



Consolidated Financial Results
for the Fiscal Year Ended December 31, 2014
[IFRS]

February 12, 2015

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

URL: <http://www.nexon.co.jp/>

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Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2015

Scheduled date of filing annual securities reports: March 30, 2015

Scheduled date of dividend payment commencement: March 30, 2015

Supplementary briefing material on financial results: Yes

Financial results briefing: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded off.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2014

(From January 1, 2014 to December 31, 2014)

(1) Consolidated Operating Results

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of parent		Total comprehensive income	
FY 2014	172,930	11.3%	45,509	(10.2)%	52,671	8.3%	29,421	(2.9)%	29,316	(2.7)%	41,824	(55.0)%
FY 2013	155,338	43.3%	50,705	7.3%	48,648	12.3%	30,305	7.6%	30,132	6.5%	93,019	138.3%

	Basic earnings per share from continuing operations	Diluted earnings per share from continuing operations	Ratio of net income to equity attributable to owners of parent	Ratio of income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY 2014	67.43	66.34	9.0	12.3	26.3
FY 2013	68.83	67.70	11.4	13.2	32.6

(Reference): Equity in loss of affiliates FY2014 ¥(198) million, FY2013 ¥(95) million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent	Equity attributable to owners of parent per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2014	437,022	345,477	340,380	77.9	789.28
December 31, 2013	418,851	313,059	308,482	73.6	702.14

(3) Consolidated Cash Flow

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
FY 2014	58,118	(61,820)	(27,050)	117,729
FY 2013	60,208	(6,345)	(13,033)	138,843

2. Dividends

	Annual Dividends					Total amount of cash dividends (annual)	Dividends payout ratio (consolidated)	Ratio of total amount of dividends to equity attributable to owners of parent (consolidated)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2013	-	5.00	-	5.00	10.00	4,390	14.5	1.7
FY 2014	-	5.00	-	5.00	10.00	4,332	14.8	1.3
FY 2015 (Forecast)	-	5.00	-	5.00	10.00		-	

3. Consolidated Financial Results Forecast for the First Quarter of Fiscal Year Ending December 31, 2015
(From January 1, 2015 to March 31, 2015)

(% changes from the previous corresponding period)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of parent		Basic earnings per share
	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%	Yen
First Quarter	44,259	(6.8)%	14,715	(30.5)%	15,492	(28.8)%	13,006	(20.3)%	12,793	(20.8)%	29.66
	47,728	0.5%	18,138	(14.3)%	18,917	(13.1)%	15,898	(2.6)%	15,669	(2.9)%	36.33

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2015, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2015 and the fiscal year ending December 31, 2015 at the moment, and accordingly, only the financial results forecasts for the first three months of the fiscal year ending December 31, 2015 is disclosed. Also, as it is difficult to estimate specific figures, disclosure is made with a range. For details, please refer to "1. Analysis on Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast" on page 9 of the Appendix.

*(Notes)

(1) Changes in significant subsidiaries during the current year (changes in specified subsidiaries that result in changes in scope of consolidation): No

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

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

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

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

As of December 31, 2014: 431,256,017 shares

As of December 31, 2013: 439,343,900 shares

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

As of December 31, 2014: - shares

As of December 31, 2013: 83 shares

3) Average number of shares during the period (cumulative):

For the fiscal year ended December 31, 2014: 434,782,748 shares

For the fiscal year ended December 31, 2013: 437,778,086 shares

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2014
(From January 1, 2014 to December 31, 2014)

(1) Non-consolidated Operating Results

(% changes from the previous fiscal year)
(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2014	7,987	(28.9)%	(3,277)	-	24,532	92.9%	3,530	(53.2)%
FY 2013	11,236	(3.6)%	(868)	-	12,715	-	7,539	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2014	8.12	8.00
FY 2013	17.22	16.94

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Total equity	Equity ratio	Net assets per share
December 31, 2014	148,097	110,725	72.1%	247.61 yen
December 31, 2013	180,643	127,896	69.8%	286.81 yen

(Reference): Equity at December 31, 2014: ¥106,785 million, Equity at December 31, 2013: ¥126,008 million

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

*Presentation regarding the Audit Procedures

This financial report is outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of this financial report, the audit procedures for the consolidated financial statements are in progress.

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

(Caution Concerning Forward-Looking Statements)

The forward-looking statements including the financial results forecast herein are based on the information available to the Company and certain assumptions that can be deemed reasonable at time of publication of this document, and are not intended as the Company's commitment to achieve such forecasts. Actual results may differ significantly from these forecasts due to various factors. For conditions prerequisite to the financial results forecast and the points to be noted in the use thereof, please refer to "1. Analysis on Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast" on page 9 of the Appendix.

(Regarding the Method of Obtaining Supplementary Briefing Material on Financial Results)

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

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1. Analysis on Operating Results and Financial Position

(1) Analysis on Operating Results

During the fiscal year ended December 31, 2014, the world economy generally witnessed a gradual recovery. In the U.S., business climate continued to show improvement and consumer spending and residential market also showed a steady growth. In Europe, the U.K. continued to show a high-rate growth while the economy in Germany and Italy remained stagnant, and the overall economy showed a moderate recovery. The Asian economy remained on an expansion trend, but the pace of the expansion in the area as a whole slowed down due to further growth recession in the Chinese economy. The Japanese economy experienced a continued decline in consumer spending after the consumption tax rise, but employment and income maintained an upward trend, which led to a recovery in production and consumer spending later in the period.

Three major trends are apparent in the game industry today. The first is the change from offline to online; the second is player migration from “single player games” to “multiplayer games”; and the third is the changes in monetization triggered by the introduction of “free-to-play” games. In addition to these changes, the penetration of broadband Internet environment and smartphones (mobile phones with high functionality) on a global basis contributed to expansion of the market for online games played over PCs and mobile devices across the world.

Under these circumstances, the Group is engaged in PC online and mobile businesses that provide games played over hardware such as PCs and mobile devices. In order to provide users with an enjoyable game experience, the Group has endeavored to develop or obtain publishing rights of exciting, creative and high-quality new game titles, and update the contents of existing game titles. Specifically, the Group has worked on various initiatives such as the enhancement of in-house game development capabilities, business alliance with leading partner companies, strategic investments in leading game developers and acquisition of distribution rights of new game titles and attractive content updates for the existing game titles, as well as enhancement of business base to enable these initiatives.

For the fiscal year ended December 31, 2014, the Group recorded revenue of ¥172,930 million (up 11.3% year-on-year), operating income of ¥45,509 million (down 10.2% year-on-year), income before income taxes of ¥52,671 million (up 8.3% year-on-year) and net income attributable to owners of the parent of ¥29,316 million (down 2.7% year-on-year).

For the fiscal year ended December 31, 2014, revenue increased year-on-year due to factors including: significant increase in the number of users and revenue of *EA SPORTS™ FIFA Online 3* (“*FIFA Online 3*”) and *EA SPORTS™ FIFA Online 3M* (“*FIFA Online 3M*”) in Korea as certain events, promotion and contents update coordinated with the FIFA World Cup were well received by users; strong sales not only from our existing PC online game titles including *Dungeon & Fighter*, *Sudden Attack*, and *Maple Story* but also from mobile game titles including *Legion of Heroes*, *Legion of Heroes for Kakao*, and *Three Sword Heroes*; stable growth in the number of users of *Dungeon & Fighter* in China throughout the year; and the weaker yen compared with the previous fiscal year. In terms of expenses, cost of sales increased year-on-year due to an increase in royalty payments in line with strong sales of *FIFA Online 3* and *FIFA Online 3M* and an increase in personnel costs as a result of increase in employees and weaker yen compared with the previous fiscal year. Selling, general and administrative expenses increased year-on-year due to increases in research and development cost, commission expense, stock option cost, and personnel cost.

Performance results by reportable segments are as follows:

(a) Japan

In Japan, revenue amounted to ¥29,947 million (down 17.7% year-on-year) due to declined sales of both PC online games and mobile games, and segment loss amounted to ¥1,275 million (segment profit was ¥3,689 million for the fiscal year ended December 31, 2013).

(b) Korea

In Korea, with the positive impact of the FIFA World Cup which significantly increased the number of new users, strong sales of *FIFA Online 3* and *FIFA Online 3M* contributed to the business results. In addition, sales of our existing PC online game titles including *Dungeon & Fighter*, *Sudden Attack* and *Maple Story* showed a strong growth as a result of well-received content updates, and mobile game titles including *Legion of Heroes*, *Legion of Heroes for Kakao*, and *Three Sword Heroes* also contributed to the business results. Revenue in

Korea includes royalty income of NEOPLE INC. (a local consolidated subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China. During the fiscal year ended December 31, 2014, our core PC online game title in China *Dungeon & Fighter* launched high-quality content updates in each quarter, which were well received by users. Weaker yen also benefited the business results. As a result, revenue amounted to ¥130,893 million (up 23.0% year-on-year), and segment profit amounted to ¥61,883 million (up 9.9% year-on-year).

(c) China

In China, revenue amounted to ¥4,313 million (down 9.8% year-on-year), and segment profit amounted to ¥2,561 million (down 15.4% year-on-year) due to decline in consulting fees related to the existing PC online game titles.

(d) North America

In North America, revenue from certain existing game titles turned upward year-on-year from the quarter ended September 30, 2014 as a result of improvement in operation and marketing for game titles. Revenue from the other titles, however, decreased, resulting in revenue of ¥5,522 million (up 0.0% year-on-year) and segment loss of ¥2,746 million (loss of ¥1,406 million for the fiscal year ended December 31, 2013).

(e) Other

In other regions, revenue amounted to ¥2,255 million (up 1.9% year-on-year) and segment loss amounted to ¥435 million (segment profit was ¥74 million for the fiscal year ended December 31, 2013).

(2) Analysis on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2014 amounted to ¥437,022 million, an increase of ¥18,171 million from December 31, 2013. Major components of the change in assets include a decrease of ¥21,114 million in cash and cash equivalents, an increase of ¥56,826 million in other deposits due to placement of term deposit, a decrease of ¥10,376 million in goodwill due to impairment, and a decrease of ¥10,079 million in intangible assets due to amortization and impairment.

(Liabilities)

Total liabilities as of December 31, 2014 amounted to ¥91,545 million, a decrease of ¥14,247 million from December 31, 2013. Major components of the decrease in liabilities include a decrease in borrowings of ¥11,589 million from repayment.

(Equity)

Equity as of December 31, 2014 totaled ¥345,477 million, an increase of ¥32,418 million from December 31, 2013. Major components of the increase in equity include an increase of ¥23,651 million in retained earnings from recording net income and an increase of ¥17,576 million in other equity interest.

(b) Cash flows

Cash and cash equivalents (“Cash”) as of December 31, 2014 was ¥117,729 million, a decrease of ¥21,114 million from December 31, 2013.

Cash flows from each activity for the fiscal year ended December 31, 2014 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥58,118 million, compared to ¥60,208 million for the fiscal year ended December 31, 2013. Major components include income before income taxes of ¥52,671 million, depreciation and amortization of ¥15,622 million, and impairment loss of ¥14,672 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥61,820 million, compared to ¥6,345 million for the fiscal year ended December 31, 2013. Major components include an increase in other deposits of ¥50,830 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥27,050 million, compared to ¥13,033 million for the fiscal year ended December 31, 2013. Major components include repayment of long-term borrowings of ¥12,327 million and acquisition of treasury stocks of ¥10,043 million.

(Reference) The trends of cash flow index are as follows:

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Ratio of equity attributable to owners of the parent (%)	73.6	77.9
Ratio of equity attributable to owners of the parent at fair value (%)	102.0	111.0
Interest-bearing liabilities to cash flow ratio (years)	0.8	0.6
Interest coverage ratio (times)	82.4	106.7

Ratio of equity attributable to owners of the parent: $\text{Equity attributable to owners of the parent (end of year)} / \text{total assets (end of year)}$

Ratio of equity attributable to owners of the parent at fair value: $\text{Market capitalization} / \text{total assets (end of year)}$

Interest-bearing liabilities to cash flow ratio: $\text{Interest-bearing liabilities} / \text{cash flows}$

Interest coverage ratio: $\text{cash flows} / \text{interest paid}$

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

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

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

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

(3) Qualitative Information on Consolidated Financial Results Forecast

The business environment surrounding the Group has been changing in expectation of further development of the high-speed Internet environment for PC and mobile around the world. With regard to consolidated financial results forecast, it is difficult to forecast specific figures for full-year financial results as it is difficult to project the growth of the PC online game and the mobile game market, in which the Group's main businesses operate, and the Group's revenue largely depends on such uncertain factors as preference of users and the presence of popular titles. In order to provide more accurate information to our shareholders and investors, the Group decided to disclose consolidated financial results forecast for the following quarter with a range.

For the three months ending March 31, 2015, the Group expects consolidated revenue in the range of ¥44,259 ~ 47,728 million (a decrease of 6.8% ~ an increase of 0.5% year-on-year), operating income in the range of ¥14,715 ~ 18,138 million (a decrease of 30.5% ~ 14.3% year-on-year), income before income taxes in the range of ¥15,492 ~ 18,917 million (a decrease of 28.8% ~ 13.1% year-on-year), net income in the range of ¥13,006 ~ 15,898 million (a decrease of 20.3% ~ 2.6% year-on-year), net income attributable to owners of the parent in the range of ¥12,793 ~ 15,669 million (a decrease of 20.8% ~ 2.9% year-on-year), and basic earnings per share in the range of ¥29.66 ~ 36.33. The Group operates a global business in Japan, South Korea, China, the United States and other countries. Major exchange rates are assumed to be 1 U.S. dollar = ¥114.54, 100 South Korean won = ¥10.55 and 1 Chinese Yuan = ¥18.59. In most cases, the exchange rates of both the South Korean won and the Chinese Yuan are linked to the U.S. dollar. We expect that every one Japanese yen move against the U.S. dollar will have an impact of approximately ¥283 million on revenue and approximately ¥135 million on operating income for the three months ending March 31, 2015.

For the three months ending March 31, 2015, revenue in the PC online business are forecasted to be ¥36,859 ~ 39,641 million. In Korea and China, the first quarter is in general a seasonably stronger period due to Chinese New Year. In Korea, we are scheduled to launch high quality content update for our existing PC titles including *FIFA Online 3*, *Sudden Attack*, *Dungeon & Fighter* and *Maple Story*. Also in China, a high quality content update is scheduled for our main PC title *Dungeon & Fighter*. In the mobile business, revenue increased significantly from Q1 2014 due primarily to strong sales of new mobile games in Korea; however, as there is no scheduled release of major new mobile titles in Q1 2015 and mobile browser gamemarket in Japan continues to see decline, revenue for the three months ending March 31, 2015 is forecasted to be ¥7,400 ~ 8,087 million. While we expect revenue for the three months ending March 31, 2015 to increase year-over-year based on these factors, operating margin is expected to decrease year-over-year due to the change in the geographical revenue composition as we expect more revenue from Korea and the mobile business with lower margin and less from China with higher margin. As for costs, we expect an increase in variable costs for the three months ending March 31, 2015 due to an increase in personnel costs associated with salary and headcount increase mainly in Korea, an increase in advertisement expense, and an increase in royalty payments associated with an increased revenue from *FIFA Online 3* and *FIFA Online 3M*. The financial results forecast is based on our judgment using available information at this time and include various uncertain factors; and accordingly, any change in the business condition may cause actual results to differ from the forecast.

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

Guided by the fundamental principles of protecting investor interests, our dividend policy is to return profits to our shareholders through dividend payment or stock split only after careful consideration of shareholders' equity, management performance, our anticipated earnings, in line with financial results. We aim to effectively use retained earnings to actively develop and expand our business through M&A and acquisition of game distribution rights, for the purpose of enhancement of our management base and future business growth.

In accordance with the above policy, the Company is planning to pay year-end dividend of ¥5 for the fiscal year ended December 31, 2014. We are also planning to pay interim and year-end dividend of ¥5 for the fiscal year ending December 31, 2015.

The dividend payment is made based on the resolution of our Board of Directors. Our Articles of Incorporation stipulates that "the decisions with regards to dividends from surplus and other matters as stipulated under each item of Article 459 (1) of the Companies Act shall not require a resolution of the General Meeting of Shareholders

but shall be decided by a resolution of the Board of Directors, except when otherwise provided for by laws and regulations,” that “the record date for the Company’s year-end dividends shall be December 31 of each year” and that “the record date for the Company’s interim dividends shall be June 30 of each year.”

2. Current Status of the Corporate Group

As of December 31, 2014, the Group consists of the Company, 20 consolidated subsidiaries and 6 affiliated companies, and is engaged in production/development and distribution of PC online and mobile games. Mainly, the Company and gloops, Inc. (in Japan) and its local consolidated subsidiaries (overseas) develop overall strategies and operate business for their respective merchandises and services in each region as independent units.

Accordingly, the Group consists of geographical segments based on production/development and distribution of PC online and mobile games. The reportable segments include “Japan,” “Korea,” “China,” “North America,” and “Other” which includes European and Asian countries.

Japan: The Company; inBlue, Inc.; gloops, Inc.; Comlier Inc.

Korea: Nexon Korea Corporation; Rushmo Co., Ltd.; NEOPLE INC.; Nexon Networks Corporation; Neon Studio Corporation; NDOORS Corporation; Nexon GT Co., Ltd.; Nexon Communications Co., Ltd.; Nexon Space Co., Ltd.; Thingsoft Inc.

China: Lexian Software Development (Shanghai) Co., Ltd.

North America: Nexon America, Inc.; Fantage.com Inc.; Nexon M Inc.; Rushmo America Inc.

Other: NEXON Europe S.à.r.l.; gloops Vietnam Inc.

The Group’s business department is classified into (a) PC Online business and (b) Mobile business.

(1) Business department

(a) PC Online business

The primary business activities of the PC online business department are production/development and distribution of PC online games. In addition, we also offer services such as consulting business related to PC online game distribution, in-game advertising business, and merchandising business incidental to PC online business.

PC online games are played simultaneously by multiple players connected to the game server via Internet on a real-time basis.

The major PC online game titles that the Group distributes include *Maple Story*, *Dungeon & Fighter*, *Sudden Attack*, *Counter-Strike Online* and *FIFA Online 3*. In deciding to introduce a new game title, the Company first evaluates users’ characteristics and preferences in various areas of the world as well as the appropriateness of the game genre before commencing the distribution on a trial basis, in order to respond flexibly to different markets.

PC online games developed by the Group, such as NEXON Korea Corporation and NEOPLE INC., are distributed directly by themselves or through other Group companies, including the Company, Nexon America, Inc., and NEXON Europe S.à.r.l., in various countries with large market. By establishing a closely coordinated structure within the Group for production, development and distribution of PC online games, we have been maximizing the business synergy effects. In addition, the Group publishes and distributes to users PC online games developed by outside developers, for which the Company acquired the distribution rights, in order to maximize profitability, and we also maintain amicable relationships with the developers as we provide distribution service for them. In those regions where the Group does not have direct distribution channels, the Group distributes the PC online games produced by the Group through local publishing companies. With our aforementioned business efforts, the Company is striving to distribute exciting and creative game titles to users around the world.

As for consulting business, Lexian Software Development Co., Ltd. provides Chinese domestic distribution companies with consulting services for setting up and maintaining billing systems (Note) and membership systems, business strategy development, game business management, and marketing.

In addition, NEXON Networks Corporation provides Korean companies with services for clients support in providing PC online games and operation of net-café.

The in-game advertisement business has been developing its activities by taking advantage of its two unique characteristics. The first characteristic is the ability to continuously update game content or advertisement content, a primary strength of online game advertisements, which allows direct exposures by using functional items that are equipped with an advertisement function in the game. The other characteristic is the ability to allow simultaneous exposure of different advertisements to respective targeted users through dedicated servers that aggregately manage all the advertisements.

The merchandising business is engaged in operations to produce and market merchandises of popular characters from the games owned by the Group.

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

(b) Mobile business

The mobile business department is engaged in development and distribution of mobile games on various platforms including feature phones, smartphones, and tablets. The Group develops and distributes mobile games in Japan and overseas. In Japan, development and distribution of mobile games are conducted primarily through inBlue, Inc. The Company is also engaged in distribution of mobile games. In Korea, development and distribution of mobile games are conducted primarily through NEXON KOREA Corporation, NEOPLE INC., Neon Studio Corporation, NDOORS Corporation, and Nexon GT Co., Ltd. In the U.S., distribution of mobile games is primarily conducted through Nexon M Inc.

(2) PC online game business model

The Company's PC online game business models can be categorized into the following three types.

(a) Self-distribution model

The self-distribution model is a model in which game service (sets up network environment, marketing, user support, etc.) for games developed by the Group, such as NEXON Korea Corporation and NEOPLE INC., are provided directly by themselves or other Group companies, including the Company, Nexon America, Inc., and NEXON Europe S.à.r.l.

After commencing distribution, the Group will collect user payments pursuant to a pre-determined charging policy. In most cases, however, the Group has retained a closing agent business service for a fee to collect user payments.

(b) License granting model

The Group, as the owner of the copyright of self-developed games, enters into license agreements with outside distribution companies and grants distribution rights.

After the license agreement is executed, the grantee of the distribution right itself will assume the responsibility of setting up network environment, marketing, and user support services. At the same time, member companies of the Group that own the copyright of the games will support the activities of the grantee for the purpose of increasing its profit.

In the Group, companies that develop PC online games including Nexon Korea Corporation and NEOPLE INC. grant distribution rights to outside distribution companies in China and other countries.

The Group in principle executes only one license agreement that grants distribution rights for a game in each country. Accordingly, the Group grants a local distribution company with an exclusive right to distribute. In this context, member companies of the Group that own the copyright of the subject game will provide updates of the game content in a continuous manner or necessary technical support, receive a contract payment at the time of executing the contract with a distribution company, and, after game distribution service has commenced, receive a certain portion of the service charges that the distribution company collects

from users as a royalty payment.

The terms and condition of the royalty payments are stipulated in the individual agreement taking into consideration the conditions of the area where the local distribution company is located.

(c) License distribution model

In license distribution model, the Group enters into a license agreement with an outside PC online game developer, obtains a local exclusive distribution right, sets up network environment through which the Group provides services, provides marketing service and user support, and provides game distribution service.

The Group collects service charges from users, and a certain portion of which will be paid to the outside PC online game developer as a royalty payment.

The Group's deals with Valve Corporation related to *Counter-Strike Online* and with Electronic Arts Inc. related to *FIFA Online 3* and *FIFA Online 3M* fall into this category.

(3) PC online game monetization model

The billing method in the current PC online game monetization model can be categorized into the following three types. The Group collects charges with method type (a).

(a) Item-based revenue model, a fee is charged at the time of purchasing items in game

Basic usage of games is free. However, certain fees are charged to purchase necessary items (costumes or weapons) or to use certain services.

As the basic usage of games is free, this method lowers the mental hurdle at the initial stage of playing PC online games, and new users are able to start playing games easily. On the other hand, revenue generated from the games will be affected by the attractiveness of the pay items sold in the games. In recent years, more PC online games have come to adopt this method within the entire market to entertain new users as the market recognition of the games with no basic usage fee improves.

The Group, with the intent of attracting more users to the Group's game service, has been the first to provide the item-based revenue method for PC online games.

(b) Pay-as-you-go according to the term of usage (Fixed price method)

The pay-as-you-go (fixed price) method is a method to charge a fixed fee per month, day or hour to users for playing games.

Under this method, it is possible to generate a constant level of revenue by securing a certain number of users. However, it is probable that new users may feel the burden of committing to a fixed amount every month, compared to games with no basic usage fee.

(c) Advertisement revenue model

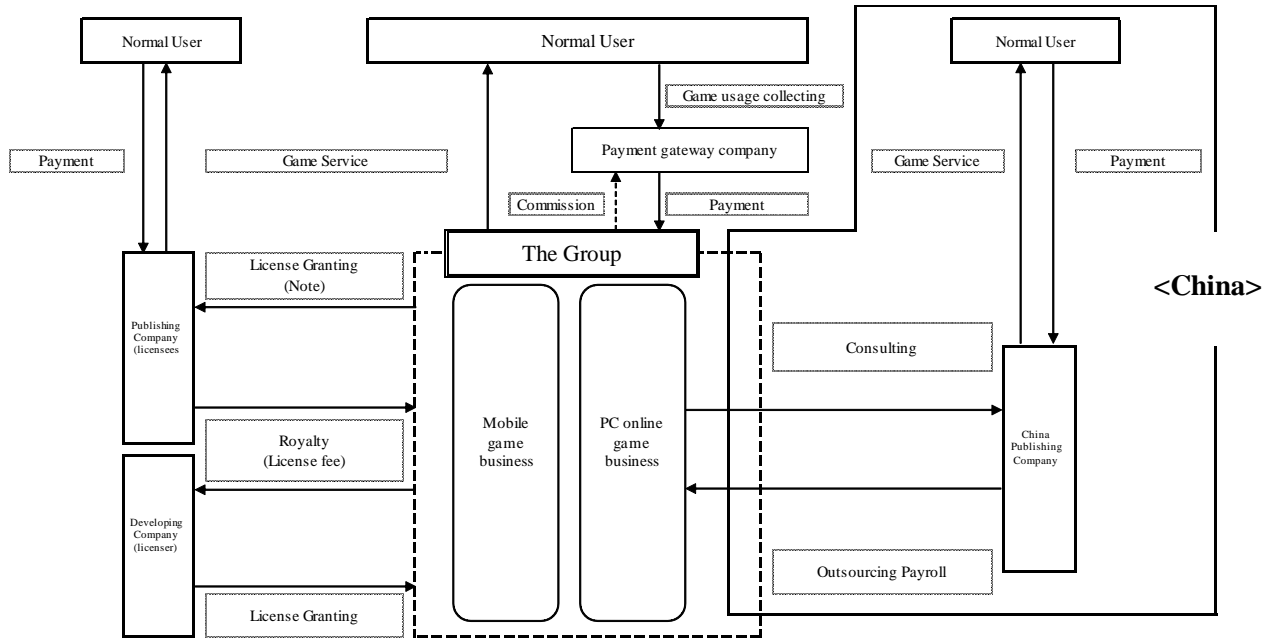
Basic usage of games is free. The service provider receives revenue from advertisements inserted either at the beginning, ending or during the games.

Under this method, advertisements are primarily sponsored by businesses, thus, it is commonly combined with the above methods (a) or (b), and the popularity of the game itself (user attraction) will have a direct impact.

[Business system chart]

Chart 1 presents a business system chart of the above described matters.

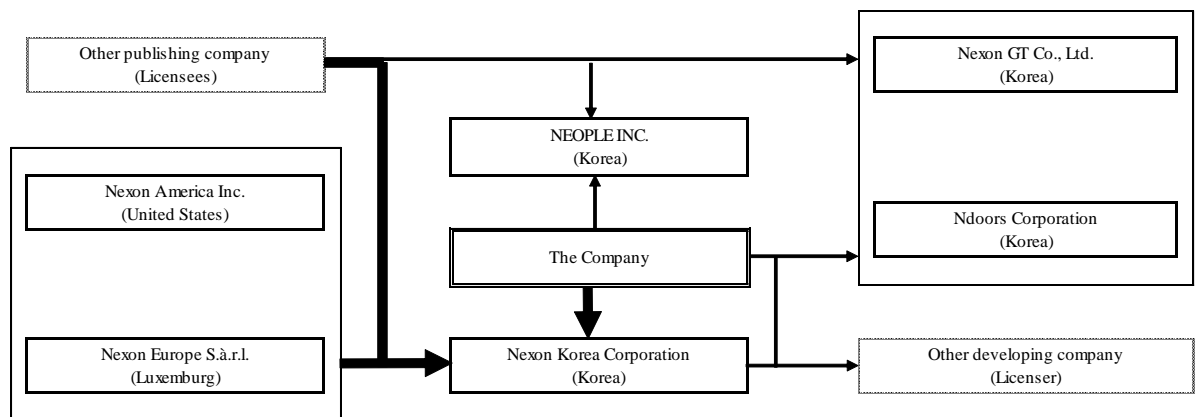
<Chart 1>



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

The royalty income flow within the Group is presented in Chart 2, covering the Company and its major subsidiaries. The thicker lines represent major flows.

<Chart 2>



3. Management Policy

(1) Company's Basic Management Policy

The Group is aiming to become the world's top game company. Our fundamental policy for new game titles is to provide exciting, creative and unique new games with high quality and for existing game titles is to provide users with games that continue to be fun for a long period of time through attractive content update and satisfying game operation.

(2) Targeted Management Indicators

We believe the key management indicators of the Group to be revenue and operating income. Through the continuous growth of revenue and operating income, we will achieve growth in enterprise value.

(3) Company's Mid- to- Long-Term Management Strategy

Three major trends are apparent in the game industry today. The first is the change from offline to online; the second is player migration from "single player games" to "multiplayer games"; and the third is the changes in billing methods triggered by the introduction of "free-to-play" games.

With these major changes serving as a spur, the Group's long-term goals are to become the world's top game company, establish its position as a leading player in the game industry, and continue to provide users around the world with exciting, creative and unique new game titles with high quality, leveraging our strengths of procurement capability for new game contents through in-house development and publishing, game operation capability, global business base, and solid financial structure.

In order to become the world's top game company and achieve further growth, the Group will focus on the following three priorities:

Product: We believe that across all platforms, only the highest-quality, most original games will be truly successful. To this end, our new leadership team will be narrowing Nexon's focus and resources to fewer, better games – games that really get us excited, and that we think will attract and retain huge numbers of players.

People: To create radically innovative and entertaining games requires us to attract and retain the best people in the industry, from around the world. This means taking a new approach to recruiting and people management to set ourselves apart as an attractive workplace in a highly competitive industry. We will further differentiate ourselves by offering developers the freedom to create the most exciting games, and the ability to reach our massive worldwide audience.

Partners: We have a uniquely strong track record in our industry of successful partnerships with leaders around the world, and a reputation for integrity and performance as a partner. Our expertise in free-to-play and our global reach have brought us together with companies looking to take their businesses online or to expand their geographic footprint. We will continue to leverage our track record and capabilities to enter into significant new partnerships.

(4) Issues to be Addressed

The Group recognizes the following matters as issues to be addressed in order to achieve our future growth.

(a) Provide new game titles with enticement and high quality and execute content update of existing game titles

Regardless of whether the hardware used to play the game is PC or mobile or whether the game is distributed in Japan, Korea, China, the U.S., or anywhere in the world, excellence of the game is measured by the quality of its content in the game industry. We have no intention of settling for our popular game titles the Group is currently offering, including *Dungeon & Fighter* and *Maple Story*. Instead, in order to become the world's top game company, we are aiming to distribute exciting, creative and unique game titles with high quality to offer users with the greatest pleasure and special experience and, for existing games, to execute attractive content updates and manage game operation that can attract and satisfy users for a long period of time. To this end, we intend to further enhance the business base in order to distribute new high-quality game titles and execute attractive content updates to existing game titles, through efforts such as strengthening game operation capability, enhancing development and publishing capability within the Group, forming partnerships

including co-development with other game developers, and investing in leading game developers.

(b) Strengthen information security

The Group provides PC online game and mobile game service which handles game data and users' personal information through the information system, and accordingly, it is required to maintain the highest level of information systems infrastructure to prevent illegal access or illegal use by external parties, and to enhance information security structure including internal information management organization.

The Group has been focusing on enhancement of the information security structure through the group-wide enhancement of the organization in terms of information security and implementation of cutting-edge information systems, and is determined to make continued efforts to strengthen the overall information security structure in order to provide our users with reliable and secure services.

4. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

	(Millions of yen)	
	As of December 31, 2013	As of December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	138,843	117,729
Trade and other receivables	22,469	32,280
Other deposits	43,409	100,235
Other financial assets	2,265	3,029
Other current assets	6,126	4,852
Subtotal	213,112	258,125
Assets held for sale	4,687	-
Total current assets	217,799	258,125
Non-current assets		
Property, plant and equipment	22,080	24,039
Goodwill	45,802	35,426
Intangible assets	26,653	16,574
Investments accounted for using equity method	2,560	1,845
Other financial assets	98,642	93,779
Other non-current assets	1,144	2,518
Deferred tax assets	4,171	4,716
Total non-current assets	201,052	178,897
Total assets	418,851	437,022

	(Millions of yen)	
	As of December 31, 2013	As of December 31, 2014
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	10,063	10,214
Deferred income	9,356	10,718
Borrowings	13,408	13,180
Income taxes payable	8,502	12,836
Other financial liabilities	812	1,268
Provisions	1,248	2,323
Other current liabilities	7,064	6,484
Total current liabilities	<u>50,453</u>	<u>57,023</u>
Non-current liabilities		
Deferred income	4,778	2,440
Borrowings	34,605	23,244
Other financial liabilities	2,248	1,820
Provisions	305	291
Other non-current liabilities	1,181	1,359
Deferred tax liabilities	12,222	5,368
Total non-current liabilities	<u>55,339</u>	<u>34,522</u>
Total liabilities	<u>105,792</u>	<u>91,545</u>
Equity		
Capital stock	51,952	52,481
Capital surplus	50,688	40,830
Treasury stock	(0)	-
Other equity interest	74,468	92,044
Retained earnings	131,374	155,025
Total equity attributable to owners of the parent	<u>308,482</u>	<u>340,380</u>
Non-controlling interests	4,577	5,097
Total equity	<u>313,059</u>	<u>345,477</u>
Total liabilities and equity	<u><u>418,851</u></u>	<u><u>437,022</u></u>

(2) Consolidated Income Statement

	(Millions of yen)	
	Fiscal Year ended December 31, 2013	Fiscal Year ended December 31, 2014
Revenue	155,338	172,930
Cost of sales	(34,150)	(44,335)
Gross profit	121,188	128,595
Selling, general and administrative expenses	(59,575)	(68,600)
Other income	1,637	1,210
Other expenses	(12,545)	(15,696)
Operating income	50,705	45,509
Finance income	3,237	9,074
Finance costs	(5,199)	(1,714)
Equity in losses of affiliates	(95)	(198)
Income before income taxes	48,648	52,671
Income taxes expense	(18,343)	(23,250)
Net income	<u>30,305</u>	<u>29,421</u>
Attributable to:		
Owners of the parent	30,132	29,316
Non-controlling interests	173	105
Net income	<u>30,305</u>	<u>29,421</u>
Earnings per share (attributable to owners of the parent)		(Yen)
Basic earnings per share	68.83	67.43
Diluted earnings per share	<u>67.70</u>	<u>66.34</u>

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2013	Fiscal Year ended December 31, 2014
Net income	30,305	29,421
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	41,024	(15,751)
Re-measurement of defined benefit pension plans	(31)	(7)
Other comprehensive income under equity method	(26)	-
Income taxes	(15,512)	6,045
Total items that will not be reclassified to net income	25,455	(9,713)
Items that may be reclassified subsequently to net income		
Exchange differences on translation of foreign operations	37,156	22,077
Cash flow hedges	167	71
Other comprehensive income under equity method	58	(4)
Income taxes	(122)	(28)
Total items that may be reclassified subsequently to net income	37,259	22,116
Total other comprehensive income	62,714	12,403
Total comprehensive income	93,019	41,824
Attributable to:		
Owners of the parent	92,006	41,266
Non-controlling interests	1,013	558
Total comprehensive income	93,019	41,824

(4) Consolidated Statement of Changes in Equity
Fiscal Year ended December 31, 2013

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2013	51,342	50,188	-	11,905	105,293	218,728	3,517	222,245
Net income	-	-	-	-	30,132	30,132	173	30,305
Other comprehensive income	-	-	-	61,874	-	61,874	840	62,714
Total comprehensive income	-	-	-	61,874	30,132	92,006	1,013	93,019
Issue of shares	610	610	-	-	-	1,220	-	1,220
Stock issue cost	-	(4)	-	-	-	(4)	-	(4)
Payment of dividends	-	-	-	-	(4,370)	(4,370)	-	(4,370)
Share-based payments	-	-	-	1,008	-	1,008	-	1,008
Acquisitions and disposals of non-controlling interests	-	(106)	-	-	-	(106)	47	(59)
Acquisition of treasury stock	-	-	(0)	-	-	(0)	-	(0)
Transfer from other equity interest to retained earnings	-	-	-	(319)	319	-	-	-
Total transactions with the owners	610	500	(0)	689	(4,051)	(2,252)	47	(2,205)
Balance at December 31, 2013	51,952	50,688	(0)	74,468	131,374	308,482	4,577	313,059

Fiscal Year ended December 31, 2014

(Millions of yen)

	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings			
Balance at January 1, 2014	51,952	50,688	(0)	74,468	131,374	308,482	4,577	313,059
Net income	-	-	-	-	29,316	29,316	105	29,421
Other comprehensive income	-	-	-	11,950	-	11,950	453	12,403
Total comprehensive income	-	-	-	11,950	29,316	41,266	558	41,824
Issue of shares	529	529	-	-	-	1,058	-	1,058
Stock issue cost	-	(3)	-	-	-	(3)	-	(3)
Payment of dividends	-	-	-	-	(4,373)	(4,373)	-	(4,373)
Share-based payments	-	-	-	4,334	-	4,334	-	4,334
Acquisitions and disposals of non-controlling interests	-	(341)	-	-	-	(341)	(38)	(379)
Acquisition of treasury stocks	-	(43)	(10,000)	-	-	(10,043)	-	(10,043)
Cancellation of treasury stocks	-	(10,000)	10,000	-	-	-	-	-
Transfer from other equity interest to retained earnings	-	-	-	1,292	(1,292)	-	-	-
Total transactions with the owners	529	(9,858)	-	5,626	(5,665)	(9,368)	(38)	(9,406)
Balance at December 31, 2014	52,481	40,830	-	92,044	155,025	340,380	5,097	345,477

(5) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Fiscal Year ended December 31, 2013	Fiscal Year ended December 31, 2014
Cash flows from operating activities		
Income before income taxes	48,648	52,671
Depreciation and amortization	14,056	15,622
Share-based compensation expenses	1,283	4,641
Interest and dividend income	(2,382)	(3,678)
Interest expense	661	497
Impairment loss	11,573	14,672
Equity in losses of affiliates	95	198
Decrease (increase) in trade and other receivables	2,676	(7,119)
Increase (decrease) in trade and other payables	806	826
Decrease in deferred income	(2,590)	(1,670)
Other	5,013	868
Subtotal	<u>79,839</u>	<u>77,528</u>
Interest and dividends received	2,185	2,874
Interest paid	(731)	(545)
Income taxes paid	(21,085)	(21,739)
Net cash provided by operating activities	<u>60,208</u>	<u>58,118</u>
Cash flows from investing activities		
Decrease (increase) in other deposits	4,939	(50,830)
Purchases of property, plant and equipment	(9,350)	(4,577)
Proceeds from sales of property, plant and equipment	552	513
Purchases of intangible assets	(2,165)	(3,072)
Payments associated with increase in long-term prepaid expenses	(1,477)	(1,679)
Payments for acquisition of investment securities	(2,599)	(3,248)
Proceeds from sale of investment securities	1,955	4,807
Purchases of affiliates	(260)	-
Proceeds from sale of affiliates	2,761	79
Purchases of subsidiaries	(2,256)	-
Other	1,555	(3,813)
Net cash used in investing activities	<u>(6,345)</u>	<u>(61,820)</u>
Cash flows from financing activities		
Net decrease in short-term borrowings	(233)	-
Proceeds from long-term borrowings	2,500	-
Repayment of long-term borrowings	(11,140)	(12,327)
Proceeds from exercise of stock options	940	755
Acquisition of treasury stocks	(0)	(10,043)
Cash dividends paid	(4,370)	(4,373)
Other	(730)	(1,062)
Net cash used in financing activities	<u>(13,033)</u>	<u>(27,050)</u>
Net increase (decrease) in cash and cash equivalents	<u>40,830</u>	<u>(30,752)</u>
Cash and cash equivalents at the beginning of the year	<u>84,736</u>	<u>138,843</u>
Effects of exchange rate changes on cash and cash equivalents	13,277	9,638
Cash and cash equivalents at the end of the year	<u>138,843</u>	<u>117,729</u>

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

(Changes in accounting policies and changes in accounting estimates)

Changes in accounting policies required by IFRS

The accounting policies used to prepare these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2013 unless otherwise noted, except for the new standards applied as listed below.

The Group has applied the following standards from the Q1 2014 (from January 1, 2014 to March 31, 2014), but the application of these standards did not have material impacts on the fiscal year ended December 31, 2014.

Standards	Title	Overview of New or Revised Standard
IAS 32	Financial Instruments: Presentation	Offsetting financial assets and financial liabilities
IFRS 10	Consolidated Financial Statements	Setting out exceptions regarding consolidation of subsidiaries by an entity that meets the definition of an investment entity
IFRS 12	Disclosure of Interests in Other Entities	Revision of the disclosure method for entities that meet the definition of an investment entity
IFRIC 21	Levies	Recognition of a liability for a levy imposed by a government

(Segment information)

(1) Outline of reportable segments

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

The Group is engaged in production, development and distribution of PC online games and mobile games, and the Company and domestic consolidated subsidiaries (in Japan) and its local consolidated subsidiaries (overseas) develop overall strategies and operate business activities for their respective products and services in each region as independent units. Accordingly, the Group is comprised of geographical segments based on production, development, and distribution of PC online games and mobile games. There are five reportable segments: “Japan”, “Korea”, “China”, “North America” and “Other” which includes Europe and Asian countries.

(2) Revenue, profit or loss by reportable segment

Information on the segments of the Group is as follows:

Fiscal year ended December 31, 2013 (From January 1, 2013 to December 31, 2013)

(Millions of yen)

	Reportable Segments						Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers	36,399	106,423	4,781	5,521	2,214	155,338	-	155,338
Intersegment revenue	65	4,267	-	253	237	4,822	(4,822)	-
Total	36,464	110,690	4,781	5,774	2,451	160,160	(4,822)	155,338
Segment profit or loss(Note 1)	3,689	56,288	3,028	(1,406)	74	61,673	(60)	61,613
Other income (expense), net	-	-	-	-	-	-	-	(10,908)
Operating income	-	-	-	-	-	-	-	50,705
Finance income (costs), net	-	-	-	-	-	-	-	(1,962)
Equity in losses of affiliates	-	-	-	-	-	-	-	(95)
Income before income taxes	-	-	-	-	-	-	-	48,648
(Other items)								
Depreciation and amortization	1,131	11,730	274	805	123	14,063	(7)	14,056
Impairment loss	1,059	10,394	-	100	40	11,593	(20)	11,573
Capital expenditures	2,719	12,672	141	792	83	16,407	(10)	16,397

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

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

3. Adjustments are as follows.

- (1) Adjustments in segment profit or loss of ¥(60) million represent elimination of intersegment transactions.
- (2) Adjustments in depreciation and amortization of ¥(7) million represent elimination of intersegment transactions.
- (3) Adjustments in impairment loss of ¥(20) million represent elimination of intersegment transactions.
- (4) Adjustments in capital expenditures (including intangible assets) of ¥(10) million represent elimination of intersegment transactions.

	Reportable Segments						Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers	29,947	130,893	4,313	5,522	2,255	172,930	-	172,930
Intersegment revenue	19	3,541	-	7	191	3,758	(3,758)	-
Total	29,966	134,434	4,313	5,529	2,446	176,688	(3,758)	172,930
Segment profit or loss (Note 1)	(1,275)	61,883	2,561	(2,746)	(435)	59,988	7	59,995
Other income (expense), net	-	-	-	-	-	-	-	(14,486)
Operating income	-	-	-	-	-	-	-	45,509
Finance income (costs), net	-	-	-	-	-	-	-	7,360
Equity in losses of affiliates	-	-	-	-	-	-	-	(198)
Income before income taxes	-	-	-	-	-	-	-	52,671
(Other items)								
Depreciation and amortization	1,045	13,240	300	672	365	15,622	-	15,622
Impairment loss	12,968	1,383	-	272	49	14,672	-	14,672
Capital expenditures	2,639	3,696	172	1,415	609	8,531	-	8,531

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

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

3. Adjustments in segment profit or loss of ¥ 7 million represent elimination of intersegment transactions.

(3) Revenue from major products and services

Revenue from major products and services are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Item charging	86,160	101,341
Royalty	63,532	65,412
Other	5,646	6,177
Total	155,338	172,930

(4) Information by region

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

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Japan	36,292	24,687
Korea	57,445	50,784
China	381	288
North America	1,403	2,294
Other	158	504
Total	95,679	78,557

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

2. The category of the country or region is based on geographic proximity.

3. Main countries or regions in each category:

(1) North America: USA

(2) Other: Europe and Asian countries

Revenue from external customers is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Japan	36,354	29,938
Korea	42,999	65,409
China	63,914	66,958
North America	5,428	5,519
Other	6,643	5,106
Total	155,338	172,930

(Note) 1. Revenue is classified into country or region category based on the customers' location.

2. The category of the country or region is based on geographic proximity.

3. Main countries or regions in each category:

(1) North America: USA and Canada

(2) Other: Europe, Central and South America and Asian countries

(5) Information on major customers

As for the major customers that contribute more than 10% of our group's consolidated revenues, there were 2 companies as of the fiscal year ended December 31, 2013, and revenues were ¥51,822 million (Korea segment) and ¥20,670 million (Japan segment) respectively. There was 1 customer as of the fiscal year ended December 31, 2014, and revenues were ¥56,580 million (Korea segment).

(6) Revenue by major business

Revenue by major business is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
PC online	126,127	137,154
Mobile	28,331	34,202
Other	880	1,574
Total	155,338	172,930

(Per share information)

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

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Net income attributable to owners of the parent	30,132	29,316
Adjustments of net income used for the calculation of diluted earnings per share		
Adjustments for dilutive shares of consolidated subsidiaries	(3)	-
Diluted net income attributable to owners of the parent	30,129	29,316
Number of basic weighted-average common stock	437,778,086 shares	434,782,748 shares
Dilution: Stock option	7,260,706 shares	7,150,581 shares
Number of dilutive weighted-average common stock	445,038,792 shares	441,933,329 shares
Earnings per share (attributable to owners of the parent)		(yen)
Basic earnings per share	68.83	67.43
Diluted earnings per share	67.70	66.34

(Subsequent event)
Not applicable