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Consolidated Financial Results
for the Fiscal Year Ended December 31, 2022
[IFRS]

February 9, 2023

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

URL: <https://ir.nexon.co.jp/en/>

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Scheduled date of Ordinary General Meeting of Shareholders: March 24, 2023

Scheduled date of filing annual securities reports: March 27, 2023

Scheduled date of dividend payment commencement: March 27, 2023

Supplementary briefing material on financial results: Yes

Financial results briefing: No

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2022

(From January 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%
FY 2022	353,714	28.9%	103,696	13.3%	140,525	3.7%	99,990	(11.6)%	100,339	(12.7)%	114,732	(12.6)%
FY 2021	274,462	(6.3)%	91,541	(17.9)%	135,472	25.2%	113,066	103.8%	114,888	104.4%	131,280	51.9%

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the parent company	Ratio of income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY 2022	114.74	113.81	11.8	13.8	29.3
FY 2021	128.91	126.55	14.9	14.7	33.4

(Reference): Share of profit (loss) of investments accounted for using equity method

FY2022: ¥(10,246) million, FY2021: ¥(999) million

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company	Equity attributable to owners of the parent company per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	1,042,849	867,546	858,193	82.3	996.95
As of December 31, 2021	986,632	845,893	836,668	84.8	939.19

(3) Consolidated Cash Flows

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of year
FY 2022	130,144	(10,918)	(105,859)	409,368
FY 2021	105,914	18,084	(21,053)	365,239

2. Dividends

	Annual Dividends					Total amount of cash dividends (annual)	Dividends payout ratio (consolidated)	Ratio of total amount of dividends to equity attributable to owners of the parent company (consolidated)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2021	—	2.50	—	5.00	7.50	6,682	5.8	0.9
FY 2022	—	5.00	—	5.00	10.00	8,635	8.7	1.0
FY 2023 (Forecast)	—	5.00	—	5.00	10.00		—	

3. Consolidated Financial Results Forecast for the First Quarter of Fiscal Year Ending December 31, 2023

(From January 1, 2023 to March 31, 2023)

(% changes from the previous corresponding period)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%	
First Quarter	116,708	28.2%	45,321	17.7%	46,987	(17.9)%	34,267	(14.6)%	34,354	(14.7)%	40.02
	125,635	38.0%	52,502	36.3%	54,168	(5.3)%	39,810	(0.8)%	39,787	(1.2)%	46.35

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2023, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2023 and the fiscal year ending December 31, 2023 at the moment, and accordingly, only the financial results forecast for the first three months of the fiscal year ending December 31, 2023 is disclosed. Also, as it is difficult to estimate specific figures, disclosure is made with a range. For details, please refer to “1. Overview of Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast” on page 6 of the Appendix.

*(Notes)

(1) Changes in Significant Subsidiaries during the Period : No

(Changes in specified subsidiaries accompanying changes in scope of consolidation)

(2) Changes in accounting policies and changes in accounting estimates

- | | |
|--|-----|
| 1) Changes in accounting policies required by IFRS: | Yes |
| 2) Changes in accounting policies other than 1) above: | No |
| 3) Changes in accounting estimates: | No |

(3) Number of shares issued and outstanding (common stock)

1) Total number of shares issued at the end of the period (including treasury stock):

As of December 31, 2022: 866,773,728 shares

As of December 31, 2021: 898,746,469 shares

2) Total number of treasury stock at the end of the period:

As of December 31, 2022: 5,955,400 shares

As of December 31, 2021: 7,908,437 shares

3) Average number of shares during the period:

For the fiscal year ended December 31, 2022: 874,516,449 shares

For the fiscal year ended December 31, 2021: 891,231,822 shares

(Note) “Total number of treasury stock at the end of the period” includes Nexon’s stock held by our consolidated subsidiary, Stiftelsen Embark Incentive (as of December 31, 2022: 787,023 shares; as of December 31, 2021: 865,770 share). The number of treasury stock deducted in the calculation of the average number of shares during the period includes Nexon’s stock held by the consolidated subsidiary (as of December 31, 2022: 847,598 shares; as of December 31, 2021: 336,017 shares).

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2022

(From January 1, 2022 to December 31, 2022)

(1) Non-consolidated Operating Results

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2022	5,872	(0.4)%	(10,378)	—	72,787	(13.5)%	73,481	(6.6)%
FY 2021	5,898	9.0%	(8,411)	—	84,163	110.7%	78,667	111.7%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2022	83.94	83.35
FY 2021	88.23	87.16

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2022	171,073	165,910	87.6%	174.00 yen
As of December 31, 2021	189,677	184,833	91.8%	195.23 yen

(Reference): Equity at December 31, 2022: ¥ 149,916 million, Equity at December 31, 2021: ¥174,084 million

(Notes) Non-consolidated financial data is based on Japanese GAAP.

*This financial report is outside the scope of audit procedures.

*Explanation of the Proper Use of Financial Results Forecasts and Other Notes

(Caution Concerning Forward-Looking Statements)

The forward-looking statements including the financial results forecast herein are based on the information available to the Company and certain assumptions that can be deemed reasonable at time of publication of this document, and are not intended as the Company's commitment to achieve such forecasts. Actual results may differ significantly from these forecasts due to various factors. For conditions prerequisite to the financial results forecast and the points to be noted in the use thereof, please refer to "1. Overview of Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast" on page 6 of the Appendix.

(Method of Obtaining Supplementary Briefing Material on Financial Results)

The supplementary briefing materials on financial results are available on the Company's website.

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1. Overview of Operating Results and Financial Position

(1) Overview of Operating Results

As for the global economy during the fiscal year ended December 31, 2022, while recovery was seen mainly in developed countries, the global situation remained uncertain primarily due to the impact of the unpredictable COVID-19 situation, the tightening of monetary policy in the U.S. to keep inflation under control, and slowdown of economic activities in China under its zero-COVID policy. In Japan, while economic recovery was seen as restrictions established as measures against COVID-19 were gradually relaxed, the pace of the recovery continued to be unpredictable mainly due to the prolonged conflict in Ukraine and inflation associated with the rapid depreciation of the Japanese yen.

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

For the fiscal year ended December 31, 2022, Nexon achieved record-breaking full-year revenue driven by the growth of existing titles and contributions from new titles based on our strength in live operations.

In Korea, both PC online and mobile businesses grew year-over-year. For PC online, *EA SPORTS™ FIFA ONLINE 4* significantly grew and achieved record-breaking full-year revenue four years in a row. From Q2, *MapleStory* saw a turnaround from the decreases in its active users and revenue in FY2021 and grew year-over-year. As for mobile, revenue significantly increased year-over-year driven by the contributions from *Dungeon&Fighter Mobile* and *HIT2*, as well as growth of *Blue Archive*, *EA SPORTS™ FIFA ONLINE 4 M* and *EA SPORTS™ FIFA MOBILE*, despite decreases in *V4* and *The Kingdom of the Winds: Yeon*. As a result, we achieved record-breaking overall full-year revenue in Korea.

In China, revenue increased year-over-year driven by an increase in revenue from our major PC title, *Dungeon&Fighter*. *Dungeon&Fighter* had experienced revenue decreases over the past few years, but in FY2022, we adjusted the game to be more user friendly, expanded its contents and events, and promoted communication with the players. As a result, its revenue increased year-over-year.

In Japan, revenue was roughly flat year-over-year due to declines in revenues from *TRAHA* and *V4*, which offset *Blue Archive*'s and *MapleStory*'s growth.

In North America and Europe, revenue increased year-over-year due to favorable foreign exchange rates. However, excluding the impact of the exchange rates, revenue slightly decreased due to *Blue Archive*'s growth and contributions from new games being offset by a decline in revenue from *Choices: Stories You Play*.

In other regions ("Rest of World"), revenue increased year-over-year driven by the growth of *MapleStory*, *MapleStory M* and *Blue Archive*, as well as contributions from new games.

In terms of expenses, cost of sales increased year-over-year due to increased HR costs due to headcount increase, annual salary hike and an increase in bonuses, increased royalty costs for *EA SPORTS™ FIFA ONLINE 4*, and increased server costs due to growth of mobile titles including *Dungeon&Fighter Mobile*. Selling, general and administrative expenses increased year-over-year due to increased platform costs for mobile games, increased marketing costs primarily for promotions of new game launches, and increased HR costs due to headcount increase, annual salary hike and an increase in bonuses.

Finance income increased year-over-year due to a larger foreign exchange gain than that in FY2021 primarily on foreign currency-denominated cash deposits. Loss on revaluation of investments in crypto-assets made through an

exchange due to a change in the market environment, and share of loss of investments accounted for using equity method recorded in accordance with the business performances of equity method affiliates, increased year-over-year. Income taxes expense increased year-over-year due to a comparison with FY2021 when income taxes expense was at a low level due to additional recognition of deferred tax assets on the deferred foreign tax credit of our overseas subsidiary, as well as a year-over-year increase in income before income taxes.

As a result, for the fiscal year ended December 31, 2022, Nexon Group recorded revenue of ¥353,714 million (up 28.9% year-over-year), operating income of ¥103,696 million (up 13.3% year-over-year), income before income taxes of ¥140,525 million (up 3.7% year-over-year) and net income attributable to owners of the parent company of ¥100,339 million (down 12.7% year-over-year).

Performance results by reportable segments are as follows:

(a) Japan

Revenue for the fiscal year ended December 31, 2022 amounted to ¥4,702 million (down 6.7% year-over-year) and segment loss amounted to ¥10,643 million (segment loss of ¥11,939 million for the fiscal year ended December 31, 2021).

(b) Korea

Revenue for the fiscal year ended December 31, 2022 amounted to ¥331,218 million (up 32.4% year-over-year) and segment profit amounted to ¥129,255 million (up 18.4% year-over-year). Revenue in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China.

(c) China

Revenue for the fiscal year ended December 31, 2022 amounted to ¥3,341 million (up 6.1% year-over-year), and segment profit amounted to ¥1,556 million (down 7.4% year-over-year).

(d) North America

Revenue for the fiscal year ended December 31, 2022 amounted to ¥13,085 million (down 12.2% year-over-year) and segment loss amounted to ¥6,217 million (segment loss of ¥175 million for the fiscal year ended December 31, 2021).

(e) Other

Revenue for the fiscal year ended December 31, 2022 amounted to ¥1,368 million (up 10.3% year-over-year) and segment loss amounted to ¥5,311 million (segment loss of ¥4,902 million for the fiscal year ended December 31, 2021).

(2) Overview of Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2022 amounted to ¥1,042,849 million, an increase of ¥56,217 million from December 31, 2021. Major components include an increase of ¥44,129 million in cash and cash equivalents, an increase of ¥24,662 million in investments accounted for using equity method, an increase of ¥18,931 million in deferred tax assets and a decrease of ¥46,136 million in other financial assets.

(Liabilities)

Total liabilities as of December 31, 2022 amounted to ¥175,303 million, an increase of ¥34,564 million from December 31, 2021. Major components include an increase of ¥9,455 million in deferred income, an increase of ¥7,997 million in lease liabilities and an increase of ¥7,098 million in income taxes payable.

(Equity)

Equity as of December 31, 2022 totaled ¥867,546 million, an increase of ¥21,653 million from December 31, 2021. Major components of changes in equity include an increase of ¥21,265 million in other equity interest primarily due to recording of exchange differences on translating foreign operations.

(b) Cash flows

Cash and cash equivalents (collectively, “cash”) as of December 31, 2022 were ¥409,368 million, an increase of ¥44,129 million from December 31, 2021. The increase includes ¥30,762 million in effects of exchange rate changes on cash.

Cash flows from each activity for the fiscal year ended December 31, 2022 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥130,144 million, compared to ¥105,914 million for the fiscal year ended December 31, 2021. Major components of the increase include income before income taxes of ¥140,525 million and an increase in deferred income of ¥7,131 million. Major components of the decrease include income taxes paid of ¥39,642 million.

Net cash provided by operating activities increased year-over-year due to increases in income before income taxes and deferred income.

(Cash flows from investing activities)

Net cash used in investing activities was ¥10,918 million, compared to net cash of ¥18,084 million provided in the fiscal year ended December 31, 2021. Major cash inflows include a net decrease in time deposit of ¥21,925 million. Major cash outflows include purchases of investments accounted for using equity method of ¥27,790 million.

Net cash used in investing activities increased year-over-year as a result of a decrease in withdrawal of time deposit.

(Cash flows from financing activities)

Net cash used in financing activities was ¥105,859 million, compared to ¥21,053 million for the fiscal year ended December 31, 2021. Major cash outflows include purchases of treasury stock of ¥98,824 million.

Net cash used in financing activities increased year-over-year due to an increase in purchases of treasury stock.

(Reference) The changes in cash flow indicators are as follows:

	FY2021	FY2022
Ratio of equity attributable to owners of the parent company (%)	84.8	82.3
Ratio of equity attributable to owners of the parent company at fair value (%)	200.8	244.5
Interest-bearing liabilities to cash flow ratio (years)	0.1	0.2
Interest coverage ratio (times)	255.9	222.3

Ratio of equity attributable to owners of the parent company:

Equity attributable to owners of the parent company (end of year) / total assets (end of year)

Ratio of equity attributable to owners of the parent company at fair value:

Market capitalization / total assets (end of year)

Interest-bearing liabilities to cash flow ratio:

Interest-bearing liabilities / cash flows

Interest coverage ratio:

Cash flows / interest paid

(Note 1) All ratios are calculated based on the financial data on a consolidated basis.

(Note 2) Market capitalization is calculated based on the number of shares issued and outstanding, excluding treasury stock.

(Note 3) Cash flows are derived from operating cash flows.

(Note 4) Interest-bearing liabilities cover all liabilities recorded in the consolidated statement of financial position that are subject to interest payment.

(3) Qualitative Information on Consolidated Financial Results Forecast

As the impact of COVID-19 continues, the outlook on the business environment surrounding Nexon Group remains unclear primarily due to the prolonged economic effects of the conflict in Ukraine and the policy interest rate hike in response to global inflation risks. As for the business environment in Japan, while restrictions on human activities were relaxed, the situation remains unpredictable mainly due to the yet unclear global situation and inflation associated with the rapid depreciation of the Japanese yen. However, we do not expect these factors to cause any event that could have material impact on Nexon Group's businesses going forward.

In our consolidated business outlook, we disclose our expectations for the following quarter as a range to provide more accurate information to our shareholders and investors, since it is difficult to derive full-year consolidated forecasts due to uncertainties in projecting the speed of growth of PC online game and mobile game markets in which Nexon Group's main businesses operate, and because our revenue is largely dependent on such uncertain factors as users' preferences and whether or not we have any hit titles.

For the three months ending March 31, 2023, Nexon Group expects consolidated revenue in the range of ¥116,708~125,635 million (up 28.2%~38.0% year-over-year), operating income in the range of ¥45,321~52,502 million (up 17.7%~36.3% year-over-year), income before income taxes in the range of ¥46,987~54,168 million (down 17.9%~5.3% year-over-year), net income in the range of ¥34,267~39,810 million (down 14.6%~0.8% year-over-year), net income attributable to owners of the parent company in the range of ¥34,354~39,787 million (down 14.7%~1.2% year-over-year), and basic earnings per share in the range of ¥40.02~46.35. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q1 2023 are expected to be 1 U.S. Dollar = ¥130.35, 100 Korean Won = ¥10.52 and 1 Chinese Yuan = ¥19.18. In general, the exchange rates of the Korean Won and the Chinese Yuan to Japanese Yen are assumed to be linked to the exchange rate of U.S. Dollar to Japanese Yen. Based on this assumption, we expect that every one Japanese Yen move against the U.S. Dollar will have an impact of approximately ¥924 million on revenue and approximately ¥389 million on operating income for the three months ending March 31, 2023.

As for revenue based on customer location for the three months ending March 31, 2023, our expectations are as follows.

In Korea, we expect overall PC online revenue to increase year-over-year. We expect our major titles, *EA SPORTS™ FIFA ONLINE 4*, *Dungeon&Fighter* and *MapleStory*, to maintain their strong momentum from Q4 2022 and revenues to increase year-over-year. We also expect to benefit from *KartRider: Drift*, which started its preseason on January 12th and is scheduled to start official service on March 9th.

For mobile in Korea, we expect Q1 revenue to increase year-over-year. We expect to benefit from *HIT2* and *KartRider: Drift* and anticipate growth in *EA SPORTS™ FIFA MOBILE*. We expect these to be partially offset by year-over-year revenue decreases in older mobile titles.

In China, we expect revenue to increase year-over-year driven by the growth in *Dungeon&Fighter*, our major PC online title. For *Dungeon&Fighter*, we saw a turnaround in active users which increased year-over-year in Q4 2022. Under this positive trend, we introduced the Lunar New Year update on January 12th. We expect revenue to grow year-over-year driven by the excellent start of the Lunar New Year update accompanied by strong sales of avatar package. In 2023, we will continue to focus on communication with players and stable operation of the game.

In Japan, we expect revenue to be roughly flat year-over-year. While we expect to benefit from new games and growth of *Blue Archive*, we expect this to be offset by revenue decreases in older mobile titles.

In North America and Europe, we expect revenue to increase year-over-year. While we expect to benefit from new games including *KartRider: Drift* and favorable foreign exchange rates, we expect these to be partially offset by decreases in *MapleStory M* and *Choices: Stories You Play*.

In Rest of World, we expect revenue to increase year-over-year. While we expect to benefit from new games including *KartRider: Drift*, we expect this to be partially offset by a decrease in *MapleStory*.

On the cost side, we expect a year-over-year increase in costs for the three months ending March 31, 2023. We expect increased royalty costs due to revenue increases from publishing titles (i.e., *EA SPORTS™ FIFA ONLINE 4* and *EA SPORTS™ FIFA MOBILE*) as well as a contribution from *KartRider: Drift*, and increased PG fees due to revenue increases from mobile titles. In addition, we expect increased HR costs related to additional recruitment of staff required for the development and operation of multiple major titles as well as annual salary hike, increased marketing expenses primarily associated with promotions for new games such as *KartRider: Drift*, increased outsourcing fees associated with new game development, and increased cloud service costs due to mobile business growth.

Our business outlook is based on information currently available to us, which includes various uncertainties. Therefore, actual performance may vary from our outlook due to changes in the business condition.

(4) Basic Policy on the Distribution of Profits and Dividends for the Current and Next Fiscal Year

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

In accordance with the policy above, we are scheduled to pay out year-end dividends of 5.0 yen per share for the fiscal year ended December 31, 2022. Furthermore, interim and year-end dividends of 5.0 yen per share are also scheduled for the fiscal year ending December 31, 2023.

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

2. Current Status of the Corporate Group

As of December 31, 2022, Nexon Group consists of NEXON Co., Ltd. (“Nexon”), Nexon’s 41 consolidated subsidiaries and 15 affiliated companies and joint ventures, and is engaged in the production, development and service of PC online and mobile games. In Japan, Nexon is responsible for developing the overall strategies for our products and services and operating the business, while overseas, our local consolidated subsidiaries do so in their respective regions as independently managed entities.

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

(Major consolidated subsidiaries as of December 31, 2022)

Korea:	NEXON Korea Corporation; NEOPLE INC.; NEXON Games Co., Ltd.; JoongAng Pangyo Development Co., Ltd.; Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust; VIP Global Super Growth Hedge Fund
China:	Lexian Software Development (Shanghai) Co., Ltd.
North America:	Nexon America Inc.; Nexon US Holding Inc.; Pixelberry Studios
Others:	Embark Studios AB

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

(1) Lines of business

(a) PC online business

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

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

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

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

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

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

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

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

(b) Mobile business

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

(2) Business models for PC online and mobile games

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

(a) Self-publishing model

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

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

(b) Licensing model

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

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

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

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

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

(c) Licensed publishing model

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

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

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

(3) Monetization models for PC online games

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

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

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

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

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

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

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

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

(c) Advertisement revenue model

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

(4) Monetization models for mobile games

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

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

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

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

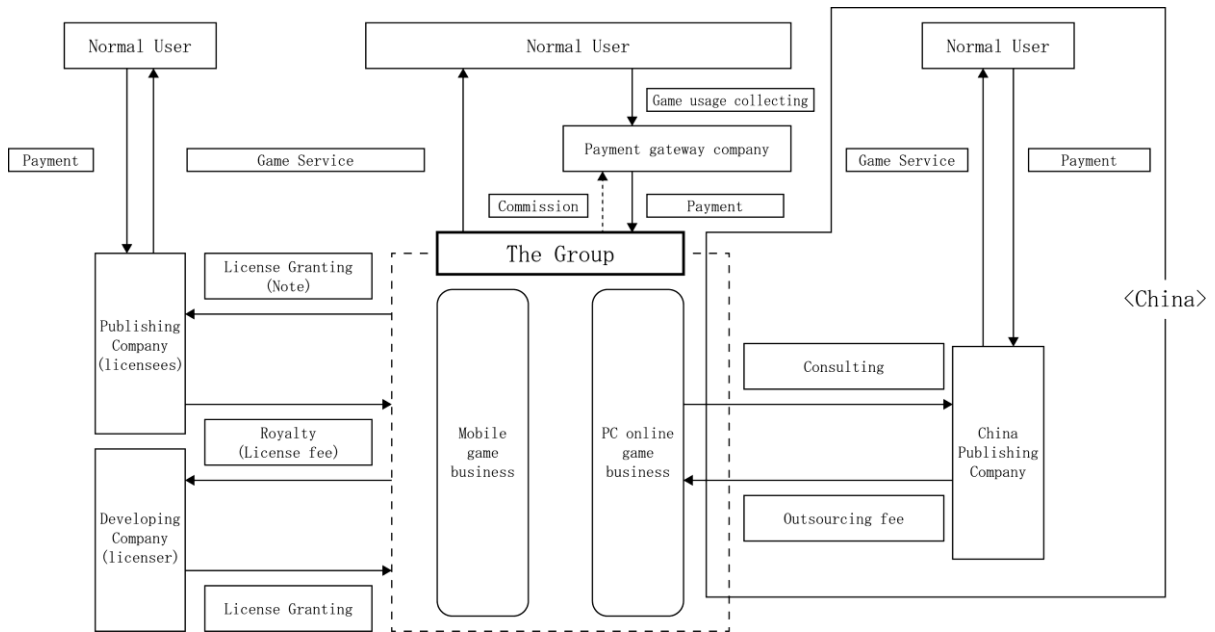
(b) Advertisement revenue model

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

[Business system chart]

Chart 1 shows the above described matters.

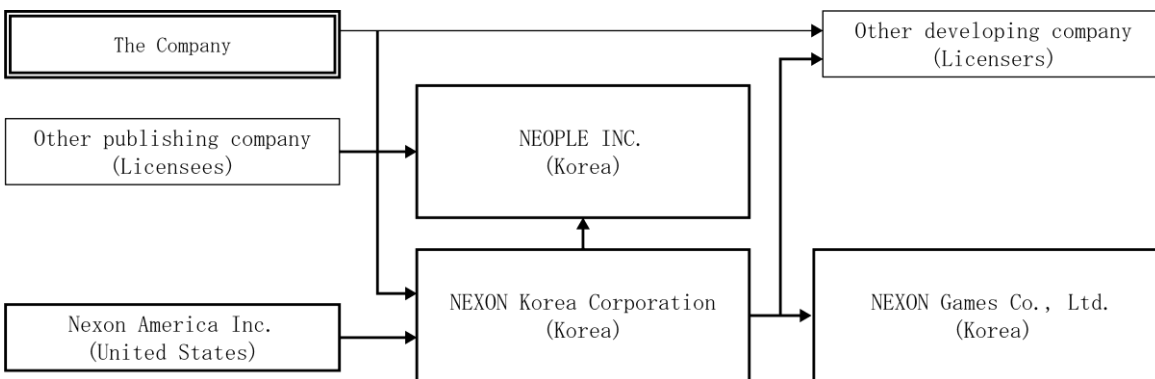
<Chart 1>



(Note) In general, only one license is granted for a game in each country, providing the local company with an exclusive right for distribution.

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

<Chart 2>



3. Basic Concept for Selection of the Accounting Standards

Nexon Group has applied International Accounting Standards since the fiscal year ended December 31, 2013, with the aim to enhance the global comparability and convenience of financial information in the capital market.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated Statement of Financial Position

	(Millions of yen)	
	As of December 31, 2021	As of December 31, 2022
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash and cash equivalents	365,239	409,368
Trade and other receivables	17,577	30,444
Other deposits	169,689	162,490
Other financial assets	29,140	23,078
Other current assets	12,072	16,649
Total current assets	<u>593,717</u>	<u>642,029</u>
Non-current assets		
Property, plant and equipment	24,448	26,885
Goodwill	38,938	40,136
Intangible assets	17,703	9,655
Right-of-use assets	10,985	19,079
Investments accounted for using equity method	58,933	83,595
Other financial assets	202,588	162,514
Other non-current assets	1,106	1,811
Deferred tax assets	38,214	57,145
Total non-current assets	<u>392,915</u>	<u>400,820</u>
Total assets	<u><u>986,632</u></u>	<u><u>1,042,849</u></u>

	(Millions of yen)	
	As of December 31, 2021	As of December 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	9,354	14,705
Deferred income	11,030	18,942
Income taxes payable	16,599	23,697
Lease liabilities	3,045	4,045
Provisions	5,787	10,164
Other current liabilities	7,510	11,581
Total current liabilities	53,325	83,134
Non-current liabilities		
Deferred income	14,354	15,897
Lease liabilities	12,282	19,279
Other financial liabilities	1,803	1,447
Provisions	323	355
Other non-current liabilities	4,687	4,820
Deferred tax liabilities	53,965	50,371
Total non-current liabilities	87,414	92,169
Total liabilities	140,739	175,303
Equity		
Capital stock	34,255	38,972
Capital surplus	14,961	18,331
Treasury Stock	(17,863)	(16,464)
Other equity interest	92,747	114,012
Retained earnings	712,568	703,342
Total equity attributable to owners of the parent company	836,668	858,193
Non-controlling interests	9,225	9,353
Total equity	845,893	867,546
Total liabilities and equity	986,632	1,042,849

(2) Consolidated Income Statement

	(Millions of yen)	
	Fiscal Year ended December 31, 2021	Fiscal Year ended December 31, 2022
Revenue	274,462	353,714
Cost of sales	(72,121)	(105,778)
Gross profit	202,341	247,936
Selling, general and administrative expenses	(108,490)	(139,297)
Other income	805	575
Other expenses	(3,115)	(5,518)
Operating income	91,541	103,696
Finance income	47,874	65,323
Finance costs	(1,355)	(12,892)
Loss on revaluation	(1,589)	(5,356)
Share of loss of investments accounted for using equity method	(999)	(10,246)
Income before income taxes	135,472	140,525
Income taxes expense	(22,406)	(40,535)
Net income	113,066	99,990
Attributable to:		
Owners of the parent company	114,888	100,339
Non-controlling interests	(1,822)	(349)
Net income	113,066	99,990
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	128.91	114.74
Diluted earnings per share	126.55	113.81

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2021	Fiscal Year ended December 31, 2022
Net income	113,066	99,990
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	8,610	(56,299)
Re-measurement of defined benefit pension plans	(19)	4
Other comprehensive income under equity method	—	46
Income taxes	(2,834)	15,378
Total items that will not be reclassified to net income	<u>5,757</u>	<u>(40,871)</u>
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	12,445	55,609
Other comprehensive income under equity method	12	4
Total items that may be reclassified subsequently to net income	<u>12,457</u>	<u>55,613</u>
Total other comprehensive income	<u>18,214</u>	<u>14,742</u>
Total comprehensive income	<u>131,280</u>	<u>114,732</u>
Attributable to:		
Owners of the parent company	132,985	114,208
Non-controlling interests	(1,705)	524
Total comprehensive income	<u>131,280</u>	<u>114,732</u>

(4) Consolidated Statement of Changes in Equity

Fiscal Year ended December 31, 2021

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2021	22,679	17,421	(0)	69,975	599,807	709,882	10,563	720,445
Net income	—	—	—	—	114,888	114,888	(1,822)	113,066
Other comprehensive income	—	—	—	18,097	—	18,097	117	18,214
Total comprehensive income	—	—	—	18,097	114,888	132,985	(1,705)	131,280
Issue of shares	11,576	11,576	—	—	—	23,152	—	23,152
Stock issue cost	—	(83)	—	—	—	(83)	—	(83)
Payment of dividends	—	—	—	—	(4,441)	(4,441)	—	(4,441)
Share-based compensation	—	—	—	6,989	—	6,989	—	6,989
Changes in interests in subsidiaries	—	(15,890)	—	—	—	(15,890)	367	(15,523)
Change in scope of consolidation	—	1,939	(1,914)	—	—	25	—	25
Purchase of treasury stock	—	(2)	(16,032)	—	—	(16,034)	—	(16,034)
Disposal of treasury stock	—	—	83	—	—	83	—	83
Reclassification from other equity interest to retained earnings	—	—	—	(2,314)	2,314	—	—	—
Total transactions with the owners	11,576	(2,460)	(17,863)	4,675	(2,127)	(6,199)	367	(5,832)
Balance at December 31, 2021	34,255	14,961	(17,863)	92,747	712,568	836,668	9,225	845,893

Fiscal Year ended December 31, 2022

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2022	34,255	14,961	(17,863)	92,747	712,568	836,668	9,225	845,893
Net income	—	—	—	—	100,339	100,339	(349)	99,990
Other comprehensive income	—	—	—	13,869	—	13,869	873	14,742
Total comprehensive income	—	—	—	13,869	100,339	114,208	524	114,732
Issue of shares	4,717	4,717	—	—	—	9,434	—	9,434
Stock issue cost	—	(33)	—	—	—	(33)	—	(33)
Payment of dividends	—	—	—	—	(8,785)	(8,785)	—	(8,785)
Share-based compensation	—	—	—	6,616	—	6,616	—	6,616
Forfeiture of share acquisition rights	—	—	—	(27)	27	—	—	—
Changes in interests in subsidiaries	—	(1,257)	—	—	—	(1,257)	(396)	(1,653)
Purchase of treasury stock	—	(57)	(98,767)	—	—	(98,824)	—	(98,824)
Disposal of treasury stock	—	—	166	—	—	166	—	166
Retirement of treasury stock	—	—	100,000	—	(100,000)	—	—	—
Reclassification from other equity interest to retained earnings	—	—	—	807	(807)	—	—	—
Total transactions with the owners	4,717	3,370	1,399	7,396	(109,565)	(92,683)	(396)	(93,079)
Balance at December 31, 2022	38,972	18,331	(16,464)	114,012	703,342	858,193	9,353	867,546

(5) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Fiscal Year ended December 31, 2021	Fiscal Year ended December 31, 2022
Cash flows from operating activities		
Income before income taxes	135,472	140,525
Depreciation and amortization	8,468	6,767
Share-based compensation expenses	10,508	9,691
Interest and dividend income	(6,452)	(12,986)
Interest expense	415	588
Impairment loss	2,941	5,337
Loss on revaluation	1,589	5,356
Share of loss of investments accounted for using equity method	999	10,246
Loss (gain) on sale of investments accounted for using equity method	10	(9,531)
Loss (gain) on valuation of securities	(703)	6,498
Loss (gain) on sale and redemption of securities	(3,734)	4,058
Foreign exchange gain	(10,022)	(17,241)
Decrease (increase) in trade and other receivables	4,816	(8,968)
Increase in other current assets	(3,136)	(1,429)
Increase (decrease) in trade and other payables	(1,466)	4,089
Increase (decrease) in deferred income	(1,954)	7,131
Increase (decrease) in provisions	(1,188)	4,216
Increase (decrease) in other current liabilities	(1,389)	2,370
Other	1,157	1,212
Subtotal	136,331	157,929
Interest and dividends received	7,587	12,442
Interest paid	(415)	(585)
Income taxes paid	(37,589)	(39,642)
Net cash provided by operating activities	105,914	130,144
Cash flows from investing activities		
Net decrease (increase) in restricted deposit	334	(410)
Net decrease in time deposit	110,550	21,925
Purchases of property, plant and equipment	(1,585)	(2,801)
Proceeds from sales of property, plant and equipment	68	120
Purchases of intangible assets	(12,541)	(3,101)
Payments associated with increase in long-term prepaid expenses	(3,210)	(2,613)
Purchases of securities by investment funds under consolidated subsidiaries	(37,167)	(17,539)
Proceeds from sale of securities by investment funds under consolidated subsidiaries	35,512	18,478
Purchases of investment securities	(26,492)	(1,245)
Proceeds from sale and redemption of investment securities	6,327	326
Purchases of investments accounted for using equity method	(52,637)	(27,790)
Proceeds from sale of investments accounted for using equity method	0	9,610
Payments for acquisition of subsidiaries	—	(1,258)
Payments for short-term loans receivable	(16,630)	(163)
Collection of short-term loans receivable	16,620	178
Payments for long-term loans receivable	(1,397)	(4,309)
Collection of long-term loans receivable	32	27
Other	300	(353)
Net cash provided by (used in) investing activities	18,084	(10,918)

	(Millions of yen)	
	Fiscal Year ended December 31, 2021	Fiscal Year ended December 31, 2022
Cash flows from financing activities		
Net decrease in short-term borrowings	(2,094)	—
Proceeds from exercise of stock options	4,101	6,023
Purchases of treasury stock	(16,034)	(98,824)
Purchases of treasury stock by subsidiaries	—	(1,248)
Cash dividends paid	(4,441)	(8,785)
Repayment of lease liability	(2,585)	(3,025)
Net cash used in financing activities	<u>(21,053)</u>	<u>(105,859)</u>
Net increase in cash and cash equivalents	<u>102,945</u>	<u>13,367</u>
Cash and cash equivalents at the beginning of the period	<u>252,570</u>	<u>365,239</u>
Effects of exchange rate changes on cash and cash equivalents	<u>9,724</u>	<u>30,762</u>
Cash and cash equivalents at the end of the period	<u><u>365,239</u></u>	<u><u>409,368</u></u>

- (6) Notes to Consolidated Financial Statements
 (Notes on Going Concern Assumption)
 Not applicable.

(Changes in Significant Subsidiaries during the Period)
 Not applicable.

(Changes in Accounting Policies and Changes in Accounting Estimates)

Changes in accounting policies required by IFRS

The accounting policies used to prepare these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2021 unless otherwise noted, except for the new standards applied as listed below.

Nexon Group applied the following standards from Q1 2022, but the application of these standards did not have material impacts on the fiscal year ended December 31, 2022.

Standards	Title	Overview of New or Revised Standard
IFRS 3	Business Combinations	Updated the reference to the “Conceptual Framework for Financial Reporting”
IAS 16	Property, Plant and Equipment	Clarified that the deduction of proceeds from selling items produced before an item of PPE is available for use from the cost of that PPE is prohibited
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Clarified what costs an entity considers in assessing whether a contract is onerous
IFRS 9	Financial Instruments	Clarified the fees an entity includes in the test for derecognition of financial liabilities
IFRS 16	Leases	Extended the availability of the practical expedient provided in COVID-19-Related Rent Concessions released on May 28, 2020 by one year.

(Changes in Presentation Method)

Consolidated statement of cash flows

“Loss (gain) on sale of investments accounted for using equity method” and “Loss (gain) on sale and redemption of securities” which were included in “Other” under “Cash flows from operating activities” in the fiscal year ended December 31, 2021 are separately presented from the fiscal year ended December 31, 2022 due to increases in their monetary significance.

Consequently, ¥(2,567) million presented as “Other” under “Cash flows from operating activities” in the consolidated statement of cash flows for the fiscal year ended December 31, 2021 have been reclassified as “Loss (gain) on sale of investments accounted for using equity method” of ¥10 million, “Loss (gain) on sale and redemption of securities” of ¥(3,734) million, and “Other” of ¥1,157 million.

In addition, “Payments for long-term loans receivable” and “Collection of long-term loans receivable” which were included in “Other” under “Cash flows from investing activities” in the fiscal year ended December 31, 2021 are separately presented from the fiscal year ended December 31, 2022 due to increases in their monetary significance.

Consequently, ¥(1,065) million presented as “Other” under “Cash flows from investing activities” in the consolidated statement of cash flows for the fiscal year ended December 31, 2021 have been reclassified as “Payments for long-term loans receivable” of ¥(1,397) million, “Collection of long-term loans receivable” of ¥32 million, and “Other” of ¥300 million.

(Notes on Significant Changes in the Amount of Equity Attributable to Owners of the Parent Company)

(a) For the fiscal year ended December 31, 2021 (From January 1, 2021 through December 31, 2021)

(i) Amount of dividends paid

	Class of stock	Total dividends	Dividend per share	Record date	Effective date
		(million yen)	(yen)		
Resolution of the Board of Directors on February 17, 2021	Common stock	2,217	2.5	December 31, 2020	March 26, 2021
Resolution of the Board of Directors on August 11, 2021	Common stock	2,224	2.5	June 30, 2021	September 27, 2021

(ii) Change in scope of consolidation

Stiftelsen Embark Incentive (“Foundation”) acquired Nexon’s stock in the amount of ¥1,914 million (905,144 shares) by third-party allotment as compensation for our 100% acquisition of Embark Studios AB. As we have consolidated the Foundation in our consolidated financial statements from the three months ended September 30, 2021, treasury stock includes Nexon’s stock owned by the Foundation. Refer to (iv) below for details on the third-party allotment.

(iii) Purchases of treasury stock

Nexon’s treasury stock increased by ¥16,032 million as a result of the purchase of 7,042,600 shares of treasury stock during the fiscal year ended December 31, 2021 based on a resolution of the Board of Directors on November 19, 2021.

(iv) Acquisition of additional non-controlling interest

In the three months ended September 30, 2021, Nexon conducted a third-party allotment (“Third-party Allotment”) for the purpose of acquiring all of the outstanding shares of our consolidated subsidiary, Embark Studios AB, owned by shareholders other than Nexon and its subsidiaries (i.e. to turn Embark Studios AB into our wholly-owned subsidiary) by issuing 7,388,930 shares of Nexon’s common stock to the shareholders of Embark Studios AB (excluding Nexon and its subsidiaries) in exchange for their granting of 176,469,789 shares of Embark Studios AB’s common stock owned by them to Nexon as a contribution in-kind. The fair value per share of Nexon’s common stock granted to the allottees on the payment due date of the Third-party Allotment is measured at ¥2,115, which was the closing price of Nexon’s common stock on the Tokyo Stock Exchange on August 23, 2021.

As a result of this Third-Party Allotment, our capital stock and capital surplus each increased by ¥7,814 million, non-controlling interests increased by ¥204 million, exchange differences on translating foreign operations increased by ¥95 million and capital surplus decreased by ¥15,927 million. Due to this increase in non-controlling interests, Nexon Group no longer has any non-controlling interest in Embark Studios AB.

(b) For the fiscal year ended December 31, 2022 (From January 1, 2022 through December 31, 2022)

(i) Amount of dividends paid

	Class of stock	Total dividends	Dividend per share	Record date	Effective date
		(million yen)	(yen)		
Resolution of the Board of Directors on February 17, 2022 (Note 1)	Common stock	4,459	5.0	December 31, 2021	March 28, 2022
Resolution of the Board of Directors on August 9, 2022 (Note 2)	Common stock	4,327	5.0	June 30, 2022	September 26, 2022

(Note) 1. Total dividends include dividends of ¥4 million for Nexon's stock owned by the Foundation.

2. Total dividends include dividends of ¥4 million for Nexon's stock owned by the Foundation.

(ii) Purchases of treasury stock

Nexon's treasury stock increased by ¥23,968 million as a result of a purchase of 9,340,200 shares of treasury stock at market on the Tokyo Stock Exchange during the six months ended June 30, 2022 based on a resolution of the Board of Directors on November 19, 2021.

In addition, Nexon's treasury stock increased by ¥60,000 million as a result of a purchase of 20,188,400 shares of treasury stock through off-auction own share repurchase trading (ToSTNeT-3) on the Tokyo Stock Exchange on June 15, 2022 based on a resolution of the Board of Directors on June 14, 2022.

Furthermore, Nexon's treasury stock increased by ¥14,799 million as a result of a purchase of 5,168,300 shares of treasury stock at market on the Tokyo Stock Exchange during the three months ended December 31, 2022 based on a resolution of the Board of Directors' meeting held on November 9, 2022.

(iii) Retirement of treasury stock

During the three months ended September 30, 2022, Nexon retired 36,571,300 shares of its treasury stock based on a resolution of the Board of Directors' meeting held on August 9, 2022. As a result, treasury stock and retained earnings each decreased by ¥100,000 million.

(Segment Information)

(1) Outline of reportable segments

Reportable segments of Nexon Group are components of Nexon Group, for which separate financial statements are available, that are evaluated regularly by the board of directors in deciding how to allocate management resources and in assessing performance.

Nexon Group is engaged in production, development and distribution of PC online games and mobile games, and the Company (in Japan) and its local consolidated subsidiaries (overseas) develop overall strategies and operate business activities for their respective products and services in each region as independent units. Accordingly, Nexon Group is comprised of geographical business segments based on production, development, and distribution of PC online games and mobile games. Nexon Group has formed its reportable segments by consolidating business segments based on the geographic location since subsidiaries in the same region, due to their business characteristics, receive similar impact of the foreign exchange fluctuation risk on their operating results and the ratio of the impact to operating results is high. There are five reportable segments: “Japan”, “Korea”, “China”, “North America” and “Other” which includes Europe and Asian countries.

Furthermore, IFRS 15 *Revenue from Contracts with Customers* is applied by Nexon Group. We have therefore presented the revenue arising from our contracts with customers by breaking it down into PC online, mobile and other revenues based on such contracts with customers.

(2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Fiscal year ended December 31, 2021 (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable Segments						Adjustments (Note 4)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,292	180,975	3,150	6,051	1,231	194,699	—	194,699
Mobile	1,729	67,497	—	8,844	8	78,078	—	78,078
Other	21	1,655	—	9	0	1,685	—	1,685
Total revenue from external customers	5,042	250,127	3,150	14,904	1,239	274,462	—	274,462
Intersegment revenue	1,003	2,753	—	890	549	5,195	(5,195)	—
Total	6,045	252,880	3,150	15,794	1,788	279,657	(5,195)	274,462
Segment profit or loss (Note 1)	(11,939)	109,191	1,680	(175)	(4,902)	93,855	(4)	93,851
Other income (expense), net	—	—	—	—	—	—	—	(2,310)
Operating income	—	—	—	—	—	—	—	91,541
Finance income (costs), net (Note 5)	—	—	—	—	—	—	—	46,519
Loss on revaluation (Note 7)	—	—	—	—	—	—	—	(1,589)
Share of loss of investments accounted for using equity method	—	—	—	—	—	—	—	(999)
Income before income taxes	—	—	—	—	—	—	—	135,472
(Other items)								
Depreciation and amortization (Note 6)	5	7,203	116	192	952	8,468	—	8,468
Impairment loss	80	2,815	—	46	—	2,941	—	2,941
Capital expenditures (Note 3)	37	3,713	42	1,190	203	5,185	—	5,185

(Notes) 1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

2. Price for intersegment transactions is based on the general market price.

3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets. However, investment in crypto-assets made through an exchange is excluded from the investment in intangible assets.

4. Adjustments in segment profit or loss of ¥(4) million represent elimination of intersegment transactions.

5. A major component of finance income is foreign exchange gain of ¥36,432 million.

6. In addition to property, plant and equipment and intangible assets, depreciation arising from right-of-use assets is included.

7. Loss on revaluation recognized in profit or loss due to the revaluation of an intangible asset (investment in crypto-assets made through an exchange).

8. For PC online and mobile, performance obligations are fulfilled and revenues are recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

Fiscal year ended December 31, 2022 (From January 1, 2022 to December 31, 2022)

(Millions of yen)

	Reportable Segments						Adjustments (Note 4)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,455	227,757	3,341	6,310	1,367	242,230	—	242,230
Mobile	1,223	101,813	—	6,766	—	109,802	—	109,802
Other	24	1,648	—	9	1	1,682	—	1,682
Total revenue from external customers	4,702	331,218	3,341	13,085	1,368	353,714	—	353,714
Intersegment revenue	1,253	3,099	—	938	792	6,082	(6,082)	—
Total	5,955	334,317	3,341	14,023	2,160	359,796	(6,082)	353,714
Segment profit or loss (Note 1)	(10,643)	129,255	1,556	(6,217)	(5,311)	108,640	(1)	108,639
Other income (expense), net	—	—	—	—	—	—	—	(4,943)
Operating income	—	—	—	—	—	—	—	103,696
Finance income (costs), net (Note 5)	—	—	—	—	—	—	—	52,431
Loss on revaluation (Note 7)	—	—	—	—	—	—	—	(5,356)
Share of loss of investments accounted for using equity method	—	—	—	—	—	—	—	(10,246)
Income before income taxes	—	—	—	—	—	—	—	140,525
(Other items)								
Depreciation and amortization (Note 6)	1	5,477	123	330	836	6,767	—	6,767
Impairment loss	42	2,787	—	329	2,179	5,337	—	5,337
Capital expenditures (Note 3)	9	14,521	114	630	854	16,128	—	16,128

(Notes) 1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

2. Price for intersegment transactions is based on the general market price.

3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets. However, investment in crypto-assets made through an exchange is excluded from the investment in intangible assets.

4. Adjustments in segment profit or loss of ¥(1) million represent elimination of intersegment transactions.

5. Major components of finance income are foreign exchange gain of ¥41,708 million and gain on sale of investments accounted for using equity method of ¥9,531 million in connection with the transfer of shares of Six Waves Inc.

The gain on the sale occurred due to the transfer of all shares of Six Waves Inc. owned by Nexon to Stillfront Group AB (publ) during the three months ended March 31, 2022. Consequently, Six Waves Inc. was excluded from the scope of the application of equity method for the three months ended March 31, 2022.

6. In addition to property, plant and equipment and intangible assets, depreciation arising from right-of-use assets is included.

7. Loss on revaluation recognized in profit or loss due to the revaluation of an intangible asset (investment in crypto-assets made through an exchange).

8. For PC online and mobile, performance obligations are fulfilled and revenues are recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

(3) Revenue from major products and services

Revenue from major products and services are as follows:

	(Millions of yen)	
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Item charging	190,345	253,415
Royalty	79,285	95,279
Other	4,832	5,020
Total	<u>274,462</u>	<u>353,714</u>

(4) Information by region

Carrying amounts of non-current assets (excluding financial assets, deferred tax assets and investment in crypto-assets) are as follows:

	(Millions of yen)	
	As of December 31, 2021	As of December 31, 2022
Japan	5	2
Korea	50,014	62,745
China	205	227
North America	1,175	1,001
Other	32,302	29,828
Total	<u>83,701</u>	<u>93,803</u>

(Notes) 1. Non-current assets are classified into country or region category based on the location.

2. Categorization by country or region is based on geographic proximity.

3. Major countries or regions contained in each regional category:

(1) North America: USA

(2) Other: Europe and Asian countries

Revenue from external customers are as follows:

For the fiscal year ended December 31, 2021 (From January 1, 2021 to December 31, 2021)

	Revenue by major business			(Millions of yen)
	PC online	Mobile	Other	Total
Main regional market				
Japan	3,291	7,152	26	10,469
Korea	102,934	50,270	1,479	154,683
China	73,006	589	—	73,595
North America and Europe	5,463	13,108	97	18,668
Rest of World	10,005	6,959	83	17,047
Total	194,699	78,078	1,685	274,462

(Notes) 1. Revenue is broken down by country or region based on customer location.

2. Categorization by country or region is based on geographic proximity.

3. Major countries or regions contained in each regional category:

(1) North America and Europe: USA, Canada and Europe

(2) Rest of World: Central and South America and Asian countries

For the fiscal year ended December 31, 2022 (From January 1, 2022 to December 31, 2022)

	Revenue by major business			(Millions of yen)
	PC online	Mobile	Other	Total
Main regional market				
Japan	3,592	6,916	15	10,523
Korea	134,087	77,249	1,564	212,900
China	85,787	593	11	86,391
North America and Europe	6,469	13,570	12	20,051
Rest of World	12,295	11,474	80	23,849
Total	242,230	109,802	1,682	353,714

(Notes) 1. Revenue is broken down by country or region based on customer location.

2. Categorization by country or region is based on geographic proximity.

3. Major countries or regions contained in each regional category:

(1) North America and Europe: USA, Canada and Europe

(2) Rest of World: Central and South America and Asian countries

(5) Information on major customers

One customer contributed more than 10% of Nexon Group's consolidated revenue for the fiscal years ended December 31, 2021 and 2022, and revenue earned from the customer were ¥63,743 million (Korea segment) and ¥75,070 million (Korea segment), respectively.

(Per Share Information)

Basic and diluted earnings per share attributable to owners of the parent company are calculated based on the following information.

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net income attributable to owners of the parent company	114,888	100,339
Adjustments of net income used for the calculation of diluted earnings per share		
Adjustments due to dilutive shares of consolidated subsidiaries	(647)	—
Diluted net income attributable to owners of the parent company	114,241	100,339
Number of basic weighted-average common stock (Note 1)	891,231,822 shares	874,516,449 shares
Dilution: Stock option	11,486,933 shares	7,093,751 shares
Number of dilutive weighted-average common stock	902,718,755 shares	881,610,200 shares
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	128.91	114.74
Diluted earnings per share (Note 2)	126.55	113.81

(Notes) 1. Nexon's common stock held by our consolidated subsidiary, Stiftelsen Embark Incentive is included in the treasury stock deducted in the calculation of the number of basic weighted-average shares of common stock. As for the deducted treasury stock, the average number of shares during the period was 336,017 shares for the fiscal year ended December 31, 2021 and 847,598 shares for the fiscal year ended December 31, 2022.

2. Some of the subscription rights to shares issued by Nexon do not have any dilutive effect and thus are not included in the calculation of diluted earnings per share.

(Significant Subsequent Event)

Acquisition of trust beneficiary certificates

On January 10, 2023, Nexon Group acquired the trust beneficiary certificates for a real estate based on a resolution of our Board of Directors meeting on December 13, 2022.

(a) Details of the real estate pertaining to the trust beneficiary certificates

Name of building	Autoway Tower
Location	948 Daechi-dong, Gangnam-gu, Seoul, Korea
Land area	8,267.10m ²
Total floor area	47,721.19m ² (9 stories above ground and 5 stories underground)

(b) Reason for and details of the acquisition

In order to secure office space in Gangnam-gu, Seoul, our consolidated subsidiary, NEXON Korea Corporation acquired 50% of the trust beneficiary certificates from The Korean Teachers' Credit Union at KRW 190,585 million (about ¥20,107 million). As a priority right to lease, etc. is included in the trust beneficiary certificates, NEXON Korea Corporation and its affiliates can rent the building pertaining to the trust beneficiary certificates on a preferential basis in accordance with predefined conditions. These trust beneficiary certificates will be accounted for using the equity method.