

March 5, 2019

Dear shareholders

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

GungHo Online Entertainment, Inc.

President & CEO Kazuki Morishita

## Notice of Convocation of the 22nd Annual General Meeting of Shareholders

It gives us great pleasure to invite you to the 22nd Annual General Meeting of Shareholders of GungHo Online Entertainment, Inc.

If you are unable to attend the meeting, you can exercise your voting rights in writing. Please review the "Reference Materials for the General Meeting of Shareholders" and indicate your approval or disapproval for each proposal on the enclosed Voting Rights Exercise Form. Please send it back to the Company so that it reaches the Company no later than 6:00 p.m. on Wednesday, March 20, 2019 (JST).

1. Date and time      March 22, 2019 (Friday) 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 1. Report on the Business Report, the Consolidated Financial Statements,  
reported        and the Audit Results of the Consolidated Financial Statements by the  
Accounting Auditor and the Board of Corporate Auditors for the 22nd  
term (from January 1, 2018 to December 31, 2018)  
2. Report on the Non-consolidated Financial Statements for the 22nd term  
(from January 1, 2018 to December 31, 2018)  
Matters to be  
resolved  
Proposal 1      Consolidation of Shares  
Proposal 2      Partial Amendment of the Article of Incorporation  
Proposal 3      Election of Nine (9) Directors

~~~~~  
• **Please be advised that non-shareholders such as proxies and persons accompanying shareholders are not permitted to attend the meeting.**

- When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception.
- If the Reference Materials for the General Meeting of Shareholders, the Business Report, the Non-consolidated Financial Statements, and the Consolidated Financial Statements are amended, the amendments will be announced on the Company's website (<https://www.gungho.co.jp/english/>).

Business Report  
( From January 1, 2018  
to December 31, 2018 )

1. Overview of the Company Group

(1) Consolidated business performance for the fiscal year ended December 31, 2018

1) Business progress and results

The game market in Japan grew by 13.7% from the previous year to 1.5686 trillion yen\* in 2017, supported by moderate expansion in mobile games and strong growth in the console game market, and is expected to continue expanding moderately.

Meanwhile, the global game content market also grew by 21.1% from the previous year to 10.8964 trillion yen\* in 2017, underpinned by the growth of the mobile game market along with the spread in popularity of smartphones and the strong console game market, and is expected to continue to further expand.

Under such circumstances, the Company has been focusing on developing games that are premised on global distribution to "create new value" and on maintaining and expanding MAU (Monthly Active Users: The number of users logging into the game at least once a month) for each game, strengthening the game brands, and launching new businesses to "maximize existing value."

As for existing games, focusing mainly on continued long-term enjoyment of "Puzzle & Dragons," we have continued to release updates and hold events, such as adding new dungeons, etc., improving game content, collaborating with popular characters from other companies, and more. In addition, we have been focusing on revitalizing MAU by carrying out various measures for the enjoyment of both existing and new users, as well as dormant users, including the "Puzzle & Dragons Thanks Fair" launched at the end of October 2018. As a result, in January 2019, the cumulative number of downloads in Japan exceeded 51 million.

As for new games, we have launched new games for smartphones such as "Yo-Kai Watch World" and "CHRONO MA:GIA", and have also been working actively on creating new value and our partner publishing business.

As for new businesses, mspo Inc. (mspo), a joint venture company invested in by our company, Yoshimoto Kogyo Co., Ltd. and CyberAgent, Inc., started providing "mspo," new services for mobile games, in September 2018.

As for the business of subsidiaries, GRAVITY Co., Ltd., a consolidated subsidiary, began distributing "Ragnarok M: Eternal Love," a new game for smartphones, in South Korea in March 2018, and steady growth has been maintained. Furthermore, distribution of this game was launched in Southeast Asia in October 2018 and has made a good start. In January 2019, we began distribution in North America, South America, as well as Oceania.

As a result, net sales for the fiscal year ended December 31, 2018 amounted to 92,101 million yen, down 0.2% year-on-year. Operating profit was 26,577 million yen, down 22.7% year-on-year, ordinary profit was 26,659 million yen, down 22.4% year-on-year, and profit attributable to owners of parent came to 16,585 million yen, down 25.9% year-on-year.

\* Famitsu Game White Paper 2018

2) Capital expenditure

For the fiscal year ended December 31, 2018, capital expenditure totaled 2,456 million yen, consisting mainly of 1,988 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                                       | 19th<br>From January 1,<br>2015 to December<br>31, 2015 | 20th<br>From January 1,<br>2016 to December<br>31, 2016 | 21st<br>From January 1,<br>2017 to December<br>31, 2017 | 22nd<br>From January 1,<br>2018 to December<br>31, 2018 |
|--------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Net sales                                  | 154,329                                                 | 112,457                                                 | 92,306                                                  | 92,101                                                  |
| Operating profit                           | 72,425                                                  | 46,081                                                  | 34,384                                                  | 26,577                                                  |
| Ordinary profit                            | 72,606                                                  | 46,081                                                  | 34,351                                                  | 26,659                                                  |
| Profit attributable to<br>owners of parent | 43,432                                                  | 27,911                                                  | 22,397                                                  | 16,585                                                  |
| Net profit per share                       | 41.40 yen                                               | 32.24 yen                                               | 31.49 yen                                               | 23.32 yen                                               |
| Total assets                               | 108,078                                                 | 55,032                                                  | 78,070                                                  | 96,032                                                  |
| Net assets                                 | 90,356                                                  | 40,984                                                  | 62,412                                                  | 78,110                                                  |
| Net assets per share                       | 92.28 yen                                               | 54.64 yen                                               | 83.43 yen                                               | 103.59 yen                                              |

## ② Non-consolidated

(Millions of yen)

| Item                 | 19th<br>From January 1,<br>2015 to December<br>31, 2015 | 20th<br>From January 1,<br>2016 to December<br>31, 2016 | 21st<br>From January 1,<br>2017 to December<br>31, 2017 | 22nd<br>From January 1,<br>2018 to December<br>31, 2018 |
|----------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| Net sales            | 148,475                                                 | 105,435                                                 | 76,575                                                  | 62,340                                                  |
| Operating profit     | 75,541                                                  | 47,629                                                  | 33,991                                                  | 23,906                                                  |
| Ordinary profit      | 75,557                                                  | 47,700                                                  | 33,987                                                  | 23,981                                                  |
| Net profit           | 45,934                                                  | 30,123                                                  | 19,672                                                  | 15,351                                                  |
| Net profit per share | 43.78 yen                                               | 34.79 yen                                               | 27.66 yen                                               | 21.58 yen                                               |
| Total assets         | 105,699                                                 | 53,736                                                  | 68,513                                                  | 81,865                                                  |
| Net assets           | 90,669                                                  | 43,727                                                  | 61,581                                                  | 75,034                                                  |
| Net assets per share | 94.32 yen                                               | 60.88 yen                                               | 85.56 yen                                               | 104.22 yen                                              |

(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.                               | 78 million yen      | 100.00%                          | Planning, development and sales of PC online games and consumer games                            |
| GRAVITY Co.,Ltd.                                  | 3,474 million won   | 59.31%                           | Planning, development, operation and online distribution of online PC games and smartphone games |
| GungHo Online Entertainment America, Inc.         | US\$300,000         | 100.00%                          | Planning, development, distribution and sales of smartphone games and consumer games             |
| ACQUIRE Corp                                      | 100 million yen     | 50.07%                           | Planning, development, distribution and sales of smartphone games and consumer games             |
| Grasshopper Manufacture Inc.                      | 10 million yen      | 100.00%                          | Planning and development of consumer games                                                       |
| SUPERTRICK GAMES, Inc.                            | 50 million yen      | 100.00%                          | Planning and development of consumer games                                                       |
| GungHo Online Entertainment Asia Pacific Pte.Ltd. | US\$55,491 thousand | 100.00%                          | Holding company                                                                                  |
| PlayPhone, Inc.                                   | US\$2,000           | 70.00%                           | Provision of global billing service                                                              |
| GungHo Gamanica Co., Limited                      | US\$7,500 thousand  | 51.00%                           | Online distribution and operation of smartphone games                                            |
| mspo, Inc.                                        | 490 million yen     | 69.14%                           | Operation and advertisement distribution of mobile game platform                                 |

Notes: 1. GungHo Online Entertainment America, Inc. is a company established in April 2018.  
2. GhM Co., Ltd. (established on March 30, 2018) was subject to a corporate split from Grasshopper Manufacture Inc. on June 1, 2018. Grasshopper Manufacture Inc. constituted the splitting company of the absorption-type split, and GhM Co., Ltd. constituted the successor company of the absorption-type split. On the same day, the trade name of Grasshopper Manufacture Inc. was changed to SUPERTRICK GAMES, Inc. and the trade name of GhM Co., Ltd. was changed to Grasshopper Manufacture Inc.

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

#### (4) Challenges to be addressed

People have been going online at an accelerating pace in recent years as the smartphones, instead of the PCs, are continuing to penetrate and expand the market on a global basis and with an internet connection being newly enabled for a variety of devices. Meanwhile, game user groups are likely to further expand globally as previous non-users are beginning to play games since devices people commonly use often in their daily lives are starting to be used for playing games with online capability added. In these circumstances, 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.

The following outlines our specific initiatives targeting material challenges.

##### ①Maximizing existing asset value

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 16<sup>th</sup> anniversary since the launch of the service, and “Puzzle & Dragons” for smartphones will celebrate its 7th anniversary in February 2019.

Aiming for the long-term enhancement of the game brand “Puzzle & Dragons,” we offer the brand’s through a variety of channels including “PUZZLE & DRAGONS CROSS Kami no Sho / Ryu no Sho” for Nintendo 3DS, expansion to character-related animation, 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.

##### ②Venturing into new value creation

With various devices going online, the online game market is expected to receive more newcomers, or to consolidate further. Besides, a new market may be created by rapid technological evolution now and in the future with the appearance of other devices that could become game machines. 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.

##### ③Pursuing 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.

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.

##### ④Strengthening corporate governance

Identifying maximization of enterprise value as one of significant business challenges for the Company, we think it is important to build a good relationship with stakeholders and continue growing steadily on a long-term basis. To achieve this goal, we will run the organization in a flexible, sound and fair manner and enhance corporate governance.

##### ⑤Securing 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 Japan Online Game Association, the Company is fully committed to protecting consumers from any disadvantages and to resolving issues through information exchanged among industry players. We believe this should contribute to society’s economic growth.

⑥ Strengthening corporate structure including product development

The video 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, 2018)

- 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, 2018)

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

|                                                    |                                                                           |
|----------------------------------------------------|---------------------------------------------------------------------------|
| Game Arts Co., Ltd.                                | Chiyoda-ku, Tokyo, Japan                                                  |
| GRAVITY Co., Ltd.                                  | Seoul Special City, South Korea                                           |
| GungHo Online Entertainment America, Inc.          | California, United States of America                                      |
| ACQUIRE Corp.                                      | Chiyoda-ku, Tokyo, Japan                                                  |
| Grasshopper Manufacture Inc.                       | Chiyoda-ku, Tokyo, Japan                                                  |
| SUPERTRICK GAMES, Inc.                             | Chiyoda-ku, Tokyo, Japan                                                  |
| GungHo Online Entertainment Asia Pacific Pte. Ltd. | Singapore                                                                 |
| PlayPhone, Inc.                                    | California, United States of America                                      |
| GungHo Gamanian Co., Limited                       | Hong Kong Special Administrative Region of the People's Republic of China |
| mspo, Inc.                                         | Chiyoda-ku, Tokyo, Japan                                                  |

(7) Employees (as of December 31, 2018)

- 1) Employees of the corporate group

| Number of employees | Change from the end of the previous consolidated fiscal year |
|---------------------|--------------------------------------------------------------|
| 1,152 [141]         | Increase of 109                                              |

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

- 2) Employees of the Company

| Number of employees | Change from the end of the previous fiscal year | Average age           | Average number of service years |
|---------------------|-------------------------------------------------|-----------------------|---------------------------------|
| 394 [85]            | Increase of 9                                   | 38 years and 9 months | 6 years and 8 months            |

Notes: 1. Number of employees in the brackets denotes average number of temporary employees for the fiscal year under review  
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, 2017)

| Lender              | Outstanding borrowings |
|---------------------|------------------------|
| Resona Bank Limited | 190 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, 2018)

1) Total number of authorized shares 3,212,000,000 shares

2) Total number of shares outstanding 952,103,160 shares

Notes: Total number of shares outstanding includes the treasury shares (240,617,438 shares).

3) Number of shareholders 97,243

4) Major shareholders

| Shareholder name                                           | Number of shares held | Shareholding ratio |
|------------------------------------------------------------|-----------------------|--------------------|
| Heartis Inc.                                               | 198,690,000 shares    | 27.92%             |
| Japan Trustee Services Bank, Ltd. (Trust Account)          | 60,587,800 shares     | 8.51%              |
| Taizo Son                                                  | 33,850,000 shares     | 4.75%              |
| SoftBank Corp.                                             | 24,840,200 shares     | 3.49%              |
| The Master Trust Bank of Japan, Ltd. (Trust Account)       | 11,897,400 shares     | 1.67%              |
| Son Equities K.K.                                          | 10,810,000 shares     | 1.51%              |
| Kazuki Morishita                                           | 10,096,000 shares     | 1.41%              |
| THE BANK OF NEW YORK 133972                                | 9,714,100 shares      | 1.36%              |
| CDSIL AS DEPOSITARY FOR OLD MUTUAL GLOBAL INVESTORS SERIES | 9,386,100 shares      | 1.31%              |
| Japan Trustee Services Bank, Ltd. (Trust Account 5)        | 9,276,100 shares      | 1.30%              |

Note: Shareholding ratio was calculated by excluding the treasury shares (240,617,438 shares).

(2) Share subscription rights

1) Outline of share subscription rights held by the Company's Directors as of December 31, 2015

|                                                                                         | 2015 3rd<br>share subscription<br>rights | 2016 4th<br>share subscription<br>rights | 2017 5th<br>share subscription<br>rights | 2018 6th<br>share subscription<br>rights |
|-----------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| Date of issue                                                                           | June 25, 2015                            | August 18, 2016                          | May 15, 2017                             | April 10, 2018                           |
| Number of share subscription rights                                                     | 5,159 rights                             | 8,361 rights                             | 7,245 rights                             | 4,291 rights                             |
| Number of holders<br>The Company's Directors (excluding outside Directors)              | 5 persons                                | 5 persons                                | 5 persons                                | 5 persons                                |
| Type and number of shares to which share subscription rights apply                      | Common shares<br>515,900 shares          | Common shares<br>836,100 shares          | Common shares<br>724,500 shares          | Common shares<br>429,100 shares          |
| Issue price of subscription rights                                                      | 468 yen per share                        | 229.39 yen per share                     | 250.78 yen per share                     | 340.47 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)                                   |

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

|                                                                                                                                    | 2018 6th<br>share subscription rights |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| Date of issue                                                                                                                      | April 10, 2018                        |
| Number of share subscription rights                                                                                                | 1,570 rights                          |
| Number of grantees<br>The Company's Corporate Officers (excluding any Corporate Officer concurrently in service as Director of it) | 5 persons                             |
| Type and number of shares to which share subscription rights apply                                                                 | Common shares<br>157,000 shares       |
| Issue price of share subscription rights                                                                                           | 340.47 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 10, 2019 to April 9, 2034  |
| 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, 2018)

| Position                            | Name               | Assignment, and Significant Concurrent Positions                                                                                                                                                                                                                                                 |
|-------------------------------------|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| President & Representative Director | Kazuki Morishita   | President & Representative Director of Game Arts Co., Ltd.<br>Executive Director of GRAVITY Co., Ltd.                                                                                                                                                                                            |
| Director                            | Kazuya Sakai       | Executive General Manager of Finance Accounting Division and CFO of the Company<br>Director of Game Arts Co., Ltd.<br>Executive Director of GRAVITY Co., Ltd.<br>Director of GungHo Online Entertainment Asia Pacific Pte. Ltd.<br>Director of GungHo Gamania Co., Limited                       |
| Director                            | Yoshinori Kitamura | Executive General Manager of GV business division of the company<br>Executive Director of GRAVITY Co., Ltd.                                                                                                                                                                                      |
| Director                            | Masato Ochi        | Executive General Manager of Customer Service Division of the company                                                                                                                                                                                                                            |
| Director                            | Koji Yoshida       | Executive General Manager of Business Administration Division and CCO of the Company<br>Director of GungHo Online Entertainment Asia Pacific Pte. Ltd.                                                                                                                                           |
| Director                            | Taizo Son          | Representative Director of Belleisle K.K.<br>Representative Director of Heartis Inc.                                                                                                                                                                                                             |
| Director                            | Norikazu Oba       | General Manager of the Finance Planning Department of SoftBank Group Corp.<br>Representative Director & Vice President, CFO of J.Score CO., LTD.<br>Director of SoftBank Group Japan Corporation                                                                                                 |
| Director                            | Hidetsugu Onishi   | Co-CEO, Integrity Partners LLC<br>CEO, Avergence Incorporated                                                                                                                                                                                                                                    |
| Director                            | Keiji Miyakawa     | Chairman of Japan of Lincoln International                                                                                                                                                                                                                                                       |
| Full-time Auditor                   | Yoichiro Ando      | Auditor of Game Arts Co., Ltd.                                                                                                                                                                                                                                                                   |
| Auditor                             | Hiroto Uehara      | Representative of Uehara Hiroto Certified Public Accountant Firm                                                                                                                                                                                                                                 |
| Auditor                             | Kaba Toshiro       | Representative of Shiroyama-Tower Law Office<br>Director of TOIN GAKUEN EDUCATIONAL ASSOCIATION<br>Director of TOIN LAW SCHOOL<br>Outside Auditor of CAVE Interactive CO., LTD.<br>Outside Auditor of T-Gaia Corporation<br>Outside Auditor of J.Score CO., LTD<br>Outside Auditor of PIALA Inc. |

- Notes: 1. Hidetsugu Onishi, Director; Keiji Miyakawa, Director fell under the category of outside directors stipulated in Article 2, Item 15 of the Companies Act, and the Tokyo Stock Exchange was notified that they are independent director.
2. Yoichiro Ando, Full-time Auditor; Hiroto Uehara, Auditor; and Toshiro Kaba, Auditor fell under the category of outside auditors stipulated in Article 2, Item 16 of the Companies Act, 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.
4. Keiji Miyakawa was newly elected and assumed office as Director at the 21st Annual General Meeting of Shareholders held on March 23, 2018.

(2) Outline of liability limitation agreement

An agreement has been entered into by and between the Company and Directors, Taizo Son, Norikazu Oba, Hidetsugu Onishi and Keiji Miyakawa, and Auditors, Yoichiro Ando, Hiroto Uehara and Toshiro Kaba, Outside Auditor 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) Amounts of remunerations for Directors and Auditors

| Category | Number of recipients | Amount of payment |
|----------|----------------------|-------------------|
| Director | 8                    | 347 million yen   |
| Auditor  | 3                    | 29 million yen    |
| Total    | 11                   | 377 million yen   |

Notes: 1. The amounts paid for the fiscal year under review 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, 155 million yen  
2. As of December 31, 2018, the number of Directors stood at 9 and that of Auditors at 3. The difference between the combined total of these numbers and the above-mentioned total number of recipients resulted from the fact that one non-remuneration Director existed.  
3. Of the above-mentioned total remunerations, the amount of remunerations for Outside Directors totaled 10 million yen for two Director and 29 million yen for three Auditors.  
4. The above-mentioned amounts for remuneration include the expenses (171 million yen for 5 Directors) incurred and recorded during the fiscal year under review in connection with share subscription rights granted as stock options.

(4) Matters relating to Outside Directors

① Relationship between the Company and significant organization concurrently served in by Director

- I. Hidetsugu Onishi, Director concurrently serves as Co-CEO of Integrity Partners LLC, CEO of Avergence Incorporated, neither of which has any particular relationship with GungHo.
- II. Keiji Miyakawa, Director concurrently serves as Chairman of Japan of Lincoln International, neither of which has any particular relationship with GungHo.
- III. Yoichiro Ando, Auditor concurrently serves as Outside Auditor of Game Arts Co., Ltd., which is a subsidiary of GungHo.
- IV. Hiroto Uehara, Auditor concurrently serves as Representative of Uehara Hiroto Certified Public Accountant Firm, which doesn't have any particular relationship with GungHo.
- V. Toshiro Kaba, Auditor concurrently serves as Representative of Shiroyama-Tower Law Office, Director of TOIN GAKUEN EDUCATIONAL ASSOCIATION, Dean of TOIN LAW SCHOOL, Outside Auditor of CAVE Interactive CO., LTD., Outside Auditor of T-Gaia Corporation, Outside Auditor of J.Score CO., LTD and Outside Auditor of PIALA Inc., neither of which has any particular relationship with GungHo.

② Relationship with specified business operators such as main business connections

Yoichiro Ando, Full-time Auditor, is also an auditor of Game Arts Co., Ltd. and Acquire Corp., subsidiaries of the Company.

③ 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<br>(held 13 times) |                 | Board of Corporate Auditors<br>meeting (held 14 times) |                 |
|----------------------------|-----------------------------------------------|-----------------|--------------------------------------------------------|-----------------|
|                            | Number of<br>attendances                      | Attendance rate | Number of<br>attendances                               | Attendance rate |
| Hidetsugu Onishi, Director | 11 times                                      | 85%             | - times                                                | - %             |
| Keiji Miyakawa, Director   | 10 times                                      | 100%            | - times                                                | - %             |
| Yoichiro Ando, Auditor     | 13 times                                      | 100%            | 14 times                                               | 100%            |
| Hiroto Uehara, Auditor     | 13 times                                      | 100%            | 14 times                                               | 100%            |
| Toshiro Kaba, Auditor      | 12 times                                      | 92%             | 13 times                                               | 93%             |

Note: Keiji Miyakawa (Outside Director) has attended all ten Board of Directors meetings since his appointment in March 2018.

b. Remarks at Board of Directors meetings

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. Yoichiro Ando, Auditor, has knowledge, wide-ranging views and sufficient experience gained mainly through his banking business activities as a former banker. 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 three 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                                                                      | 31 million yen |
| Total amount of money and other compensation reward obliged to be paid to the Accounting Auditor by the Company and its subsidiaries | 31 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) 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 (COO) 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. 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 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. 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 3 yen per share as an ordinary dividend of the fiscal year ended December 31, 2016.

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, 2018)

(Millions of yen)

| Account Items                    | Amount | Account Items                              | Amount  |
|----------------------------------|--------|--------------------------------------------|---------|
| Assets                           |        | Liabilities                                |         |
| Current assets                   | 88,376 | Current liabilities                        | 16,774  |
| Cash and deposits                | 74,322 | Notes and accounts payable-trade           | 6,725   |
| Accounts receivable-trade        | 11,739 | Current portion of long-term loans payable | 159     |
| Short-term investment securities | 394    | Income taxes payable                       | 4,427   |
| Merchandise                      | 2      | Provision for bonuses                      | 7       |
| Work in process                  | 68     | Other                                      | 5,454   |
| Deferred tax assets              | 250    | Non-current liabilities                    | 1,147   |
| Other                            | 1,608  | Long-term loans payable                    | 132     |
| Allowance for doubtful accounts  | △11    | Other                                      | 1,014   |
| Non-current assets               | 7,656  | Total liabilities                          | 17,922  |
| Property, plant and equipment    | 325    | Net assets                                 |         |
| Intangible assets                | 2,077  | Shareholders' equity                       | 73,850  |
| Software                         | 141    | Capital stock                              | 5,338   |
| Software in progress             | 1,821  | Capital surplus                            | 5,487   |
| Other                            | 115    | Retained earnings                          | 143,051 |
| Investments and other assets     | 5,252  | Treasury shares                            | △80,027 |
| Investment securities            | 74     | Accumulated other comprehensive income     | △148    |
| Deferred tax assets              | 2,183  | Foreign currency translation adjustment    | △148    |
| Other                            | 2,995  | Stock option                               | 885     |
|                                  |        | Non-controlling interests                  | 3,522   |
|                                  |        | Total net assets                           | 78,110  |
| Total assets                     | 96,032 | Total liabilities and net assets           | 96,032  |

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



## Consolidated Statements of Income

( From January 1, 2018  
to December 31, 2018 )

(Millions of yen)

| Account Items                                                | Amount |        |
|--------------------------------------------------------------|--------|--------|
| Net sales                                                    |        | 92,101 |
| Cost of sales                                                |        | 42,640 |
| Gross profit                                                 |        | 49,460 |
| Selling, general and administrative expenses                 |        | 22,883 |
| Operating profit                                             |        | 26,577 |
| Non-operating profit                                         |        |        |
| Interest income                                              | 91     |        |
| Other                                                        | 29     | 120    |
| Non-operating expenses                                       |        |        |
| Interest expenses                                            | 5      |        |
| Foreign exchange losses                                      | 29     |        |
| Other                                                        | 2      | 38     |
| Ordinary profit                                              |        | 26,659 |
| Extraordinary loss                                           |        |        |
| Impairment loss                                              | 1,197  |        |
| Loss on valuation of short-term investment securities        | 31     | 1,229  |
| Profit before income taxes and minority interests            |        | 25,430 |
| Income taxes, residential taxes and enterprise taxes-current |        | 8,268  |
| Income taxes and others-deferred                             |        | △537   |
| Profit                                                       |        | 17,699 |
| Profit attributable to non-controlling interests             |        | 1,113  |
| Profit attributable to owners of parent                      |        | 16,585 |

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

## Consolidated Changes in Net Assets

( January 1, 2018 through  
December 31, 2018 )

(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                | 5,474           | 128,609           | △80,118         | 59,303                     |
| Changes of items during the period                             |                      |                 |                   |                 |                            |
| Dividends paid                                                 |                      |                 | △2,133            |                 | △2,133                     |
| Profit attributable to owners of parent                        |                      |                 | 16,585            |                 | 16,585                     |
| Changes of holding by selling stock of consolidated subsidiary |                      | 18              |                   |                 | 18                         |
| Subscription rights to shares                                  |                      | △15             |                   | 91              | 76                         |
| Transfer of disposal losses of treasury shares                 |                      | 10              | △10               |                 |                            |
| Net changes of items other than shareholders' equity           |                      |                 |                   |                 |                            |
| Total changes of items during the period                       | -                    | 13              | 14,441            | 91              | 14,546                     |
| Balance at the end of current period                           | 5,338                | 5,487           | 143,051           | △80,027         | 73,850                     |

|                                                                | Accumulated other comprehensive income  |                                        | Stock Option | Non-controlling interests | Total net assets |
|----------------------------------------------------------------|-----------------------------------------|----------------------------------------|--------------|---------------------------|------------------|
|                                                                | Foreign currency translation adjustment | Accumulated other comprehensive income |              |                           |                  |
| Balance at the beginning of current period                     | 32                                      | 32                                     | 727          | 2,348                     | 62,412           |
| Changes of items during the period                             |                                         |                                        |              |                           |                  |
| Dividends paid                                                 |                                         |                                        |              |                           | △2,133           |
| Profit attributable to owners of parent                        |                                         |                                        |              |                           | 16,585           |
| Changes of holding by selling stock of consolidated subsidiary |                                         |                                        |              |                           | 18               |
| Subscription rights to shares                                  |                                         |                                        |              |                           | 76               |
| Transfer of disposal losses of treasury shares                 |                                         |                                        |              |                           | -                |
| Net changes of items other than shareholders' equity           | △180                                    | △180                                   | 157          | 1,173                     | 1,151            |
| Total changes of items during the period                       | △180                                    | △180                                   | 157          | 1,173                     | 15,698           |
| Balance at the end of current period                           | △148                                    | △148                                   | 885          | 3,522                     | 78,110           |

(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 18
- Major consolidated subsidiaries
  - GAME ARTS Co., Ltd.
  - GRAVITY Co.,Ltd.
  - ACQUIRE Corp.
  - Grasshopper Manufacture Inc.
  - SUPERTRICK GAMES,Inc.
  - GungHo Online Entertainment America,Inc.
  - GungHo Online Entertainment Asia Pacific Pte.Ltd.
  - PlayPhone,Inc.
  - GungHo Gamanian Co.,Limited
  - mspo, Inc.
- 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

##### Other marketable securities

- Securities of market value Stated by using the market value method based on the market price, etc. as of the last day of the consolidated fiscal period, and valuation differences are reported as a component of shareholders' equity and costs of securities sold are calculated by the moving-average method
- Securities of no market value 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 Stated at cost by using the specific cost method (the carrying amount on the balance sheet is reduced for decrease in profitability)
- 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.<br>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.<br>. Shown below are principal useful lives:<br>Buildings: 2 to 18 years<br>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 2015 based on estimated future obligation.                                                                      |

④ 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).

⑤ Accounting treatment of consumption taxes

The tax exclusion method is used for accounting treatment of consumption taxes and municipal consumption taxes.

2. Notes to consolidated balance sheets

Cumulative depreciation of property, plant and equipment     2,624 million yen

### 3. Notes to consolidated statement of income

#### (1) Total research and development expenditure

Research and development  
expenditure included in general and administrative expenses 1,245 million yen

#### (2) Impairment loss

For the consolidated fiscal year under review, the GungHo Group recorded an impairment loss for the following asset categories.

##### 1) Outline of asset groups for which impairment loss was recognized

| Location                                | Use purpose           | Category       |
|-----------------------------------------|-----------------------|----------------|
| Chiyoda-ku,<br>Tokyo, Japan             | Smartphone game, etc. | Software       |
| California, United<br>States of America | Smartphone game, etc. | Software, etc. |

##### 2) Situation that led to the recognition of impairment loss

Impairment loss was recognized regarding game titles for which service suspension and development discontinuation were determined and those with decreased profitability, and shared assets of the consolidated subsidiaries whose profitability decreased.

##### 3) Amount of impairment loss

| Asset category | Amount (millions of yen) |
|----------------|--------------------------|
| Software       | 890                      |
| Others         | 307                      |
| Total          | 1,197                    |

##### 4) Method for grouping assets

The GungHo Group collects together assets mainly on the basis of game title category.

##### 5) Calculation method for recoverable value

The GungHo Group measures recoverable value on the basis of use value, which is appraised with recoverable value at zero if the future cash flow is a negative one.

## 5. Notes to consolidated changes in net assets

### (1) Total number of shares outstanding

| Share class   | Number of shares as of January 1, 2018 (shares) | Increase in the number of shares for the consolidated fiscal year under review (shares) | Decrease in the number of shares for the consolidated fiscal year under review (shares) | Number of shares as of December 31, 2018 (shares) |
|---------------|-------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------------------------------------------|
| Common shares | 952,103,160                                     | —                                                                                       | —                                                                                       | 952,103,160                                       |

### (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 2, 2018 | Common shares | 2,133 million yen | 3.00 yen           | December 31, 2017 | March 7, 2018              |

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 1, 2019 adopted the following proposed resolution for the payment of dividends on common shares.

- |                               |                   |
|-------------------------------|-------------------|
| 1. Total dividends            | 2,134 million yen |
| 2. Dividend per share         | 3.00 yen          |
| 3. Record date                | December 31, 2018 |
| 4. Date of coming into effect | March 6, 2019     |
| 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: 2,528,000 shares

## 5. 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. 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, 2018, 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 |
|---------------------------------------------------|-----------------------------------------------|--------------|------------|
| (1) Cash and deposits                             | 74,322                                        | 74,322       | —          |
| (2) Accounts receivable-trade                     | 11,739                                        | 11,739       | —          |
| Allowance for doubtful accounts*                  | △3                                            | △3           | —          |
| (3) Marketable securities & investment securities | 11,736                                        | 11,736       | —          |
| Other securities                                  | 394                                           | 394          | —          |
| Total assets                                      | 86,453                                        | 86,453       | —          |
| (1) Accounts payable-trade                        | 6,725                                         | 6,725        | —          |
| (2) Long-term loans payable within one year       | 159                                           | 159          | —          |
| (3) Income taxes payable                          | 4,427                                         | 4,427        | —          |
| (4) Long-term loans payable                       | 132                                           | 132          | 0          |
| Total liabilities                                 | 11,444                                        | 11,444       | 0          |

\* Allowance for doubtful accounts that is recorded for accounts receivable-trade is deducted.

Note 1: Information on the method for computing the market value of financial instruments and on marketable securities

Assets

(1) Cash and deposits (2) accounts receivable-trade

Market value of these accounts is stated at balance sheet value since these accounts are settled in a short period of time, making the market value almost identical to the balance sheet value.

(3) Marketable securities & investment securities

Market value of shares is stated at exchange price and that of bonds at a price quoted by counterparty financial institution. Market value of negotiable certificates of deposit is stated at balance sheet value since they are settled in a short period of time, making the market value almost identical to the balance sheet value.

Liabilities

(1) Accounts payable-trade (2) long-term loans payable within 1 year (3) income taxes payable

Market value of these accounts is stated at balance sheet value since they are settled in a short period of time, making the market value almost identical to the balance sheet value.

(4) Long-term loans payable

Market value of long-term loans payable is stated at the present value determined by discounting the total amount of principal and interest at an interest rate expected to be applicable if the amount were newly borrowed in a comparable manner.



Note 2: Financial instruments whose market value is deemed to be very difficult to identify

(Millions of yen)

| Category        | Value recorded on consolidated balance sheets |
|-----------------|-----------------------------------------------|
| Unlisted shares | 74                                            |

No market price is available for unlisted shares whose market value is deemed to be very difficult to identify. Thus, they are not included in “(3) Marketable securities & investment securities.”

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                               | 74,322        | —                              | —                                | —             |
| Accounts receivable-trade                       | 11,739        | —                              | —                                | —             |
| Marketable securities and investment securities |               |                                |                                  |               |
| Of other securities, those with maturity        | 394           | —                              | —                                | —             |
| Total                                           | 86,456        | —                              | —                                | —             |

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 | 159           | 94                             | 37                              | —            |

6. Notes on per-share information

|                          |            |
|--------------------------|------------|
| (1) Net assets per share | 103.59 yen |
| (2) Net income per share | 23.32 yen  |

7. Notes on significant subsequent events

The company resolved to table a proposal regarding a share consolidation of 1 share for every 10 common shares at the forthcoming 22nd Annual General Meeting of Shareholders scheduled for March 22, 2019 at the board of directors held on February 1, 2019, we will implement the share consolidation, which will come into effect on July 1st, 2019 on obtaining the approval of shareholders at the shareholders meeting.

## Balance Sheets

(As of December 31, 2018)

(Millions of yen)

| Account Items                   | Amount | Account Items                     | Amount  |
|---------------------------------|--------|-----------------------------------|---------|
| Assets                          |        | Liabilities                       |         |
| Current assets                  | 70,003 | Current liabilities               | 6,483   |
| Cash and deposits               | 62,868 | Notes and accounts payable-trade  | 302     |
| Accounts receivable-trade       | 5,776  | Accounts payable-other            | 1,758   |
| Advance payments                | 640    | Lease obligations                 | 32      |
| Deferred tax assets             | 250    | Accrued expenses                  | 57      |
| Other                           | 467    | Income taxes payable              | 4,165   |
| Non-current assets              | 11,862 | Other                             | 166     |
| Property, plant and equipment   | 136    | Non-current liabilities           | 347     |
| Buildings                       | 1      | Lease obligations                 | 10      |
| Equipment                       | 135    | Asset disposal obligation         | 337     |
| Intangible assets               | 1,424  | Total liabilities                 | 6,831   |
| Software                        | 49     | Net assets                        |         |
| Software in progress            | 1,279  | Shareholders' equity              | 74,149  |
| Other                           | 95     | Capital stock                     | 5,338   |
| Investments and other assets    | 10,300 | Capital surplus                   | 5,331   |
| Stock of affiliates             | 1,870  | Legal capital surplus             | 5,331   |
| Long-term loans                 | 4,835  | Retained earnings                 | 143,506 |
| Long-term prepaid expenses      | 244    | Other retained earnings           | 143,506 |
| Deferred tax assets             | 5,173  | Retained earnings brought forward | 143,506 |
| Deposit                         | 2,361  | Treasury shares                   | △80,027 |
| Allowance for doubtful accounts | △4,185 | Stock option                      | 885     |
|                                 |        | Total net assets                  | 75,034  |
| Total assets                    | 81,865 | Total liabilities and net assets  | 81,865  |

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

## Profit and Loss Statement

( From January 1, 2018  
to December 31, 2018 )

(Millions of yen)

| Account Items                                      | Amount |        |
|----------------------------------------------------|--------|--------|
| Net sales                                          |        | 62,340 |
| Cost of sales                                      |        | 21,027 |
| Gross profit on sales                              |        | 41,312 |
| Total selling, general and administrative expenses |        | 17,406 |
| Operating profit                                   |        | 23,906 |
| Non-operating profit                               |        |        |
| Interest income                                    | 115    |        |
| Others                                             | 8      | 123    |
| Non-operating expenses                             |        |        |
| Interest expenses                                  | 0      |        |
| Foreign exchange losses                            | 46     |        |
| Others                                             | 1      | 47     |
| Ordinary profit                                    |        | 23,981 |
| Extraordinary loss                                 |        |        |
| Provision of allowance for doubtful accounts       | 546    |        |
| Impairment loss                                    | 358    |        |
| Loss on valuation of stocks of affiliates          | 607    | 1,512  |
| Income before income taxes                         |        | 22,469 |
| Income taxes—current                               |        | 7,466  |
| Income taxes—deferred                              |        | △348   |
| Net profit                                         |        | 15,351 |

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

## Changes in Net Assets

( January 1, 2018 through  
December 31, 2018 )

(Units: Million yen)

|                                                      | Shareholders' equity |                       |                                   |                       |                                   |                         |                 |                             |
|------------------------------------------------------|----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-------------------------|-----------------|-----------------------------|
|                                                      | Capital stock        | Capital surplus       |                                   |                       | Retained earnings                 |                         | Treasury shares | Total share-holders' 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                 | 4                                 | 5,336                 | 130,298                           | 130,298                 | △80,118         | 60,854                      |
| Changes of items during the period                   |                      |                       |                                   |                       |                                   |                         |                 |                             |
| Dividends paid                                       |                      |                       |                                   |                       | △2,133                            | △2,133                  |                 | △2,133                      |
| Net Income                                           |                      |                       |                                   |                       | 15,351                            | 15,351                  |                 | 15,351                      |
| Subscription rights to shares                        |                      |                       | △15                               | △15                   |                                   |                         | 91              | 76                          |
| Transfer of disposal losses of treasury shares       |                      |                       | 10                                | 10                    | △10                               | △10                     |                 |                             |
| Net changes of items other than shareholders' equity |                      |                       |                                   |                       |                                   |                         |                 |                             |
| Total changes of items during the period             | -                    | -                     | △4                                | △4                    | 13,207                            | 13,207                  | 91              | 13,294                      |
| Balance at the end of current period                 | 5,338                | 5,331                 | -                                 | 5,331                 | 143,506                           | 143,506                 | △80,027         | 74,149                      |

|                                                      | Stock option | Total net assets |
|------------------------------------------------------|--------------|------------------|
| Balance at the beginning of current period           | 727          | 61,581           |
| Changes of items during the period                   |              |                  |
| Dividends paid                                       |              | △2,133           |
| Net Income                                           |              | 15,351           |
| Subscription rights to shares                        |              | 76               |
| Transfer of disposal losses of treasury shares       |              | -                |
| Net changes of items other than shareholders' equity | 157          | 157              |
| Total changes of items during the period             | 157          | 13,452           |
| Balance at the end of current period                 | 885          | 75,034           |

(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 equipmenta. Assets acquired prior to or on March 31, other than lease assets 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: 3 years

Tools and fixtures: 3 to 10 years

2) Intangible non-current assetsAmortized mainly by using the straight-line other than lease assets 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) 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.

(5) Accounting treatment of consumption taxes

The tax exclusion method is used for accounting treatment of consumption taxes and municipal consumption taxes.

## 2. Notes on balance sheet

(1) Cumulative depreciation of property, plant and equipment 1,563 million yen

### (2) Monetary claims and liabilities to related companies

|                                 |                   |
|---------------------------------|-------------------|
| Short-term monetary claims      | 34 million yen    |
| Long-term monetary claims       | 4,835 million yen |
| Short-term monetary liabilities | 243 million yen   |

## 3. Notes to profit and loss statement

### (1) Transactions with related companies

|                                      |                   |
|--------------------------------------|-------------------|
| Operating transactions (income)      | 25 million yen    |
| Operating transactions (expenditure) | 2,952 million yen |
| Non-operating transactions (income)  | 117 million yen   |

### (2) Total research & development expenditures

|                                                                                     |                 |
|-------------------------------------------------------------------------------------|-----------------|
| Research & development expenditures included in general and administrative expenses | 388 million yen |
|-------------------------------------------------------------------------------------|-----------------|

## 4. Notes to changes in net assets

|                                                   |                    |
|---------------------------------------------------|--------------------|
| Number of treasury shares as of December 31, 2016 | 240,617,438 shares |
|---------------------------------------------------|--------------------|

## 5. Notes on tax effect accounting

### Breakdown of deferred tax assets by cause

#### Deferred tax assets

|                                                  |                   |
|--------------------------------------------------|-------------------|
| Enterprise taxes payable                         | 206 million yen   |
| Depreciation & amortization excess value         | 707 million yen   |
| Allowance of doubtful accounts                   | 1,281 million yen |
| Loss on valuation of shares in related companies | 2,767 million yen |
| Other                                            | 461 million yen   |
| Subtotal                                         | 5,424 million yen |
| Valuation provision                              | —                 |
| Total deferred tax assets                        | 5,424 million yen |

## 6. 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<br>Provision of loans | Provision of loans      | 520                                 | Long-term loan | 4,145                                |

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

- Notes:
1. Consumption taxes are not included in transaction values and period-end balances.
  2. 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.
  3. The Company recorded 3,495 million yen as an allowance for doubtful accounts related to long-term loans to GungHo Online Entertainment America, Inc.

## 7. Notes on per-share information

|                          |            |
|--------------------------|------------|
| (1) Net assets per share | 104.22 yen |
| (2) Net income per share | 21.58 yen  |

## 8. Notes on companies to which regulation on consolidated dividend applies

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

## 9. Notes on significant subsequent events

The company resolved to table a proposal regarding a share consolidation of 1 share for every 10 common shares at the forthcoming 22nd Annual General Meeting of Shareholders scheduled for March 22, 2019 at the board of directors held on February 1, 2019, we will implement the share consolidation, which will come into effect on July 1st, 2019 on obtaining the approval of shareholders at the shareholders meeting.

## Accounting Auditor's report on consolidated financial statements

### Independent Auditor's Report

February 15, 2019

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

Designated and Engagement Partner  
Yoshio Chiyoda (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

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, 2018 to December 31, 2018, which consist of consolidated balance sheets, consolidated statements of income, consolidated statements of changes in net assets and notes to consolidated financial statements.

#### Management's Responsibility for Consolidated Financial Statements:

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with accounting standards generally accepted in Japan. This responsibility includes development and operation of internal controls that are deemed necessary by management for preparing and fairly presenting consolidated financial statements that are free from material misstatements, whether due to fraud or error.

#### Auditors' Responsibility:

Our responsibility is to express, based on our audit, an opinion on these consolidated financial statements from an independent standpoint. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we formulate an audit plan and perform the audit according to the plan in order to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures are selected and applied at the auditors' judgment, based on an assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. Although the purpose of the audit is not to express an opinion on the effectiveness of the entity's internal controls, in making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances. An audit also includes evaluating accounting policies used by management, how they were applied and accounting estimates made by management, as well as examining the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Auditors' Opinion:

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 corporate group which consists of the Company and its consolidated subsidiaries for the period covered by the consolidated financial statements in conformity with accounting principles generally accepted in Japan.

#### Matter to be Emphasized

As recorded in the notes on significant subsequent events, a resolution was passed at the Board of Directors meeting held on February 1, 2019 to the effect that a proposal would be tabled at the forthcoming 22nd Annual General Meeting of Shareholders scheduled for March 22, 2019 regarding a share consolidation of one (1) share for every ten (10) common shares to go into effect on July 1, 2019.

The matter in question will not have any impact on this auditor's opinion.

#### Conflict of interest:

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



## Accounting Auditor's report on non-consolidated financial statements

### Independent Auditor's Report

February 15, 2019

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

Designated and Engagement Partner  
Yoshio Chiyoda (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

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 22nd fiscal year from January 1, 2018 to December 31, 2018, 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.

#### Management's Responsibility for Non-Consolidated Financial Statements:

Management is responsible for the preparation and fair presentation of non-consolidated financial statements in accordance with accounting standards generally accepted in Japan. This responsibility includes development and operation of internal controls that are deemed necessary by management for preparing and fairly presenting non-consolidated financial statements and their supplementary schedules that are free from material misstatements, whether due to fraud or error.

#### Auditors' Responsibility:

Our responsibility is to express, based on our audit, an opinion on these non-consolidated financial statements and their supplementary schedules from an independent standpoint. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we formulate an audit plan and perform the audit according to the plan in order to obtain reasonable assurance about whether the non-consolidated financial statements and their supplementary schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and their supplementary schedules. The procedures are selected and applied at the auditors' judgment, based on an assessment of the risks of material misstatement of the non-consolidated financial statements and their supplementary schedules, whether due to fraud or error. Although the purpose of the audit is not to express an opinion on the effectiveness of the entity's internal controls, in making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and their supplementary schedules in order to design audit procedures that are appropriate for the circumstances. An audit also includes evaluating accounting policies used by management, how they were applied and accounting estimates made by management, as well as examining the overall presentation of the non-consolidated financial statements and their supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Auditors' Opinion:

In our opinion, the non-consolidated financial statements and their supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of the Company for the period covered by the non-consolidated financial statements and their supplementary schedules in conformity with accounting principles generally accepted in Japan.

#### Matter to be Emphasized

As recorded in the notes on significant subsequent events, a resolution was passed at the Board of Directors meeting held on February 1, 2019 to the effect that a proposal would be tabled at the forthcoming 22nd Annual General Meeting of Shareholders scheduled for March 22, 2019 regarding a share consolidation of one (1) share for every ten (10) common shares to go into effect on July 1, 2019.

The matter in question will not have any impact on this auditor's opinion.

#### Conflict of interest:

We have no interest in or relationship with the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

## Audit report by the Board of Corporate Auditors

### Audit Report

Regarding the performance of duties by Directors for the 22nd fiscal year from January 1 to December 31, 2018, 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) With regard to matters stated in the Business Report as set forth in Article 118, Item 5 (a) of the Companies Act Enforcement Regulations and judgment and reason set forth in Article 118, Item 5 (b) of the same regulations, Auditors examined these matters in consideration of the state of deliberations at Board of Directors meetings and other meetings.
- (iv) 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, 2017, 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.

4) Our audit did not discover any matter required to be pointed out with regard to any conscious effort made not to harm the Company's interests when engaging in such transactions with the parent and other relevant entity as are specified in the Business Report, and concerning judgment by the Board of Directors on whether any of such transactions would harm the Company's interests as well as the reason for the judgment.

### (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 19, 2019

Yoichiro Ando

Full-time Auditor

Hiroto Uehara

Auditor

Toshiro Kaba

Auditor

Board of Corporate Auditors

GungHo Online Entertainment, Inc.

Note: Yoichiro Ando, Auditor, Hiroto Uehara, Auditor and Toshiro Kaba, Auditor are all external 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: Consolidation of Shares

##### 1. Reason of the consolidation

The company implemented share splits between 2013 to 2014 to improve liquidity of shares and broaden investor base in consideration of the company's share price and investment unit. As a result, the total number of outstanding shares by the Company was 952,103,160 as of December 31, 2018, but this is approximately 6.6 times the average for companies listed on the first section of the Tokyo Stock Exchange. The majority of other companies in the same industry that are listed on the Tokyo Stock Exchange have an total number of outstanding shares of fewer than 150,000,000, in comparison to which the number of the Company's shares issued is extremely high.

With regard to the share price, the smallest unit of change for the share price (1 yen) results in a relatively large percentage change, and its status as a target for speculation tends to result in large fluctuations in the share price. We recognize that this can have a significant effect on general shareholders. Moreover, the current share price level is below the lower end of the investment unit range of 50,000 yen to 500,000 yen designated as desirable by the Tokyo Stock Exchange's Securities Listing Regulations.

In order to rectify this situation, the Company has decided to implement a share consolidation of 1 share for every 10 shares, conditional on obtaining the approval of shareholders at the AGM. With regard to the share price, because external factors such as market conditions are also involved it is not possible to make definitive statements, but in theory a consolidation of shares would be expected to result in an increase in the share price proportional to the consolidation ratio. Accordingly, this would resolve the issue of the large percentage changes in the share price for every 1-yen move, which could be expected to result in a more appropriate evaluation of the Company's shares in the stock market, in addition to which we anticipate that it would be easier to compare the Company's share price and per-share indicators (profit, net assets, etc.) with those of other companies. Moreover, the share price level after the consolidation is predicted to fall within the investment unit range of 50,000 yen to 500,000 yen designated as desirable by the Tokyo Stock Exchange's Securities Listing Regulations.

##### 2. Consolidation ratio

The Company will implement a share consolidation of 1 share for every 10 shares regarding common stock. In the event that fractions of less than 1 share are generated as a result of the consolidation of shares, the Company shall dispose of such fractions all together, or purchase them as treasury shares, and distribute the proceeds to the shareholders for which fractions arose, in proportion to the incidence of those fractions.

##### 3. Date on which the consolidation of shares comes into effect

July 1st, 2019

##### 4. Total number of shares authorized to be issued after consolidation

321,200,000 shares

##### 5. Other

The share consolidation to which this proposal pertains shall be conducted on the condition that Proposal 2 (Partial Amendment of the Article of Incorporation) is subject to approval at the Annual General Meeting of Shareholders. Please note that the Company would like to leave any matters required in terms of other procedures to the Board of Directors of the Company.

Note: The share consolidation will result in a decrease of the total number of shares outstanding to 1/10th of the current number. However, net assets and other such figures will not fluctuate as a result, meaning that the amount of net assets per share will increase ten-fold. There will be no fluctuations seen in terms of asset value for shares of the Company owned by shareholders other than fluctuations resulting from other factors,

such as fluctuations seen in stock market conditions.

[Reference]

1. As contained in a press release published by the Company on February 1, 2019, an acquisition of treasury shares will be conducted on the condition that approval is obtained for this proposal concerning a consolidation of shares.

If we exclude factors such as changes in market conditions, this consolidation of shares will not affect the asset value of shares of the Company owned by its shareholders, but because it will result in the occurrence of shares amounting to less than one trading unit, a certain number of shares may be disposed of in the market, for which reason the Company will, in addition to acquiring treasury shares, seek to improve capital efficiency and to raise the shareholder value per share, with the aim of improving returns to shareholders.

2. Details of matters relating to the acquisition

|                                           |                                 |
|-------------------------------------------|---------------------------------|
| (1) Type of shares to be acquired         | Common stock                    |
| (2) Total number of shares to be acquired | To be decided                   |
| (3) Total purchase amount                 | 5,000 million yen (upper limit) |
| (4) Period of acquisition                 | To be decided                   |

\*The total number of shares to be acquired and the period of acquisition are scheduled to be decided by resolution at a meeting of the Board of Directors to be held after approval for the consolidation of shares has been obtained at the 22nd Annual General Meeting of Shareholders on March 22, 2019.

## Proposal 2: Partial Amendment of the Article of Incorporation

1. Reason for amending the Articles of Incorporation

1) The amendment to Article 6 of the current Articles of Incorporation ("Total number of shares authorized to be issued") is proposed in order to reduce the total number of shares authorized to be issued in accordance with the consolidation of shares ratio of Proposal 1: Consolidation of Shares.

\*The amendment to Article 6 of the current Articles of Incorporation ("Total number of shares authorized to be issued"), shall be contingent on Proposal 1 for the consolidation of shares, being approved, and shall be effected on the date on which the consolidation of shares comes into force (July 1, 2019).

2) In order to put in place a system for the additional purchase of shares amounting to less than one trading unit, the proposed amendments require the addition of a new Paragraph 4 to Article 8 ("Rights pertaining to shares amounting to less than one trading unit"), and Article 9 ("Additional purchase of shares amounting to less than one trading unit").

3) In addition to the above, the article numbers will be shifted downward in accordance with the establishment of new provisions.

\*The proposed amendments for the addition of a new Paragraph 4 to Article 8 ("Rights pertaining to shares amounting to less than one trading unit"), and Article 9 ("Additional purchase of shares amounting to less than one trading unit"), as well as the downward shift in the article numbers, are conditional upon approval being obtained for the proposal related to the consolidation of shares, and shall come into force at the point at which approval is gained at the AGM.

## 2. Details of the amendments

Changes are as follows.

| Current Articles Of Incorporation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Proposed amendment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(Total number of shares authorized to be issued)</p> <p>Article 6</p> <p>The total number of shares authorized to be issued by the Company shall be <u>3,212,000,000</u> shares.</p> <p>(Rights pertaining to shares amounting to less than one trading unit)</p> <p>Article 8</p> <p>A shareholder of the Company may not exercise any rights with respect to shares amounting to less than one trading unit owned by said shareholder, except for the following:</p> <p>(1) - (3) (Article text omitted)</p> <p><u>(Newly established)</u></p> | <p>(Total number of shares authorized to be issued)</p> <p>Article 6</p> <p>The total number of shares authorized to be issued by the Company shall be <u>321,200,000</u> shares.</p> <p>(Rights pertaining to shares amounting to less than one trading unit)</p> <p>Article 8</p> <p>A shareholder of the Company may not exercise any rights with respect to shares amounting to less than one trading unit owned by said shareholder, except for the following:</p> <p>(1) - (3) (Unchanged)</p> <p><u>(4)The right to make a request pursuant to the provisions of the following article</u></p> |

### Proposal 3: Election of Nine (9) Directors

The terms of office of all nine (9) Directors will expire at the close of this Annual General Meeting of Shareholders. Thus, it is proposed that nine (9) Directors.

The candidates for Directors are as follows:

| No. | Name<br>(Date of Birth)                  | Career Summary, Position, Assignment, and<br>Significant Concurrent Positions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Number of<br>Company Shares<br>Held |
|-----|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 1   | Kazuki Morishita<br>(September 16, 1973) | <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 &amp; CEO of the Company (to present)</p> <p>December 2005    Director of Game Arts Co., Ltd.</p> <p>March 2008    President &amp; Representative Director of Game Arts Co., Ltd. (to present)</p> <p>(Significant Concurrent Positions)</p> <p>President &amp; Representative Director of Game Arts Co., Ltd.</p> <p>Executive Director of GRAVITY Co., Ltd.</p> | 10,096,000<br>shares                |

| No. | Name<br>(Date of Birth)            | Career Summary, Position, Assignment, and<br>Significant Concurrent Positions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Number of<br>Company Shares<br>Held |
|-----|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 2   | Kazuya Sakai<br>(January 28, 1965) | <p>April 1987    Joined The Kyushu Sogo Bank, Ltd. (currently, The Shinwa Bank, Ltd.)</p> <p>January 1993    Joined Expression Tools, Inc.</p> <p>April 1996    Director and General Manager of Administration Division of Expression Tools, Inc.</p> <p>April 2000    Vice President of Expression Tools, Inc.</p> <p>April 2002    Chief Executive Officer of Expression Tools, Inc.</p> <p>November 2003    Representative Liquidator 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    General Manager of Financial Strategy Division and CFO of the Company</p> <p>April 2009    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 &amp; Accounting Division and CFO of the Company</p> <p>January 2011    Managing Executive Officer and Executive General Manager of Finance &amp; 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 &amp; 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 GungHo Online Entertainment Asia Pacific Pte. Ltd.</p> <p>Director of GungHo Gamania Co., Limited    Director</p> | 1,000,000<br>shares                 |

| Candidate No. | Name<br>(Date of Birth)               | Career Summary, Position, Assignment, and<br>Significant Concurrent Positions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Number of<br>Company Shares<br>Held |
|---------------|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 3             | Yoshinori Kitamura<br>(June 11, 1968) | <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 (to present)</p> <p>October 2015    Executive General Manager of GV business Division of the Company (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Executive Director of GRAVITY Co., Ltd.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 400,000<br>shares                   |
| 4             | Masato Ochi<br>(December 17, 1968)    | <p>April 1987        Joined Ebisho Co. Ltd.</p> <p>January 1992    Joined Daiichi Takachiho Corporation</p> <p>October 1995    Joined SOFTCREATE CORP</p> <p>May 2000        Director of Dolphin Net Corporation as Director</p> <p>December 2000    Joined Kickers Network, Inc.</p> <p>February 2002    Joined ALISS-NET Co., Ltd.</p> <p>February 2004    Joined GungHo Online Entertainment, Inc.</p> <p>February 2007    General Manager of Marketing Division No. 3 of the Company</p> <p>July 2007        Executive General Manager of Publishing Division of the Company</p> <p>April 2008        Senior Executive Officer and General Manager of Online Division of the Company</p> <p>October 2009    Managing Executive Officer and General Manager of Game Division of the Company</p> <p>March 2010      Director of the Company (to present)</p> <p>July 2010        Managing Executive Officer and General Manager of Game Division and Executive General Manager of Business Administration Division of the Company</p> <p>January 2011    Managing Executive Officer and General Manager of Game Division of the Company</p> <p>January 2012    Managing Executive Officer and Senior General Manager of Online Division of the Company</p> <p>March 2012      Senior General Manager of Online Division of the Company</p> <p>May 2014        Executive General Manager of System/CustomerService Division of the Company</p> <p>April 2017        Executive General Manager of CustomerService Division of the Company (to present)</p> | 50,000<br>shares                    |



| Candidate No. | Name<br>(Date of Birth)             | Career Summary, Position, Assignment, and<br>Significant Concurrent Positions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Number of<br>Company Shares<br>Held |
|---------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 5             | Koji Yoshida<br>(November 27, 1953) | <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 and CCO of the Company (to present)</p> <p>March 2012    Director of the Company (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Director of GungHo Online Entertainment Asia Pacific Pte. Ltd.</p> | 10,000<br>shares                    |
| 6             | Taizo Son<br>(September 29, 1972)   | <p>February 1996    President and Representative Director of Indigo Corporation</p> <p>April 2000    Director of SoftBank E-Commerce Corp. (currently, SoftBank Corp.)</p> <p>August 2000    President and Representative Director of ONSale Co., Ltd. (currently, GungHo Online Entertainment, Inc.)</p> <p>January 2004    Chairman of GungHo Online Entertainment, Inc.</p> <p>March 2016    Director of GungHo Online Entertainment, Inc. (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Representative Director of Belleisle K.K.</p> <p>Representative Director of Heartis Inc.</p>                                                                                                                                                                                      | 33,850,000<br>shares                |
| 7             | Norikazu Oba<br>(August 27, 1966)   | <p>April 1989    Joined The Mitsubishi Bank, Ltd. (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.)</p> <p>December 2006    Group Manager of Finance Planning, Finance Department of SoftBank Corp. (currently, SoftBank Group Corp.)</p> <p>June 2008    Senior Executive Officer and Executive General Manager of Financial Strategy Division of GungHo Online Entertainment, Inc. (seconded from SoftBank Corp.)</p> <p>March 2011    Director of the Company (to present)</p> <p>(Significant Concurrent Positions)</p> <p>General Manager of the Finance Planning Department of SoftBank Group Corp</p> <p>Representative Director &amp; Vice President and CFO of J.Score CO., LTD.</p>                                                                                               | —                                   |

| Candidate No. | Name<br>(Date of Birth)              | Career Summary, Position, Assignment, and<br>Significant Concurrent Positions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Number of<br>Company Shares<br>Held |
|---------------|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| 8             | Hidetsugu Onishi<br>(March 7, 1964)  | <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 &amp; CFO, FAST RETAILING CO., LTD.</p> <p>November 2011    Outside Director, Karita and Company, Inc. (to present)</p> <p>September 2013    Outside Director, beauty experience Inc. (to present)</p> <p>March 2016    Director of the Company (to present)</p> <p>(Significant Concurrent Positions)</p> <p>Co-CEO, Integrity Partners LLC</p> <p>CEO, Avergence Incorporated</p>                                                                                | 7,300<br>shares                     |
| 9             | Keiji Miyakawa<br>(November 5, 1958) | <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&amp;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 (to present)</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>(Significant Concurrent Positions)</p> <p>Senior Advisor of Japan of Lincoln International</p> | 5,000<br>shares                     |

(Note)

- The candidates proposed to serve as Directors do not have any special interests in the Company.
- Mr. Hidetsugu Onishi and Mr. Keiji Miyakawa are outside director candidates.
- The reason that an outside director candidate Mr. Hidetsugu Onishi and Mr. Keiji Miyakawa elected as the outside director candidate are as follows.
  - (1) It will be proposed that Mr. Onishi be elected as Outside Director because, given the wealth of experience and extensive knowledge he has in corporate business administration, the Company intends to obtain his advice on its overall business administration, thereby striving to further enhance its corporate governance platform, grow the organization continuously and improve its enterprise value further. Please note that the term of office for this individual as an Outside Director of the Company will be three years starting at the end of this Annual General Meeting of Shareholders.
  - (2) It will be proposed that Mr. Keiji Miyakawa be elected as Outside Director because, given the wealth of experience and expertise he has as a financial services executive, the Company intends to obtain his advice on its overall business administration, thereby striving to further enhance its corporate governance platform, grow the organization continuously, and further improve its enterprise value. Please note that the term of office for this individual as an Outside Director of the Company will be one year starting at the end of this Annual General Meeting of Shareholders.
- A liability limitation agreement has been entered into by and between the Company and Directors, Mr. Taizo Son, Mr. Norikazu Oba, Mr. Hidetsugu Onishi and Mr. Keiji Miyakawa. If the elections of director candidates are approved, the Company will enter into a liability limitation agreement. Regarding outline of liability agreement, please refer to page10.