounting)

1. Major components of deferred tax assets and liabilities are as follows:

(Millions of yen)

	As of December 31, 2019	As of December 31, 2020
Deferred tax assets		
Loss on valuation of stocks of subsidiaries and affiliates	13,541	1,162
Loss on valuation of investment securities	530	245
Unearned revenue	207	170
Stock acquisition rights	379	416
Impairment loss	62	174
Allowance for doubtful accounts	11,039	7,299
Carryforward of unused tax losses	4,972	18,288
Other	864	875
Deferred tax assets – subtotal	31,594	28,629
Valuation allowance for carryforward of unused tax losses	(4,972)	(18,288)
Valuation allowance for future deductible temporary differences	(26,622)	(10,341)
Valuation allowances – subtotal	(31,594)	(28,629)
Total deferred tax assets	—	—
Deferred tax liabilities		
Total deferred tax liabilities	—	—
Deferred tax assets (liabilities), net	—	—

2. Major components of significant differences between the statutory effective tax rate and the corporate tax rate after adoption of deferred tax accounting

	As of December 31, 2019	As of December 31, 2020
Statutory income tax rate	30.62 %	30.62 %
(Adjustments)		
Permanent differences arising from nondeductible expenses such as entertainment expenses	3.50 %	2.58 %
Permanent differences arising from nontaxable income such as dividend income	(36.87) %	(34.23) %
Unitary taxation of overseas subsidiaries	— %	8.54 %
Valuation allowances	2.75 %	(7.51) %
Foreign taxes	6.34 %	5.88 %
Per capita inhabitant tax	0.02 %	0.01 %
Effective income tax rate	6.36 %	5.89 %

(Business combination)

Not applicable.

(Material subsequent events)

(1) Issuance of stock options (stock acquisition rights)

Pursuant to Articles 236, 238 and 239 of the Companies Act, it was resolved at the Company's Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights as stock options without consideration to certain employees of the Company and directors and employees of its subsidiaries and to delegate to the Company's Board of Directors the authority to determine the subscription requirements

Refer to Notes to consolidated financial statements "41 Subsequent events" for details.

(2) Issuance of equity-based stock option (stock acquisition rights)

Pursuant to Articles 361 of the Companies Act, it was resolved at the Company's Annual General Meeting of Shareholders held on March 25, 2021 to issue stock acquisition rights as equity-based stock options as directors' compensation, etc. to directors of the Company.

Based on the resolution, it was resolved at the Board of Directors meeting held on that day to issue stock acquisition rights as equity-based stock options to the Company's directors pursuant to Articles 236, 238 and 240 of the Companies Act. This issuance will not be considered as issuance under particularly preferential terms as stock acquisition rights will be issued as directors' compensation, etc.

Refer to Notes to consolidated financial statements "41 Subsequent events" for details.

(3) Dividends of surplus from consolidated subsidiaries

(a) NEXON Korea Corporation

At the Board of Directors meeting of the Company's consolidated subsidiary NEXON Korea Corporation held on February 9, 2021, it was decided to propose the dividends of surplus at its annual general meeting of shareholders scheduled on March 29, 2021. In response to this decision, at the Company's Board of Directors meeting held on February 9, 2021, it was resolved to give approval for the decision regarding NEXON Korea Corporation's dividends of surplus. Since NEXON Korea Corporation is a wholly-owned subsidiary of the Company, this matter is scheduled to be resolved at the annual general meeting of shareholders scheduled on March 29, 2021.

Overview of dividends

Dividend amount: ¥29,984 million

Date of scheduled resolution at the general meeting of shareholders: March 29, 2021

(b) Lexian Software Development (Shanghai) Co., Ltd.

The payment of dividends of surplus was resolved at the annual general meeting of shareholders of Lexian Software Development (Shanghai) Co., Ltd., our consolidated subsidiary, held on February 9, 2021.

Overview of dividends

Dividend amount: ¥5,643 million

Date of resolution at the general meeting of shareholders: February 9, 2021

The Company will record dividend income from two companies described above as non-operating income in the non-consolidated financial statements for the year ending December 31, 2021.

(d) 【Supplementary schedules】

【Details of tangible fixed assets】

(Millions of yen)

Category	Asset type	Beginning balance	Increase	Decrease	Depreciation	Ending balance	Accumulated depreciation /impairment loss
Tangible fixed assets	Buildings	—	216	53	216 (216)	163	163
	Leasehold improvements	31	101	48	101 (101)	84	84
	Tools, furniture and fixtures	407	18	339	12 (9)	86	80
	Total	438	335	440	329 (326)	333	327
Intangible fixed assets	Software	67	4	—	4 (4)	71	71
	Total	67	4	—	4 (4)	71	71

(Note 1) Beginning and ending balances are based on cost.

(Note 2) Figures in parentheses in "Depreciation" represent impairment loss.

(Note 3) Major increases during the year ended December 31, 2020 are as follows:

Buildings	Inside work of Headquarters	¥216 million
Leasehold improvements	Renovation of Headquarters	¥101 million

(Note 4) Major decrease during the year ended December 31, 2020 is as follows:

Tools, furniture and fixtures	Disposal of server and network equipment	¥332 million

【Details of allowance】

(Millions of yen)

Account	Beginning balance	Increase	Decrease	Ending balance
Allowance for doubtful accounts	36,051	—	12,213	23,838
Provision for bonuses	166	162	166	162

(2) 【Major assets and liabilities】

The disclosure is omitted as the Company prepares the consolidated financial statements.

(3) 【Other】

Not applicable.

VI. 【Stock-Related Administrative Information of the Company】

Fiscal year	From January 1 to December 31 of each year
Annual General Meeting of Shareholders	March of each year
Record date	December 31
Record date of distribution of surplus	June 30 December 31
Number of shares per trading unit	100 shares
Purchase of shares less than one unit Place of business Administrator of shareholder registry Contact place Purchase fee	 Stock Transfer Agency Business Planning Department of Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo — None
Method of public notice	By way of electronic public notice. However, in cases where electronic public notice is not available due to accidents or any other unavoidable circumstances, public notice will be given in the Nihon Keizai Shimbun. URL for public notice: http://ir.nexon.co.jp/ir/kokoku.html
Privileges to shareholders	Not applicable

(Note) It is stipulated in the Articles of Incorporation that shareholders of the Company may not exercise any rights other than those listed below with regard to their shares less than one trading unit.

(1) Right under each item of Article 189, Paragraph 2 of the Companies Act
(2) Rights to demand under provisions of Article 166, Paragraph 1 of the Companies Act
(3) Rights to receive an allotment of shares to be offered and stock acquisition rights according to the number of shares held by shareholders
(4) Rights to demand sale of shares less than one unit

VII. 【Reference Information on the Company】

1 【Information on the Company's Parent Company, etc.】

The Company does not have a parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2 【Other Reference Information】

The Company has filed the following documents during the period from the beginning of the current fiscal year to the filing date of the annual securities report.

(1) Annual Securities Report and its accompanying document and Confirmation Letter

Fiscal year (The 18th FY) (From January 1, 2019 to December 31, 2019): Filed with the Director of the Kanto Local Finance Bureau on March 26, 2020

(2) Internal Control Report and its accompanying document

Filed with the Director of the Kanto Local Finance Bureau on March 26, 2020

(3) Quarterly Report and Confirmation Letter

(First quarter of the 19th FY) (From January 1, 2020 to March 31, 2020): Filed with the Director of the Kanto Local Finance Bureau on May 14, 2020

(Second quarter of the 19th FY) (From April 1, 2020 to June 30, 2020): Filed with the Director of the Kanto Local Finance Bureau on August 7, 2020

(Third quarter of the 19th FY) (From July 1, 2020 to September 30, 2020): Filed with the Director of the Kanto Local Finance Bureau on November 11, 2020

(4) Extraordinary Report

Filed with the Director of the Kanto Local Finance Bureau on March 26, 2020.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on April 3, 2020.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on April 28, 2020.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 3 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on May 13, 2020.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on September 24, 2020.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on February 9, 2021.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 19 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on February 9, 2021.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on March 25, 2021.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(5) Amendments to the Extraordinary Report

Filed with the Director of the Kanto Local Finance Bureau on April 3, 2020.

This is an Amendment to the Extraordinary Report filed on April 3, 2020.

Filed with the Director of the Kanto Local Finance Bureau on May 14, 2020.

This is an Amendment to the Extraordinary Report filed on May 13, 2020.

(6) Securities Registration Statement and its accompanying document

Filed with the Director of the Kanto Local Finance Bureau on October 30, 2020.

(7) Amendments to the Securities Registration Statement

Filed with the Director of the Kanto Local Finance Bureau on November 9, 2020.

This is an Amendment to the Securities Registration Statement filed on October 30, 2020.

Part II 【Information on Guarantors, etc. for the Company】

Not applicable.