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Consolidated Financial Results for the Fiscal Year Ended December 31, 2021 [IFRS]

February 8, 2022

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

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Scheduled date of Ordinary General Meeting of Shareholders: March 25, 2022

Scheduled date of filing annual securities reports: March 28, 2022

Scheduled date of dividend payment commencement: March 28, 2022

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, 2021

(From January 1, 2021 to December 31, 2021)

(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	
		(%)		(%)		(%)		(%)		(%)		(%)
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%
FY 2020	293,024	17.9%	111,450	17.9%	108,171	(11.3)%	55,489	(51.0)%	56,220	(51.4)%	86,427	(0.5)%

	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 2021	128.91	126.55	14.9	14.7	33.4
FY 2020	63.57	61.90	8.5	13.7	38.0

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

FY2021: ¥(999) million, FY2020: ¥765 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, 2021	986,632	845,893	836,668	84.8	939.19
As of December 31, 2020	862,161	720,445	709,882	82.3	800.35

(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 2021	105,914	18,084	(21,053)	365,239
FY 2020	137,603	(140,234)	(2,626)	252,570

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 2020	—	2.50	—	2.50	5.00	4,428	7.9	0.7
FY 2021	—	2.50	—	5.00	7.50	6,682	5.8	0.9
FY 2022 (Forecast)	—	5.00	—	5.00	10.00		—	

(Note) The most recently announced dividend forecast is revised for FY2021 year-end dividends. For details, please refer to “Notice of Revision of Dividend Forecast” announced today. As for details on FY2022 interim and year-end dividends, please refer to “1. Overview of Operating Results and Financial Position (4) Basic Policy on the Distribution of Profits and Dividends for the Current and Next Fiscal Year” on page 7 of the Appendix.

3. Consolidated Financial Results Forecast for the First Quarter of Fiscal Year Ending December 31, 2022

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

(% 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
First Quarter	84,762	(4.0)%	32,883	(24.1)%	42,035	(33.9)%	32,258	(29.5)%	32,745	(28.9)%	Yen
	92,750	5.0%	39,700	(8.4)%	48,853	(23.2)%	37,583	(17.8)%	37,966	(17.5)%	36.81
											42.68

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2022, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2022 and the fiscal year ending December 31, 2022 at the moment, and accordingly, only the financial results forecast for the first three months of the fiscal year ending December 31, 2022 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, 2021: 898,746,469 shares

As of December 31, 2020: 886,961,539 shares

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

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

As of December 31, 2020: 44 shares

3) Average number of shares during the period:

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

For the fiscal year ended December 31, 2020: 884,335,963 shares

(Note) “Total number of treasury stock at the end of the period” includes Nexon’s stock held by Stiftelsen Embark Incentive (“Foundation”) (as of December 31, 2021: 865,770 shares; as of December 31, 2020: - share) and the number of treasury stock deducted in the calculation of the “average number of shares during the period” also includes Nexon’s stock held by the Foundation (as of December 31, 2021: 336,017 shares; as of December 31, 2020: - shares). This is because we have consolidated the Foundation in our consolidated financial statements from the three months ended September 30, 2021.

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2021

(From January 1, 2021 to December 31, 2021)

(1) Non-consolidated Operating Results

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2021	5,898	9.0%	(8,411)	—	84,163	110.7%	78,667	111.7%
FY 2020	5,411	(10.1)%	(5,163)	—	39,937	71.0%	37,152	65.9%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2021	88.23	87.16
FY 2020	42.01	41.54

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2021	189,677	184,833	91.8%	195.23 yen
As of December 31, 2020	103,313	100,759	89.5%	104.28 yen

(Reference): Equity at December 31, 2021: ¥ 174,084 million, Equity at December 31, 2020: ¥92,489 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, 2021, although economic recovery was seen in some countries including the U.S. and China, the end of the COVID-19 pandemic is still out of sight and its economic impact continued to be unclear as new strains of covid variant flared up, spreading even in Western countries with higher vaccination rates. In Japan, economic recovery remained unpredictable mainly as human activities were restricted, and businesses self-restrained their operations, due to repeated declarations of the state of emergency and key measures to prevent the spread of the COVID-19 infection.

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

For the fiscal year ended December 31, 2021, revenue decreased year-over-year due to a challenging comparison with FY2020 when we achieved record-high full-year revenue.

In Korea, PC online game revenue was flat year-over-year. While *EA SPORTS™ FIFA ONLINE 4* and *Dungeon&Fighter* marked record-breaking revenues and *Sudden Attack* grew more than two times year-over-year, these were offset by the decrease in *MapleStory*'s revenue compared to last year. Regarding *MapleStory*, we have prioritized enhancement of user engagement over short-term monetization to improve player trust since when we received feedback in late February regarding the need for greater communication and transparency on the probability of values assigned to probability-based items. This resulted in the game's year-over-year revenue decrease, but its Net Promoter Scores, which assess player satisfaction, have continued to improve since Q2. As for mobile games, revenue decreased due to a challenging comparison with FY2020, which marked record-breaking mobile revenue driven by contributions from new titles including *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *V4*. As a result, overall revenue in Korea decreased year-over-year.

In China, revenue decreased year-over-year due to a decrease in revenue from our major PC title, *Dungeon&Fighter*. Regarding *Dungeon&Fighter*, we have focused on improving its user engagement for long-term growth. Its 13th Anniversary update in June, Summer update in July, and new initiatives introduced under the new creative leadership, who assumed office in August, were all well-received by players. While user engagement steadily improved, revenue decreased as we are still working on improving the numbers of active users and paying users, which remained at lower levels compared to last year.

In Japan, revenue was flat year-over-year due to declines in revenues from *TRAHA* and *MapleStory M*, which offset *MapleStory*'s growth and contributions from *BlueArchive* and *EA SPORTS™ FIFA MOBILE*.

In North America and Europe, revenue decreased year-over-year primarily due to a decline in revenue from *Choices: Stories You Play*, despite the growth of *MapleStory* and *MapleStory M*.

In Rest of World, revenue was roughly flat year-over-year primarily due to declines in revenues from *KartRider Rush+* and *V4*, which offset the growth of *MapleStory* and *MapleStory M*.

In terms of expenses, cost of sales increased year-over-year due to an increase in HR costs associated with the introduction of a new compensation policy in Korea and headcount increase. Selling, general and administrative expenses increased year-over-year due to increases in research and development costs and HR costs associated with the introduction of a new compensation policy in Korea, headcount increase, and increased stock option costs, despite decreases in marketing costs and platform fees for mobile games. Other expenses decreased year-over-year as the impairment loss on intangible assets of subsidiaries recorded in FY2021 was smaller than the impairment loss on

goodwill and intangible assets of subsidiaries recorded in FY2020.

Finance costs decreased and finance income increased year-over-year as a result of an exchange gain primarily on foreign currency-denominated cash deposits. Income tax expense decreased year-over-year due to a challenging comparison with FY2020 when income tax expense significantly increased due to additional recognition of deferred tax liabilities on undistributed profits of our overseas subsidiary, as well as a decrease in income tax expense in FY2021 due to additional recognition of deferred tax assets on the foreign tax credit of our overseas subsidiary.

As a result, for the fiscal year ended December 31, 2021, Nexon Group recorded revenue of ¥274,462 million (down 6.3% year-over-year), operating income of ¥91,541 million (down 17.9% year-over-year), income before income taxes of ¥135,472 million (up 25.2% year-over-year) and net income attributable to owners of the parent company of ¥114,888 million (up 104.4% year-over-year).

Performance results by reportable segments are as follows:

(a) Japan

Revenue for the fiscal year ended December 31, 2021 amounted to ¥5,042 million (up 16.8% year-over-year) and segment loss amounted to ¥11,939 million (segment loss of ¥4,338 million for the fiscal year ended December 31, 2020).

(b) Korea

Revenue for the fiscal year ended December 31, 2021 amounted to ¥250,127 million (down 6.2% year-over-year) and segment profit amounted to ¥109,191 million (down 13.9% 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, 2021 amounted to ¥3,150 million (up 3.0% year-over-year), and segment profit amounted to ¥1,680 million (down 11.2% year-over-year).

(d) North America

Revenue for the fiscal year ended December 31, 2021 amounted to ¥14,904 million (down 11.9% year-over-year) and segment loss amounted to ¥175 million (segment loss of ¥1,263 million for the fiscal year ended December 31, 2020).

(e) Other

Revenue for the fiscal year ended December 31, 2021 amounted to ¥1,239 million (down 37.0% year-over-year) and segment loss amounted to ¥4,902 million (segment loss of ¥2,821 million for the fiscal year ended December 31, 2020).

(2) Overview of Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2021 amounted to ¥986,632 million, an increase of ¥124,471 million from December 31, 2020. Major components include an increase of ¥112,669 million in cash and cash equivalents, an increase of ¥53,738 million in investments accounted for using equity method, an increase of ¥36,765 million in other financial assets and a decrease of ¥103,443 million in other deposits.

(Liabilities)

Total liabilities as of December 31, 2021 amounted to ¥140,739 million, a decrease of ¥977 million from December 31, 2020. Major components include an increase of ¥2,847 million in deferred tax liabilities, a decrease of ¥2,094 million in borrowings and a decrease of ¥1,314 million in trade and other payables.

(Equity)

Equity as of December 31, 2021 totaled ¥845,893 million, an increase of ¥125,448 million from December 31, 2020. Major components of changes in equity include an increase of ¥112,761 million in retained earnings primarily due to the recording of net income attributable to owners of the parent company.

(b) Cash flows

Cash and cash equivalents (collectively, “cash”) as of December 31, 2021 were ¥365,239 million, an increase of ¥112,669 million from December 31, 2020. The increase includes ¥9,724 million in effects of exchange rate changes on cash.

Cash flows from each activity for the fiscal year ended December 31, 2021 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥105,914 million, compared to ¥137,603 million for the fiscal year ended December 31, 2020. Major components of the increase include income before income taxes of ¥135,472 million. Major components of the decrease include income taxes paid of ¥37,589 million.

While income before income taxes increased due to the impact of exchange rates, net cash provided by operating activities decreased year-over-year due to an increase in income taxes paid and a decrease in trade and other payables.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥18,084 million, compared to net cash of ¥140,234 million used in the fiscal year ended December 31, 2020. Major cash inflows include a net decrease in time deposit of ¥110,550 million. Major cash outflows include purchase of investments accounted for using equity method of ¥52,637 million and purchases of securities by investment funds under consolidated subsidiaries of ¥37,167 million.

Net cash provided by investing activities increased year-over-year as a result of an increase in withdrawal of time deposit.

(Cash flows from financing activities)

Net cash used in financing activities was ¥21,053 million, compared to ¥2,626 million for the fiscal year ended December 31, 2020. Major cash outflows include purchases of treasury stock of ¥16,034 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:

	FY2020	FY2021
Ratio of equity attributable to owners of the parent company (%)	82.3	84.8
Ratio of equity attributable to owners of the parent company at fair value (%)	327.1	200.8
Interest-bearing liabilities to cash flow ratio (years)	0.1	0.1
Interest coverage ratio (times)	337.6	255.9

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

The outlook on the business environment surrounding Nexon Group remains unclear as new strains of COVID-19 variant flared up in various countries around the world. However, we do not expect it 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, 2022, Nexon Group expects consolidated revenue in the range of ¥84,762~92,750 million (down 4.0%~up 5.0% year-over-year), operating income in the range of ¥32,883~39,700 million (down 24.1%~8.4% year-over-year), income before income taxes in the range of ¥42,035~48,853 million (down 33.9%~23.2% year-over-year), net income in the range of ¥32,258~37,583 million (down 29.5%~17.8% year-over-year), net income attributable to owners of the parent company in the range of ¥32,745~37,966 million (down 28.9%~17.5% year-over-year), and basic earnings per share in the range of ¥36.81~42.68. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q1 2022 are expected to be 1 U.S. Dollar = ¥114.85, 100 Korean Won = ¥9.62 and 1 Chinese Yuan = ¥18.06. 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 ¥761 million on revenue and approximately ¥340 million on operating income for the three months ending March 31, 2022.

As for revenue based on customer location for the three months ending March 31, 2022, our expectations are as follows.

In Korea, we expect *EA SPORTS™ FIFA ONLINE 4* to grow, *Sudden Attack* to be roughly flat, and *Dungeon&Fighter's* revenue to slightly decrease year-over-year. As for *MapleStory*, we are focusing on strengthening our mid- to long-term relationship with our players rather than seeking short-term revenue. Consequently, the Net Promoter Score, which indicates player satisfaction, continued to further improve from Q4 2021 to January 2022. However, we expect revenue to decrease compared to Q1 2021 when the game grew by 36% year-over-year driven by the success of the largest-ever Winter update. As a result, we expect overall PC revenue in Korea to decrease year-over-year.

For mobile, we expect first quarter revenue in Korea to be roughly flat year-over-year. We expect to benefit from *BlueArchive* and anticipate growth from *EA SPORTS™ FIFA ONLINE 4 M* and *EA SPORTS™ FIFA MOBILE*. In addition, we expect to benefit from several days of contribution from *Mobile Dungeon&Fighter*, which is scheduled to launch on March 24th. However, we expect these to be offset by year-over-year revenue decreases in *V4*, *MapleStory M* and *KartRider Rush+*.

In China, we introduced the Lunar New Year update for *Dungeon&Fighter*, our major PC online title, on January 20th, which includes avatar package offerings and a new job added for a popular character. We expect this update and the package sales to drive the year-over-year growth of the franchise. While we expect growth in Q1, we will continue to strategically control monetization and operate the game for mid- to long-term growth. In 2022, we hope to increase active users and paying users gradually through regular updates and the Level cap release scheduled for June.

In Japan, we expect revenue to decrease year-over-year. While we anticipate a contribution from *COUNTER: SIDE*, we expect this to be more than offset by decreases from *BlueArchive*, *V4* and *TRAHA*.

In North America and Europe, we expect revenue to decrease year-over-year. While we anticipate a contribution from *BlueArchive*, we expect this to be more than offset by a decrease from *Choices: Stories You Play*.

In the Rest of World, we expect revenue to increase year-over-year. While we anticipate a contribution from *BlueArchive* and growth from *MapleStory M* and *MapleStory*, we expect these to be partially offset by a decrease from *KartRider Rush+*.

On the cost side, we expect a year-over-year increase in costs for the three months ending March 31, 2022. We expect HR costs to increase due to headcount increase, annual salary hike, and an increase in stock option costs. We also expect marketing costs to increase.

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, the year-end dividend of 2.5 yen per share announced for the fiscal year ended December 31, 2021 in the “Consolidated Financial Results for the Nine Months Ended September 30, 2021 [IFRS]” dated November 9, 2021 was revised to 5.0 yen per share, which increased the dividend by 2.5 yen per share compared to the previous forecast, upon comprehensively taking into account the factors including our full-year 2021 consolidated results and financial position. Furthermore, interim and year-end dividends of 5.0 yen per share are also scheduled for the year ending December 31, 2022.

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, 2021, Nexon Group consists of NEXON Co., Ltd. (“Nexon”), Nexon’s 39 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, 2021)

Korea:	NEXON Korea Corporation; NEOPLE INC.; NEXON GT Co., Ltd.; NAT 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 NAT GAMES Co., Ltd. In the U.S., mobile game development and service are conducted through Big Huge Games, Inc., and Pixelberry Studios.

(2) Business models for PC online and mobile games

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.

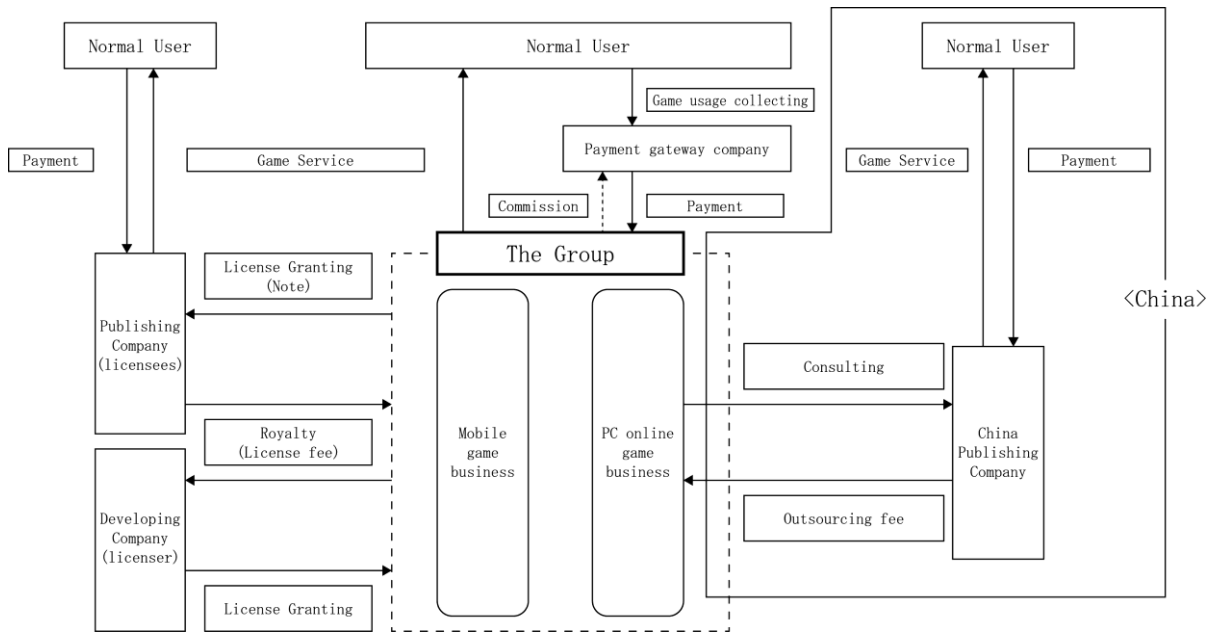
(b) Advertisement revenue model

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.

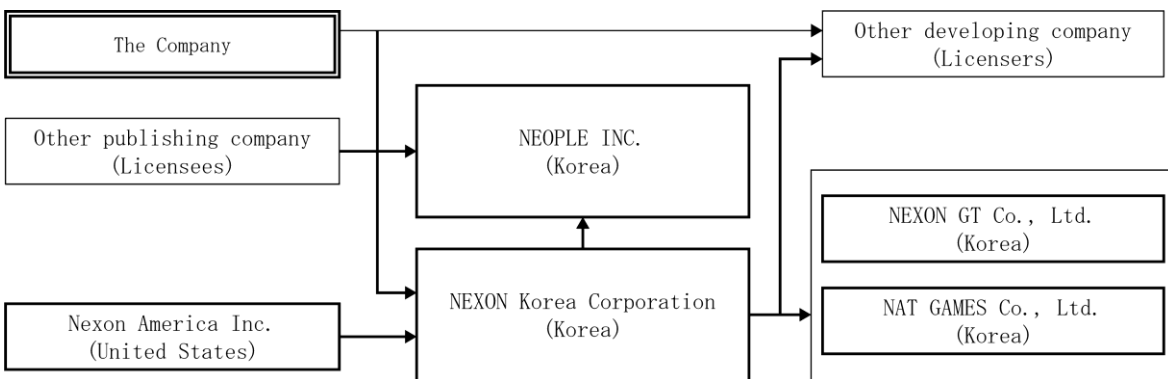
<Chart 1>



(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, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	252,570	365,239
Trade and other receivables	20,935	17,577
Other deposits	273,132	169,689
Other financial assets	27,343	29,140
Other current assets	4,552	12,072
Total current assets	578,532	593,717
Non-current assets		
Property, plant and equipment	24,191	24,448
Goodwill	38,425	38,938
Intangible assets	14,935	17,703
Right-of-use assets	10,029	10,985
Investments accounted for using equity method	5,195	58,933
Other financial assets	167,620	202,588
Other non-current assets	1,277	1,106
Deferred tax assets	21,957	38,214
Total non-current assets	283,629	392,915
Total assets	862,161	986,632

	(Millions of yen)	
	As of December 31, 2020	As of December 31, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	10,668	9,354
Deferred income	11,505	11,030
Borrowings	2,094	—
Income taxes payable	15,774	16,599
Lease liabilities	2,657	3,045
Provisions	6,881	5,787
Other current liabilities	8,388	7,510
Total current liabilities	<u>57,967</u>	<u>53,325</u>
Non-current liabilities		
Deferred income	15,180	14,354
Lease liabilities	11,842	12,282
Other financial liabilities	868	1,803
Provisions	304	323
Other non-current liabilities	4,437	4,687
Deferred tax liabilities	51,118	53,965
Total non-current liabilities	<u>83,749</u>	<u>87,414</u>
Total liabilities	<u>141,716</u>	<u>140,739</u>
Equity		
Capital stock	22,679	34,255
Capital surplus	17,421	14,961
Treasury Stock	(0)	(17,863)
Other equity interest	69,975	92,747
Retained earnings	599,807	712,568
Total equity attributable to owners of the parent company	<u>709,882</u>	<u>836,668</u>
Non-controlling interests	10,563	9,225
Total equity	<u>720,445</u>	<u>845,893</u>
Total liabilities and equity	<u><u>862,161</u></u>	<u><u>986,632</u></u>

(2) Consolidated Income Statement

	(Millions of yen)	
	Fiscal Year ended December 31, 2020	Fiscal Year ended December 31, 2021
Revenue	293,024	274,462
Cost of sales	(69,009)	(72,121)
Gross profit	224,015	202,341
Selling, general and administrative expenses	(103,711)	(108,490)
Other income	1,796	805
Other expenses	(10,650)	(3,115)
Operating income	111,450	91,541
Finance income	15,005	47,874
Finance costs	(19,049)	(1,355)
Loss on revaluation	—	(1,589)
Share of profit (loss) of investments accounted for using equity method	765	(999)
Income before income taxes	108,171	135,472
Income taxes expense	(52,682)	(22,406)
Net income	55,489	113,066
Attributable to:		
Owners of the parent company	56,220	114,888
Non-controlling interests	(731)	(1,822)
Net income	55,489	113,066
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	63.57	128.91
Diluted earnings per share	61.90	126.55

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2020	Fiscal Year ended December 31, 2021
Net income	55,489	113,066
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	28,150	8,610
Re-measurement of defined benefit pension plans	8	(19)
Income taxes	(6,844)	(2,834)
Total items that will not be reclassified to net income	21,314	5,757
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	9,628	12,445
Other comprehensive income under equity method	(4)	12
Total items that may be reclassified subsequently to net income	9,624	12,457
Total other comprehensive income	30,938	18,214
Total comprehensive income	86,427	131,280
Attributable to:		
Owners of the parent company	87,067	132,985
Non-controlling interests	(640)	(1,705)
Total comprehensive income	86,427	131,280

(4) Consolidated Statement of Changes in Equity

Fiscal Year ended December 31, 2020

(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, 2020	17,967	35,688	(27,219)	38,511	555,038	619,985	11,146	631,131
Net income	—	—	—	—	56,220	56,220	(731)	55,489
Other comprehensive income	—	—	—	30,847	—	30,847	91	30,938
Total comprehensive income	—	—	—	30,847	56,220	87,067	(640)	86,427
Issue of shares	4,712	4,712	—	—	—	9,424	—	9,424
Stock issue cost	—	(32)	—	—	—	(32)	—	(32)
Payment of dividends	—	—	—	—	(4,417)	(4,417)	—	(4,417)
Share-based compensation	—	—	—	611	—	611	—	611
Changes in interests in subsidiaries	—	27	—	—	—	27	57	84
Purchase of treasury stock	—	(2)	(2,781)	—	—	(2,783)	—	(2,783)
Retirement of treasury stock	—	(22,972)	30,000	—	(7,028)	—	—	—
Reclassification from other equity interest to retained earnings	—	—	—	6	(6)	—	—	—
Total transactions with the owners	4,712	(18,267)	27,219	617	(11,451)	2,830	57	2,887
Balance at December 31, 2020	22,679	17,421	(0)	69,975	599,807	709,882	10,563	720,445

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

(5) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Fiscal Year ended December 31, 2020	Fiscal Year ended December 31, 2021
Cash flows from operating activities		
Income before income taxes	108,171	135,472
Depreciation and amortization	8,574	8,468
Share-based compensation expenses	3,002	10,508
Interest and dividend income	(8,275)	(6,452)
Interest expense	357	415
Impairment loss	9,655	2,941
Loss on revaluation	—	1,589
Share of loss (profit) of investments accounted for using equity method	(765)	999
(Gain) loss on valuation of securities	(4,382)	(703)
Exchange (gain) loss	15,306	(10,022)
(Increase) decrease in trade and other receivables	5,855	4,816
(Increase) decrease in other current assets	419	(3,136)
(Decrease) increase in trade and other payables	2,691	(1,466)
(Decrease) increase in deferred income	437	(1,954)
(Decrease) increase in provisions	2,796	(1,188)
(Decrease) increase in other current liabilities	758	(1,389)
Other	(64)	(2,567)
Subtotal	<u>144,535</u>	<u>136,331</u>
Interest and dividends received	11,353	7,587
Interest paid	(408)	(415)
Income taxes paid	(17,877)	(37,589)
Net cash provided by operating activities	<u>137,603</u>	<u>105,914</u>
Cash flows from investing activities		
Net decrease (increase) in restricted deposit	(3,443)	334
Net decrease (increase) in time deposit	(32,736)	110,550
Purchases of property, plant and equipment	(2,342)	(1,585)
Proceeds from sale of property, plant and equipment	77	68
Purchases of intangible assets	(890)	(12,541)
Payments associated with increase in long-term prepaid expenses	(1,441)	(3,210)
Purchases of securities by investment funds under consolidated subsidiaries	(31,867)	(37,167)
Proceeds from sale of securities by investment funds under consolidated subsidiaries	20,423	35,512
Purchases of investment securities	(86,258)	(26,492)
Proceeds from sale and redemption of investment securities	865	6,327
Purchase of investments accounted for using equity method	(2,075)	(52,637)
Proceeds from sale of investments accounted for using equity method	55	0
Payments for short-term loans receivable	(106)	(16,630)
Collection of short-term loans receivable	33	16,620
Other	(529)	(1,065)
Net cash provided by (used in) investing activities	<u>(140,234)</u>	<u>18,084</u>
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(137)	(2,094)
Proceeds from exercise of stock options	7,050	4,101
Purchases of treasury stock	(2,783)	(16,034)
Cash dividends paid	(4,417)	(4,441)
Repayment of lease liability	(2,339)	(2,585)
Net cash used in financing activities	<u>(2,626)</u>	<u>(21,053)</u>
Net (decrease) increase in cash and cash equivalents	<u>(5,257)</u>	<u>102,945</u>
Cash and cash equivalents at the beginning of the year	<u>253,636</u>	<u>252,570</u>
Effects of exchange rate changes on cash and cash equivalents	<u>4,191</u>	<u>9,724</u>
Cash and cash equivalents at the end of the year	<u>252,570</u>	<u>365,239</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, 2020 unless otherwise noted, except for the new standards applied as listed below.

Nexon Group applied the following standards from Q1 2021, but the application of these standards did not have material impacts on the fiscal year ended December 31, 2021.

Standards	Title	Overview of New or Revised Standard
IFRS 16	Leases	Amended to extend support for lessees accounting for COVID-19-related rent concessions such as rent holidays and temporary rent reductions
IFRS 9	Financial Instruments	Clarified the treatment when replacing an existing interest rate benchmark with an alternative benchmark interest rate as a result of IBOR reform
IAS 39	Financial Instruments: Recognition and Measurement	
IFRS 7	Financial Instruments: Disclosures	
IFRS 4	Insurance Contracts	
IFRS 16	Leases	

(Application of New Accounting Policy)

In April 2021, Nexon Group made an investment in bitcoins (crypto-assets) on the crypto-asset exchange.

Accordingly, Nexon Group recognizes the investment in those crypto-assets as an intangible asset under IAS 38 *Intangible Assets* (“IAS 38”) from the three months ended June 30, 2021 and has measured it initially at cost. Nexon Group has determined this to be an intangible asset with an indefinite useful life and has not conducted amortization because the intangible asset has an unlimited usage period and we deem it would exist as long as it is used as a means of an exchange. After the initial recognition, Nexon Group has elected to measure the intangible asset using the revaluation model.

Under the revaluation model, Nexon Group recognizes the intangible asset at a revalued amount, which is its fair value at the date of the revaluation less any subsequent accumulated impairment losses. For the purpose of revaluations under IAS 38, fair value is measured by reference to an active market.

If an intangible asset’s carrying amount is increased as a result of revaluation, Nexon Group recognizes the increase in other comprehensive income and it is accumulated in other equity interest as revaluation surplus. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same intangible asset previously recognized in profit or loss.

If an intangible asset’s carrying amount is decreased as a result of revaluation, Nexon Group recognizes the decrease as an expense. However, the decrease is recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that intangible asset. The decrease recognized in other comprehensive income reduces the amount accumulated in other equity interest as revaluation surplus.

Nexon Group directly transfers revaluation surplus to retained earnings if the surplus is realized due to the derecognition of the intangible asset.

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

(1) For the fiscal year ended December 31, 2020 (From January 1, 2020 through December 31, 2020)

(a) 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 20, 2020	Common stock	2,206	2.5	December 31, 2019	March 26, 2020
Resolution of the Board of Directors on August 6, 2020	Common stock	2,211	2.5	June 30, 2020	September 28, 2020

(b) Purchases of treasury stock

Nexon's treasury stock increased by ¥2,781 million as a result of the purchase of 1,862,000 shares of treasury stock during the fiscal year ended December 31, 2020 based on a resolution of the Board of Directors on September 9, 2019.

(c) Retirement of treasury stock

During the fiscal year ended December 31, 2020, Nexon retired 20,971,021 shares of its treasury stock based on a resolution of the Board of Directors' meeting held on February 13, 2020. As a result, treasury stock and other capital surplus each decreased by ¥30,000 million. Due to the retirement of such treasury stock, the balance of other capital surplus of Nexon as of December 31, 2020 was negative ¥7,028 million and other retained earnings were reduced by this amount.

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

(a) 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

(b) 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 (d) below for details on the third-party allotment.

(c) 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.

(d) 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.

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

(Millions of yen)

	Reportable Segments						Adjustments (Note 4)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,249	181,594	3,058	5,029	1,313	194,243	—	194,243
Mobile	1,001	83,630	—	11,790	653	97,074	—	97,074
Other	66	1,551	—	88	2	1,707	—	1,707
Total revenue from external customers	4,316	266,775	3,058	16,907	1,968	293,024	—	293,024
Intersegment revenue	938	2,635	—	717	396	4,686	(4,686)	—
Total	5,254	269,410	3,058	17,624	2,364	297,710	(4,686)	293,024
Segment profit or loss (Note 1)	(4,338)	126,839	1,891	(1,263)	(2,821)	120,308	(4)	120,304
Other income (expense), net	—	—	—	—	—	—	—	(8,854)
Operating income	—	—	—	—	—	—	—	111,450
Finance income (costs), net (Note 5)	—	—	—	—	—	—	—	(4,044)
Share of profit of investments accounted for using equity method	—	—	—	—	—	—	—	765
Income before income taxes	—	—	—	—	—	—	—	108,171
(Other items)								
Depreciation and amortization	3	7,578	96	329	568	8,574	—	8,574
Impairment loss	491	3,698	—	5,466	—	9,655	—	9,655
Capital expenditures (Note 3)	283	6,469	186	69	3,513	10,520	—	10,520

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

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

3. Capital expenditures include investments in property, plant and equipment, right-of-use assets and intangible assets.

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

5. A major component of finance cost is foreign exchange loss of ¥17,744 million.

6. 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, 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 6)	—	—	—	—	—	—	—	(1,589)
Share of loss of investments accounted for using equity method	—	—	—	—	—	—	—	(999)
Income before income taxes	—	—	—	—	—	—	—	135,472
(Other items)								
Depreciation and amortization	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. Loss on revaluation recognized in profit or loss due to the revaluation of an intangible asset (investment in crypto-assets made through an exchange).

7. 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, 2020	Fiscal year ended December 31, 2021
Item charging	206,103	190,345
Royalty	82,225	79,285
Other	4,696	4,832
Total	<u>293,024</u>	<u>274,462</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, 2020	As of December 31, 2021
Japan	7	5
Korea	55,632	50,014
China	244	205
North America	235	1,175
Other	32,739	32,302
Total	<u>88,857</u>	<u>83,701</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, 2020 (From January 1, 2020 to December 31, 2020)

	Revenue by major business			(Millions of yen)
	PC online	Mobile	Other	Total
Main regional market				
Japan	3,250	7,100	68	10,418
Korea	99,829	63,765	1,386	164,980
China	80,194	1,033	13	81,240
North America and Europe	4,485	15,195	183	19,863
Rest of World	6,485	9,981	57	16,523
Total	194,243	97,074	1,707	293,024

(Notes) 1. Revenue is 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, 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

(5) Information on major customers

One customer contributed more than 10% of Nexon Group's consolidated revenue for the fiscal years ended December 31, 2020 and 2021, and revenue earned from the customer were ¥71,694 million (Korea segment) and ¥63,743 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, 2020	Fiscal year ended December 31, 2021
Net income attributable to owners of the parent company	56,220	114,888
Adjustments of net income used for the calculation of diluted earnings per share		
Adjustments due to dilutive shares of consolidated subsidiaries	(891)	(647)
Diluted net income attributable to owners of the parent company	55,329	114,241
Number of basic weighted-average common stock (Note 1)	884,335,963 shares	891,231,822 shares
Dilution: Stock option	9,543,454 shares	11,486,933 shares
Number of dilutive weighted-average common stock	893,879,417 shares	902,718,755 shares
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	63.57	128.91
Diluted earnings per share (Note 2)	61.90	126.55

(Notes) 1. The treasury stock deducted in the calculation of the “number of basic weighted-average common stock” includes Nexon’s common stock held by the Foundation. With regards to the deducted treasury stock, the average number of shares during the period was none for the year ended December 31, 2020 and 336,017 shares for the year ended December 31, 2021.

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)

Not applicable.