Internet Disclosure of Information Regarding the Notice of the 19th Annual General Meeting of Shareholders

NEXON Co., Ltd.

Contents

Pursuant to applicable laws and regulations and Article 16 of the Articles of Incorporation of the Company, the above matters are provided to shareholders by posting them on the Company's website (https://ir.nexon.co.jp/stock/meeting.html).

Subscription Rights to Shares

(a) Subscription rights to shares granted to officers of the Company as consideration for services provided (as of December 31, 2020)

		Subscription Rights (6)		Subscription Rights (10)	
Date of resolution to issue		April 22, 2013		July 17, 2015	
Number of subscription rights to shares		75 units		50 units	
Class and number of underlying shares		Common stock 150,000 shares (2,000 shares per unit)		Common stock 100,000 shares (2,000 shares per unit)	
Cash paid for subscription rights		¥944,000 per unit		¥1,558,000 per unit	
Exercise price		¥2,000 per unit (¥1 per share)		¥2,000 per unit (¥1 per share)	
Exercise period		From: May 7, 2013 To: May 6, 2043		From: August 3, 2015 To: August 2, 2045	
Conditions on exercise		Notes 1, 2 and 3		Notes 1, 2, and 3	
Status of holding by officers	Directors (excluding Audit & Supervisory Committee members and external directors)	Number of subscription rights	75 units	Number of subscription rights	50 units
		Number of underlying shares	150,000 shares	Number of underlying shares	100,000 shares
		Number of holders	1 person	Number of holders	1 person
	Directors (Audit & Supervisory Committee members)	Number of subscription rights	－unit	Number of subscription rights	－unit
		Number of underlying shares	－share	Number of underlying shares	－share
		Number of holders	－person	Number of holders	－person

(Notes) 1. Partial exercise of subscription rights to shares is not allowed.

2. Subscription rights may be exercised 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.)

3. All units granted will be forfeited in case the holder is dismissed from directorship.

		Subscription Rights (13-2)	Subscription Rights (14)
Date of resolution to issue		October 31, 2017	March 27, 2018
Number of subscription rights to shares		20 units	626 units
Class and number of underlying shares		Common stock 40,000 shares (2,000 shares per unit)	Common stock 1,252,000 shares (2,000 shares per unit)
Cash paid for subscription rights		No payment is required in exchange for subscription rights	No payment is required in exchange for subscription rights
Exercise price		¥3,280,000 per unit (¥1,640 per share)	¥1 per unit (¥0.0005 per share)
Exercise period		(Qualified stock option) From: October 31, 2019 To: November 8, 2023 (Non-qualified stock option) From: November 9, 2017 To: November 8, 2023	From: March 27, 2018 To: March 15, 2022
Conditions on exercise		Notes 1 and 2	Notes 1 and 3
Status of holding by officers	Directors (excluding Audit & Supervisory Committee members and external directors)	Number of subscription rights —unit Number of underlying shares —share Number of holders —person	Number of subscription rights 626 units Number of underlying shares 1,252,000 shares Number of holders 2 persons
	Directors (Audit & Supervisory Committee members)	Number of subscription rights 20 units Number of underlying shares 40,000 shares Number of holders 1 person	Number of subscription rights —unit Number of underlying shares —share Number of holders —person

(Notes)1. Partial exercise of subscription rights to shares is not allowed.

2. In principle, holders of subscription rights to shares must continue to be a director or employee of the Company or its subsidiary from the date of allotment up to the date of exercise to be eligible to exercise the right.

3. In principle, holders of subscription rights to shares must continue to be a director or employee of the Company or its subsidiary, or in a commissioned position such as honorary chairperson or advisor from the date of allotment up to the date of exercise to be eligible to exercise the right.

(b) Subscription rights to shares granted to employees, etc. as consideration for services provided during the current fiscal year

		Subscription Rights (18)	Subscription Rights (18-2)
Date of resolution to issue		April 2, 2020	May 13, 2020
Number of subscription rights to shares		250 units	740 units
Class and number of underlying shares		Common stock 500,000 shares (2,000 shares per unit)	Common stock 1,480,000 shares (2,000 shares per unit)
Cash paid for subscription rights		No payment is required in exchange for subscription rights	No payment is required in exchange for subscription rights
Exercise price		¥3,574,000 per unit (¥1,787 per share)	¥4,144,000 per unit (¥2,072 per share)
Exercise period		From: April 3, 2020 To: April 2, 2026	From: May 14, 2020 To: May 13, 2026
Conditions on exercise		Notes 1 and 2	Notes 1 and 2
Status of grant to employees	Employees of the Company	Number of subscription rights —unit Number of underlying shares —share Number of holders —person	Number of subscription rights —unit Number of underlying shares —share Number of holders —person
	Officers and employees of subsidiaries	Number of subscription rights 250 units Number of underlying shares 500,000 shares Number of grantees 1 person	Number of subscription rights 740 units Number of underlying shares 1,480,000 shares Number of grantees 5 persons

(Notes)1. Partial exercise of subscription rights to shares is not allowed.

2. In principle, holders of subscription rights to shares must continue to be a director or employee of the Company or its subsidiary from the date of allotment up to the date of exercise to be eligible to exercise the right.

<table>
<tr><td colspan="2"></td><td colspan="2">Subscription Rights (18-3)</td></tr>
<tr><td colspan="2">Date of resolution to issue</td><td colspan="2">October 30, 2020</td></tr>
<tr><td colspan="2">Number of subscription rights to shares</td><td colspan="2">5,010 units</td></tr>
<tr><td colspan="2">Class and number of underlying shares</td><td colspan="2">Common stock10,020,000 shares
(2,000 shares per unit)</td></tr>
<tr><td colspan="2">Cash paid for subscription rights</td><td colspan="2">No payment is required in exchange for subscription rights</td></tr>
<tr><td colspan="2">Exercise price</td><td colspan="2">¥6,110,000 per unit
(¥3,055 per share)</td></tr>
<tr><td colspan="2">Exercise period</td><td colspan="2">(Qualified stock option)
From: October 30, 2022
To: November 8, 2026
(Non-qualified stock option)
From: November 9, 2020
To: November 8, 2026</td></tr>
<tr><td colspan="2">Conditions on exercise</td><td colspan="2">Notes 1 and 2</td></tr>
<tr><td rowspan="6">Status of grant to employees</td><td rowspan="3">Employees of the Company</td><td>Number of subscription rights</td><td>375 units</td></tr>
<tr><td>Number of underlying shares</td><td>750,000 shares</td></tr>
<tr><td>Number of grantees</td><td>22 persons</td></tr>
<tr><td rowspan="3">Officers and employees of subsidiaries</td><td>Number of subscription rights</td><td>4,635 unit</td></tr>
<tr><td>Number of underlying shares</td><td>9,270,000 share</td></tr>
<tr><td>Number of grantees</td><td>185 persons</td></tr>
</table>

(Notes)1. Partial exercise of subscription rights to shares is not allowed.
2. In principle, holders of subscription rights to shares must continue to be a director or employee of the Company or its subsidiary from the date of allotment up to the date of exercise to be eligible to exercise the right.

(c) Other material facts concerning subscription rights to shares

			Subscription Rights (16)
Date of resolution to issue			August 5, 2019
Number of subscription rights to shares			59,384,380 units
Class and number of underlying shares			Common stock 2,031,955 shares Note 1
Cash paid for subscription rights			No payment is required in exchange for subscription rights
Exercise price			¥2 per unit Note 2
Exercise period			The exercise period for subscription rights to shares during the period from October 1, 2019 to June 30, 2025 shall be 30 days from the date on which 31 days have lapsed from the date when a final agreement is reached on the achievement level of the predefined performance targets applicable to the period from December 1, 2020 to September 30, 2021
Conditions on exercise			Notes 3 and 4
Status of grant to eligible persons	Directors of the Company (excluding Audit & Supervisory Committee members and external directors)	Number of subscription rights	48,497,246 units
		Number of underlying shares	1,659,434 shares
		Number of grantees	1 person
	Employees of subsidiaries	Number of subscription rights	10,887,134 unit
		Number of underlying shares	372,521 share
		Number of grantees	5 persons

(Notes) 1. The number of shares subject to a unit of subscription rights to shares ("Number of underlying shares per unit of subscription rights to shares") shall be as follows:

Number of underlying shares per unit of subscription rights to shares

$$\frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} / 59{,}384{,}380$$

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be 1 share of Embark Studios AB's common stock, and the value of such asset as specified in Article 236, Paragraph 1, Item 3 of the Companies Act shall be ¥2.
3. Partial exercise of subscription rights to shares is not allowed.
4. Subscription rights to shares will vest and become exercisable to the extent that the predefined performance targets and the continued employment requirement are met.
5. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
6. This subscription rights to shares are issued, in essence, as a way to exchange the Company's common stock and Embark Studios AB's common stock in the future based on the level of achievement of performance targets by Embark Studios AB.

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<tr><td colspan="2"></td><td colspan="2">Subscription Rights (16-2)</td></tr>
<tr><td colspan="2">Date of resolution to issue</td><td colspan="2">August 5, 2019</td></tr>
<tr><td colspan="2">Number of subscription rights to shares</td><td colspan="2">50,420,701 units</td></tr>
<tr><td colspan="2">Class and number of underlying shares</td><td colspan="2">Common stock 2,031,958 shares
Note 1</td></tr>
<tr><td colspan="2">Cash paid for subscription rights</td><td colspan="2">No payment is required in exchange for subscription rights</td></tr>
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<tr><td rowspan="6">Status of grant to eligible persons</td><td rowspan="3">Directors of the Company (excluding Audit & Supervisory Committee members and external directors)</td><td>Number of subscription rights</td><td>41,176,907 units</td></tr>
<tr><td>Number of underlying shares</td><td>1,659,434 shares</td></tr>
<tr><td>Number of grantees</td><td>1 person</td></tr>
<tr><td rowspan="3">Employees of subsidiaries</td><td>Number of subscription rights</td><td>9,243,794 units</td></tr>
<tr><td>Number of underlying shares</td><td>372,524 shares</td></tr>
<tr><td>Number of grantees</td><td>5 persons</td></tr>
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(Notes) 1. The number of shares subject to a unit of subscription rights to shares ("Number of underlying shares per unit of subscription rights to shares") shall be as follows:

$$\text{Number of underlying shares per unit of subscription rights to shares} \quad \frac{29{,}395{,}270 \times 107.32}{1{,}552.5404} \ / \ 50{,}420{,}701$$

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be 1 share of Embark Studios AB's common stock, and the value of such asset as specified in Article 236, Paragraph 1, Item 3 of the Companies Act shall be ¥2.
3. Partial exercise of subscription rights to shares is not allowed.
4. Subscription rights to shares will vest and become exercisable to the extent that the predefined performance targets and the continued employment requirement are met.
5. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
6. This subscription rights to shares are issued, in essence, as a way to exchange the Company's common stock and Embark Studios AB's common stock in the future based on the level of achievement of performance targets by Embark Studios AB.

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<tr><td>Number of underlying shares</td><td>1,659,434 shares</td></tr>
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<tr><td rowspan="3">Employees of subsidiaries</td><td>Number of subscription rights</td><td>6,620,555 units</td></tr>
<tr><td>Number of underlying shares</td><td>372,524 shares</td></tr>
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(Notes) 1. The number of shares subject to a unit of subscription rights to shares (“Number of underlying shares per unit of subscription rights to shares”) shall be as follows:

Number of underlying shares per unit of subscription rights to shares $\dfrac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$ / 36,112,123

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be 1 share of Embark Studios AB’s common stock, and the value of such asset as specified in Article 236, Paragraph 1, Item 3 of the Companies Act shall be ¥2.
3. Partial exercise of subscription rights to shares is not allowed.
4. Subscription rights to shares will vest and become exercisable to the extent that the predefined performance targets and the continued employment requirement are met.
5. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
6. This subscription rights to shares are issued, in essence, as a way to exchange the Company’s common stock and Embark Studios AB’s common stock in the future based on the level of achievement of performance targets by Embark Studios AB.

			Subscription Rights (16-4)
Date of resolution to issue			August 5, 2019
Number of subscription rights to shares			30,552,585 units
Class and number of underlying shares			Common stock 2,031,959 shares Note 1
Cash paid for subscription rights			No payment is required in exchange for subscription rights
Exercise price			¥2 per unit Note 2
Exercise period			The exercise period for subscription rights to shares during the period from October 1, 2019 to June 30, 2025 shall be 30 days from the date on which 31 days have lapsed from the date when a final agreement is reached on the achievement level of the predefined performance targets applicable to the period from July 1, 2023 to June 30, 2024
Conditions on exercise			Notes 3 and 4
Status of grant to eligible persons	Directors of the Company (excluding Audit & Supervisory Committee members and external directors)	Number of subscription rights	24,951,269 units
		Number of underlying shares	1,659,433 shares
		Number of grantees	1 person
	Employees of subsidiaries	Number of subscription rights	5,601,316 units
		Number of underlying shares	372,526 shares
		Number of grantees	5 persons

(Notes) 1. The number of shares subject to a unit of subscription rights to shares (“Number of underlying shares per unit of subscription rights to shares”) shall be as follows:

Number of underlying shares per unit of subscription rights to shares $\frac{29{,}395{,}270 \times 107.32}{1{,}552.5404}$ / 30,552,585

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be 1 share of Embark Studios AB’s common stock, and the value of such asset as specified in Article 236, Paragraph 1, Item 3 of the Companies Act shall be ¥2.
3. Partial exercise of subscription rights to shares is not allowed.
4. Subscription rights to shares will vest and become exercisable to the extent that the predefined performance targets and the continued employment requirement are met.
5. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
6. The subscription rights to shares are issued, in essence, as a way to exchange the Company’s common stock and Embark Studios AB’s common stock in the future based on the level of achievement of performance targets by Embark Studios AB.

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Note 1</td></tr>
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<tr><td>Number of underlying shares</td><td>338,657 shares</td></tr>
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(Notes) 1. The number of shares subject to a unit of subscription rights to shares (“Number of underlying shares per unit of subscription rights to shares”) shall be as follows:

$$\text{Number of underlying shares per unit of subscription rights to shares} \quad \frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \; / \; 59{,}384{,}380$$

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be the amount corresponding to the sales price of one share of Embark Studios AB’s common stock (calculated by multiplying the closing price of the Company’s common stock on Tokyo Stock Exchange on the 5th business day after the Company exercises the right to purchase Embark Studios AB’s common stock from the allottee in accordance with Year 2 Call Right Agreement dated August 5, 2019 entered into between the Company and the allottee by the number of underlying shares per unit of subscription rights to shares) included in the sales price payable by the Company to the allottee due to the exercise of the right by the Company, and the value of such asset shall be ¥1.
3. Partial exercise of subscription rights to shares is not allowed.
4. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
5. The subscription rights to shares are issued, in essence, as a way to exchange the Company’s common stock and Embark Studios AB’s common stock in the future.

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Note 2</td></tr>
<tr><td colspan="2">Exercise period</td><td colspan="2">The exercise period during the period from October 1, 2019 to June 30, 2025 is the 5th business day after the Company exercises the right to purchase Embark Studios AB’s common stock from allottees pursuant to the Year 3 Call Right Agreement</td></tr>
<tr><td colspan="2">Conditions on exercise</td><td colspan="2">Note 3</td></tr>
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(Notes) 1. The number of shares subject to a unit of subscription rights to shares (“Number of underlying shares per unit of subscription rights to shares”) shall be as follows:

Number of underlying shares per unit of subscription rights to shares

$$\frac{26{,}722{,}973 \times 107.32}{1{,}552.5404} \; / \; 50{,}420{,}701$$

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be the amount corresponding to the sales price of one share of Embark Studios AB’s common stock (calculated by multiplying the closing price of the Company’s common stock on Tokyo Stock Exchange on the 5th business day after the Company exercises the right to purchase Embark Studios AB’s common stock from the allottee in accordance with Year 3 Call Right Agreement dated August 5, 2019 entered into between the Company and the allottee by the number of underlying shares per unit of subscription rights to shares) included in the sales price payable by the Company to the allottee due to the exercise of the right by the Company, and the value of such asset shall be ¥1.
3. Partial exercise of subscription rights to shares is not allowed.
4. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
5. The subscription rights to shares are issued, in essence, as a way to exchange the Company’s common stock and Embark Studios AB’s common stock in the future.

		Subscription Rights (17-3)	
Date of resolution to issue		August 5, 2019	
Number of subscription rights to shares		36,112,123 units	
Class and number of underlying shares		Common stock 1,847,233 shares Note 1	
Cash paid for subscription rights		No payment is required in exchange for subscription rights	
Exercise price		¥1 per unit Note 2	
Exercise period		The exercise period during the period from October 1, 2019 to June 30, 2025 is the 5th business day after the Company exercises the right to purchase Embark Studios AB's common stock from allottees pursuant to the Year 4 Call Right Agreement	
Conditions on exercise		Note 3	
Status of grant to eligible persons	Directors of the Company (excluding Audit & Supervisory Committee members and external directors)	Number of subscription rights	29,491,568 units
		Number of underlying shares	1,508,576 shares
		Number of grantees	1 person
	Employees of subsidiaries	Number of subscription rights	6,620,555 units
		Number of underlying shares	338,657 shares
		Number of grantees	5 persons

(Notes) 1. The number of shares subject to a unit of subscription rights to shares ("Number of underlying shares per unit of subscription rights to shares") shall be as follows:

Number of underlying shares per unit of subscription rights to shares $\frac{26,722,973 \times 107.32}{1,552.5404}$ / 36,112,123

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be the amount corresponding to the sales price of one share of Embark Studios AB's common stock (calculated by multiplying the closing price of the Company's common stock on Tokyo Stock Exchange on the 5th business day after the Company exercises the right to purchase Embark Studios AB's common stock from the allottee in accordance with Year 4 Call Right Agreement dated August 5, 2019 entered into between the Company and the allottee by the number of underlying shares per unit of subscription rights to shares) included in the sales price payable by the Company to the allottee due to the exercise of the right by the Company, and the value of such asset shall be ¥1.
3. Partial exercise of subscription rights to shares is not allowed.
4. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
5. The subscription rights to shares are issued, in essence, as a way to exchange the Company's common stock and Embark Studios AB's common stock in the future.

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(Notes) 1. The number of shares subject to a unit of subscription rights to shares (“Number of underlying shares per unit of subscription rights to shares”) shall be as follows:

Number of underlying shares per unit of subscription rights to shares $\dfrac{26{,}722{,}973 \times 107.32}{1{,}552.5404}$ / 30,552,585

2. The asset to be contributed upon exercise of a unit of the subscription rights to shares shall be the amount corresponding to the sales price of one share of Embark Studios AB’s common stock (calculated by multiplying the closing price of the Company’s common stock on Tokyo Stock Exchange on the 5th business day after the Company exercises the right to purchase Embark Studios AB’s common stock from the allottee in accordance with Year 5 Call Right Agreement dated August 5, 2019 entered into between the Company and the allottee by the number of underlying shares per unit of subscription rights to shares) included in the sales price payable by the Company to the allottee due to the exercise of the right by the Company, and the value of such asset shall be ¥1.
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4. Any fraction less than one share included in the number of shares to be issued to the holders of the subscription rights to shares who have exercised the rights shall be rounded down.
5. The subscription rights to shares are issued, in essence, as a way to exchange the Company’s common stock and Embark Studios AB’s common stock in the future.

Systems and organization to ensure the execution of duties by directors is in compliance with laws and regulations and the articles of incorporation, other systems and organization to ensure proper business operation of the company and the summary of the operating status of such systems

The summary of decisions regarding a system to ensure the execution of duties by directors is in compliance with laws and regulations and the articles of incorporation and other systems to ensure proper operations of the company as well as the summary of these systems and their operating status during the current fiscal year are as follows:

1. System to ensure that the execution of duties by directors and employees complies with laws and regulations and the articles of incorporation

(i) Board of directors

The meeting of the Board of Directors shall be held at least every three months in order to ensure the effective monitoring functions for directors' performance.

(ii) Audit and Supervisory Committee

The Audit and Supervisory Committee shall enhance the design and operating effectiveness of internal control system in coordination with the Internal Audit Office, the Legal Department and the Accounting/Finance Department, to ensure the effective audit functions for directors' performance. In addition, the Audit and Supervisory Committee shall enhance their expertise in their audit functions by appointing external professionals as external Audit and Supervisory Committee members.

(iii)Internal Audit Office

The Internal Audit Office shall be responsible for carrying out continuous internal audits of the business operations. The Internal Audit Office shall report directly to President/CEO and maintain independence of internal audit.

(iv)Legal Department

The Legal Department shall serve as the responsible department/contact point for matters concerning compliance of business operations ("compliance") to ensure compliance within the Company.

(Operating status)

During the current fiscal year, the meeting of the Board of Directors and the Audit and Supervisory Committee were held 9 times and 6 times, respectively, to ensure supervision over directors' performance. In addition, two external directors with professional insight were elected as Audit and Supervisory Committee members in order to ensure the effective supervising functions.

The Internal Audit Office, which reports directly to President/CEO, has performed audits of departments within the Company. The Legal Department has served as the contact point for compliance matters and promoted activities to raise employees' awareness for compliance as the responsible department. It has also developed and operated relevant internal regulations.

2. System to store and control information on the directors' execution of their duties

Information on the directors' execution of their duties including minutes of the meetings of the Board of Directors and requests for approval shall be recorded and stored in a document format or electromagnetic devices in accordance with the documentation control regulations. Directors and Audit and Supervisory Committee shall be allowed to access any of these records at any time.

(Operating status)

In accordance with the documentation control regulations, information on the directors' execution of their duties including minutes of the meetings of the Board of Directors and requests for approval was recorded and stored in a document format or electromagnetic devices, and directors and Audit and Supervisory Committee are allowed to access any of these records at any time.

3. System to ensure the reliability of financial reporting
   The Company shall establish systems to prepare proper financial reporting and to review the effectiveness of the system on a regular or as needed basis.

   (Operating status)
   The Company has appointed personnel in charge of finance and information disclosure and set up an internal process to collect accurate financial information. If any facts subject to timely disclosure are identified, it shall be notified to the personnel in charge of information disclosure who shall then discuss the response measures with prescribed consultative departments and disclose information.

4. Regulations and other systems to manage potential risks of losses
   The Company shall develop risk management regulations to minimize the potential exposure to risk of incurring losses. In addition, the Company shall prepare for serious incidents by developing a risk management manual and establishing a system enabling timely response.

   (Operating status)
   Based on risk management regulations, the Company has formed a risk management project consisting of managers of each department, developed a risk map by identifying potential risks in each department in order to take prevention and mitigation measures for risks. In addition, the Company has developed a risk management manual and has in place a communication and response system in the event of serious incidents.

5. System to ensure efficient execution of duties by directors
   (i) Directors shall report the status of executing their respective duties on a monthly basis at a meeting of the Board of Directors, etc. Obstructive factors in the execution of duties, if any, shall be addressed to improve the situation in a timely manner.
   (ii) Directors shall facilitate the process of decision making and information sharing by taking advantage of the IT infrastructure.

   (Operating status)
   At the meeting of the Board of Directors, etc., the status of executing their respective duties is reported in an appropriate and timely manner, and improvement measures are discussed as needed. In addition, the Company has introduced an electromagnetic system for internal application and approval of decision-making request in order to accelerate process for decision making and information sharing.

6. System to ensure proper operations of Nexon Group composed of the Company and its subsidiaries
   (i) System for reporting matters regarding execution of duties by subsidiaries' directors to the Company
   The Company shall request subsidiaries' directors to report necessary matters regularly based on the related companies' management regulations.
   (ii) Regulations and other systems to manage potential risks of losses in subsidiaries
   According to the Company's risk management regulations, the Company shall request subsidiaries to minimize potential exposure to risk of incurring losses and establish a system enabling timely response in cooperation with the Company in the event of serious incidents.
   (iii) System to ensure efficient execution of duties by subsidiaries' directors
   The Company shall request subsidiaries' directors to report the status of executing their respective duties on a monthly basis and to improve obstructive factors in the execution of duties in a timely manner, if any.
   (iv) System to ensure that the execution 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, Audit and Supervisory Committee, the Internal Audit Office and the Legal Department. In addition, the Company shall request subsidiaries to take necessary measures including preventive measures.

(v) Other systems to ensure proper operations of Nexon Group composed of the Company and its subsidiaries
While respecting the independence of each entity due to unique local circumstances, the Company shall request subsidiaries to take necessary measures according to the system to ensure proper operations of the Company.

(Operating status)
The Company ensures proper operations of the corporate group through supervision by requesting timely and appropriate reporting to the Company in accordance with the related companies' management regulations.

7. Matters concerning employees assigned to assist the duties of the Audit and Supervisory Committee, matters concerning the independence of these employees from directors (excluding those who are Audit and Supervisory Committee members), and matters concerning securement of effective instructions by the Audit and Supervisory Committee to the employees
If the Audit and Supervisory Committee requests to assign assistants to assist their duties, the Company shall assign the necessary number of full-time assistants. If no full-time assistants are assigned, the Audit and Supervisory Committee may assign employees in the Internal Audit Office to assist its audit work, as necessary.
Regardless of whether employees are full-time assistant or not, the assigned employees shall not be subjected to instructions of executive officers including directors with respect to the instructions from the Audit and Supervisory Committee.
Regardless of whether employees are full-time assistant or not, the assigned employees shall follow the instructions of the Audit and Supervisory Committee. If full-time assistants are assigned, the Audit and Supervisory Committee shall be consulted when determining or changing personnel affairs and treatment such as salary of the assigned employees.

(Operating status)
Internal regulations stipulate that the Audit and Supervisory Committee may assign employees in the Internal Audit Office to assist its audit work and that the assigned employees shall not be subjected to instructions of executive officers such as directors.

8. System to report to the Company's Audit and Supervisory Committee
(i) System for directors and/or employees to report to the Audit and Supervisory Committee and other systems concerning reports to Audit and Supervisory Committee members
Directors or employees shall immediately report to the Audit and Supervisory Committee any facts that may cause substantial damages to the Company or Nexon Group and any facts that execution of duties by directors is in violation of laws and regulations or the articles of incorporation.
(ii) System for reporting to the Company's Audit and Supervisory Committee from directors, statutory auditors, business executing persons and employees of subsidiaries or persons who received report from them, and other systems concerning reports to Audit and Supervisory Committee members
Directors, statutory auditors, business executing persons and employees of subsidiaries or persons who received report from them shall immediately report to the Company's Audit and Supervisory Committee any facts that may cause substantial damages to Nexon Group and any facts that execution of duties by subsidiaries' directors is in violation of laws and regulations or the articles of incorporation.

(Operating status)
The code of conduct and ethics applicable to the Company and Nexon Group companies provides a system in which any facts that may cause substantial damages to the Company or Nexon Group and any facts that execution of duties by directors is in violation of laws and regulations or the articles of incorporation shall be reported to the Audit and Supervisory Committee.

9. System to ensure that persons who made a report prescribed in the preceding item shall receive no unfair treatment because of such report
   Regardless of whether or not it is reported under the whistle-blower system, persons who reported to the Company's Audit and Supervisory Committee shall receive no unfair treatment because of such report.

   (Operating status)
   The code of conduct and ethics applicable to the Company and Nexon Group companies provides that the identity of the employees who made a report prescribed in the preceding item shall remain confidential as much as possible and that any retaliatory sanctions and unfair treatment to such employees shall be prohibited.

10. Matters concerning policy for treatment of expenses or liabilities arising from execution of duties by the Company's Audit and Supervisory Committee members
   When Audit and Supervisory Committee members or the Audit and Supervisory Committee claim expenses required to engage lawyers, certified public accountants and other external professionals for their advice, to consign investigation, appraisal or other work or to make a business trip to subsidiaries, etc., in order to execute their duties, the Company shall pay these expenses as the Company's expense, unless such expenses are considered unnecessary for execution of duties by the Audit and Supervisory Committee.

   (Operating status)
   Internal regulations provide that expenses arising from execution of duties by the Audit and Supervisory Committee shall be paid as the Company's expense.

11. Other systems to ensure effective performance of audit by the Audit and Supervisory Committee
   The Audit and Supervisory Committee shall hold periodic meetings to exchange opinions with each of President/CEO, other directors and the independent auditors. In addition, the head of the Internal Audit Office shall report to the Audit and Supervisory Committee on the status of internal audit on a regular basis and the head of the Legal Department shall report to the Audit and Supervisory Committee on the compliance status on a regular basis.

   (Operating status)
   The Audit and Supervisory Committee have held periodic meetings to exchange opinions with President/CEO and the independent auditors, and the heads of the Internal Audit Office and Legal Department have reported to Audit and Supervisory Committee members on the status of internal audit and compliance, respectively, on a regular basis, in order to ensure the effectiveness of the audit.

12. Basic policy and relevant system to eliminate anti-social forces
   (i) Basic policy to eliminate the threats posed by anti-social forces
   The Company shall maintain a firm attitude toward anti-social forces that may pose threats to the order and security of the society and block any relationships including ordinary commercial transactions.
   (ii) System to eliminate anti-social forces
   The Company shall exercise its best efforts to block any relationships with anti-social forces by assigning the Legal Department to be in charge of dealing with anti-social forces and conducting customer reviews. In case the Company is approached by anti-social forces, a systematic response shall be taken jointly with external special agencies.

   (Operating status)
   The Company has in place a system to deal with anti-social forces by including elimination of anti-social forces in "NEXON Group Code of Conduct and Business Ethics (Code of Conduct)" and preparing an anti-social forces manual. In addition, the Company conducts preliminary review for new customers to examine whether they fall under the category of anti-social forces.

Consolidated Statement of Changes in Equity

(From January 1, 2020 to December 31, 2020)

(Millions of Yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance as of 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 new stock	4,712	4,712	—	—	—	9,424	—	9,424
Stock issue cost	—	(32)	—	—	—	(32)	—	(32)
Dividend	—	—	—	—	(4,417)	(4,417)	—	(4,417)
Share-based payments	—	—	—	611	—	611	—	611
Changes in interests in controlling subsidiaries	—	27	—	—	—	27	57	84
Acquisition of treasury stock	—	(2)	(2,781)	—	—	(2,783)	—	(2,783)
Retirement of treasury stock	—	(22,972)	30,000	—	(7,028)	—	—	—
Transfer from other equity interest to retained earnings	—	—	—	6	(6)	—	—	—
Total transaction with owners	4,712	(18,267)	27,219	617	(11,451)	2,830	57	2,887
Balance as of December 31, 2020	22,679	17,421	(0)	69,975	599,807	709,882	10,563	720,445

Notes to Consolidated Financial Statements

1. Significant basis for preparation of the consolidated financial statements

(1) Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared in accordance with the designated international accounting standards (IFRS) pursuant to provisions of Article 120, Paragraph 1 of the Regulation on Corporate Accounting. Certain disclosure items required by IFRS are omitted in the consolidated financial statements as permitted by the second sentence of the above-mentioned paragraph.

(2) Scope of consolidation

Status of consolidated subsidiaries

Number of consolidated subsidiaries: 24

Name of major consolidated subsidiaries

NEXON Korea Corporation (Korea)
NEOPLE Inc. (Korea)
NEXON GT Co., Ltd. (Korea)
NAT GAMES Co., Ltd. (Korea)
NEXON America Inc. (United States)
Pixelberry Studios (United States)
Lexian Software Development (Shanghai) Co., Ltd. (China)
Embark Studios AB (Sweden)

(3) Application of the equity method

Status of affiliates and jointly controlled entities accounted for using the equity method

Number of affiliates and jointly controlled entities accounted for using the equity method: 12

Name of the major companies accounted for using the equity method

Six Waves Inc. (Hong Kong)

(4) Changes in the scope of consolidation and application of the equity method

1) Changes in the scope of consolidation

The following companies are included in the scope of consolidation from the current fiscal year: VIP Global Super Growth Hedge Fund (Korea), Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust (Korea) and Samsung Digital Innovation Equity Fund Private Investment Trust 1 (Korea) due to investment in investment trusts.

The following companies were excluded from the scope of consolidation: NEXON OC Studio (United States) and NEXON M Inc. (United States) due to completion of their liquidation proceedings; and gloops, Inc. (Japan) and BLOCKCHAIN ENTERTAINMENT LAB Co., Ltd. (Korea) due to sale of shares.

Also, an absorption-type merger was executed, with NEXON Korea Corporation (Korea) as the surviving company and BOOLEAN GAMES (Korea) and NEXON RED Corp. (Korea) as the absorbed companies.

2) Changes in the scope of the equity method application

The following companies were excluded from the scope of the equity method application: UbiFun Corporation (Korea), Loud Communications. Co., Ltd. (Korea) and Neon Studio Corporation (Korea) due to sale of shares; and QC Games Inc. (United States) due to completion of its liquidation proceedings.

The following companies were included in the scope of the equity method application: Sandbox Network (Korea) as it became an affiliate due to new acquisition of shares; and DevCAT Co., Ltd. (Korea) and Nitro Studio Co., Ltd. (Korea) as a result of formation of a jointly controlled company.

(5) Matters related to fiscal year of consolidated subsidiaries

All consolidated subsidiaries have the same fiscal year-end as the consolidated fiscal year-end.

(6) Accounting policies

1) Valuation basis and method for financial assets

(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 principal amount outstanding

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 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 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 recognize interest income by applying the effective interest method to the gross 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) Fair value of financial assets

Fair values of financial assets are determined based on quoted market prices if assets are traded on active financial markets at the end of each reporting period.

If an active market does not exist, fair values of financial assets are determined using appropriate valuation techniques (e.g. income approach, market approach).

See “4. Financial instrument” for calculation method of fair value.

2) Valuation basis and method and depreciation or amortization method for property, plant and equipment and intangible assets (excluding goodwill)

(a) Property, plant and equipment

(Recognition and measurement)

Property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes costs directly attributable to the acquisition, costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs to be capitalized.

Items of property, plant and equipment that have different useful lives are recorded as separate items.

(Depreciation)

Depreciation is calculated based on the depreciable amount. Depreciable amount 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.

(b) Intangible assets

(Intangible assets acquired through business combination)

Intangible assets acquired through business combination and recognized separately from goodwill are initially recognized at fair value on the acquisition date.

Subsequently, those intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

(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 any accumulated amortization and any accumulated impairment losses.

(Research and development costs)

Expenditures arising from research activities to obtain new scientific or technical knowledge and understanding are recognized as expenses when incurred. Development costs that satisfy certain conditions are capitalized and carried at cost less any accumulated amortization and any accumulated impairment losses.

(Game copyrights and other intangible assets (individually acquired intangible assets))

Nexon Group purchases distribution 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.

(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.

(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, intangible assets with indefinite useful lives, and intangible assets 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 costs of disposal. 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.

3) Leases

At Nexon Group, we assess whether the contract is, or contains, a lease at inception of a contract. We deem 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. We review the following matters in our 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 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, we allocate the consideration in the contract 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 assets 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, the 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, which is adjusted at remeasurement of the corresponding lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are 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 determined primarily by using the risk free rate, such as that of government bonds, adjusted for credit risks, or the most recent borrowing rate 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, initially measured using the 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 exercise of an option to terminate the lease by the lessee.

The lease liability is measured at amortized cost using the effective interest method. 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 option, the extension option, or the option to terminate the lease.

At reassessment 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 asset," 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 assets 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, we classify each of our leases 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 a 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 by including them in “other revenue.”

For lease payments from finance leases, at the commencement date, we recognize assets held under a finance lease in our statement of financial position and present them as a receivable 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, initially measured using the 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 exercise of an option to terminate the lease by the lessee.

Nexon Group recognizes lease payments from finance leases as “finance income” over the lease term based on a pattern that reflects a certain rate of return on Nexon Group’s net investment in the lease.

4) Major provisions

Provisions are recognized when Nexon Group has a present legal or constructive obligation that can be reliably estimated as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are calculated as the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the liabilities. The unwinding of the discount is recognized as finance costs.

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 estimated periods of use determined taking into account the useful lives of leasehold improvements.

5) Revenue recognition

Nexon Group is engaged in PC online business, mobile business, consulting business for PC online game distribution 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 and needs to be recognized as an asset. “Deferred income” in the consolidated statement 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 distribution rights for PC online games developed and commercialized by Nexon Group; and (c) revenue from consulting business for PC online game distribution 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 distributes PC online games developed by Nexon Group or other companies. To play Nexon Group’s PC online games, there is no basic usage fee, 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 distributes mobile games developed by Nexon Group or other companies through terminals including smart phones and tablets. To play mobile games, there is no basic usage fee, 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 distribution rights for PC online games developed and commercialized by Nexon Group

As the owner of the copyright, Nexon Group enters into a license agreement with third party distribution companies and grant distribution rights for PC online games developed and commercialized by Nexon Group.

We deem the performance obligations for royalty income arising from granting distribution 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 distribution and in-game advertisement business
In consulting business, a subsidiary provides Chinese domestic distribution companies with consulting services for setting up and maintaining billing systems and membership systems, business strategy development, game business management, and marketing, and recognize 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 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 distribution, and internet advertisement business. In segment information, revenue from our consulting business for PC online game distribution 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 revenues 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 revenues are 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 to satisfy performance obligations to be the same as the estimated service period, which is calculated by classifying an item sold into three types (i.e. consumable, periodic, permanent) according to its specification.

For permanent items for which our performance obligations continue on a permanent basis, we adopt a method of calculating the users’ weighted average service usage period.

For royalty income, we recognize revenue assuming the contract term of copyrights, etc. owned by Nexon Group to be the period to satisfy 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.

6) Translation of major foreign currency denominated assets or liabilities to Japanese yen

(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 for 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 amount of foreign exchange differences is reclassified into profit or loss as part of gains or losses on disposal.

7) Goodwill

Nexon Group measures goodwill as the excess of the aggregate of acquisition-date fair value of consideration transferred and the amount of any non-controlling interest in the acquiree over the net acquisition-date amount of identifiable assets acquired and liabilities assumed. The negative excess is recognized in profit or loss.

On the date of acquisition, Nexon Group determines for each transaction whether to measure non-controlling interest at fair value or at proportionate share in the recognized amount of identifiable net asset.

Subsequently, goodwill is measured at cost less any accumulated impairment losses. The carrying amount of investments accounted for using the equity method includes the carrying amount of goodwill.

8) Hedge accounting

Nexon Group's derivative transactions are executed and managed in accordance with the derivative transaction management rules and carried out by the Accounting/Finance Department 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 the hedge, 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 contract-date fair value, 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 in 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 or the hedging instrument expires or is sold, terminated, or exercised. If the hedge accounting is discontinued, Nexon Group continues to recognize the balance related to the cash flow hedge previously recognized in other comprehensive income until the forecasted transaction affects profit or loss. When a forecasted transaction is no longer considered probable, the balance related to the cash flow hedge is recognized in profit or loss immediately.

9) Other significant basis for preparation of the consolidated financial statements

Accounting for consumption taxes

Transactions subject to consumption taxes are stated at the amount net of the consumption taxes ("Zei-nuki method").

(7) Changes in accounting policies

(Changes in accounting policies required by IFRS)

Nexon Group applied the following standards from the current consolidated fiscal year, but the application of these standards did not have material impacts on the consolidated financial statements for the current consolidated fiscal year.

Standards	Title	Overview of new or amended 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	

2. Notes to consolidated statement of financial position

(1) Assets pledged as collateral

Other financial assets (current)	
Time deposits	¥5,297 million
Other financial assets (non-current)	
Term deposits	¥593 million
Total	¥5,890 million

(2) Liabilities corresponding to pledged assets

Borrowings (current)	
Short-term borrowings	¥2,094 million

(3) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	¥1,076 million
Other financial assets (current)	¥1,161 million
Other financial assets (non-current)	¥940 million

(4) Accumulated depreciation of property, plant and equipment ¥13,943 million

Accumulated depreciation of property, plant and equipment above includes accumulated impairment loss on property, plant and equipment of ¥485 million.

(5) Guarantee liabilities

Not applicable

3. Notes to consolidated statement of changes in equity

(1) Class and number of shares issued and outstanding

Class of shares	Total number as of January 1, 2020	Increase	Decrease	Total number of shares as of December 31, 2020
Common stock	901,530,560 shares	6,402,000 shares	20,971,021 shares	886,961,539 shares

(Note) 1. The increase in the total number of common stock issued and outstanding of 6,402,000 shares results from exercise of subscription rights to shares.

2. The decrease in the total number of common stock issued and outstanding of 20,971,021 shares results from retirement of treasury stock.

(2) Class and number of treasury stock

Class of shares	Total number as of January 1, 2020	Increase	Decrease	Total number of shares as of December 31, 2020
Common stock	19,109,021 shares	1,862,044 shares	20,971,021 shares	44 shares

(Note) 1. The increase in treasury common stock consists of 1,862,000 shares resulting from acquisition of treasury stock and 44 shares resulting from purchase demand of shares less than one unit.

2. The decrease in treasury common stock of 20,971,021 shares results from retirement of treasury stock.

(3) Dividends from surplus

1) Amount of dividend paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date	Dividend source
Board of Directors meeting on February 20, 2020	Common stock	2,206	2.5	December 31, 2019	March 26, 2020	Retained earnings
Board of Directors meeting on August 6, 2020	Common stock	2,211	2.5	June 30, 2020	September 28, 2020	Retained earnings

2) Dividends with the record date in the current consolidated fiscal year but the effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date	Dividend source
Board of Directors meeting on February 17, 2021	Common stock	2,217	2.5	December 31, 2020	March 26, 2021	Retained earnings

(4) Subscription rights to shares as of December 31, 2020

	Class of underlying share	Number of underlying share
Subscription rights to shares as 2016 Stock Option (12-1)	Common stock	2,796,000 shares
Subscription rights to shares as 2017 Stock Option (13-1)	Common stock	980,000 shares
Subscription rights to shares as 2017 Stock Option (13-2)	Common stock	7,560,000 shares
Subscription rights to shares as 2018 Stock Option (13-3)	Common stock	48,000 shares
Subscription rights to shares as 2018 Stock Option (14)	Common stock	96,000 shares
Subscription rights to shares as 2018 Stock Option (15-1)	Common stock	168,000 shares
Subscription rights to shares as 2018 Stock Option (15-2)	Common stock	26,000 shares

(Note) Subscription rights to shares whose exercise period is yet to start and unvested subscription rights to shares are excluded.

4. Notes to financial instruments

(1) Policies on the use of financial instruments

Nexon Group raises necessary working capitals and investment fund based on the business plan. Nexon Group mainly raises funds through loans from financial institutions. Excess funds are invested in short-term deposits and marketable securities. Nexon Group uses derivative contracts mainly for the purpose of hedging interest rates and foreign exchange fluctuation risk and do not use them for speculative purposes.

(2) Descriptions and risks of financial instruments as well as risk management system

Trade and other receivables are exposed to credit risk of business partners. With regard to the credit risk, the Company and its consolidated subsidiaries, based on the respective credit management regulations, 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 collectibility.

Marketable securities included in other financial assets primarily consist of shares of commercial companies held for business promotion purpose, investments in investment partnership and unlisted bonds. These securities are exposed to credit risk of issuers, market price fluctuation risk and foreign exchange fluctuation risk. Nexon Group manages these risks by obtaining information about market values and financial conditions of these issuers regularly.

All trade and other payables become due within one year.

Borrowings are mainly financing from financial institutions for working capitals. Borrowings bearing variable interest rates are exposed to interest rate fluctuation risk and those denominated in foreign currencies are exposed to foreign exchange fluctuation risk.

(3) Supplemental information on fair values of financial instruments

The fair values of financial instruments are estimated using values based on the market price or discounting future cash flows when there are no market prices. As such values are calculated using variable factors, using different assumptions may result in different values.

(4) Fair values of financial instruments

Amounts on the consolidated statement of financial position and fair values as of December 31, 2020 are as follows.

	Consolidated statement of financial position (Millions of yen)	Fair value (Millions of yen)
Cash and cash equivalents	252,570	252,570
Trade and other receivables	20,935	20,935
Other deposits	273,132	273,132
Other financial assets (current)	27,343	27,343
Other financial assets (non-current)	167,620	167,620
Total assets	741,600	741,600
Trade and other payables	10,668	10,668
Borrowings (current)	2,094	2,094
Other financial liabilities (non-current)	868	868
Total liabilities	13,630	13,630

Fair values of financial assets and financial liabilities are determined as follows. The fair values of financial instruments are estimated using values based on the market price or discounting future cash flows when there are no market prices.

<u>Cash and cash equivalents, other deposits, trade and other payables</u>
They are stated at carrying amount as it approximates fair value because of the short period of time until its maturity or settlement.

<u>Trade and other receivables</u>
Fair values are estimated in certain intervals 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.

<u>Other financial assets (current)</u>
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.

<u>Other financial assets (non-current)</u>
Stocks included in marketable securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI) and measured at fair value at the end of the reporting period. Fair values are based on market prices.

Unlisted stocks classified as financial assets measured at fair value through other comprehensive income are measured at fair value at the end of the reporting period. Fair values are estimated primarily by discounting future cash flows.

Securities other than the above 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.

For other items presented in this category, fair values are estimated primarily by discounting future cash flows.

<u>Borrowings (current)</u>
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 considered to have changed significantly since the drawdown. 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.

<u>Other financial liabilities (non-current)</u>
Other financial liabilities (non-current) are mainly classified as financial liabilities measured at fair value through profit or loss (FVTPL) and measured at fair value at the end of the reporting period.

5. Notes to rental properties

Disclosure is omitted as the total amount of rental properties is immaterial.

6. Notes to per share information

(1) Equity attributable to owners of the parent per share	800.35 yen
(2) Basic earnings per share	63.57 yen
(3) Diluted earnings per share	61.90 yen

7. Notes to material subsequent events

Not applicable.

8. Other Notes

During the current consolidated fiscal year, Nexon Group performed impairment tests for goodwill and intangible assets and recognized impairment losses as realization of profits originally expected is no longer probable. Those impairment losses are included in “Other expenses” in the consolidated statement of income.

Major components of impairment losses are as follows:

Item	Reportable segment	Company	Impairment losses (Millions of yen)
Goodwill	North America	Big Huge Games Inc.	2,589
	Korea	NEXON GT Co., Ltd.	3,038
Game copyrights	North America	Pixelberry Studios	2,864

As the recoverable amount of investments in certain affiliates fell below the carrying amount, impairment loss of ¥277 million was recognized and included in “Finance costs” in the consolidated statement of income.

Non-consolidated Statement of Changes in Net Assets

(From January 1, 2020 to 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 as of January 1, 2020	17,757	17,007	22,974	39,981	217	22,397	22,614
Changes of items during the period							
Issue of new stock	4,713	4,713	–	4,713	–	–	–
Dividends from surplus	–	–	–	–	–	(4,418)	(4,418)
Net income	–	–	–	–	–	37,152	37,152
Acquisition 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 of items during the period	4,713	4,713	(22,974)	(18,261)	–	25,706	25,706
Balance as of December 31, 2020	22,470	21,720	–	21,720	217	48,103	48,320

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of January 1, 2020	(27,219)	53,133	(28)	(28)	7,499	60,604
Changes of items during the period						
Issue of new stock	–	9,426	–	–	–	9,426
Dividends from surplus	–	(4,418)	–	–	–	(4,418)
Net income	–	37,152	–	–	–	37,152
Acquisition 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 of items during the period	27,219	39,377	7	7	771	40,155
Balance as of December 31, 2020	(0)	92,510	(21)	(21)	8,270	100,759

Notes to non-consolidated financial statements

1. Notes to significant accounting policies

(1) Valuation basis and method for securities

Stocks of subsidiaries and affiliates

Stated at cost based on the moving-average method.

Available-for-sale securities

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.

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

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 allowances

1) Allowance for doubtful accounts

Allowance for performing receivable is provided based on the actual credit loss ratio. Allowance for specific receivable 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 the 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 game business, "Service period method" is applied whereby revenue is recognized ratably over the estimated period during which a game user can use in-game items purchased in exchange for game points.

(6) Basis of translation of foreign currency denominated assets and liabilities to Japanese yen

Foreign currency denominated monetary receivables and payables are translated into Japanese yen using the year-end spot foreign exchange rates, with resulting gains and losses included in earnings.

(7) Material hedge accounting policy

The Company's policy is to hedge risks arising from fluctuation in interest rates and foreign exchange rates in accordance with the Company's internal regulation "Derivative Transaction Management Rules."

(8) Accounting for consumptions taxes

Transactions subject to consumption taxes are stated at the amount, net of the consumption taxes ("Zei-Nuki method").

2. Notes to non-consolidated balance sheet

(1) Monetary claims from and monetary debts to subsidiaries and affiliates other than those presented separately are as follows:

Short-term monetary claims: ¥840 million
Long-term monetary claims: ¥172 million
Short-term monetary debts: ¥283 million

(2) Guarantee liabilities

The Company has jointly and severally guaranteed the rent payments as a lessee under two rent agreements entered into by its subsidiaries

Joint and several guarantee for rent agreement: ¥1,311 million

3. Notes to non-consolidated statement of income

(1) Transactions with subsidiaries and affiliates

Operating transactions
Net sales: ¥1,078 million
Purchase of goods: ¥1,048 million
Non-operating transactions: ¥46,487 million

(2) Reversal of allowance for doubtful accounts for subsidiaries and affiliates

Reversal of allowance for doubtful accounts for subsidiaries and affiliates consists of the following:
NEXON M Inc. ¥450 million
gloops, Inc. ¥269 million

4. Notes to non-consolidated statement of changes in net assets

Class and number of treasury stock

Class of shares	Total number as of January 1, 2020	Increase	Decrease	Total number of shares as of December 31, 2020
Common stock	19,109,021 shares	1,862,044 shares	20,971,021 shares	44 shares

(Note) 1. The increase in treasury common stock consists of 1,862,000 shares resulting from acquisition of treasury stock and 44 shares resulting from purchase demand of shares less than one unit.

2. The decrease in treasury common stock of 20,971,021 shares results from retirement of treasury stock.

5. Notes to deferred tax accounting

(1) Major components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Net operating loss carryforwards	18,288
Loss on valuation of stocks of subsidiaries and affiliates	1,162
Unearned revenue	170
Subscription rights to shares	416
Impairment loss	174
Loss on valuation of investment securities	245
Allowance for doubtful accounts	7,299
Other	875
Deferred tax assets - subtotal	28,629
Valuation allowance on net operating loss carried forward	(18,288)
Valuation allowance on total deductible temporary differences, etc.	(10,341)
Valuation allowance – subtotal	(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 income tax rate and the effective tax rate after adoption of deferred tax accounting

Statutory income tax rate	30.62%
(Adjustments)	
Permanent differences arising from nondeductible expenses such as entertainment expenses	2.58%
Permanent differences arising from nontaxable income such as dividend income	(34.23)%
Unitary taxation on foreign subsidiaries	8.54%
Valuation allowances	(7.51)%
Foreign taxes	5.88%
Per capita inhabitant tax	0.01%
Effective income tax rate	5.89%

6. Notes to related party transactions

(1) Subsidiaries and affiliates

Attribute	Name of company	Ownership ratio of voting rights	Relationship	Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Subsidiary	NEXON Korea Corporation	Holding Direct 100%	License for publishing developed game titles Concurrent position of officers	Purchase (Note 1) Net sales (Note 2) Outsourcing agent service (Note 3) Dividend received	678 1,076 1,236 46,460	Accounts payable-trade Accounts receivable-trade Other receivables	126 208 632
Subsidiary	NEXON America Inc.	Holding Direct 100%	Concurrent position of officers Guarantee liabilities	—	—	Long-term loans receivable from subsidiaries and affiliates (Note 4)	23,572
Subsidiary	NEXON M Inc.	Holding Direct 100% (Note 5)	Concurrent position of officers	Collection of loans (Note 6)	446	—	—
Subsidiary	gloops, Inc.	Holding Direct 100% (Note 7)	Concurrent position of officers	Collection of loans (Note 6)	1,357	—	—

(2) Officers and major individual shareholders, etc.

Attribute	Name of company or individual	Ownership ratio of voting rights	Relationship	Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Officer	Shiro Kuniya	0.00%	External Director	Exercise of stock option (Note 8)	12	—	—

Terms and conditions and its determination policies

(Note 1) Purchase relates to royalty, and transaction terms are determined in consideration of general transaction terms prevailing in the PC online game market.

(Note 2) Net sales relate to localization service for mobile games distributed by NEXON Korea Corporation in Japan, and transaction terms are determined in consideration of general transaction terms prevailing in the mobile game market.

(Note 3) The transaction amount of outsourcing agent service represents the annual advance payments.

(Note 4) Provision of allowance for doubtful account of ¥23,744 million are recorded with respect to loans made to and interest receivable from the above subsidiaries during the current fiscal year.

(Note 5) NEXON M Inc. registered its dissolution on May 7, 2020 and completed its liquidation proceedings during 2020, and accordingly the transaction amount stated above represents the amount during the period when the company was a subsidiary. Also, the ownership ratio of voting rights represents the ratio as of when the company ceased to be a subsidiary.

(Note 6) For loans receivable, transaction terms are determined based on funding costs in Japan in consideration of market rates.

(Note 7) All shares of gloops, Inc. were sold to a third party (GRDRIVE Inc.) on February 1, 2020, and accordingly the transaction amount stated above represents the amount during the period when the company was a subsidiary. Also, the ownership ratio of voting rights represents the ratio as of when the company ceased to be a subsidiary.

(Note 8) Represents the exercise during the current fiscal year of the subscription rights to shares that were granted pursuant to the resolution at the Board of Directors meeting held on February 20, 2014.

7. Notes to per share information

Net assets per share	¥104.28
Net income per share	¥42.01

8. Notes to material subsequent events

Dividends from surplus from a consolidated subsidiary

(1) NEXON Korea Corporation

NEXON Korea Corporation, our consolidated subsidiary, resolved at the Board of Directors meeting held on February 9, 2021 to propose the payment of dividends from surplus at the annual general meeting of shareholders scheduled on March 29, 2021. Following this resolution, the Company approved at the Board of Directors meeting held on February 9, 2021 the resolution to pay dividends from surplus of NEXON Korea Corporation. As NEXON Korea Corporation is our wholly-owned subsidiary, the proposal will be approved at the annual general meeting of shareholders scheduled on March 29, 2021.

Summary of dividend

Total dividends	¥29,984 million
Scheduled date of resolution at the general meeting of shareholders:	March 29, 2021

(2) 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.

Summary of dividend

Total dividends	¥5,643 million
Date of resolution at the general meeting of shareholders:	February 9, 2021

As a result, 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.