

Securities code: 3765

(Mailing date) March 13, 2023

(Date of Commencement of Electronic Provision Measures) March 8, 2023

Dear shareholders

1-11-1, Marunouchi, Chiyoda-ku, Tokyo

GungHo Online Entertainment, Inc.

President & CEO Kazuki Morishita

Notice of Convocation of the 26th Annual General Meeting of Shareholders

It gives us great pleasure to invite you to the 26th Annual General Meeting of Shareholders of GungHo Online Entertainment, Inc.

In convening this General Meeting of Shareholders, GungHo Online Entertainment, Inc. "the Company" takes measures for providing information constituting the content of reference documents, etc. for the shareholders' meeting in an electronic format. Please access the following website and review the information posted on the Company's website as "Notice of Convocation of the 26th Annual General Meeting of Shareholders."

The Company's website

<https://www.gungho.co.jp/jp/en/ir/stock/meeting.html>

The content provided in electronic format is posted on the above website and also available on the Tokyo Stock Exchange (TSE) website. Please check below.

TSE website (Listed Company Search)

<https://www2.jpx.co.jp/tseHpFront/JJK010010Action.do?Show=Show>

Please access on the above TSE website. Search "GungHo Online Entertainment" or "Ticker code" (3765), select "Basic information" and then "Documents for public inspection/PR information," and find "Notice of General Shareholders Meeting" under "Filed information available for public inspection."

If you are not attending the meeting in person, you can exercise your voting rights via the Internet or by mail instead. Please read carefully the reference materials for the General Meeting of Shareholders, and exercise your voting rights by 6 p.m. on Wednesday, March 29, 2023.

The distribution of souvenirs at the General Meeting of Shareholders has been cancelled in order to give top priority to safety from the viewpoint of preventing the spread of COVID-19 infections. Thank you for your understanding.

[When exercising the voting rights via the Internet]

Access the Company's Voting Rights Exercise Website (<https://www.tosyodai54.net>), obtain the Voting Code and Password provided in the Voting Rights Exercise Form sent together with this Convocation Notice, and indicate whether you are for or against each of the Proposals following the directions on the website.

Before exercising your voting rights via the Internet, please read "Guide to Exercising the Voting Rights via the Internet, etc." provided later.

[When exercising the voting rights by mail]

Please indicate whether you are for or against each of the Proposals on the Voting Rights Exercise Form that is attached to the Notice of Convocation, and return it to us by the deadline for exercising your voting rights stipulated above.

1. Date and time March 30, 2023 (Thursday) 10:00 a.m. (Doors open at 9:00 a.m.)
2. Venue 3-13-1 Takanawa, Minato-ku, Tokyo
Grand Prince Hotel New Takanawa “International Convention Center Pamir”

3. Purpose

- Matters to be reported
1. Report on the Business Report, the Consolidated Financial Statements, and the Audit Results of the Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors for the 26th term (from January 1, 2022 to December 31, 2022)
 2. Report on the Non-consolidated Financial Statements for the 26th term (from January 1, 2022 to December 31, 2022)

Matters to be resolved

- Proposal 1 Election of Ten (10) Directors Partial Amendment of the Article of Incorporation
- Proposal 2 Revision of the Amount of Compensation for Directors (Introduction of Performance-Linked Compensation for Executive Directors)

4. Introduction to exercising the voting rights

- (1) In the case where you choose to exercise your voting rights in writing (by mail), if there is no indication of your vote for or against a proposal on the voting form, it will be treated as a vote “for” the proposal.
- (2) If you submit your vote multiple times via the Internet, only the last vote will be valid.
- (3) If you exercise your voting rights multiple times both via the Internet and in writing redundantly, the exercise via the Internet will be treated as the valid manifestation of intention.

- When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception.
- If the matters to be electronically provided are amended, both the pre-amendment and post-amendment matters, together with an announcement to that effect, will be posted on the Company’s website and the TSE website mentioned above.
- Please be advised that non-shareholders such as proxies and persons accompanying shareholders are not permitted to attend the meeting.

Notice of Measures to Prevent the Spread of COVID-19 Infections

- **In order to give top priority to safety from the viewpoint of preventing the spread of COVID-19 infections, shareholders are kindly requested to exercise their voting rights in writing or via the Internet, etc., in advance, and refrain from attending the General Meeting of Shareholders.**
- If there is any major change to the proceedings of the General Meeting of Shareholders due to the spread of infections by the day of the Meeting, a notice will be posted on the Company's website (<https://www.gungho.co.jp/>).
- Regarding the proceedings of this General Meeting of Shareholders, the Meeting may be substantially shortened, including the explanations for matters to be reported and those to be resolved, in order to shorten the meeting time for the purpose of preventing the spread of COVID-19 infections. Shareholders are kindly requested to read the Notice of Convocation in advance.
- Attending shareholders are also kindly requested to bring and wear masks.
- We will take your temperature by thermography, etc., in the reception area. In order to ensure the safety of other shareholders, we may refuse admission to those who are deemed to have a fever, or seem to be in poor health.
- We will install alcohol-based hand sanitizers near reception.
- When setting up the venue, seating will be spaced out.
- Directors and operating staff attending the General Meeting of Shareholders shall receive you wearing masks after checking their physical condition, including temperature.

<<Instructions on Exercise of Voting Rights via the Internet, etc.>>

[Internet method]

The exercise of voting rights via the Internet (PCs, mobile phones, and smartphones) may be possible only by using the voting website designated by the Company (<https://www.tosyodai54.net>).

1. Using a personal computer or mobile phone

Please access the URL above, use the "Voting Code" and "Password" printed in the "Request" section of the Voting Rights Exercise Form, and exercise your voting rights following the guidance on the screen.

If you use a mobile phone with a barcode scanning function, you can access the voting website by scanning the "QR for Portable Phones" printed on the Voting Rights Exercise Form.

2. Using a smartphone

You can exercise your voting rights following the guidance on the screen for exercising voting rights by scanning the "Login QR Code for the Voting Website for Smartphones" printed in the "Request" section of the Voting Rights Exercise Form. In this case, you do not need to enter the "Voting Code" and "Password."

If you wish to change your vote after exercising your voting rights once, you will need to scan the QR Code again and enter the "Voting Code" and "Password." (QR Code is a registered trademark of DENSO WAVE INCORPORATED.)

(Warning)

- Voting rights may not be exercised via the Internet depending on the Internet environment of shareholders.
- Please note that shareholders are responsible for communication charges and connection fees to service providers for accessing the voting website.

[Inquiries regarding the exercise of voting rights via the Internet]

Administrator of Shareholder Registry: Tokyo Securities Transfer Agent Co., Ltd.

Phone: 0120-88-0768 (toll-free number)

Reception hours: 9 AM to 9 PM

[Use of the electronic voting platform (To institutional investors)]

Institutional investors may use the "Electronic Voting Platform" operated by ICJ, Inc. as a method for exercising voting rights at this General Meeting of Shareholders.

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

1. Overview of the Company Group

(1) Consolidated business performance for the fiscal year ended December 31, 2022

1) Business progress and results

Japan's game market shrank in 2021 to 2.27 trillion yen*, down 0.8% year-on-year, due to a slight decrease in the software market offsetting the growth in the hardware market.

On the other hand, the global game content market expanded in 2021 to 21,892.7 billion yen*, up 6.1% year-on-year, owing to the continued growth of the mobile game market and the expansion of the PC online game market.

The outlook for the economic situation remains unclear due to the unstable international situation and certain areas seen as stagnant due to the impact of COVID-19.

Against this backdrop, our company continued to concentrate on game development with a focus on global distribution in aim of the "creation of new value," and in order to "maximize existing value," we have worked to maintain and expand MAU (Monthly Active Users: the number of users who log into the game at least once a month), and have made efforts to strengthen the brands of each of our games.

As for existing games, "Puzzle & Dragons" (referred to as "P&D" henceforth) has had continuous updates such as adding of new dungeons and improvement in game content, all with the main objective of continuous long-term enjoyment. In addition, initiatives were taken to reinvigorate active users by holding an appreciation celebration in October 2022 as well as events including ones collaborating with famous characters from other companies regularly.

The MAU of a smartphone MMORPG "Ragnarok Origin" has been stable after follow-on updates and events. The Nintendo Switch™ "Ninja-Gum" action game "Ninjala" is continuing to expand its user base through collaboration events, online competitions, TV anime broadcasts, and a wide range of cross-media deployment, and on February 14, 2023, the world total number of downloads exceeded 10 million.

As for a new game, a multi-player online survival action game "DEATHVERSE: LET IT DIE" service was decided to be temporarily suspended for redevelopment to make the game content enjoyable for a wider range of people.

Looking at the businesses of our subsidiaries, the Ragnarok-related titles distributed by Gravity Co., Ltd. and its consolidated subsidiaries continued to be stable due to the continuous updates and holding of events. The MMORPG "Ragnarok Origin" for smartphones, which launched service in Taiwan, Hong Kong, and Macau on September 15, 2022, has also recorded favorable sales and has contributed to the consolidated financial results.

As a result, net sales for the fiscal year ended December 31, 2022 amounted to 105,505 million yen, (an increase of 0.8% year-on-year). Operating profit was 27,649 million yen, (a decrease of 15.7% year-on-year), ordinary profit was 28,985 million yen, (a decrease of 13.8% year-on-year), and profit attributable to owners of parent came to 19,022 million yen, a decrease of 16.9% from a year earlier.

The GungHo Group is a single-segment company; therefore, no segment information is disclosed.

* "Famitsu" 2022 Game White Paper

2) Capital expenditure

For the fiscal year ended December 31, 2022, capital expenditure totaled 2,019 million yen, consisting mainly of 1,557 million yen in game development expenditure.

3) Financing

No financing of importance was obtained by the Company in the consolidated fiscal year under review.

4) Acquisition and disposal of shares, equity interest or share subscription rights in other companies

Not applicable

(2) Assets and income

1) Consolidated

(Millions of yen)

| Item | 23rd From January 1, 2019 to December 31, 2019 | 24th From January 1, 2020 to December 31, 2020 | 25th From January 1, 2021 to December 31, 2021 | 26th From January 1, 2022 to December 31, 2022 |
|--|---|---|---|---|
| Net sales | 101,392 | 98,844 | 104,626 | 105,505 |
| Operating profit | 28,349 | 30,157 | 32,802 | 27,649 |
| Ordinary profit | 28,617 | 30,202 | 33,629 | 28,985 |
| Profit attributable to owners of parent | 18,146 | 16,369 | 22,883 | 19,022 |
| Net profit per share | 258.04 yen | 239.94 yen | 341.44 yen | 305.61 yen |
| Total assets | 105,008 | 122,257 | 134,930 | 152,210 |
| Net assets | 90,765 | 104,727 | 118,672 | 132,834 |
| Net assets per share | 1,218.59 yen | 1,422.35 yen | 1,681.71 yen | 1,894.36 yen |

(Note1) Effective July 1, 2019, share consolidation was implemented at a ratio of 1 share per 10 shares of common stock. Net profit per share and net assets per share are calculated on the assumption that the share consolidation was conducted at the beginning of the 23rd consolidated fiscal year.

(Note2) The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards have been applied since the beginning of the fiscal year ended December 31, 2022. The figures for the fiscal year under review are disclosed in accordance with these standards.

2) Non-consolidated

(Millions of yen)

| Item | 23rd From January 1, 2019 to December 31, 2019 | 24th From January 1, 2020 to December 31, 2020 | 25th From January 1, 2021 to December 31, 2021 | 26th From January 1, 2022 to December 31, 2022 |
|----------------------|---|---|---|---|
| Net sales | 67,870 | 62,643 | 66,642 | 58,986 |
| Operating profit | 24,144 | 23,117 | 23,258 | 16,995 |
| Ordinary profit | 24,255 | 23,197 | 23,764 | 17,797 |
| Net profit | 16,391 | 12,816 | 18,529 | 9,144 |
| Net profit per share | 233.09 yen | 187.86 yen | 276.47 yen | 146.92 yen |
| Total assets | 92,432 | 100,150 | 107,091 | 105,314 |
| Net assets | 84,601 | 92,480 | 99,005 | 98,388 |
| Net assets per share | 1,201.76 yen | 1,348.22 yen | 1,534.56 yen | 1,571.35 yen |

(Note1) Effective July 1, 2019, share consolidation was implemented at a ratio of 1 share per 10 shares of common stock. Net profit per share and net assets per share are calculated on the assumption that the share consolidation was conducted at the beginning of the 23rd consolidated fiscal year.

(Note2) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards have been applied since the beginning of the fiscal year ended December 31,2022. The figures for the fiscal year under review are disclosed in accordance with these standards.

(3) Material parent company and subsidiaries

- 1) Relationship with parent company
Not applicable

2) Material subsidiaries

| Company name | Capital stock | The Company's voting right ratio | Principal business activities |
|---|---------------------|----------------------------------|--|
| Game Arts Co., Ltd. | JPY 78 million | 100.00% | Planning, development and sales of PC online games and consumer games |
| Gravity Co.,Ltd. | KRW 3,474 million | 59.31% | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Interactive,Inc. | USD 10,540 thousand | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Communications Co.,Ltd. | TWD 155 million | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity NeoCyon,Inc. | KRW 3,990 million | 99.52% (99.52%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| PT Gravity Game Link | Rp 43,221 million | 70.00% (70.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Game Tech Co.,Ltd. | THB 88 million | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Game Arise Co., Ltd. | JPY 100 million | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Game Hub PTE.,Ltd. | SGD 6 million | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Gravity Game Vision Limited | HKD 300 million | 100.00% (100.00%) | Planning, development, operation and online distribution of online PC games and smartphone games |
| Acquire Corp | JPY 100 million | 50.07% | Planning, development, distribution and sales of smartphone games and consumer games |
| GungHo Online Entertainment America,Inc. | USD 300 thousand | 100.00% | Planning, development, operation, distribution and sales of smartphone games and consumer games |
| SUPERTRICK GAMES,Inc. | JPY 50 million | 100.00% | Planning and development of consumer games |
| GungHo Online Entertainment Asia Pacific Pte.Ltd. | USD 55,491 thousand | 100.00% | Holding company |
| GungHo Gamania Co.,Limited | USD 17,500 thousand | 51.00% | Planning, development, operation and distribution of smartphone games |

Note : Figures in parentheses for the Company's voting right ratio indicate the indirect ownership ratios as included numbers.

- 3) Specified wholly-owned subsidiaries as of the end of the fiscal year under review
Not applicable

(4) Challenges to be addressed

The GungHo Group has been continuing to quickly and correctly ascertain the ever-changing operating environment for the game industry, identify material challenges to be addressed and pursue a business strategy befitting the endeavors.

1) Maximization of existing values

One of our corporate policies is to diversify the use of content assets, which are already established as game brands: "Ragnarok Online" is now celebrating its 20th anniversary since the launch of the service, and "Puzzle & Dragons" for smartphones celebrated its 11th anniversary in February 2023.

Aiming for the long-term enhancement of the game brand "Puzzle & Dragons," we offer the brand's through a variety of channels including console game, expansion to animation, character-related goods, comic books, and e-sports events, in order to satisfy a wide range of preference and age groups. We believe these multiple approaches will contribute to gaining loyal customers and ensuring our long-term success.

2) Venturing into creation of new values

A new game market may be created by rapid technological evolution now and in the future. Besides, the online game market is expected to receive more newcomers, or to consolidate further, the competitive environment is expected to be more severe in the future. GungHo Group will make maximum use of its developmental and operational knowhow and experience, as well as planning and developmental skills, which are highly evaluated in smartphone and console game fields. Our five development policies, "Instinctive," "Innovative," "Attractive," "Continuing," and "Dramatic," are the key values we promise to offer customers, targeting a wide range of platforms.

3) Pursuing growth in the global market

The online game market in general, including smartphone games, is expected to grow further while the smartphone market grows on a worldwide scale and technologies including communication environment are progressing.

Our business reach is extending to overseas markets for PC online games, smartphone games, and consumer games. These games require continual support, using content in events and campaigns regardless of platforms. We will develop a customized operational system of PC online games, smartphone games, and consumer games for global expansion, offer quality games to loyal customers worldwide, and enhance profitability.

4) Strengthening corporate governance

One of our most significant business challenges is maximizing enterprise value while securing soundness. The purpose is to build a good relationship with stakeholders, i.e., shareholders, customers, business partners, local communities, and employees, and achieve long-term and steady growth. Based on this recognition, we take various measures to enhance corporate governance.

5) Securing consumer safety

The online game industry is required to provide an environment where every user, including young people, can play online games safely because a wide range of age groups of smartphone users can play online games due to improvement of the internet environment, spreads of smartphones and evolution of game devices.

As a member of the Japan Online Game Association and other industry organizations, the Company is fully committed to protecting consumers from any disadvantages and to resolving issues through information exchange among industry players. We believe this should contribute to society's economic growth.

6) Strengthening corporate structure including product development

The game market has been experiencing rapid changes and technological innovations. To achieve sustainable growth, we are in the process of establishing a solid foundation for our business and a responsive operating system, while improving management efficiency. Game development capabilities, which are the source of the group's revenue, are provided with flexibility based on an amoeba development concept and appropriate personal allocation.

(5) Principal business activities (as of December 31, 2022)

- 1) Planning, development, operation and online distribution of PC online computer games and smartphone games
- 2) Planning, development, operation, distribution and sales of consumer games

(6) Principal offices (as of December 31, 2022)

- 1) The Company's business office
Chiyoda-ku, Tokyo, Japan
- 2) Principal subsidiaries' business offices

| Company name | Company location |
|---|---|
| Game Arts Co., Ltd. | Chiyoda-ku, Tokyo, Japan |
| Gravity Co.,Ltd. | Seoul Special City, South Korea |
| Gravity Interactive,Inc. | California, United States of America |
| Gravity Communications Co.,Ltd. | Taipei City, Taiwan |
| Gravity NeoCyon,Inc. | Seoul Special City, South Korea |
| PT Gravity Game Link | Special Capital Region of Jakarta, Republic of Indonesia |
| Gravity Game Tech Co.,Ltd. | Bangkok, Thailand |
| Gravity Game Arise Co., Ltd. | Chuo-ku, Tokyo, Japan |
| Gravity Game Hub PTE.,Ltd. | Singapore |
| Gravity Game Vision Limited | Hong Kong Special Administrative Region of the People's Republic of China |
| ACQUIRE Corp. | Chiyoda-ku, Tokyo, Japan |
| GungHo Online Entertainment America,Inc. | California, United States of America |
| SUPERTRICK GAMES,Inc. | Chiyoda-ku, Tokyo, Japan |
| GungHo Online Entertainment Asia Pacific Pte.Ltd. | Singapore |
| GungHo Gamania Co.,Limited | Hong Kong Special Administrative Region of the People's Republic of China |

(7) Employees (as of December 31, 2022)

- 1) Employees of the corporate group

| Number of employees | Change from the end of the previous consolidated fiscal year |
|---------------------|--|
| 1,451 [156] | Increase of 60 |

Note: Number of employees in the brackets denotes average number of temporary employees for the fiscal year

- 2) Employees of the Company

| Number of employees | Change from the end of the previous fiscal year | Average age | Average number of service years |
|---------------------|---|-----------------------|---------------------------------|
| 412 [96] | Decrease of 1 | 41 years and 3 months | 9 years and 3 month |

Notes: 1. Number of employees in the brackets denotes average number of temporary employees for the fiscal year
2. Number of employees excludes GungHo employees on loan to other companies and includes other companies' employees on loan to GungHo.

(8) Principal lenders (as of December 31, 2022)

| Lender | Outstanding borrowings |
|----------------------|------------------------|
| Kiraboshi Bank, Ltd. | 189 million yen |
| Asahi Shinkin Bank | 100 million yen |

(9) Other material matters related to the current state of the corporate group

Not applicable

2. Matters relating to shares of the Company

(1) Shares (as of December 31, 2022)

- 1) Total number of authorized shares 321,200,000 shares
- 2) Total number of shares outstanding 91,199,116 shares
Note 1: Total number of shares outstanding includes the treasury shares (29,304,473 shares).
- 3) Number of shareholders 63,012
- 4) Major shareholders

| Shareholder name | Number of shares held | Shareholding ratio |
|---|-----------------------|--------------------|
| SON Financial LLC. | 13,868,100 shares | 22.40% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 7,812,200 shares | 12.62% |
| Custody Bank of Japan, Ltd. (Trust Account) | 2,522,000 shares | 4.07% |
| THE BANK OF NEW YORK MELLON 140044 | 2,115,768 shares | 3.41% |
| Fractal Media Co., Ltd. | 1,302,000 shares | 2.10% |
| Kazuki Morishita | 1,009,600 shares | 1.63% |
| JPMorgan Securities Japan Co., Ltd. | 843,125 shares | 1.36% |
| SMBC Nikko Securities Inc. | 644,500 shares | 1.04% |
| STATE STREET BANK AND TRUST COMPANY 505001 | 622,780 shares | 1.00% |
| NORTHERN TRUST CO. (AVFC) RE STATE TEACHERS RETIREMENT SYSTEM OF OHIO | 605,500 shares | 0.97% |

Note 1: The Company holds 29,304,473 shares of treasury stock, but is excluded from the above list of major shareholders.

Note 2: Shareholding ratio was calculated by excluding the treasury shares (29,304,473 shares).

5) Other important matters relating to shares

The Company acquired treasury shares as follows in accordance with the resolution of the Board of Directors held on February 14, 2022.

| | |
|--|--|
| Type and the number of shares acquired | 1,948,300 common shares |
| Total acquisition price | JPY 4,999,767,400 |
| Acquisition period | From February 15, 2022 to March 22, 2022 |
| Acquisition method | Acquisition on the Tokyo stock exchange |

(2) Share subscription rights

1) Outline of share subscription rights held by the Company's Directors as of December 31, 2021

| | 2015 3rd share subscription rights | 2016 4th share subscription rights | 2017 5th share subscription rights | 2018 6th share subscription rights |
|---|--|--|--|--|
| Date of issue | June 25, 2015 | August 18, 2016 | May 15, 2017 | April 10, 2018 |
| Number of share subscription rights | 4,675 rights | 7,432 rights | 6,976 rights | 4,133 rights |
| Number of holders The Company's Directors (excluding outside Directors) | 3 persons | 3 persons | 4 persons | 4 persons |
| The Company's Auditors (excluding outside Auditors) | 1person | 1person | 1person | 1person |
| Type and number of shares to which share subscription rights apply | Common shares 46,750 shares | Common shares 74,320 shares | Common shares 69,760 shares | Common shares 41,330 shares |
| Issue price of subscription rights | 4,680 yen per share | 2,293.9 yen per share | 2,507.8 yen per share | 3,404.7 yen per share |
| Value of capital to be contributed at the time of exercise of share subscription rights | 1 yen per share | 1 yen per share | 1 yen per share | 1 yen per share |
| Exercise period for share subscription rights | From June 25, 2016 to June 24, 2031 | From August 18, 2017 to August 17, 2032 | From May 15, 2018 to May 14, 2033 | From April 10, 2019 to April 9, 2034 |
| Main terms and conditions of exercise of share subscription rights | (Note) | (Note) | (Note) | (Note) |

| | 2019 7th share subscription rights | 2020 8th share subscription rights | 2021 9th share subscription rights | 2022 10th share subscription rights |
|---|--|--|--|---|
| Date of issue | April 9, 2019 | April 14, 2020 | April 14, 2021 | April 14, 2022 |
| Number of share subscription rights | 3,190 rights | 936 rights | 781 rights | 852 rights |
| Number of holders The Company's Directors (excluding outside Directors) | 5 persons | 5 persons | 5 persons | 5 persons |
| The Company's Auditors (excluding outside Auditors) | 1person | 1person | 0person | 0person |
| Type and number of shares to which share subscription rights apply | Common shares 31,900 shares | Common shares 93,600 shares | Common shares 78,100 shares | Common shares 85,200 shares |
| Issue price of subscription rights | 3,444.5 yen per Share | 1,359.37 yen per share | 2,002.45 yen per share | 2,067.56 yen per share |
| Value of capital to be contributed at the time of exercise of share subscription rights | 1 yen per share | 1 yen per share | 1 yen per share | 1 yen per share |
| Exercise period for share subscription rights | From April 9, 2020 to April 8, 2035 | From April 14, 2021 to April 13, 2036 | From April 14, 2024 to April 13, 2039 | From April 14, 2025 to April 13, 2040 |
| Main terms and conditions of exercise of share subscription rights | (Note) | (Note) | (Note) | (Note) |

Notes: Due to the share consolidation of the Company's common stock at a ratio of 1 share for every 10 shares as of July 1, 2019, "Type and number of shares to which share subscription rights apply" and "Issue price of subscription rights" from the 3rd to 7th share subscription rights above were adjusted accordingly.

2) Outline of share subscription rights granted to employees of the Company during the fiscal year under review

| | 2022 10th share subscription rights |
|--|--|
| Date of issue | April 14, 2022 |
| Number of share subscription rights | 192 rights |
| Number of grantees The Company's Corporate Officers (excluding any Corporate Officer concurrently in service as Director of it) | 3 persons |
| Type and number of shares to which share subscription rights apply | Common shares 19,200 shares |
| Issue price of share subscription rights | 2,067.56 yen per share |
| Value of capital to be contributed at the time of exercise of share subscription rights | 1 yen per share |
| Exercise period for share subscription rights | From April 14, 2025 to April 13, 2040 |
| Main terms and conditions of share subscription rights | (Note) |

Notes: 1. Any exerciser of the share subscription rights is required to be in the position of a Director, Corporate Auditor or employee of GungHo or a related company of it (referring to any of its subsidiaries and other companies having a capital relationship with GungHo) when exercising the rights in question. This, however, does not apply to cases where the exerciser resigns from GungHo due to the expiration of his/her service term or old-age retirement or if there is any other legitimate reason for the intended exercise.

2. In the event of the death of a share subscription right holder, his/her inheritor is allowed to exercise the share subscription rights solely in one single bulk transaction.

3. No share subscription right less than one unit of the share subscription rights is allowed to be exercised.

4. In the event of a share subscription right holder relinquishing his/her share subscription rights, these rights are not allowed to be exercised.

3. Matters relating to Directors of the Company

(1) Director and Auditors (as of December 31, 2022)

| Position | Name | Assignment, and Significant Concurrent Positions |
|-------------------------------------|--------------------|---|
| President & Representative Director | Kazuki Morishita | President & Representative Director of Game Arts Co., Ltd. Executive Director of Gravity Co., Ltd. |
| Director | Kazuya Sakai | Executive General Manager of Finance Accounting Division and CFO of the Company Director of Game Arts Co., Ltd. Executive Director of Gravity Co., Ltd. Director of Acquire Corp. Director of GungHo Online Entertainment Asia Pacific Pte. Ltd. Director of GungHo Gamania Co., Limited |
| Director | Yoshinori Kitamura | Executive General Manager of GV business division of the company Executive Director, COO and CCO of Gravity Co., Ltd. |
| Director | Koji Yoshida | Executive General Manager of Business Administration Division, CCO and CCMO of the Company Director of Acquire Corp. Director of GungHo Online Entertainment Asia Pacific Pte. Ltd. |
| Director | Akihiko Ichikawa | Executive General Manager of Partner Publishing Division of the company |
| Director | Norikazu Oba | General Manager of the Finance Planning Department of SoftBank Group Corp. Director of SoftBank Group Japan Corporation |
| Director | Hidetsugu Onishi | Co-CEO, Integrity Partners LLC Representative Director of Avergence Co., Ltd. Outside Director (Audit & Supervisory Board Member) of Arclands Co., Ltd. Outside Director of CUBE CO., Ltd. |
| Director | Keiji Miyakawa | Senior Advisor of Japan of Lincoln International Outside Director of H.U. Group Holdings, Inc. |
| Director | Susumu Tanaka | — |
| Full-time Auditor | Masato Ochi | Auditor of Game Arts Co., Ltd. Auditor of Acquire Corp. |
| Auditor | Hiroto Uehara | Representative of Uehara Hiroto Certified Public Accountant Firm |
| Auditor | Toshiro Kaba | Representative of Shiroyama-Tower Law Office Director, Toin Legal Research Support Center Visiting Professor, Graduate School of Laws, Toin University of Yokohama Outside Auditor of T-Gaia Corporation Outside Auditor of PIALA Inc. |

Notes: 1. Hidetsugu Onishi, Director; Keiji Miyakawa, Director; Susumu Tanaka, Director fell under the category of outside directors, and the Tokyo Stock Exchange was notified that they are independent director.

2. Hiroto Uehara, Auditor; and Toshiro Kaba, Auditor fell under the category of outside auditors, and the Tokyo Stock Exchange was notified that they are independent directors.

3. Being a Certified Public Accountant, Hiroto Uehara, Auditor is equipped with a reasonable level of knowledge in finance and accounting.

(2) Outline of liability limitation agreement

An agreement has been entered into by and between the Company and Directors, Norikazu Oba, Hidetsugu Onishi, Keiji Miyakawa and Susumu Tanaka and Auditors, Masato Ochi, Hiroto Uehara and Toshiro Kaba, on limitation of damage compensation liability pursuant to Article 427, Paragraph 1 of the Companies Act. The upper limit of damage compensation liability under this agreement shall be the higher of 1 million yen and an amount equivalent to one stipulated as the minimum liability value in Article 425, Paragraph 1.

(3) Outline of directors and officers liability insurance policy

The Company has concluded a directors and officers liability insurance (D&O insurance) policy with an insurance company, with Directors and Auditors as insured persons. The Company is to bear the full amount of the insurance premiums under the policy to indemnify for legal damages and litigation costs, etc., in the event that an insured person compensates damages to a third party arising from their duties after a representative shareholder litigation, etc., is filed against the insured person for damage compensation and claims for damages are made against the insured person.

(4) Remuneration for Directors and Auditors for the fiscal year under review

1) Policies on determining remuneration for Directors

Remuneration for Directors consists of fixed compensation and, for Executive Directors, stock options as stock-based compensation; their amounts are decided within the upper limit established by the resolution of the General Meeting of Shareholders. In addition, at the Board of Directors meeting held on December 15, 2021, the Company set forth its policies on determining remuneration for individual Directors, etc. (the Policies) as below.

As of March 30, 2023, the Company will establish a voluntary Nomination and Remuneration Committee as an advisory body to the Board of Directors. Going forward, policies on remuneration for Directors will be discussed at the committee in order to improve the transparency and objectivity of Directors' compensation.

I. Policy on basic remuneration

Basic remuneration for each Director shall be fixed monetary compensation that is determined based on performance, business environment, etc., considering factors such as the position and responsibility of each Director. Decisions on specific allocations are, by the resolution of the Board of Directors, left to the discretion of the Representative Director, with advice from Independent Outside Directors when necessary.

II. Policy on non-monetary compensation

The Company grants stock options as stock-based compensation to the Company's Executive Directors, with the intent of further raising management awareness of the importance of shareholders, and motivation and morale toward medium to long-term business growth as well as corporate value enhancement. In calculating the fair value, the stock price at the time of the granting is taken into consideration. The number of units to be granted to each Director is determined in light of factors such as the position and responsibility of each Director, as in the case of fixed compensation. The decision needs to be approved by the resolution of the Board of Directors including Independent Outside Directors.

III. Policy on ratio of compensation

The ratio of fixed compensation and stock options as stock-based compensation to the compensation amount for each Director is not fixed at a certain level. It is determined by taking into consideration the extent to which the compensation can effectively function as an incentive, while avoiding excessive dependence on remuneration other than fixed compensation, at the time of the resolution to allocate share subscription rights to be granted as the stock options.

IV. Policy on timing and conditions for granting remuneration

Fixed compensation for Directors is paid in the same amount every month. As non-monetary compensation, stock options as stock-based compensation are granted at a time the Company considers appropriate.

2) Total amount of remuneration for the fiscal year under review

| Director category | Total amount of remuneration | Total amount by type of remuneration (Millions of yen) | | Number of eligible Directors |
|------------------------------------|------------------------------|--|------------------------------|------------------------------|
| | | Fixed compensation | Stock option as compensation | |
| Directors (from Outside Directors) | 299(18) | 206(18) | 93(-) | 9(3) |
| Auditor (from Outside Auditors) | 58(12) | 58(12) | -(-) | 3(2) |
| Total (from Outside Directors) | 357(30) | 264(30) | 93(-) | 12(5) |

- Notes:
- The amounts paid do not include employee salaries for Directors concurrently in service as employees. Shown below are the employee salaries for Directors concurrently in service as employees. Directors concurrently in service as employees: 4 persons, 173 million yen.
 - The number of directors is nine (9) Directors and three (3) Auditors as of December 31, 2022.
 - Stock options as stock-based compensation are granted to Directors as non-monetary compensation. The details of the stock options as stock-based compensation and the status of their granting are described in "2. Matters relating to shares of the Company."
 - Regarding fixed compensation for Directors, the Company decided to set the maximum amount at 300 million yen a year (excluding the employee salary portion for Directors concurrently serving as employees), with the resolution of the Extraordinary General Meeting of Shareholders held on July 30, 2004. (The number of Directors at the time of the meeting was four (4).) Regarding stock options as stock-based compensation for Directors, the Company decided to set their yearly upper limit separately from the maximum amount of fixed compensation as stated above. With the resolution of the 24th Annual General Meeting of Shareholders held on March 30, 2021, the yearly upper limit was set at 300 million yen for remuneration corresponding to the share subscription rights granted in the form of stock options as stock-based compensation, and 1,500 units (150,000 shares of common stock) for the share subscription rights. (The number of Executive Directors subject to the proposal submitted to the meeting was five (5).)
 - Regarding remuneration for Auditors, the Company decided to set the maximum amount at 70 million yen a year with the resolution of the 24th Annual General Meeting of Shareholders held on March 30, 2021. (The number of Auditors at the conclusion of the meeting was three (3).) In consideration of independence in auditing the execution of duties by Directors, the Company pays only fixed compensation to Auditors according to their positions (full-time/part-time), within the range of the total amount decided by the resolution of the General Meeting of Shareholders. Amount of remuneration for each Auditor is decided through consultation among Auditors within the range of the total amount decided by the resolution of the General Meeting of Shareholders.
 - The Board of Directors has delegated the decision of the amount of fixed compensation for each Director to Mr. Kazuki Morishita, President & CEO. This is because the Board of Directors has determined that the Representative Director, who can evaluate the responsibilities of each Director while overlooking the overall performance of the Company and other factors, is in the most suitable position for the role. The decision of the amount of fixed compensation for each Director is made considering advice from Independent Outside Directors when necessary.
 - The amount of fixed compensation for each Director during the fiscal year under review was determined by Mr. Kazuki Morishita, President & CEO, with the delegation by the Board of Directors, within the upper limit of compensation resolved at the General Meeting of Shareholders, taking into consideration factors such as the position and responsibility of each Director, as well as the performance and business environment, etc. of the Company as a whole. Also, stock options as stock-based compensation are determined by the Board of Directors, including Independent Outside Directors, within the yearly upper limit of remuneration and the units of share subscription rights to be granted, which was resolved at the General Meeting of Shareholders, taking into consideration the extent to which the compensation can effectively function as an incentive, as well as factors such as the positions and responsibilities of each Director. Based on the above, the Company has determined that the details of compensation for each Director for the fiscal year under review is in accordance with the policies adopted by the Board of Directors.

(5) Matters relating to Outside Directors

- Relationship between the Company and significant organization concurrently served in by Director
 - Hidetsugu Onishi, Director concurrently serves as Co-CEO of Integrity Partners LLC, Representative Director of Avergence Co., Ltd, Outside Director (Audit & Supervisory Board Member) of Arclands Co., Ltd., Outside Director of CUBE CO., Ltd., neither of which has any particular relationship with GungHo.
 - Keiji Miyakawa, Director concurrently serves as Senior Advisor of Japan of Lincoln International, Outside Director of H.U. Group Holdings, Inc. neither of which has any particular relationship with GungHo.
 - Hiroto Uehara, Auditor concurrently serves as Representative of Uehara Hiroto Certified Public Accountant Firm, which doesn't have any particular relationship with GungHo.
 - Toshiro Kaba, Auditor, concurrently serves as Representative of Shiroyama-Tower Law Office, Director of Toin Legal Research Support Center, Visiting Professor of Graduate School of Laws of Toin University of Yokohama, Outside Auditor of T-Gaia Corporation and Outside Auditor of PIALA Inc., and none of these entities has any particular relationship with GungHo.

2) Principal activities during the fiscal year under review

a. Attendance at Board of Directors meetings and Board of Corporate Auditors meetings

| | Board of Directors meeting (held 13 times) | | Board of Corporate Auditors meeting (held 15 times) | |
|----------------------------|---|-----------------|--|-----------------|
| | Number of attendances | Attendance rate | Number of attendances | Attendance rate |
| Hidetsugu Onishi, Director | 13 times | 100% | - times | - % |
| Keiji Miyakawa, Director | 13 times | 100% | - times | - % |
| Susumu Tanaka, Director | 13 times | 100% | - times | - % |
| Hiroto Uehara, Auditor | 13 times | 100% | 14 times | 93% |
| Toshiro Kaba, Auditor | 13 times | 100% | 15 times | 100% |

b. Remarks at Board of Directors meetings and an overview of the duties performed in relation to the roles expected of Outside Directors

Hidetsugu Onishi, Director, has sufficient experience and extensive knowledge gained mainly as a corporate executive. Keiji Miyakawa, Director, has sufficient experience and expertise gained mainly as an executive of financial service business. Susumu Tanaka, Director, has sufficient experience and high-level knowledge mainly regarding both at home and abroad game business. Hiroto Uehara, Auditor, has sufficient experience and extensive knowledge gained mainly as a certified public accountant. Toshiro Kaba, Auditor, has sufficient experience and advanced knowledge gained as an attorney-at-law. They have provided the Company with advice and proposals from their respective viewpoints so that the legitimacy and validity of decisions made by the Board of Directors can be ensured.

These two Auditors have also made necessary remarks at the Board of Corporate Auditors meetings.

4. Accounting Auditor

(1) Name PricewaterhouseCoopers Aarata LLC

(2) Fee

| | Amount of fee |
|--|----------------|
| Fee for the Accounting Auditor for the fiscal year under review | 32 million yen |
| Total amount of money and other compensation reward obliged to be paid to the Accounting Auditor by the Company and its subsidiaries | 32 million yen |

Notes: 1. The audit contract between the Company and the Accounting Auditor neither distinguishes between the audit fee for an audit under the Companies Act and the audit fee for an audit under the Financial Instruments and Exchange Act, nor is able to do so practically. Therefore, the total fee is shown above.

2. Bearing in mind the "Practical Guidelines on Collaboration with Accounting Auditor" published by the Japan Audit & Supervisory Board Members Association, the Board of Corporate Auditors ascertained the results of audit hours by audit item and hierarchical level under the previous fiscal year audit plan as well as the audit fee trend and the state of execution of duties by the Accounting Auditor. It then examined the reasonableness of the audit plan and fee for the fiscal year under review. As a result, the Board of Corporate Auditors consented to the fee for the Accounting Auditor pursuant to Article 399, Paragraph 1 of the Companies Act.

(3) Matters concerning audits of subsidiaries

Gravity Co., Ltd., a subsidiary of the Company, is subject to audit by an accounting auditor other than the Company's Accounting Auditor.

(4) Policy on decision to dismiss or not reappoint the Accounting Auditor

The Board of Corporate Auditors conducts overall an assessment of the Accounting Auditor's qualifications, independence, communication with Corporate Auditors, etc. in accordance with internal assessment procedures. If considered necessary (e.g. cases where it is difficult for the Accounting Auditor to perform his/her duties), the Board of Corporate Auditors determines an agenda to dismiss or not reappoint the Accounting Auditor, and has the Board of Directors submit it to the General Meeting of Shareholders.

If any of the items of Article 340, Paragraph 1 of the Companies Act is deemed to apply to the Accounting Auditor, the Board of Corporate Directors will dismiss the former after obtaining the consent of all Auditors. In such event, an Auditor selected by the Board of Corporate Auditors will report on the dismissal in question and the reason for it at the first General Meeting of Shareholders to be held after the dismissal.

5. System to secure the appropriateness of operations and an outline of the system operation

Pursuant to the Companies Act and the Companies Act Enforcement Regulations, the Company has in place a basic policy to develop a system to secure the appropriateness of its operations (the Basic Policy on Development of Internal Control System). The contents of it and an outline of its operation are as shown below.

(1) System to secure the appropriateness of operations

1) System to ensure that the execution of duties of Directors and employees adheres to laws and ordinances and the Articles of incorporation

- a. In addition to ensuring the sharing of the corporate philosophy of the GungHo Group, we have established the GungHo Online Entertainment Group Charter, a charter that stipulates matters relating to the enhancement of its corporate governance platform and compliance, as well as the GungHo Group Compliance Code for Directors and Employees as compliance-related behavior guidelines obliged to be adhered to by all Directors and employees, as well as other relevant regulations.
- b. The Company elects a Chief Compliance Officer (CCO) as manager charged with promoting compliance.
- c. The Company develops whistleblowing internal/external contact points (hotline) to which a compliance-related whistleblowing report can be submitted by Directors or employees and at which any of them can have the relevant consultation. Moreover, the Company ensures that no such whistleblowing or consulting members become subjected to disadvantageous treatment.
- d. The Company's Internal Auditing Department performs an audit on the effectiveness of the organization's framework to comply with laws and ordinances and the Articles of Incorporation, and reports the audit results to the President & CEO and board meetings. Moreover, the Internal Auditing Department reports the audit results to Auditors, thereby collaborating with the latter.

2) System for storage and management of information related to the execution of duties of the Company's Directors

- a. In addition to putting in place standards required for storing and managing documents, the Company develops a system to appropriately store and manage documents and other material information that are related to Directors' execution of duties, including minutes of Board of Directors meetings and approval procedure documents, pursuant to the Document Storage Management Regulations, regulations aimed to ensure the efficient operation of duties to store and manage documents.
- b. The Company elects the Chief Information Security Officer (CISO) as an officer to lead its information security activities pursuant to the Basic Information Security Regulations. Moreover, the Company puts in place the Information Security Committee chaired by CISO, thereby pursuing its information security activities.

3) Regulations on and other system for management of loss risk

- a. The Company prescribes the Regulations on Risk Management System in order to avoid, mitigate and take necessary actions against various risks for its business operation. As for risk prevention, the Company establishes, pursuant to these regulations, the Risk Management Committee as a deliberation body to address risks. Further, individual business units, each responsible for handling different types of risks, perform risk management, striving to mitigate risks and prevent them from occurring.
- b. In the event of an unforeseen incident or an emergency, the Company will immediately establish the countermeasure headquarters pursuant to the Regulations on Risk Management System. In turn, the Chief Crisis Management Officer (CCMO), the top crisis manager under the Chairman of the headquarters (President & CEO), will lead the efforts to put in place a system to deal with the situation in a well-supervised manner.
- c. The Internal Auditing Department performs an audit on the state of the Company's risk management before reporting the audit results to President & CEO board meetings and Auditors.

4) System to ensure that the duties of Directors are executed efficiently

The Company has established the Regulations on Segregation of Duties and the Regulations on Official Authority, in addition to the Regulations on Board of Directors. Thus, the Company strives to clarify the scope of procedure for entity-level decision-making and that of duties required for executing operations as well as authority and responsibilities, thereby developing a system for Directors to execute their duties efficiently.

5) System to secure the appropriateness of operations of the corporate group comprising the Company and its subsidiaries

- a. The Company has established the Related Company Management Regulations to secure the appropriateness of its group companies' operations under the GungHo Online Entertainment Group Charter. Moreover, the Company develops a system to manage each of its subsidiaries in a manner befitting its size and importance.
- b. Subsidiaries of the Company prescribe to various regulations obliged to be complied with by Directors and employees, and develop a system in which, for determining a significant matter for its business management, the subsidiary engages in prior consultation with the Company while keeping the former's operational autonomy and independence respected. Each of the subsidiaries also develops a system in which its operating results and financial position are periodically reported to the Company with any significant event experienced by its operations being reported to the latter when appropriate.
- c. The Company guides each of its subsidiaries to develop a system equivalent to the former's risk management system according to the latter's size and importance in order to avoid, mitigate and take necessary steps against risks. Further, the Company develops a system in which each subsidiary's risk management-related information is delivered to the former appropriately.
- e. The Company installs compliance officers at each of its subsidiaries in light of its size and importance, thereby solidifying and bolstering the group's compliance platform. Moreover, the Company arranges for the subsidiary to develop its unique whistleblowing internal/external contact points (hotlines) to which a compliance-related whistleblowing report can be submitted by its Directors or employees and at which relevant consultation can be obtained by them. At the same time, the Company ensures that no such whistleblowing or consulting members become subjected to disadvantageous treatment.
- d. The Company checks its subsidiaries with respect to the appropriateness of the financial reporting of the former and the latter, thus securing the appropriateness of the contents of the Company's Securities Report while developing its internal controls. If any internal control problem occurs, the organization will strive to develop its structure in an effort to improve the situation.
- e. The Company's Internal Auditing Department performs an internal audit on each of its subsidiaries according to its past internal audit results and to its size and importance.

6) Matters on employees obliged to assist Auditors' duties and matters on the securing of such employees' independence from Directors as well as the effectiveness of instructions issued to the employees

- a. The Company may install employees as assistants dedicated to assisting Auditors' duties or appoint employees in the Internal Auditing Division as such assistants with regard to individual audit items upon consulting with the Internal Auditing Division.
- b. If the Company has installed dedicated assistants for Auditors' duties or appointed such assistants with regard to individual audit items, the Company has audit duties-related directions and orders issued by Auditors, thereby securing the appropriateness of the relevant instructions. Personnel change and employee evaluation for such assistants require the consent of Auditors.

- 7) System for reporting to Auditors and a system to ensure that no members reporting to them becomes subjected to disadvantageous treatment on account of having provided the report
- a. The Company secures a system in which Directors and employees of it and its subsidiaries report the following matters to Auditors:
 - a) Material matter relating to the business management, finances and business execution of the Company and its subsidiaries;
 - b) Matter that is feared to cause serious damage to the Company;
 - c) Information on the state of development of internal control system;
 - d) Matter breaching laws or ordinances or the Articles of Incorporation;
 - e) Matter associated with compliance system and information on the state of reporting to the hotline;
 - f) Internal audit results;
 - g) Any matter deemed by any of Auditors necessary to be reported for the purpose of executing its duties.
 - b. The Company ensures that no member reporting to any Corporate Auditor as mentioned above becomes subjected to disadvantageous treatment on account of having provided the report.

8) System to ensure that Auditors' audits are carried out effectively

- a. The Company provides an opportunity for the President & CEO and Auditors to exchange opinions with each other on a periodic basis, as well as an opportunity to hold hearing sessions with subsidiary Directors and employees if deemed necessary by any Auditor. Auditors have an opportunity to exchange information with the Accounting Auditor and Auditors of significant subsidiaries of the Company, thus collaborating with them.
- b. Expenses deemed necessary for Auditors to execute their duties are borne by the Company through a prescribed procedure.

9) System for excluding anti-social forces

The GungHo Group Compliance Code for Directors and Employees declares the Company's intention to maintain a sound relationship with local communities and battle anti-social forces in a resolute manner. If the Company receives any unfair demand from an anti-social force entity, the former's relevant business unit responds to it sternly and resolutely rejects the demand by collaborating with the police and other external specialized agencies.

(2) Outline of the operation of the system to secure the appropriateness of the Company's business operations

1) Execution of Directors' duties

Pursuant to the Regulations on Board of Directors, the Company holds an Ordinary Meeting of Directors on a monthly basis and an Extraordinary Meeting of Directors as required. In this way, it makes decisions on matters stipulated in laws or ordinances or the Articles of Incorporation as well as matters for execution of significant duties while overseeing the execution of duties by Directors.

2) Compliance system

The Company periodically provides compliance training to Directors and employees to enhance their understanding and awareness about compliance. As for its whistleblowing system, the Company has in place contact points (hotlines) composed partly of outside lawyers while running the system with whistleblower protection stipulated in its relevant internal regulations.

3) Risk management

In addition to having in place the Regulations on Crisis Management System, the Company strives to reduce and prevent risks through the process of identifying risks, devising countermeasures and periodically revising them, including prevention measures of spread of infection for COVID-19. Moreover, the Company implements a disaster scenario-based training program when appropriate.

4) Business management of subsidiaries

As for business management of the Company's subsidiaries, it arranges for its Director or employees to be appointed as a Director or Auditor of each subsidiary, thereby securing the appropriateness of the subsidiary. Under the Related Company Management Regulations, material business management information of subsidiaries is reported to the Company's Board of Directors in an appropriate manner.

5) Auditors

Auditors periodically exchange opinions with the President & CEO and collaborate with the Accounting Auditor and the Internal Auditing Department, thus securing the effectiveness of audits. The Auditors ascertain the state of development and operation of the Company's internal controls and provide advice for securing a sounder business management structure by attending Board of Directors meetings, having Full-time Corporate Auditors attend significant meetings and having hearing sessions with Directors and employees.

6. Policy for decision on dividends from retained earnings

Believing that returning profits to shareholders is a significant managerial challenge, the GungHo Group has in place a basic policy to enhance its enterprise value and maximize its competitiveness in future. This also relates to distributing profits in a manner commensurate with its operating results and with due regard for internal reserves, intended for bolstering its business structure. The Company intends to utilize the internal reserves effectively to strengthen its financial structure and business foundation and pursue operations aggressively towards future growth.

In accordance with the above-mentioned dividend policy, the company conducts 30 yen per share as an ordinary dividend of the fiscal year ended December 31, 2022.

The Company's Articles of Incorporation provide that it may pay dividends from retained earnings by the resolution of the Board of Directors, without a resolution of the General Meeting of Shareholders.

Consolidated Balance Sheets

(As of December 31, 2022)

(Millions of yen)

| Account Items | Amount | Account Items | Amount |
|--|----------------|--|----------------|
| Assets | | Liabilities | |
| Current assets | 141,788 | Current liabilities | 17,924 |
| Cash and deposits | 125,950 | Accounts payable-trade | 7,136 |
| Accounts receivable -trade and contract assets | 12,987 | Current portion of long-term loans payable | 181 |
| Securities | 1,258 | Income taxes payable | 2,717 |
| Merchandise | 13 | Provision for bonuses | 23 |
| Work in progress | 0 | Other | 7,865 |
| Other | 1,612 | Non-current liabilities | 1,450 |
| Allowance for doubtful accounts | (34) | Long-term loans payable | 308 |
| Non-current assets | 10,421 | Retirement benefit liability | 5 |
| Property, plant and equipment | 992 | Other | 1,136 |
| Intangible asset | 420 | Total liabilities | 19,375 |
| Software | 215 | Net assets | |
| Other | 205 | Shareholders' equity | 116,498 |
| Investments and other assets | 9,008 | Capital stock | 5,338 |
| Investment securities | 138 | Capital surplus | 5,487 |
| Deferred tax assets | 5,366 | Retained earnings | 195,829 |
| Other | 3,503 | Treasury shares | (90,157) |
| | | Accumulated other comprehensive income | 752 |
| | | Valuation difference on available-for-securities | (0) |
| | | Foreign currency translation adjustment | 752 |
| | | Stock option | 1,130 |
| | | Non-controlling interests | 14,453 |
| | | Total net assets | 132,834 |
| Total assets | 152,210 | Total liabilities and net assets | 152,210 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Consolidated Statements of Income

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

(Millions of yen)

| Account Items | Amount | |
|--|--------|---------|
| Net sales | | 105,505 |
| Cost of sales | | 47,084 |
| Gross profit | | 58,420 |
| Selling, general and administrative expenses | | 30,771 |
| Operating profit | | 27,649 |
| Non-operating profit | | |
| Interest income | 458 | |
| Foreign exchange gains | 799 | |
| Subsidy income | 23 | |
| Other | 78 | 1,360 |
| Non-operating expenses | | |
| Interest expenses | 16 | |
| Treasury stock acquisition costs | 2 | |
| Other | 6 | 24 |
| Ordinary profit | | 28,985 |
| Extraordinary losses | | |
| Impairment loss | 47 | 47 |
| Profit before income taxes and minority interests | | 28,937 |
| Income taxes, residential taxes and enterprise taxes-current | | 8,947 |
| Income taxes and others-deferred | | (2,325) |
| Profit | | 22,315 |
| Profit attributable to non-controlling interests | | 3,293 |
| Profit attributable to owners of parent | | 19,022 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Consolidated Changes in Net Assets

(January 1, 2022 through
December 31, 2022)

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period | 5,338 | 5,487 | 181,675 | (85,172) | 107,329 |
| Cumulative effects of changes in accounting policies | | | (1,021) | | (1,021) |
| Balance at the beginning of current period after reflecting changes in accounting policies | 5,338 | 5,487 | 180,654 | (85,172) | 106,308 |
| Changes of items during the period | | | | | |
| Dividends paid | | | (3,830) | | (3,830) |
| Profit attributable to owners of parent | | | 19,022 | | 19,022 |
| Subscription rights to shares | | (16) | | 39 | 23 |
| Acquisition of treasury shares | | | | (5,025) | (5,025) |
| Disposal of treasury shares | | (0) | | 0 | 0 |
| Transfer to capital surplus from retained earnings | | 16 | (16) | | — |
| Net changes of items other than shareholders' equity | | | | | — |
| Total changes of items during the period | — | — | 15,175 | (4,984) | 10,190 |
| Balance at the end of current period | 5,338 | 5,487 | 195,829 | (90,157) | 116,498 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

| | Accumulated other comprehensive income | | | Stock Option | Non-controlling interests | Total net assets |
|--|--|---|--|--------------|---------------------------|------------------|
| | Net unrealized gains on securities | Foreign currency translation adjustment | Accumulated other comprehensive income | | | |
| Balance at the beginning of current period | 0 | 31 | 31 | 1,039 | 10,272 | 118,672 |
| Cumulative effects of changes in accounting policies | | | | | | (1,021) |
| Balance at the beginning of current period after reflecting changes in accounting policies | 0 | 31 | 31 | 1,039 | 10,272 | 117,651 |
| Changes of items during the period | | | | | | |
| Dividends paid | | | | | | (3,830) |
| Profit attributable to owners of parent | | | | | | 19,022 |
| Subscription rights to shares | | | | | | 23 |
| Acquisition of treasury shares | | | | | | (5,025) |
| Disposal of treasury shares | | | | | | 0 |
| Transfer to capital surplus from retained earnings | | | | | | - |
| Net changes of items other than shareholders' equity | (0) | 721 | 720 | 91 | 4,181 | 4,993 |
| Total changes of items during the period | (0) | 721 | 720 | 91 | 4,181 | 15,183 |
| Balance at the end of current period | (0) | 752 | 752 | 1,130 | 14,453 | 132,834 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Notes on consolidated financial statements

1. Significant matters serving as bases for the preparation for consolidated financial statements

(1) Matters concerning the coverage of consolidation

- Number of consolidated companies 16

- Major consolidated subsidiaries

- GAME ARTS Co., Ltd.
- Gravity Co.,Ltd.
- Gravity Interactive,Inc.
- Gravity Communications Co.,Ltd.
- Gravity NeoCyon,Inc.
- PT Gravity Game Link
- Gravity Game Tech Co.,Ltd.
- Gravity Game Arise Co., Ltd.
- Gravity Game Hub PTE.,Ltd.
- Gravity Game Vison Limited.
- ACQUIRE Corp.
- GungHo Online Entertainment America,Inc.
- SUPERTRICK GAMES,Inc.
- GungHo Online Entertainment Asia Pacific Pte.Ltd.
- GungHo Gamania Co.,Limited

- There are no non-consolidated subsidiaries.

(2) Matters concerning equity method

- Number of equity method affiliated companies

None

(3) Matters concerning consolidated subsidiaries' fiscal years, etc.

Consolidated subsidiaries have a fiscal year that ends on the same date as the consolidated financial statements.

(4) Matters concerning accounting principles and standards

1) Appraisal standards and appraisal methods for principal assets

a. Marketable securities

- Held-to-maturity bonds Cost method

- Other marketable securities

- Other than stocks with no Market value method

- market price available (The full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method.)

- Stocks with no market price available

Stated at cost by using the moving-average method, except for securities held in some of subsidiaries overseas that are stated at cost by using the gross average method.

b. Inventory assets

- Merchandise and Work in process

Stated at cost by using the specific cost method (the carrying amount on the balance sheet is reduced for decrease in profitability)

Note that some overseas subsidiaries use the lower-of-cost-or-market method by the gross average method.

2) Methods for depreciation of significant depreciable assets

- a. Tangible fixed assets except lease assets
 - a. Assets acquired prior to or on March 31, 2007: The former declining-balance method is used.
 - b. Assets acquired on or after April 1, 2007: The declining-balance method is used. The straight-line method is used for some of the overseas subsidiaries. However, the straight-line method is used for building fixtures and structures acquired on or after April 1, 2016.
 - . Shown below are principal useful lives:
 - Buildings: 3 to 18 years
 - Others: 3 to 15 years
- b. Intangible fixed assets except lease assets
 - Stated by using primarily the straight-line method, and software for internal use is depreciated over the period from one to five years based on its availability period. However, intangible fixed assets related to portable device games are depreciated based on expected proceeds from sales.
- c. Lease assets
 - Lease assets are depreciated by using the straight-line method over the useful lives of the respective lease period with zero residual value. Note some overseas subsidiaries use the economic useful lives up to the lease period.

3) Accounting standards for significant allowances

- a. Allowance for doubtful accounts
 - The Company records allowances for doubtful accounts at an estimated uncollectable amount determined based on past credit loss experiences for general debts, and in consideration of their collectability of each.
- b. Provision for bonuses
 - To provide employees with bonuses, the Company accrues reserves at an amount subject to fiscal year 2022 based on estimated future obligation.

4) Basis for recording significant profits and expenses

The GungHo Group recognizes revenue based on the following five-step approach:

Step 1: Identify the contract with the customer

Step 2: Allocate revenue to performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations in the contract

Step 5: Recognize revenue when (or as) performance obligations are satisfied.

As for revenue recognition of the mainstay title “Puzzle & Dragons,” the Company recognizes revenue in accordance with the length of time the user uses characters, etc. obtained by using a magic stone, a currency of the game, that he/she purchased.

However, since our user behavior, etc. analysis found that the estimated character usage period is extremely short, the Company considers that the revenue recognition for the estimated character usage period may not generate a material difference from revenue recognition at the time of using a magic stone.

In addition, the Gravity Group, which applies International Financial Reporting Standards (IFRS), has adopted IFRS 15. For game currencies owned by the user and items obtained by the user by using such game currencies, the Company recognizes revenue based on the user's estimated game usage period determined based on basic data of the user's past usage.

5) Standards for translation of principal assets and liabilities denominated in foreign-currencies into yen

Monetary receivables and payables denominated in foreign currencies were translated into yen at a spot exchange rate on the consolidated fiscal year settlement date and resulting exchange gains and losses were charged to profit (loss).

2. Notes on changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

Standards including the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereafter "Revenue Recognition Accounting Standard") were applied from the beginning of the current consolidated fiscal year. Under their application, when any promised goods or services have their control transferred to customers, the monetary amounts expected to be received in exchange for those applicable goods or services shall be recognized as revenue. Regarding revenue recognition up to this point in P&D, a main title of our company, revenue was considered to be realized as of the time at which the in-game currency of "magic stones" was purchased by users, and this revenue was recognized at the time of purchase of those "magic stones." However, by applying them, unused amounts of "magic stones" purchased by users shall not be recognized as revenue, and the amounts of "magic stones" that were used shall be recognized as revenue only over the period of use of characters, which users obtained by using the "magic stones." However, analysis of user behavior histories and other information showed that characters continually used by users were the estimated period of use for those characters was extremely short. Therefore, it has been determined that revenue recognition only over the estimated period of use of characters will not cause significant discrepancies when compared to revenue recognition at the time of use of "magic stones."

The application of the Revenue Recognition Accounting Standard, etc. shall be in accordance with the transitional treatment specified in the provisions of Revenue Recognition Accounting Standard Paragraph 84. Therefore, the cumulative impacts in the case where new accounting policies are applied retroactively prior to the beginning of the current consolidated fiscal year will be added to or subtracted from the retained earnings of the beginning of the current consolidated fiscal year, and the new accounting policies will be applied starting from the applicable beginning balance.

As a result, net sales, operating income, ordinary profit, and income before income taxes and minority interests of the current consolidated fiscal year each decreased by 39 million yen. The balance of retained earnings at the beginning of the current fiscal year decreased by 1,021 million yen.

The impact on per-share information for the current fiscal year is insignificant.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Standards including the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereafter "Fair Value Measurement Accounting Standard") were applied from the beginning of the current consolidated fiscal year. In accordance with the transitional treatment specified in Fair Value Measurement Accounting Standard Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019) Paragraph 44-2, the new accounting policies specified in the Fair Value Measurement Accounting Standard, etc. shall be applied in the future. However, this will have no effect on quarterly consolidated financial statements.

3. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amount recorded in the consolidated financial statements for the fiscal year under review

| | |
|---------------------|-------------------|
| Deferred tax assets | 5,366 million yen |
|---------------------|-------------------|

(2) Information on the content of significant accounting estimates for identified items

Deferred tax assets are recorded at amounts deemed highly recoverable based on future taxable income estimates, etc. Since the recoverability of deferred tax assets depends on future taxable income, etc., it is possible that deferred tax assets will be adjusted and recorded as a tax expense if conditions or assumptions change and the amount decreases.

4. Additional information

Impact of COVID-19 Infections on Accounting Estimates

Regarding the impact of COVID-19, estimating the time of the settlement and spread for COVID-19 precisely is difficult. Although COVID-19 may affect the estimation for future cash flow and business environment to some extent at this moment, the Company considers the impact is limited.

However, the Company will continue to monitor the developments in the future, because the change of the situation may affect the consolidated financial statements after the next consolidated fiscal year.

5. Notes to consolidated balance sheets

(1)

| | |
|--|-------------------|
| Cumulative depreciation of property, plant and equipment | 3,494 million yen |
|--|-------------------|

(2) Accounts receivable-trade, and amount of receivables arising from contracts with customers included in contract assets

| | |
|----------------------------|--------------------|
| Accounts receivable -trade | 12,983 million yen |
| contract assets | 4 million yen |

(3)

| | |
|---|-------------------|
| Amount of contract liabilities included in "Other" of current liabilities | 3,572 million yen |
|---|-------------------|

6. Notes to consolidated changes in net assets

(1) Total number of shares outstanding

Number of shares as of December 31, 2022 (shares) 91,199,116 shares

(2) Dividends

1) Dividends from retained earnings paid out in the consolidated fiscal year under review

| Resolution | Share class | Total dividends | Dividend per share | Record date | Date of coming into effect |
|--|---------------|-------------------|--------------------|-------------------|----------------------------|
| Board of Directors meeting held on February 14, 2022 | Common shares | 3,830 million yen | 60.00 yen | December 31, 2021 | March 14, 2022 |

2) Dividends that would come into effect in the next fiscal year, among dividends whose record date fell in the consolidated fiscal year under review

The Board of Directors meeting held on February 14, 2023 adopted the following proposed resolution for the payment of dividends on common shares.

1. Total dividends 1,856 million yen
2. Dividend per share 30.00 yen
3. Record date December 31, 2022
4. Date of coming into effect March 14, 2023
5. Source of dividends Retained earnings

- (3) The type and number of shares issuable upon the exercise of share subscription rights at the end of the consolidated fiscal year under review (excluding these rights whose start date of the exercise period has not yet arrived)

Common stock: 369,630 shares

7. Notes on financial instruments

(1) Matters pertaining to the state of financial instruments

1) Policy on handling financial instruments

Although essentially using internal reserves to fund operations, the GungHo Group obtains bank loans to fund some of them. It invests temporarily available excess cash mainly in financial instruments offering high stability.

2) Description of financial products, risks involved and risk management platform

Accounts receivable-trade representing operating receivables are exposed to credit risk associated with potential default by customers. With respect to this type of risk, the GungHo Group continues to monitor the state of its principal customers on a periodic basis, managing payment due dates and the balance of receivables on a customer-by-customer basis. Moreover, the Group strives to detect early and rein in any potential case of low recoverability due to deterioration of customer finances, among other factors. Foreign currency-denominated accounts receivable-trade are exposed to foreign exchange fluctuation risk.

Marketable securities and investment securities are exposed to price fluctuation risk and issuer credit risk. To manage this type of risk, the GungHo Group continuously monitors market values and issuer companies' financial positions.

Accounts payable-trade representing operating payables are mostly due within 1 year.

Income taxes payable represent accrued taxes and are due within 1 year.

Loans payable are chiefly intended as financing to fund operations (short term) and capital expenditure (long term). Although exposed to liquidity risk and interest fluctuation risk, loans payable are managed by creating and renewing a cash flow management plan on a timely basis.

3) Supplementary information on market prices of financial instruments

Market values of financial instruments include, in addition to those based on market prices, reasonably computed values for cases where no market price is available. With certain assumptions employed to compute market values, using different assumptions may alter the values.

(2) Information on the market prices of financial instruments

The following shows the values of financial instruments recorded on the consolidated balance sheet as of December 31, 2022, their market values on the same date and the difference between the former and latter.

(Millions of yen)

| | Value recorded on consolidated balance sheets | Market value | Difference |
|---|---|--------------|------------|
| Marketable securities & investment securities | | | |
| Held-to-maturity bonds | 1,258 | 1,258 | — |
| Other securities | 67 | 67 | — |
| Total assets | 1,326 | 1,326 | — |
| Long-term loans payable(Excluding current portion of long-term loans payable) | 308 | 303 | (5) |
| Total liabilities | 308 | 303 | (5) |

Note1) Information about “Cash and deposits,” “Accounts receivable-trade,” “Accounts payable-trade,” “Income taxes payable,” and “Current portion of long-term loans payable” are omitted because they are cash in nature; their fair values approximate their book values; and they are settled in a short period of time.

Note2) Stocks, etc. with no market price are not included in “Marketable securities & investment securities.” The value of such financial instruments recorded on consolidated balance sheets is as follows:

(Millions of yen)

| Category | Value recorded on consolidated balance sheets |
|-----------------|---|
| Unlisted shares | 70 |

Note 3: Values of monetary claims and securities with maturity expected to be redeemed after the consolidated closing date

(Millions of yen)

| | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
|---|---------------|--------------------------------|----------------------------------|---------------|
| Cash and deposits | 125,950 | — | — | — |
| Accounts receivable-trade | 12,983 | — | — | — |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | 12,983 | — | — | — |
| Of other securities, those with maturity | — | 58 | — | 9 |
| Total | 140,192 | 58 | — | 9 |

Note 4: Value of expected repayments of long-term loans payable after consolidated balance sheet date

(Millions of yen)

| | Within 1 year | Over 1 year and within 2 years | Over 2 years and within 3 years | Over 3 years |
|-------------------------|---------------|--------------------------------|---------------------------------|--------------|
| Long-term loans payable | 181 | 107 | 62 | 138 |

(3) Matters regarding the breakdown, etc. by the level of fair value of financial instruments

The fair value of financial instruments is categorized into three levels stated below in accordance with the observability and significance of input regarding market value calculation.

Level 1 fair value: Fair value calculated using the market price of assets or liabilities whose fair value is being calculated that is formed in an active market as an observable input

Level 2 fair value: Fair value calculated using other observable inputs than those for level 1

Level 3 fair value: Fair value calculated using input that are unobservable

In the event that multiple inputs significantly affect the measurement of fair value, choosing from among the respective levels those inputs belong to, the Company classifies the fair value to the level with the lowest position of hierarchy in the measurement of fair value.

1) Financial instruments recorded at fair value on consolidated balance sheets

(Millions of yen)

| Category | Market price | | | |
|---|--------------|--------|--------|-------|
| | Level1 | Level2 | Level3 | Total |
| Marketable securities and investment securities | | | | |
| Other securities | | | | |
| Government bonds·local bonds, etc. | 6 | — | — | 6 |
| Corporate bond | — | 52 | — | 52 |
| Total assets | 6 | 52 | — | 58 |

(※) Values of investment trusts for which transitional measures were applied in accordance with Section 26 of the “Guidance on Accounting Standard for the Determination of Fair Value” (ASBJ Guidance No. 31, July 4, 2019) are not included in the above table. The investment securities of those investment trusts recorded on consolidated balance sheets is 9 million yen.

2) Financial instruments other than those recorded at fair value on consolidated balance sheets

(Millions of yen)

| Category | Market price | | | |
|---|--------------|--------|--------|-------|
| | Level1 | Level2 | Level3 | Total |
| Marketable securities and investment securities | | | | |
| Held-to-maturity bonds | | | | |
| Corporate bonds | — | 1,258 | — | 1,258 |
| Total assets | — | 1,258 | — | 1,258 |
| Long-term loans payable(Excluding current portion of long-term loans payable) | — | 303 | — | 303 |
| Total liabilities | — | 303 | — | 303 |

Note: Explanation of the valuation method and input used in the fair value measurement

Marketable securities and investment securities

Valuation of government bonds and corporate bonds are based on quoted prices. Since government bonds are traded on an active market, their valuation is categorized as Level 1. On the other hand, the valuation of corporate bonds held by the Company is categorized as Level 2 because they are not frequently traded and their quoted values are not deemed to be ones of an active market.

Long-term loans payable

The fair value of long-term payable is measured by discounted present value at the ratio reflecting total amount of principal and interest, remaining term of the obligation and credit risk, and categorized as Level 2.

8. Notes regarding revenue recognition

(1) Information that disaggregates revenue arising from contracts with customers

(Millions of yen)

| | Net sales |
|---|-----------|
| Japan | 55,136 |
| Asia | 43,787 |
| North America | 5,001 |
| Other regions | 1,579 |
| Revenue arising from contracts with customers | 105,505 |
| Other revenue | — |
| Sales to external customers | 105,505 |

Note: Net sales are classified by country or region based on the customer's location

(2) Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue from contracts with customers is presented in “1. Basis of presenting consolidated financial statements” under “(4) Accounting Standards” in “4) Major Reserves and Allowances.”

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the fiscal year under review and are expected to be recognized in the following fiscal year or later

1) Balance of contract assets and contract liabilities, etc.

(Millions of yen)

| | Amount |
|--|--------|
| Receivables arising from contracts with customers (balance at beginning of period) | 9,608 |
| Receivables arising from contracts with customers (balance at end of period) | 12,983 |
| Contract assets (balance at beginning of period) | — |
| Contract assets (balance at end of period) | 4 |
| Contract liabilities (balance at beginning of period) | 2,698 |
| Contract liabilities (balance at end of period) | 3,572 |

Note: Contract liabilities are mainly unused game currencies and the remaining performance obligations. Of the amount of revenue recognized for the fiscal year under review, the amount included in the balance of contract liabilities at the beginning of the period is 2,698 million yen.

2) Transaction price allocated to remaining performance obligations

The GungHo Group has no significant transactions of which individual contracts exceed one year. Moreover, there are no significant amounts of consideration from contracts with customers that are not included in the transaction price.

9. Notes on per-share information

| | |
|--------------------------|--------------|
| (1) Net assets per share | 1,894.36 yen |
| (2) Net income per share | 305.61 yen |

10. Notes on significant subsequent events

Acquisition and cancellation of treasury shares

At the meeting of the Board of Directors held on February 14, 2023, The Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, Paragraph 3 of the same. Furthermore, the Company resolved matters relating to the cancellation of treasury shares pursuant to the provisions of Article 178 of the Companies Act as follows. The details were as follows:

(1) Reasons for acquisition and cancellation of treasury shares

To improve shareholder profits by implementing capital policies flexibly in response to changes in the business environment and by improving capital efficiency.

(2) Details of acquisition of treasury shares

| | |
|--|----------------------------------|
| 1) Type of shares to be acquired | Common stock of our company |
| 2) Total number of shares to be acquired | 2,800,000 shares (maximum) |
| 3) Total purchase price of shares | 5 billion yen (maximum) |
| 4) Acquisition period | February 15, 2023–March 24, 2023 |
| 5) Acquisition method | Market purchase |

(3) Details of matters relating to cancellation of treasury shares

- | | |
|---|---|
| 1)Class of shares to be canceled | Common shares of the Company |
| 2)Aggregate number of shares to be canceled | Total of all shares (1,948,300 shares) acquired in accordance with the resolution of the board meeting held on February 14, 2022 and all shares acquired in accordance with section 2 above (If the number of shares to be acquired in accordance with section 2 above are 2,800,000 shares, the number of shares to be cancelled are 5.2% of the number of common shares issued (including treasury shares).) |
| 3)Scheduled date of cancellation | March 31, 2023 |

Balance Sheets

(As of December 31, 2022)

(Millions of yen)

| Account Items | Amount | Account Items | Amount |
|---------------------------------|---------|-----------------------------------|----------|
| Assets | | Liabilities | |
| Current assets | 96,125 | Current liabilities | 6,588 |
| Cash and deposits | 90,554 | Accounts payable-trade | 561 |
| Accounts receivable-trade | 4,709 | Accounts payable-other | 1,562 |
| Advance payments | 613 | Accrued expenses | 664 |
| Other | 281 | Income taxes payable | 2,000 |
| Allowance for doubtful accounts | (33) | Other | 1,799 |
| Non-current assets | 9,189 | Non-current liabilities | 337 |
| Property, plant and equipment | 78 | Asset disposal obligation | 337 |
| Buildings | 0 | | |
| Equipment | 77 | | |
| Intangible assets | 153 | | |
| Software | 11 | Total liabilities | 6,925 |
| Other | 142 | Net assets | |
| Investments and other assets | 8,956 | Shareholders' equity | 97,258 |
| Stock of affiliates | 1,236 | Capital stock | 5,338 |
| Long-term loans | 5,510 | Capital surplus | 5,331 |
| Long-term prepaid expenses | 142 | Legal capital surplus | 5,331 |
| Deferred tax assets | 4,773 | Retained earnings | 176,745 |
| Deposit | 2,561 | Other retained earnings | 176,745 |
| Allowance for doubtful accounts | (5,268) | Retained earnings brought forward | 176,745 |
| | | Treasury shares | (90,157) |
| | | Stock option | 1,130 |
| | | Total net assets | 98,388 |
| Total assets | 105,314 | Total liabilities and net assets | 105,314 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Profit and Loss Statement

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

(Millions of yen)

| Account Items | Amount | |
|--|--------|--------|
| Net sales | | 58,986 |
| Cost of sales | | 21,126 |
| Gross profit on sales | | 37,859 |
| Total selling, general and administrative expenses | | 20,863 |
| Operating profit | | 16,995 |
| Non-operating profit | | |
| Interest income | 88 | |
| Foreign exchange gains | 713 | |
| Others | 4 | 806 |
| Non-operating expenses | | |
| Interest expenses | 0 | |
| Treasury stock acquisition costs | 2 | |
| Others | 2 | 4 |
| Ordinary profit | | 17,797 |
| Extraordinary income | | |
| Reversal of allowance for doubtful accounts | 100 | 100 |
| Extraordinary loss | | |
| Provision of allowance for doubtful accounts | 703 | 703 |
| Income before income taxes | | 17,193 |
| Income taxes—current | | 5,744 |
| Income taxes—deferred | | 2,304 |
| Net profit | | 9,144 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Changes in Net Assets

(January 1, 2022 through
December 31, 2022)

(Units: Million yen)

| | Shareholders' equity | | | | | | | |
|--|----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-------------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | | Treasury shares | Total shareholders' equity |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | |
| | | | Gains on sales of treasury shares | | Retained earnings brought forward | | | |
| Balance at the beginning of current period | 5,338 | 5,331 | — | 5,331 | 172,469 | 172,469 | (85,172) | 97,966 |
| Cumulative effects of changes in accounting policies | | | | | (1,021) | (1,021) | | (1,021) |
| Balance at the beginning of current period after reflecting changes in accounting policies | 5,338 | 5,331 | — | 5,331 | 171,447 | 171,447 | (85,172) | 96,945 |
| Changes of items during the period | | | | | | | | |
| Dividends paid | | | | | (3,830) | (3,830) | | (3,830) |
| Net Income | | | | | 9,144 | 9,144 | | 9,144 |
| Subscription rights to shares | | | (16) | (16) | | | 39 | 23 |
| Acquisition of treasury shares | | | | | | | (5,025) | (5,025) |
| Disposal of treasury shares | | | (0) | (0) | | | 0 | 0 |
| Transfer to capital surplus from retained earnings | | | 16 | 16 | (16) | (16) | | — |
| Net changes of items other than shareholders' equity | | | | | | | | |
| Total changes of items during the period | — | — | — | — | 5,297 | 5,297 | (4,984) | 312 |
| Balance at the end of current period | 5,338 | 5,331 | — | 5,331 | 176,745 | 176,745 | △90,157 | 97,258 |

| | Stock option | Total net assets |
|--|--------------|------------------|
| Balance at the beginning of current period | 1,039 | 99,005 |
| Cumulative effects of changes in accounting policies | | (1,021) |
| Balance at the beginning of current period after reflecting changes in accounting policies | 1,039 | 97,984 |
| Changes of items during the period | | |
| Dividends paid | | (3,830) |
| Net Income | | 9,144 |
| Subscription rights to shares | | 23 |
| Acquisition of treasury shares | | (5,025) |
| Disposal of treasury shares | | 0 |
| Transfer to capital surplus from retained earnings | | — |

| | | |
|--|-------|--------|
| Net changes of items other than shareholders' equity | 91 | 91 |
| Total changes of items during the period | 91 | 404 |
| Balance at the end of current period | 1,130 | 98,388 |

(Note) Figures shown in millions of yen are rounded down to the nearest million.

Notes to non-consolidated financial statements

1. Notes on matters pertaining to significant accounting policies

(1) Valuation standard and method for securities

Shares in subsidiaries Stated at cost by using the moving-average method

(2) Methods for depreciation and amortization of non-current assets

1) Property, plant and equipment other than lease assets a. Assets acquired prior to or on March 31, 2007: The former declining-balance method is used.

b. Assets acquired on or after April 1, 2007: The declining-balance method is used.

However, the straight-line method is used for building fixtures and structures acquired on or after April 1, 2016

Shown below are principal useful lives:

Buildings: 4 years

Tools and fixtures: 4 to 10 years

2) Intangible non-current assets other than lease assets

Amortized mainly by using the straight-line method. Software for in-house use is amortized based on available period (1 to 5 years); provided, however, that intangible non-current assets for portable device games are amortized based on expected sales.

3) Lease assets

Lease assets are depreciated by using the straight-line method with the lease period as the useful life and with the residual value at zero.

(3) Accounting standards of allowances

Allowance for doubtful accounts To prepare for potential credit losses on receivables, the Company records allowances for doubtful accounts at an estimated uncollectible amount assigned based on the historical credit loss experience for general receivables, and in consideration of individual collectability for specific receivables such as doubtful receivables.

(4) Basis for recording significant profits and expenses

The GungHo Group recognizes revenue based on the following five-step approach:

Step 1: Identify the contract with the customer

Step 2: Allocate revenue to performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to performance obligations in the contract

Step 5: Recognize revenue when (or as) performance obligations are satisfied.

As for revenue recognition of the mainstay title "Puzzle & Dragons," the Company recognizes revenue in accordance with the length of time the user uses characters, etc. obtained by using a magic stone, a currency of the game, that he/she purchased.

However, since our user behavior, etc. analysis found that the estimated character usage period is extremely short, the Company considers that the revenue recognition for the estimated character usage period may not generate a material difference from revenue recognition at the time of using a magic stone.

(5) Standard for translation of foreign currency-denominated assets and liabilities into yen

Foreign currency-denominated monetary claims and liabilities are translated into yen by using the spot foreign exchange rate prevailing on the closing date with any translation difference accounted for as a profit or loss.

2. Notes on changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

Standards including the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereafter "Revenue Recognition Accounting Standard") were applied from the beginning of the current consolidated fiscal year. Under their application, when any promised goods or services have their control transferred to customers, the monetary amounts expected to be received in exchange for those applicable goods or services shall be recognized as revenue. Regarding revenue recognition up to this point in P&D, a main title of our company, revenue was considered to be realized as of the time at which the in-game currency of "magic stones" was purchased by users, and this revenue was recognized at the time of purchase of those "magic stones." However, by applying them, unused amounts of "magic stones" purchased by users shall not be recognized as revenue, and the amounts of "magic stones" that were used shall be recognized as revenue only over the period of use of characters, which users obtained by using the "magic stones." However, analysis of user behavior histories and other information showed that characters continually used by users were the estimated period of use for those characters was extremely short. Therefore, it has been determined that revenue recognition only over the estimated period of use of characters will not cause significant discrepancies when compared to revenue recognition at the time of use of "magic stones."

The application of the Revenue Recognition Accounting Standard, etc. shall be in accordance with the transitional treatment specified in the provisions of Revenue Recognition Accounting Standard Paragraph 84. Therefore, the cumulative impacts in the case where new accounting policies are applied retroactively prior to the beginning of the current consolidated fiscal year will be added to or subtracted from the retained earnings of the beginning of the current consolidated fiscal year, and the new accounting policies will be applied starting from the applicable beginning balance.

As a result, net sales, operating income, ordinary profit, and income before income taxes and minority interests of the current consolidated fiscal year each decreased by 39 million yen. The balance of retained earnings at the beginning of the current fiscal year decreased by 1,021 million yen.

The impact on per-share information for the current fiscal year is insignificant.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Standards including the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereafter "Fair Value Measurement Accounting Standard") were applied from the beginning of the current consolidated fiscal year. In accordance with the transitional treatment specified in Fair Value Measurement Accounting Standard Paragraph 19 and the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019) Paragraph 44-2, the new accounting policies specified in the Fair Value Measurement Accounting Standard, etc. shall be applied in the future. However, this will have no effect on financial statements.

3. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amount recorded in the non-consolidated financial statements for the fiscal year under review

| | |
|---------------------|-------------------|
| Deferred tax assets | 4,773 million yen |
|---------------------|-------------------|

(2) Information on the content of significant accounting estimates for identified items

The contents are the same as those in "Notes on consolidated financial statements" (Notes on accounting estimates).

4. Additional information

Impact of COVID-19 Infections on Accounting Estimates

Regarding the impact of COVID-19, estimating the time of the settlement and spread for COVID-19 precisely is difficult. Although COVID-19 may affect the estimation for future cash flow and business environment to some extent at this moment, the Company considers the impact is limited.

However, the Company will continue to monitor the developments in the future, because the change of the situation may affect the consolidated financial statements after the next consolidated fiscal year.

5. Notes on balance sheet

(1) Cumulative depreciation of property, plant and equipment, 1,375 million yen

(2) Monetary claims and liabilities to related companies

| | |
|---------------------------------|-------------------|
| Short-term monetary claims | 197 million yen |
| Long-term monetary claims | 5,510 million yen |
| Short-term monetary liabilities | 603 million yen |

(3) Amount of contract liabilities included in "Other" of current liabilities 1,607 million yen

6. Notes to profit and loss statement

Transactions with related companies

| | |
|--------------------------------------|-------------------|
| Operating transactions (income) | 1 million yen |
| Operating transactions (expenditure) | 4,878 million yen |
| Non-operating transactions (income) | 91 million yen |

7. Notes to changes in net assets

Number of treasury shares as of December 31, 2022 29,304,473 shares

8. Notes on tax effect accounting

Breakdown of deferred tax assets by cause

Deferred tax assets

| | |
|--|---------------------|
| Enterprise taxes payable | 104 million yen |
| Depreciation & amortization excess value | 1,587 million yen |
| Allowance of doubtful accounts | 1,623 million yen |
| Loss on valuation of shares in related companies | 2,979 million yen |
| Stock-based compensation expenses | 346 million yen |
| Other | 905 million yen |
| Subtotal | 7,546 million yen |
| Valuation provision | (2,772 million yen) |
| Total deferred tax assets | 4,773 million yen |

9. Notes on transactions with interested parties

Subsidiaries and affiliates

| Category | Company name | Voting rights holding ratio (%) | Relationship with interested party | Transaction description | Transaction value (millions of yen) | Account | Period-end balance (millions of yen) |
|------------|---|---------------------------------|--|-------------------------|-------------------------------------|----------------|--------------------------------------|
| Subsidiary | GungHo Online Entertainment America, Inc. | 100.00 | Concurrent service as director Provision of loans | Provision of loans | — | Long-term loan | 5,410 |

Terms and conditions of transaction and policy on determining terms and conditions

- Notes:
- Consumption taxes are not included in transaction values and period-end balances.
 - Provision of loans is determined upon negotiations based on the terms and conditions (loan interest rate) proposed by the Company in consideration of market interest rates.
 - The Company recorded 5,168 million yen as an allowance for doubtful accounts related to long-term loans to GungHo Online Entertainment America, Inc.

12. Notes regarding revenue recognition

Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue from contracts with customers is presented in “1. Notes regarding significant matters concerning accounting policies,” under “(4) Revenue and expense recognition standards.”

11. Notes on per-share information

- | | |
|--------------------------|--------------|
| (1) Net assets per share | 1,571.35 yen |
| (2) Net income per share | 146.92 yen |

12. Notes on companies to which regulation on consolidated dividend applies

GungHo is a company to which regulation on consolidated dividend applies.

13. Notes on significant subsequent events

Acquisition and cancellation of treasury shares

At the meeting of the Board of Directors held on February 14, 2023, The Company resolved to repurchase its own shares pursuant to Article 156 of the Companies Act of Japan, as applied pursuant to Article 165, Paragraph 3 of the same. Furthermore, the Company resolved matters relating to the cancellation of treasury shares pursuant to the provisions of Article 178 of the Companies Act as follows. The details were as follows:

(1) Reasons for acquisition and cancellation of treasury shares

To improve shareholder profits by implementing capital policies flexibly in response to changes in the business environment and by improving capital efficiency.

(2) Details of acquisition of treasury shares

- | | |
|--|----------------------------------|
| 1) Type of shares to be acquired | Common stock of our company |
| 2) Total number of shares to be acquired | 2,800,000 shares (maximum) |
| 3) Total purchase price of shares | 5 billion yen (maximum) |
| 4) Acquisition period | February 15, 2023–March 24, 2023 |
| 5) Acquisition method | Market purchase |

(3) Details of matters relating to cancellation of treasury shares

- | | |
|---|---|
| 1)Class of shares to be canceled | Common shares of the Company |
| 2)Aggregate number of shares to be canceled | Total of all shares (1,948,300 shares) acquired in accordance with the resolution of the board meeting held on February 14, 2022 and all shares acquired in accordance with section 2 above (If the number of shares to be acquired in accordance with section 2 above are 2,800,000 shares, the number of shares to be cancelled are 5.2% of the number of common shares issued (including treasury shares).) |
| 3)Scheduled date of cancellation | March 31, 2023 |

Accounting Auditor's report on consolidated financial statements

Independent Auditor's Report

February 20, 2023

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To the Board of Directors of
GungHo Online Entertainment, Inc.

Designated and Engagement Partner
Soichirou Hayashi
Certified Public Accountant
Designated and Engagement Partner

Designated and Engagement Partner
Kenji Murata
Certified Public Accountant
Designated and Engagement Partner

Audit Opinion

We have audited, pursuant to Article 444, Paragraph 4 of the Companies Act of Japan, the consolidated financial statements of GungHo Online Entertainment, Inc. (hereinafter referred to as the "Company") for the consolidated fiscal year from January 1, 2022 to December 31, 2022, which consist of consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets and notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of the Company and its consolidated subsidiaries, applicable to the fiscal year ended December 31, 2022, in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan.

Basis for the Audit Opinion

We have conducted our audit in accordance with auditing standards generally accepted and recognized as fair and appropriate in Japan. Our responsibility in auditing standards is described in the "Auditor's Responsibility for Auditing the Consolidated Financial Statements." We are independent of the Company and its consolidated subsidiaries and fulfill our other ethical responsibilities as auditors in accordance with the Code of Professional Ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Notes on significant subsequent events, which describes that the Company resolved its acquisition of treasury shares and the cancellation of treasury shares at Board of Directors meeting held on February 14, 2023.

Our opinion is not modified in respect of this matter.

Other information

The term "other information" herein refers to the business report and its supplementary schedules. Management is responsible for preparing and disclosing the other information. In addition, the responsibility of the Auditors and the Board of Corporate Auditors is to monitor the performance of the duties of the Directors in the development and operation of the reporting process for other statements.

The scope of our audit opinion on the consolidated financial statements does not include the other information and we do not express an opinion on the other information.

Our responsibility in auditing the consolidated financial statements is to read through the other information, and in the process of reading it, we examine whether there are material differences between the other information and the consolidated financial statements or the knowledge we have gained in the auditing process, and we also pay attention as to whether there are any indications in the other information of material errors besides such material differences.

If we determine there to be material errors in the other information based on the work we have performed, we are required to report those facts.

There are no matters to report regarding the other information.

Responsibility of Management, Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan. This includes the development and operation of internal controls deemed necessary by management for the preparation and fair presentation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements based on the going concern assumption and for disclosing such matters if it is necessary to disclose matters for the going concern in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan.

Corporate Auditors and the Board of Corporate Auditors are responsible for monitoring the Directors' performance of their duties in the development and operation of the financial reporting process.

Auditor's Responsibility for Auditing the Consolidated Financial Statements

Our responsibility is to, based on our audit, express an opinion on the consolidated financial statements from an independent standpoint in the audit report, after obtaining reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement due to fraud or error. A misstatement is likely to arise from fraud or error, and shall be deemed material if it is, separately or aggregated, reasonably expected to affect the decision-making by users of the consolidated financial statements.

Auditors shall, in accordance with auditing standards generally accepted and recognized as fair and appropriate in Japan, make professional judgments throughout the auditing process and, with professional skepticism, shall conduct the following:

- Auditors shall identify and assess the risk of material misstatements due to fraud or error. Auditors also plan and implement audit procedures to address the risks of material misstatements. The procedures selected and applied depend on the auditors' judgment. Furthermore, the auditors shall obtain the audit evidence that is sufficient and appropriate to provide a basis for audit opinion.

- In making risk assessments, the auditors consider internal controls relevant to the audit in order to design audit procedures that are appropriate under the circumstances, although the purpose of auditing the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal controls.

- Auditors shall assess the appropriateness of accounting policies used and methods of their application adopted by management as well as the reasonableness of accounting estimates made by management and the appropriateness of any related notes.

- Auditors shall decide whether it is appropriate for management to prepare the consolidated financial statements on a going concern assumption, and, based on the audit evidence obtained, whether there are significant uncertainties regarding the events or circumstances that may raise significant doubt about the going concern assumption. The audit report shall be required to draw attention to the notes to the consolidated financial statements if significant uncertainties regarding the going concern assumption are recognized, or to express a qualified opinion with exceptive items on the consolidated financial statements if the notes for significant uncertainties in the statements are not appropriate. The auditor's conclusions are based on audit evidence obtained by the date of the audit report, but future events and circumstances may prevent the company from continuing as a going concern.

- Auditors shall assess whether the presentation of the consolidated financial statements and notes thereto conform to accounting standards generally accepted and recognized as fair and appropriate in Japan, as well as whether the presentation, composition, and content of the consolidated financial statements including related notes and consolidated financial statements present fairly the transactions and accounting events on which they are based.

- Auditors shall obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries for the purpose of expressing an opinion on the consolidated financial statements. The auditors are responsible for the instructions, supervision, and implementation of audits on the consolidated financial statements. Auditors are solely responsible for the audit opinion.

Auditors shall report to the Corporate Auditors and the Board of Corporate Auditors on the scope and timing of the planned audit, material audit findings including material defects in internal controls identified during the audit process, and other matters required by the auditing standards.

Auditors shall report to the Corporate Auditors and the Board of Corporate Auditors on compliance with the Code of Professional Ethics in Japan on independence, matters reasonably considered to affect the independence of the auditors, and the content of safeguards, if any, to eliminate or mitigate impediments.

Conflicts of Interest

We have no interest in the Company and its consolidated subsidiaries that should be disclosed in compliance with the Certified Public Accountants Act.

Accounting Auditor's report on non-consolidated financial statements

Independent Auditor's Report

February 20, 2023

To the Board of Directors of
GungHo Online Entertainment, Inc.

Designated and Engagement Partner
Soichirou Hayashi
Certified Public Accountant
Designated and Engagement Partner

Designated and Engagement Partner
Kenji Murata
Certified Public Accountant
Designated and Engagement Partner

Audit Opinion

We have audited, pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act of Japan, the non-consolidated financial statements of GungHo Online Entertainment, Inc. (hereinafter referred to as the "Company") for the 26th fiscal year from January 1, 2022 to December 31, 2022, which consist of non-consolidated balance sheet, non-consolidated profit and loss statement, non-consolidated statement of changes in net assets, notes to non-consolidated financial statements and their supplementary schedules.

In our opinion, the non-consolidated financial statements, etc. referred to above present fairly, in all material respects, the financial position and the results of operations, applicable to the fiscal year ended December 31, 2022, in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan.

Basis for the Audit Opinion

We have conducted our audit in accordance with auditing standards generally accepted and recognized as fair and appropriate in Japan. Our responsibility in auditing standards is described in the "Auditor's Responsibility for Auditing the Non-Consolidated Financial Statements, Etc." We are independent of the Company and fulfill our other ethical responsibilities as auditors in accordance with the Code of Professional Ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Notes on significant subsequent events, which describes that the Company resolved its acquisition of treasury shares and the cancellation of treasury shares at Board of Directors meeting held on February 14, 2023.

Our opinion is not modified in respect of this matter.

Other information

The term "other information" herein refers to the business report and its supplementary schedules. Management is responsible for preparing and disclosing the other information. In addition, the responsibility of the Auditors and the Board of Corporate Auditors is to monitor the performance of the duties of the Directors in the development and operation of the reporting process for other statements.

The scope of our audit opinion on the consolidated financial statements does not include the other information and we do not express an opinion on the other information.

Our responsibility in auditing the consolidated financial statements is to read through the other information, and in the process of reading it, we examine whether there are material differences between the other information and the consolidated financial statements or the knowledge we have gained in the auditing process, and we also pay attention as to whether there are any indications in the other information of material errors besides such material differences.

If we determine there to be material errors in the other information based on the work we have performed, we are required to report those facts.

There are no matters to report regarding the other information.

Responsibility of Management, Corporate Auditors and the Board of Corporate Auditors for the Non-Consolidated Financial Statements, Etc.

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements, etc. in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan. This includes the development and operation of internal controls deemed necessary by management for the preparation and fair presentation of non-consolidated financial statements, etc. free of material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, etc., management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements, etc. based on the going concern assumption and for disclosing such matters if it is necessary to disclose matters for the going concern in accordance with accounting standards generally accepted and recognized as fair and appropriate in Japan.

Corporate Auditors and the Board of Corporate Auditors are responsible for monitoring the Directors' performance of their duties in the development and operation of the financial reporting process.

Auditor's Responsibility for Auditing the Non-Consolidated Financial Statements, Etc.

Our responsibility is to, based on our audit, express an opinion on the non-consolidated financial statements, etc. from an independent standpoint in the audit report, after obtaining reasonable assurance about whether the non-consolidated financial statements, etc. as a whole are free of material misstatement due to fraud or error. A misstatement is likely to arise from fraud or error, and shall be deemed material if it is, separately or aggregated, reasonably expected to affect the decision-making by users of the non-consolidated financial statements, etc.

Auditors shall, in accordance with auditing standards generally accepted and recognized as fair and appropriate in Japan, make professional judgments throughout the auditing process and, with professional skepticism, shall conduct the following:

- Auditors shall identify and assess the risk of material misstatements due to fraud or error. Auditors also plan and implement audit procedures to address the risks of material misstatements. The procedures selected and applied depend on the auditors' judgment. Furthermore, the auditors shall obtain the audit evidence that is sufficient and appropriate to provide a basis for audit opinion.

- In making risk assessments, the auditors consider internal controls relevant to the audit in order to design audit procedures that are appropriate under the circumstances, although the purpose of auditing the non-consolidated financial statements, etc. is not to express an opinion on the effectiveness of the entity's internal controls.

- Auditors shall assess the appropriateness of accounting policies used and methods of their application adopted by management as well as the reasonableness of accounting estimates made by management and the appropriateness of any related notes.

- Auditors shall decide whether it is appropriate for management to prepare the non-consolidated financial statements, etc. on a going concern assumption, and, based on the audit evidence obtained, whether there are significant uncertainties regarding the events or circumstances that may raise significant doubt about the going concern assumption. The audit report shall be required to draw attention to the notes to the non-consolidated financial statements, etc. if significant uncertainties regarding the going concern assumption are recognized, or to express a qualified opinion with exceptive items on the non-consolidated financial statements, etc. if the notes for significant uncertainties in the statements are not appropriate. The auditor's conclusions are based on audit evidence obtained by the date of the audit report, but future events and circumstances may prevent the company from continuing as a going concern.

- Auditors shall assess whether the presentation of the non-consolidated financial statements, etc. and notes thereto conform to accounting standards generally accepted and recognized as fair and appropriate in Japan, as well as whether the presentation, composition, and content of the non-consolidated financial statements, etc. including related notes and non-consolidated financial statements, etc. present fairly the transactions and accounting events on which they are based.

Auditors shall report to the Corporate Auditors and the Board of Corporate Auditors on the scope and timing of the planned audit, material audit findings including material defects in internal controls identified during the audit process, and other matters required by the auditing standards.

Auditors shall report to the Corporate Auditors and the Board of Corporate Auditors on compliance with the Code of Professional Ethics in Japan on independence, matters reasonably considered to affect the independence of the auditors, and the content of safeguards, if any, to eliminate or mitigate impediments.

Conflicts of Interest

We have no interest in the Company that should be disclosed in compliance with the Certified Public Accountants Act.

Audit report by the Board of Corporate Auditors

Audit Report

Regarding the performance of duties by Directors for the 26th fiscal year from January 1 to December 31, 2022, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon deliberations based on audit reports each prepared by Auditors.

1. Contents and Method of Audit by Auditors and the Board of Corporate Auditors

- (1) The Board of Corporate Auditors determined its auditing policy, an allocation of duties and other relevant matters, and received reports from Auditors on their audit and the results, and also received reports from Directors and the Accounting Auditors regarding the performance of their duties, and sought explanations, as required.
- (2) Auditors, in conformity to the auditing standards of Auditors established by the Board of Corporate Auditors, and obeying the auditing policy and allocation of duties, among other relevant matters, communicated with Directors and the Internal Auditing Division, other employees and any other relevant personnel, and made efforts to collect information and prepare the environment for audit, while conducting the audit by the method set forth below.
 - (i) Auditors participated in Board of Directors meetings and other important meetings, received reports from Directors, employees and other relevant personnel on the performance of their duties, sought explanations as required, examined important authorization documents and associated information, and studied the operations and financial position at the head office and principal business offices. With respect to subsidiaries, Auditors communicated and exchanged information with Directors and Auditors of subsidiaries, and received business reports from the subsidiaries, as required.
 - (ii) Auditors examined the system to ensure that the performance of duties by Directors stated in the Business Report conforms to applicable laws and ordinances and the Articles of Incorporation. They also examined the system prepared based on the contents of the resolutions of the Board of Directors and on such resolutions on the development of the system stipulated in Article 100, Paragraphs 1 and 3 of the Companies Act Enforcement Regulations (internal control system), as measures required to secure the appropriateness of the operations of the corporate group comprising the Company and its consolidated subsidiaries. Auditors received regular reports from Directors, employees and other relevant personnel regarding the building and operation of the system, requested explanations as required and expressed opinions.
 - (iii) In addition to monitoring and verifying whether the Accounting Auditor maintained its independence and implemented appropriate audits, Auditors received reports from the Accounting Auditor on the performance of its duties and sought explanations as required. Moreover, we received a notice from the Accounting Auditor stating that the "system for ensuring that duties are performed properly" (matters set forth in the items of Article 131 of the Company Accounting Regulations) was developed in accordance with the "Audit Quality Control Standards" (Business Accounting Council, October 28, 2005), etc., and sought explanations, as required.

Based on the above method, we examined the Business Report, its supplementary schedules, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated profit and loss statement, non-consolidated statement of changes in net assets and notes to non-consolidated financial statements) and their supplementary schedules for the fiscal year ended December 31, 2022, as well as consolidated financial statements (consolidated balance sheet, consolidated statements of income, consolidated statement of changes in net assets and notes to consolidated financial statements) for the same fiscal year.

2. Results of Audit

(1) Results of Audit of Business Report and Other Relevant Documents

- 1) In our opinion, the Business Report and its supplementary schedules fairly represent the Company's situation in conformity to applicable laws and ordinances and the Articles of Incorporation.
- 2) Our audit did not discover any wrongful act or any material breach of applicable laws or ordinances or the Articles of Incorporation with respect to the performance of duties by Members of the Board of Directors.
- 3) In our opinion, the resolutions of the Board of Directors for the Company's internal control system are appropriate. We did not discover any matter required to be pointed out concerning the contents of the Business Report and the execution of duties by Members of the Board of Directors with respect to the internal control system.

(2) Results of Audit of Non-Consolidated Financial Statements and Supplementary Schedules

In our opinion, the audit method employed by PricewaterhouseCoopers Aarata and the audit results are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the audit method employed by PricewaterhouseCoopers Aarata and the audit results are fair and reasonable.

February 27, 2023

Masato Ochi
Full-time Auditor
Hiroto Uehara
Auditor
Toshiro Kaba
Auditor
Board of Corporate Auditors
GungHo Online Entertainment, Inc.

Note: Hiroto Uehara, Auditor and Toshiro Kaba, Auditor are all outside auditors stipulated in Article 2, Item 16 and Article 335, Paragraph 3 of the Companies Act of Japan.

Reference Materials for the General Meeting of Shareholders

Proposals and Reference Materials

Proposal 1: Election of Ten (10) Directors

The terms of office of all nine (9) Directors will expire at the close of this Annual General Meeting of Shareholders. Thus, the Company would like to request the election of ten (10) Directors, including 1 additional Outside Director to further enhance the corporate governance system.

The candidates for Directors are as follows:

| No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|--|--|--|-------------------------------------|
| 1 | Kazuki Morishita (September 16, 1973) <u>Reappointment</u> | <p>April 1994 Joined PALTEK CORPORATION</p> <p>July 1996 Joined SOFTCREATE CORP</p> <p>March 2000 Director of Dolphin Net Corporation</p> <p>December 2000 Director of Kickers Network, Inc.</p> <p>May 2001 General Manager of E Service Department of ONSale Co., Ltd (currently, GungHo Online Entertainment, Inc.)</p> <p>August 2002 COO of GungHo Online Entertainment, Inc.</p> <p>January 2004 President & CEO of the Company (to present)</p> <p>December 2005 Director of Game Arts Co., Ltd.</p> <p>March 2008 President & Representative Director of Game Arts Co., Ltd. (to present)</p> <p>(Significant Concurrent Positions)</p> <p>President & Representative Director of Game Arts Co., Ltd.</p> <p>Executive Director of Gravity Co., Ltd.</p> | 1,009,600 shares |
| <p>[Reasons for nomination as a candidate]</p> <p>Since assuming the post of President & CEO of the Company, Mr. Kazuki Morishita, as Chief Executive Officer, has played a central role in the development and management of games such as "Puzzle & Dragons" and "Ragnarok Online" and has made significant contributions to the rapid growth and development of the Company to date. The Company requests Mr. Morishita's reappointment as a Director for the further advancement of the Company.</p> | | | |

| No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|---|--|--|-------------------------------|
| 2 | <p>Kazuya Sakai (January 28, 1965)</p> <p>Reappointment</p> | <p>April 1987 Joined The Kyushu Sogo Bank, Ltd. (currently, The Juhachi-Shinwa Bank, Ltd.)</p> <p>January 1993 Joined Expression Tools, Inc.</p> <p>April 2002 Chief Executive Officer of Expression Tools, Inc.</p> <p>April 2004 Joined GungHo Online Entertainment, Inc. as General Manager of Management Division and CFO</p> <p>March 2005 Director of the Company (to present)</p> <p>January 2006 Executive General Manager of Management Division and CFO of the Company</p> <p>April 2008 Executive General Manager of Financial Strategy Division and CFO of the Company</p> <p>April 2009 Executive General Manager of Business Administration Division and CFO of the Company</p> <p>October 2009 Managing Executive Officer of the Company</p> <p>August 2010 Executive General Manager of Finance & Accounting Division and CFO of the Company</p> <p>January 2011 Managing Executive Officer and Executive General Manager of Finance & Accounting Division and Executive General Manager of Business Administration Division and CFO of the Company</p> <p>July 2011 Managing Executive Officer and Executive General Manager of Finance & Accounting Division and CFO and IRO of the Company</p> <p>March 2012 Executive General Manager of Finance Accounting Division and CFO and IRO of the Company</p> <p>April 2014 Executive General Manager of Finance Accounting Division and CFO of the Company (to present)</p> <p>March 2017 Director of Game Arts Co., Ltd. (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Director of Game Arts Co., Ltd.</p> <p>Executive Director of Gravity Co., Ltd.</p> <p>Director of Acquire Corp.</p> <p>Director of GungHo Online Entertainment Asia Pacific Pte. Ltd.</p> <p>Director of GungHo Gamania Co., Limited</p> | 100,000 shares |
| <p>[Reasons for nomination as a candidate]</p> <p>Since the early days of the Company's foundation, Mr. Kazuya Sakai, as CFO, has fulfilled his responsibilities as the general manager of finance and accounting, possesses extensive experience and track records and is well versed in the Company business. Accordingly, the Company requests Mr. Sakai's reappointment as a Director so that he will strive for sustainable growth of the Company.</p> | | | |

| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|--|---|--|-------------------------------------|
| 3 | Yoshinori Kitamura (June 11, 1968) <u>Reappointment</u> | <p>April 1992 Joined Gakusei Engokai Co., Ltd. (currently, PERSOL CAREER CO., LTD.)</p> <p>January 1995 Joined Rothmans Japan</p> <p>September 1999 Joined ICC Co. Ltd.</p> <p>January 2002 Joined NC Japan K.K.</p> <p>February 2003 Joined GungHo Online Entertainment, Inc. as General Manager of Marketing Division</p> <p>January 2006 Executive General Manager of Marketing Division of the Company</p> <p>March 2006 Director of the Company (to present)</p> <p>July 2007 Executive General Manager of International Business Division of the Company</p> <p>October 2009 Managing Executive Officer and Executive General Manager of International Division of the Company</p> <p>March 2012 Executive General Manager of International Division of the Company</p> <p>October 2015 Executive General Manager of GV business Division of the Company (to present)</p> <p>(Significant Concurrent Positions) Executive Director and CCO and COO of Gravity Co., Ltd.</p> | 40,000 shares |
| <p>[Reasons for nomination as a candidate]</p> <p>Since the early days of the Company's foundation, Mr. Yoshinori Kitamura has contributed to the growth of our game business and, in particular, has been leading, as the general manager, the business of the GRAVITY Group, a South Korean subsidiary, which has greatly developed. Accordingly, the Company requests Mr. Kitamura's reappointment as a Director so that he will strive for further growth.</p> | | | |
| 4 | Koji Yoshida (November 27, 1953) <u>Reappointment</u> | <p>April 1977 Joined ARABIAN OIL COMPANY, LTD.</p> <p>May 2000 Joined Nintendo Co., Ltd.</p> <p>January 2002 General Manager of General Affairs Division of Nintendo Co., Ltd.</p> <p>October 2005 Executive General Manager of General Affairs Division of Nintendo Co., Ltd.</p> <p>June 2006 Director of Nintendo Co., Ltd.</p> <p>April 2011 Joined GungHo Online Entertainment, Inc. as Assistant to Executive General Manager of Business Administration Division</p> <p>July 2011 Executive General Manager of Business Administration Division, CCO and CCMO of the Company (to present)</p> <p>March 2012 Director of the Company (to present)</p> <p>(Significant Concurrent Positions) Director of Acquire Corp. Director of GungHo Online Entertainment Asia Pacific Pte. Ltd.</p> | 11,500 shares |
| <p>[Reasons for nomination as a candidate]</p> <p>Mr. Koji Yoshida possesses broad insights and extensive experience in administrative departments such as legal affairs, human resources, and general affairs, and has contributed to the development of the Company as the general manager of the business administration division at the Company by utilizing his experience as Director of Nintendo Co., Ltd. Accordingly, the Company requests Mr. Yoshida's reappointment as a Director so that he will continue striving for further growth of the Company.</p> | | | |

| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|---|--|--|-------------------------------|
| 5 | Akihiko Ichikawa (May 22, 1973) <u>Reappointment</u> | April 1992 Joined Yokohama Flugels | 2,090 shares |
| | | May 1995 Joined SOFTCREATE CORP | |
| May 2000 Director of Dolphin Net Corporation | | | |
| December 2000 Joined Kickers Network, Inc. | | | |
| February 2002 Joined BELLSYSTEM24, Inc. | | | |
| October 2004 Joined Median, Inc. | | | |
| October 2005 Joined GungHo Online Entertainment, Inc. | | | |
| March 2007 Director of Game Arts Co., Ltd. | | | |
| April 2008 Executive Officer (to present) and General Manager of Business Development Office of the Company | | | |
| December 2009 Executive Officer of Game Division and Executive General Manager of Mobile Consumer Division of the Company | | | |
| January 2012 Executive Officer of Development Division and Executive General Manager of Planning Development No.1 Division of the Company | | | |
| October 2015 Executive Officer and Executive General Manager of Partner Publishing Division of the Company (to present) | | | |
| March 2021 Director of the Company (to present) | | | |
| [Reasons for nomination as a candidate] Since the early days of the Company's foundation, Mr. Akihiko Ichikawa has been involved in the Company's business, and has been promoting the partner publishing business, etc., as Executive Officer and Executive General Manager based on his broad insights and extensive experience. The Company requests Mr. Ichikawa's reappointment as a Director for the future growth and development of the Company. | | | |
| 6 | Norikazu Oba (August 27, 1966) <u>Reappointment</u> | April 1989 Joined The Mitsubishi Bank, Ltd. (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.) | 1,000 shares |
| | | December 2006 Group Manager of Finance Planning, Finance Department of SoftBank Corp. (currently, SoftBank Group Corp.) | |
| June 2008 Senior Executive Officer and Executive General Manager of Financial Strategy Division of GungHo Online Entertainment, Inc. (seconded from SoftBank Group Corp.) | | | |
| March 2011 Director of the Company (to present) | | | |
| (Significant Concurrent Positions) General Manager of the Finance Planning Department of SoftBank Group Corp Director of SoftBank Group Japan Corporation | | | |
| [Reasons for nomination as a candidate] Mr. Norikazu Oba possesses track records and experience in the finance department of the SoftBank Group and the finance and accounting division of the Company, and has sufficient understanding of the business of the Company. The Company requests Mr. Oba's reappointment as a Director because he can be expected to make contributions to the further growth of the Company based on his knowledge in overall management of a company, especially his advanced knowledge and extensive experience in finance and accounting. | | | |

| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|---|---|--|-------------------------------|
| 7 | Hidetsugu Onishi (March 7, 1964) Reappointment Outside Director Independent Director | <p>April 1986 Joined Fuji Bank, Ltd. (currently Mizuho Bank)</p> <p>December 1999 Investment officer, Fuji Capital Management Co., Ltd. (currently Mizuho Capital Partners Co., Ltd.)</p> <p>February 2002 Director and CFO, Link Theory Holdings Co., Ltd. (currently Link Theory Japan Co., Ltd.)</p> <p>September 2009 Executive Officer & CFO, FAST RETAILING CO., LTD.</p> <p>April 2011 Representative Director of Avergence, CO, Ltd. (to present)</p> <p>June 2011 Co-CEO ,Integrity Partners LLC. (to present)</p> <p>March 2016 Director of the Company (to present)</p> <p>March 2016 Outside Director of Basic Inc.</p> <p>April 2018 Outside Director, (Audit & Supervisory Board Member) of Basic Inc. (to present)</p> <p>May 2019 Outside Audit of Arcland Sakamoto Co., Ltd.(currently, Arclands Co., Ltd)</p> <p>April 2021 Outside Director of CUBE CO., LTD.(to present)</p> <p>May 2022 Outside Director, (Audit & Supervisory Board Member), Arclands Co., Ltd. (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Co-CEO, Integrity Partners LLC</p> <p>CEO, Avergence Incorporated</p> <p>Outside Director, (Audit & Supervisory Board Member), Arclands Co., Ltd.</p> <p>Outside Director, CUBE CO., LTD</p> | 1,000 shares |
| <p>[Reasons for nomination as a candidate and outline of expected roles]</p> <p>Mr. Hidetsugu Onishi possesses extensive experience and broad insights regarding corporate management. The Company requests Mr. Onishi's reappointment as an Outside Director because the further enhancement of the Company's continued growth and corporate value can be expected with his advice based on his knowledge regarding overall management of a company, especially his advanced knowledge and extensive experience in finance and accounting as well as his global perspective.</p> <p>His term of office as Outside Director of the Company will be seven years at the conclusion of this General Meeting of Shareholders. If his reappointment is approved, he will continue to be an independent director.</p> | | | |
| 8 | Keiji Miyakawa (November 5, 1958) Reappointment Outside Director Independent Director | <p>April, 1982 Joined Japan External Trade Organization</p> <p>July, 1988 Joined Bankers Trust (currently Deutsche Securities Inc.)</p> <p>July, 1999 Head of M&A Group of Deutsche Securities Inc.</p> <p>November, 2006 Vice Chairman, Global Banking Group of Deutsche Securities Inc.</p> <p>September, 2009 Chairman of Japan of Lincoln International</p> <p>June, 2012 Outside Auditor of ASICS Corporation</p> <p>June, 2013 Outside Director of ASICS Corporation</p> <p>March, 2016 Auditor of ASICS Corporation</p> <p>March, 2018 Director of the Company (to present)</p> <p>January, 2019 Senior Advisor of Japan of Lincoln International (to present)</p> <p>June, 2021 Outside Director of H.U. Group Holdings, Inc.(to present)</p> <p>(Significant Concurrent Positions)</p> <p>Senior Advisor of Japan of Lincoln International</p> <p>Outside Director of H.U. Group Holdings, Inc.</p> | 500 shares |
| <p>[Reasons for nomination as a candidate and outline of expected roles]</p> <p>Mr. Keiji Miyakawa provides advice on the Company's overall management based on his extensive experience and professional perspectives as a manager in the financial services industry, especially from the viewpoint of finance and</p> | | | |

| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
|---------------|--|---|-------------------------------|
| | | accounting as well as global perspectives. The Company requests Mr. Miyakawa's reappointment as an Outside Director in order to further enhance the Company's continued growth and corporate value. His term of office as Outside Director of the Company will be five years at the conclusion of this General Meeting of Shareholders. If his reappointment is approved, he will continue to be an independent director. | |
| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
| | Susumu Tanaka (March 11, 1953) Reappointment Outside Director Independent Director | April, 1976 Joined Nintendo Co., Ltd. July, 2012 Deputy General Manager, Licensing Division of Nintendo Co., Ltd. June 2013 Director and General Manager for Licensing Division of Nintendo Co., Ltd. June 2016 Senior Executive Officer, General Manager for Licensing Division of Nintendo Co., Ltd. June 2018 Corporate Adviser of Nintendo Co., Ltd. of Nintendo Co., Ltd. March 2020 Director of the Company (to present) | — |
| 9 | | [Reasons for nomination as a candidate and outline of expected roles] Mr. Susumu Tanaka possesses extensive experience and a high level of knowledge for the game business, cultivated over many years at Nintendo Co., Ltd., and has used his experience as Director at the company to provide advice on overall management of the Company. The Company requests Mr. Tanaka's reappointment as an Outside Director so that he will continue providing advice on the Company's overall management going forward in order to further enhance the Company's continued growth and corporate value. His term of office as Outside Director of the Company will be three year at the conclusion of this General Meeting of Shareholders. If his reappointment is approved, he will continue to be an independent director. | |
| Candidate No. | Name (Date of Birth) | Career Summary, Position, Assignment, and Significant Concurrent Positions | Number of Company Shares Held |
| | Hitomi Iwase (July 1, 1971) New appointment Outside Director | April, 1997 Registered as an attorney Joined Hitotsubashi Sogo Law Office June, 2000 Joined Nishimura & Partners (currently, Nishimura & Asahi) September, 2003 Visiting fellow, the George Washington University Law School April, 2004 Registered as an Attorney of New York State January, 2007 Partner, Nishimura & Asahi (to present) June, 2014 Outside Auditor, TIN PAN ALLEY CO., LTD. March, 2018 Outside Auditor, gooddays Holdings Co., Ltd. May, 2021 Outside Director, Laxus Technologies Co., Ltd. (to present) May 2021 Outside Director, UniFa Co., Ltd. (to present) (Significant Concurrent Positions) Partner, Nishimura & Asahi Outside Director, Laxus Technologies Co., Ltd. | — |
| 10 | | [Reasons for nomination as a candidate and outline of expected roles] Ms. Hitomi Iwase possesses extensive experience and a high level of knowledge as a lawyer. The Company requests Ms. Iwase's appointment as an Outside Director so that she will provide advice on the Company's overall management based on her extensive experience and broad insights in order to further enhance corporate governance and increase the Company's sustainable growth and corporate value. Ms. Hitomi Iwase is a candidate for Outside Director and fulfills the requirements of Tokyo Stock Exchange for independent directors. The Company will not notify the Tokyo Stock Exchange that Ms. Iwase is an independent director. | |

(Note)

1. The candidates proposed to serve as Directors do not have any special interests in the Company.

2. Outline of liability limitation agreement

At present, the Company has concluded with each of Directors Norikazu Oba, Hidetsugu Onishi, Keiji Miyakawa and Susumu Tanaka an agreement to limit their liability as a Director. These agreements would remain in effect in the event that reappointment of the candidates for Directors is approved. If Ms. Iwase's appointment is approved, the Company will enter into the same liability limitation agreement with her. Please refer to "Outline of liability limitation agreement" on page 14.

3. Outline of directors and officers liability insurance policy

Mr. Kazuki Morishita, Mr. Kazuya Sakai, Mr. Yoshinori Kitamura, Mr. Koji Yoshida, Mr. Akihiko Ichikawa, Mr. Norikazu Oba, Mr. Hidetsugu Onishi, Mr. Keiji Miyakawa and Mr. Susumu Tanaka are currently Directors of the Company, which has currently concluded a directors and officers liability insurance (D&O Insurance) policy with an insurance company, with these nine candidates for Directors as insured persons. The insurance policy would remain in effect in the event that reappointment of the above nine persons is approved. The insurance policy expires on December 27, 2023, but is scheduled to be renewed thereafter. If Ms. Iwase's appointment is approved, she will be included in the insured persons of the above insurance policy. Please refer to "Outline of directors and officers liability insurance policy" on page 15.

【References】

The following main expertise and experience of each Director are deemed necessary by the Company's Board of Directors.

| Name | Position | Overall Management | Game development · IP Creation | Game operation · IP Development | Financial Accounting | Global | PR · IR · Marketing | Legal · Governance | HR · Labor |
|--------------------|---|--------------------|--------------------------------|---------------------------------|----------------------|--------|---------------------|--------------------|------------|
| Kazuki Morishita | President & CEO | • | • | • | | • | • | • | |
| Kazuya Sakai | Director | • | | | • | • | • | | |
| Yoshinori Kitamura | Director | • | | • | | • | • | | |
| Koji Yoshida | Director | • | | | | • | | • | • |
| Akihiko Ichikawa | Director | • | | • | | • | • | | |
| Norikazu Oba | Director | • | | | • | • | | | |
| Hidetsugu Onishi | Outside Director/ Independent Director | • | | | • | • | | | |
| Keiji Miyakawa | Outside Director/ Independent Director | • | | | • | • | | | |
| Susumu Tanaka | Outside Director/ Independent Director | • | | | | • | • | | |
| Hitomi Iwase | Outside Director | | | | | • | | • | |

(Note) The above chart does not show all knowledge possessed by each candidate.

Proposal 2: Revision of the Amount of Compensation for Directors (Introduction of Performance-Linked Compensation for Executive Directors)

Of the Company's Director compensation, fixed compensation is 300 million or less yen per year, as approved by the Extraordinary General Meeting of Shareholders held on July 30, 2004. However, taking into consideration the recent changes in the economic situations and other circumstances, in order to further increase the awareness of Executive Directors of the need to improve their performance each fiscal year, the Company would like to request approval for the introduction of new performance-linked compensation using the calculation method mentioned later (based on the performance of each fiscal year after the fiscal year ending December 31, 2023) in addition to the fixed compensation, up to 300 million yen per year separately from the limit of the above-mentioned fixed compensation. Remuneration for Directors does not include employee salaries for Directors concurrently in service as employees as in the past. Remuneration for Directors excluding Executive Directors consists solely of fixed compensation.

This Proposal has been determined at the Board of Directors including three independent Outside Directors, taking into consideration the Company's business conditions, the reasonableness in light of competitors' remuneration level, and other circumstances, and therefore, is considered appropriate.

In addition, subject to the approval of Proposal 2, the Company will revise the Policies on determining

remuneration for individual Directors which are presented on pages 14 and 15 of the Business Report, as is presented on pages 60 and 61.

Currently, the number of Directors is 9 (including 3 Outside Directors), 5 of which are Executive Directors. Subject to the approval of Proposal 1, the number of Directors will be 10 (including 4 Outside Directors), 5 of which will be Executive Director.

(Method for calculating the amount of performance-linked compensation)

Performance-linked compensation for each Executive Director shall be determined based on consolidated operating profit in order to increase the awareness of Executive Directors of the need to improve their performance, using the following formula:

Consolidated operating profit × 0.5% × points granted to each Director ÷ total number of points granted to Directors

- However, if consolidated operating profit × 0.5% exceeds 300 million yen, remuneration shall be up to 300 million yen.
- Points for each Director shall be 44 points for the President and CEO, and 9 points for each Executive Director excluding the President and CEO.
- If the total number of points granted to Directors falls under 80, it shall be fixed at 80.

[Reference] Policies on determining individual remuneration for Directors

“Policies on determining remuneration for individual Directors” subject to the approval of Proposal 2 is as follows:

Remuneration for Directors consists of fixed compensation, performance-linked compensation, and stock options as stock-based compensation; their amounts are decided within the upper limit established by the resolution of the General Meeting of Shareholders. However, remuneration for Directors other than Executive Directors consists solely of fixed compensation, in consideration of their responsibility as a provider of supervision and advice to management without engaging in business execution. Remuneration levels, etc. are discussed at a voluntary Nomination and Remuneration Committee with a majority of independent Outside Directors, and reported to the Board of Directors.

I. Policy on basic remuneration

Basic remuneration for each Director shall be fixed monetary compensation that is determined based on performance, business environment, etc. considering factors such as the position and responsibility of each

Director. Decisions on specific allocations shall be left to the discretion of the President & CEO upon resolution of the Board of Directors.

II. Policies on performance-linked compensation

The Company grants performance-linked compensation to the Company's Executive Directors, with the intent of further raising awareness of their performance. Performance-linked compensation refers to consolidated operating profit as an indicator. The amount is decided within the upper limit established by the resolution of the General Meeting of Shareholders, calculated using a formula determined at a General Meeting of Shareholders based on the number of points granted in accordance with positions of eligible Directors.

III. Policy on non-monetary compensation

The Company grants stock options as stock-based compensation to the Company's Executive Directors, with the intent of further raising management awareness of the importance of shareholders, and motivation and morale toward medium to long-term business growth as well as corporate value enhancement. In calculating the fair value, the stock price at the time of the granting is taken into consideration. The number of units to be granted to each Director is determined in light of factors such as the position and responsibility of each Director, as in the case of fixed compensation. The decision needs to be approved by the resolution of the Board of Directors including Independent Outside Directors.

IV. Policy on ratio of compensation

The ratio of fixed compensation, performance-linked compensation, and stock options as stock-based compensation to the compensation amount for each Director is not fixed at a certain level. It is determined by taking into consideration the extent to which the compensation can effectively function as an incentive.

V. Policy on timing and conditions for granting remuneration

Fixed compensation for Directors is paid in the same amount every month. In addition, performance-linked compensation and stock options as stock-based compensation shall be paid at a timing the Company considers appropriate.

End of document