

Dear Fellow Shareholders:

Today we are reporting revenues and operating income for the fourth quarter of 2012 above the high end of our forecast for the quarter. We provide details below on our performance during the quarter and our outlook. First, we would like to share thoughts on the full year 2012 and where our business stands as we head into 2013.

2012 Review

2012 was a year of transformation for Nexon. We executed on several initiatives that have reshaped our business model as our dynamic industry continues to evolve. We further diversified our business to become less reliant on any one territory or revenue stream. We invested for growth in both our PC-based business and in the important and rapidly growing mobile arena. At the same time, we maintained our strategic and operational focus, delivering another year of solid growth, with 24% revenue growth (16% ex-gloops) and 25% operating income growth.

2012 marked a particularly pivotal year in Nexon's mobile business, led by two successful acquisitions, inBlue (acquired in June) and gloops (acquired in October), which positioned Nexon as the leading third-party mobile game developer in the world. Since we acquired these companies, both of them have grown and performed above our expectations, and each is set to deliver a strong 2013 lineup for the domestic and international markets. As we exited Q4, mobile represented about 23% of our overall business by revenue, up from 3% in Q3. 2013 will be our first full year in which both inBlue and gloops' financials will be reflected in our consolidated results.

On the PC front, the large publishing deals we signed are poised to deliver high returns on our investments. *FIFA Online 3*, through our agreement with Electronic Arts Inc. ("EA"), commercially launched on January 17th and to date it is tracking very well. Our next big product is *Dota2*, which we will launch in partnership with Valve Corporation later this year. After review of several of our upcoming games, we decided to push *Warface* into Q2 and *Counter-Strike Online 2* into the second half of this year.

Throughout 2013, the bulk of the revenue and growth in our PC business will continue to come from Korea and China. We have a robust update schedule planned for 2013, including tier 1 updates for all of our top titles. This year these updates will be spread more evenly between Q1 and Q3 than they were in 2012. For mobile, we expect Japan will be our largest market, while our objective is to leverage our outstanding new development talent and Nexon's global reach to extend that business to other major markets. In North America and Europe, our focus remains on improving execution and returning to growth in both regions.

Fourth Quarter and Full Year 2012 Results

The table below summarizes our fourth quarter and fiscal year 2012 results, along with the previous four quarters for comparison.

Selected Consolidated Operations Data ¹

(Millions of yen, except per share data)

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012 ³	YoY%	2011	2012	YoY%
Revenues	¥22,190	¥30,377	¥22,876	¥24,256	¥30,937	39%	¥87,613	¥108,448	24%
Operating income	9,354	17,384	10,678	10,032	9,778	5%	38,249	47,874	25%
Net income (loss)	5,815	12,377	6,768	6,348	(94)	n/a	25,755	25,401	-1%
Adjusted net income (loss) ²	6,153	12,738	7,148	6,791	1,033	-83%	27,211	27,711	2%
Earnings (loss) per share:									
Basic EPS	15.59	28.82	15.63	14.63	(0.22)		71.65	58.71	
Adjusted EPS	16.49	29.66	16.51	15.65	2.38		75.70	64.05	
Cash and deposits	132,479	146,977	129,089	139,659	127,604				

Footnotes:

¹ Prepared in accordance with Japanese GAAP, which is rounded down to the nearest million yen.

² Adjusted net income is a non-GAAP measure that excludes non-cash amortization of goodwill related to our acquisitions (and negative goodwill in the case of acquisitions occurring before April 1, 2010), which is required under Japanese GAAP. We provide this information to investors for the purpose of comparing our net income with that of companies that do not amortize goodwill or negative goodwill associated with acquisitions in their financial results, including those reporting in accordance with U.S. GAAP.

³ Q4 2012 results include gloops' revenue and costs.

In our Q3 2012 letter, we provided our outlook both with and without gloops, and the following table shows how we performed in comparison to our outlook. In future letters, we plan to show two groups of data: mobile revenues and PC revenues.

Q4 2012 Actual Results versus Outlook

(Millions of yen, except per share data)

	Q4 2012 Nexon ¹ Outlook		Q4 2012 Nexon ¹	Q4 2012 gloops Outlook		Q4 2012 gloops
Revenues	¥21,263	~ ¥24,000	¥24,492	¥6,200	~ ¥6,700	¥6,445
Operating income	5,580	~ 8,102	8,613	1,500	~ 1,800	1,910
Net income (loss)	3,188	~ 5,099	(400)	900	~ 1,080	1,013
Adjusted net income	3,597	~ 5,507	74	900	~ 1,080	1,013
Basic EPS	7.34	~ 11.74	(0.92)	2.07	~ 2.49	2.33
Adjusted EPS	8.28	~ 12.68	0.17	2.07	~ 2.49	2.33

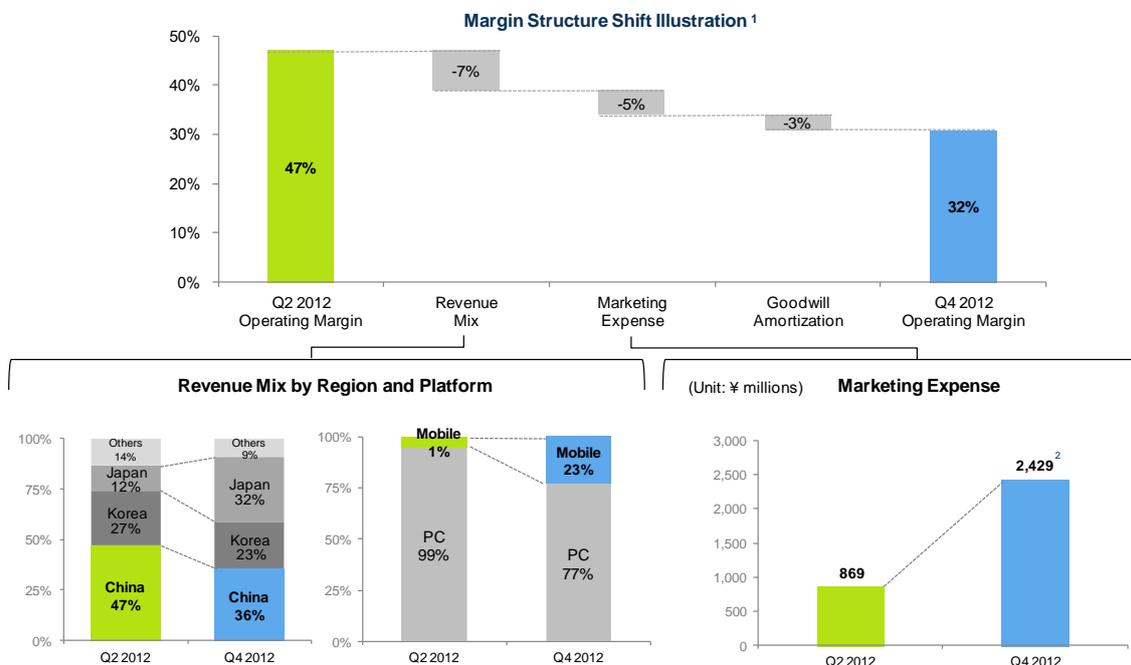
Footnotes:

¹ Represents Nexon group's performance excluding gloops.

Total revenues for this quarter were ¥30.9 billion, an increase of 39% versus Q4 2011. Revenues exceeded the high end of our outlook as Korea and China both performed better than we had expected, and were further boosted by the weakening Japanese yen. Excluding gloops, revenues in Q4 were ¥24.4 billion, up 10% year-over-year.

Consolidated operating income was ¥9.7 billion in Q4, an increase of 5% year-over-year. Our operating income margin decreased from 42% to 32% year-over-year as a result of the addition of significant new mobile revenues at lower margins, increased marketing expenses from new product launches, amortization expenses from our gloops acquisition and our geographical mix shift as the increase in Japan mobile revenues caused our higher-margin China business to decrease as a percentage of total revenue.

The following chart illustrates the change in our operating margins, as our revenue mix has changed. The chart compares Q2 to Q4, given these quarters typically show similar seasonality patterns.



Footnotes:

¹ Not exact representation of actual financials, this chart is for illustrative purposes only.

² Includes gloops' marketing expense.

Net income in Q4 was well below our outlook due to three reasons. The first was equity in loss of affiliates, the majority of which was from the JC Entertainment write-down triggered by market valuation. Second, we had higher than expected tax expenses due to a new interpretation of a Korean tax regulation by the Korean Tax Authorities. The third reason was smaller impairments of IP and goodwill.

Based on the current trend of NCsoft's share price, we carry asset impairment risk in FY13. If we determine it is necessary to record this impairment, we will report the impact in a timely manner. For your reference, our original NCsoft investment was ¥54.5 billion. As of December 31, 2012, the NCsoft investment was marked (to market) at ¥39.2 billion on our balance sheet. After tax effect accounting, 38% of the valuation difference is recognized as a deferred tax asset, and the balance is recorded under net assets. Under J-GAAP, at the end of each quarter we are required to consider recording an impairment if the market value in local currency is 30% below our purchase price continuously for six months.

For FY 2012, total revenues were ¥108.4 billion, an increase of 24% versus FY 2011. Consolidated operating income was ¥47.8 billion, an increase of 25% year-over-year. Our operating income margin was 44% for the fiscal year 2012.

The following table summarizes our key PC customer metrics for the quarter.

Selected Customer Metrics³

	<u>Q4 2011</u>	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>Q3 2012</u>	<u>Q4 2012</u>
MAU (Millions)	80.0	82.8	77.4	78.8	68.3
Pay Rate	9.9%	10.9%	10.3%	9.6%	10.5%
ARPPU ^{1,2}	¥1,350	¥1,761	¥1,521	¥1,729	¥1,683

Footnotes:

¹ ARPPU (Average Revenue per Paying User) is the average of monthly ARPPUs for the quarter.

² ARPPUs are in current currency. On a constant currency basis (using 2011 currency exchange rates), ARPPU for Q4 2012 would have been ¥1,503.

³ Excluding mobile business results.

In Q4 2012, Monthly Active User (MAU) count for our PC business (excluding gloops) was down to 68.3 million MAUs. The decline in MAUs was primarily from China (while Korea MAUs were slightly up quarter-over-quarter), and was more than offset by a rise in pay rate and ARPPUs. Pay rate percent in Q4 2012 was 10.5%, up from 9.9% in Q4 2011. ARPPUs were ¥1,683 up significantly from a year ago primarily driven by increasing purchasing power in China and partially driven by FX. In China, *Dungeon&Fighter* and *Counter-Strike Online* both experienced a decline in MAUs during Q4, possibly related to the increased popularity of Tencent's *League of Legends*. Operationally, this year in China we are particularly focused on user retention and engagement in these games by providing additional content to our users, in what we think will continue to be a competitive market.

The following table presents our revenue results on a constant currency basis (*i.e.*, applying the average exchange rate from Q4 2011) in order to show the growth rates compared to last year without the effect of fluctuating exchange rates.

Revenue by Region ^{1,4}
(Millions of yen)

	Q4 2011	Q4 2012 (As- Reported)	Q4 2012 (Constant Currency ³)	YoY % Change	
				As- Reported	Constant Currency ³
China	¥ 8,281	¥ 11,074	¥ 9,862	34%	19%
Korea	7,224	7,057	6,340	-2%	-12%
Japan	3,687	10,037	10,037	172%	172%
North America	1,407	1,117	1,036	-21%	-26%
Europe and Others ²	1,590	1,651	1,534	4%	-4%
Nexon Total	22,190	30,937	28,811	39%	30%

FX Rate ⁵

100 KRW/JPY	7.23	7.10	7.23
CNY/JPY	12.34	12.64	12.34
USD/JPY	79.84	79.82	79.84

Footnotes:

¹ The above table represents a breakdown of our revenue based on the region in which revenues originate. It is not a presentation of our revenues according to Nexon entities.

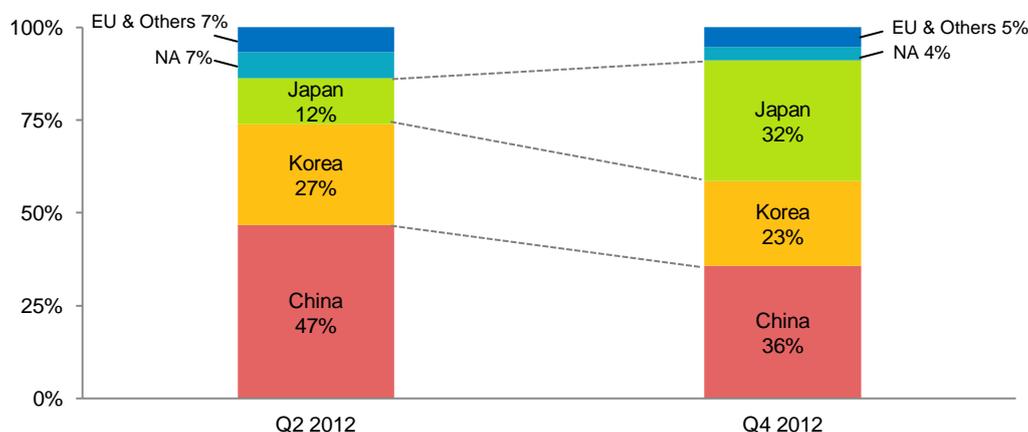
² Others consists of United Kingdom, other Asian countries, and South American countries.

³ Constant currency percent change is the growth rate had the currency rate not changed from Q4 2011.

⁴ Revenues are Nexon Group's consolidated revenues, which include gloops' revenue.

⁵ Constant currency is calculated differently under Japanese GAAP compared to US GAAP. Instead of fixing the exchange rate at the end of each quarter, we apply one of the approved methods under Japanese GAAP and take the cumulative average from the beginning of the year. For example, the Q2 rate is the average from the beginning of year through Q2. Also, when converting currency for China revenue, Tencent pays Nexon Korea in USD, which is converted to KRW in Nexon Korea's books and then converted to JPY for reporting purposes.

Primarily as a result of our acquisition of gloops, our regional mix has changed significantly, with Japan now our second-largest region by revenue. The chart below shows our revenue mix in Q4 2012 in comparison to Q2 2012, as those two quarters have the most similar seasonal characteristics.



China

Our revenues in China for the quarter were ¥11.0 billion, an increase of 34% versus last year and near the high end of our internal expectations. Currency helped drive revenues on an as-reported basis over our expected range. Despite the absence of major content updates, our existing games performed well, including *Counter-Strike Online* and *Dungeon&Fighter*. As noted above, MAUs in China declined year-over-year, but this decline was more than offset by higher pay rates and ARPPUs. Overall, we see continued strength in player activity and engagement. On the competitive front, *League of Legends* continues to perform well but much of that impact appears to be affecting other companies' games more than Nexon's games.

For FY 2012, China revenues increased 48% year-over-year. For the second year in a row our China business significantly outgrew the market.

Korea

Our revenues in Korea were ¥7.0 billion, down 2% year-over-year. *Dungeon&Fighter* was particularly strong as a result of a significant content update in December. *Sudden Attack* achieved the number two ranking in PC Café market data due to the introduction of successful tier one content updates and strong marketing execution. *MapleStory* performance has been down lately, but we expect it to perform better in response to content updates in Q2 2013. Across our products our Q4 focus on engagement over monetization in our key titles was effective, resulting in relatively healthy customer metrics in Korea.



Japan

In Q4, revenues for Japan excluding gloops were ¥3.5 billion, a decrease of 3% year-over-year. As we mentioned in last quarter's letter, the PC platform is becoming a smaller part of the overall Japanese game market. We expect Nexon's future growth in Japan will come primarily from mobile, bolstered by last year's acquisitions of inBlue and gloops.

Our gloops business continued to perform well in Q4. gloops' Q4 revenues were ¥6.4 billion. Revenues were primarily driven by *Three Kingdoms Guild Battle*, which was introduced early last year, and growth was spurred by a new marketing campaign in September. By way of background, gloops' practice is to begin to monetize users of a new game a few months after the game is first introduced. Only games that demonstrate top tier customer metrics in those early months – *i.e.*, games that demonstrate high levels of user engagement and retention – are then actively marketed on the Mobage platform. One of gloops' key areas of focus is reducing churn rates and building a high-quality

user base shortly after the launch of a game, as has been the case with *Three Kingdoms Guild Battle*. The game is a leading mobile title by revenue and continues to grow eight months post-launch, virtually unheard of among mobile games. Newer titles launched on the Mobage platform, including *Guardian Break* and *Bio Hazard Clan Master*, also contributed to revenue in Q4.

Rest of World (North America, Europe, Southeast Asia)

As anticipated at our last update, our business in North America continues to struggle. Revenues in North America were ¥1.1 billion, a decrease of 21% year-over-year. We continue to work to rebuild the revenue momentum we previously enjoyed in this territory.

Europe and other revenues increased 4% year-over-year, overall capping a disappointing year for the region. We continue to believe that North America and Europe represent strong market opportunities, and are well worth our investments for growth, but overall we still have a lot of work to do in both territories.

Platform Expansion

We entered 2012 with a deliberate focus on building our position in mobile as more and more users are playing immersive games both on the PC and their wireless devices. Longer term, we expect PC and mobile devices to converge. As a content creator, this trend presents great opportunities for us, as the number of ways consumers can reach our content expands.

Following our inBlue and gloops acquisitions, in January 2013 we announced a new partnership with DeNA Co., Ltd. (“DeNA”), which will accelerate our ability to take advantage of the tremendous opportunities the global mobile market presents. Under the agreement, we plan to launch ten mobile social games on Mobage’s Japanese domestic platform in 2013 and DeNA will provide top-tier marketing support for these games to drive user acquisition and retention. We also plan to launch several English-language titles on a non-exclusive basis on the Mobage platform during the same period. This relationship will not only support our efforts in Japan, but also help us expand and build a robust mobile business overseas.

Business Outlook

Our business and the operating environment are very dynamic and as a result, in 2012 it was necessary to make several revisions to our annual guidance. In an effort to provide our shareholders with more precise information, starting with the Q1 outlook below, we plan to provide our outlook on a quarterly basis rather than on an annual basis, while continuing to provide detail and our viewpoint on longer-term trends in our business in these letters and our other investor communications.

(Millions of yen)	Q1 2011	Q1 2012	Q1 2013	
Revenues	¥ 20,809	¥ 30,377	¥35,965	~ ¥38,519
PC	20,666	30,151	28,553	~ 30,345
Mobile	143	225	7,411	~ 8,174
Operating income	9,340	17,384	12,330	~ 14,378
Net income	7,586	12,377	7,840	~ 9,318
Adjusted net income ¹	7,968	12,738	8,923	10,401
Earnings per share ²:				
Basic EPS	21.50	28.82	18.00	~ 21.39
Adjusted EPS	22.58	29.66	20.49	~ 23.88
FX Rate Assumptions ³				
100KRW/JPY	7.37	7.03	7.94	7.94
CNY/JPY	12.52	12.55	13.34	13.34
USD/JPY	82.34	79.28	85.08	85.08

Footnote:

¹ Adjusted net income is a non-GAAP measure that excludes the non-cash amortization of goodwill (and negative goodwill in the case of acquisitions occurring before April 1, 2010) related to our acquisitions, which is required under Japanese GAAP. We provide this information to investors for the purpose of comparing our net income with that of companies that do not amortize goodwill or negative goodwill associated with acquisitions in their financial results, including those reporting in accordance with U.S. GAAP.

² Adjusted to reflect the 1:100 stock splits that occurred on July 21, 2011.

³ Based on the assumptions above, every one Japanese yen move against the U.S. dollar would have an impact of 0.32 billion yen on revenue and 0.15 billion yen on operating income for the three months ended March 31, 2013. The Company operates a global business in South Korea, China, and the United States among other countries. In most situations, the exchange rates of both the South Korean won and the Chinese yuan are linked to the U.S. dollar.

PC Revenue Outlook

We anticipate PC revenues of ¥28.5 billion to ¥30.3 billion for Q1. Overall, we expect Q1 will benefit from our content update schedules being more evenly weighted between Q1 and Q3 than they were in 2012.

For China, given last year's very tough comparison (Q1 2012 was up 89% compared to Q1 2011), we expect revenue growth to be roughly flat to Q1 2012. We are launching several tier one updates for our existing games in China focused around the Lunar New Year. At the end of January, we launched a tier one update for *Dungeon&Fighter* to support the game's continued growth in revenue. We also have a tier one update planned for *Counter-Strike Online*, supported by additional marketing. Throughout 2013, we will focus on user retention and engagement by providing additional content to our users. We are currently forecasting MAUs to be modestly down in China in 2013, but we believe the updates for our existing games this year will resonate with our users, and will drive engagement and monetization.

In Korea, we also face a difficult Q1 year-over-year comparison due to the significant growth we had in Q1 2012, but we still expect to see a modest increase in revenues year-over-year. We expect



growth in Q1 to be driven by *FIFA Online 3* and *Dungeon&Fighter*, and to a lesser extent *Sudden Attack*. We will support our existing games primarily through smaller updates and events around the Lunar New Year, with the majority of the 2013 tier one updates coming in Q3. In Q1 we are launching a significant new game mode for *Sudden Attack* that we think will help the game maintain its position as the number two ranked game overall and the number one first person shooter in the country. We expect the strength that *Dungeon&Fighter* exhibited at the end of Q4 to continue into Q1. For *Mabinogi Heroes*, we launched updates and marketing events at the end of December targeting the winter vacation that drove MCCUs to new highs in January. For *MapleStory*, we will continue to focus on customer engagement until the launch of the next tier one update in conjunction with the game's tenth anniversary in May.

Lastly, we forecast minimal growth from both North America and Europe in Q1 as the teams in these regions continue to focus on improving their respective strategies and operational execution.

Mobile Revenue Outlook

For mobile, which consists of Gloops, inBlue and other mobile studios, we anticipate revenues of ¥7.4 billion to ¥8.1 billion for Q1, primarily driven by a solid lineup of marketing initiatives. We recently launched our second major media promotion for *Three Kingdoms Guild Battle*, which ran from the end of December through early January. In Q1, we are launching several new titles, which will be supported by strong marketing promotions on



Crystal Crusade

the Mobage platform through our new alliance with DeNA. For mobile games, our strategy after launching a new game is to first build a solid user base, and then subsequently begin monetizing those users. Generally, several months are required post-launch for mobile games to generate substantial revenues. We have a solid pipeline scheduled for 2013, and expect our revenue trend to gain momentum towards the latter half of 2013 as revenues from new launches accumulate. We recently launched *Crystal Crusade*, a guild battle game, a genre in which Gloops has a strong track record. This game should begin contributing revenue later in the quarter, as should *FIFA World Class Soccer S*, which Gloops is developing for EA and will launch later this month.

Operating Margin Outlook

For the first quarter, we expect operating margins to be in the range of 34% to 37%. Over the coming quarters, we expect the range to trend toward 30-35%. This decline in operating margins relative to last year's average is the result of shifts in our revenue composition in 2012, which are due to three factors:

- 1) Our business mix has shifted from nearly all PC to approximately 20%-25% mobile. Margins in the mobile business are about 20-25%, inherently lower than our traditional PC margins of 40-45%, largely because of platform fees. As we expand our mobile pipeline, mobile should continue to make up approximately 25% of our revenues for the full year ended 2013.
- 2) The major licensing deals we have recently established – principally *FIFA Online 3* and *Dota 2* – have lower margin profiles than internally developed games due to royalty costs, although the returns from an ROI perspective have the potential to be much higher.
- 3) Our geographic mix is shifting as Japan revenue becomes a larger percentage of total revenue, thereby decreasing China's relative percentage. Our China revenue generally has a higher margin due to our licensing arrangements there; we recognize the royalty paid by our partners as net revenue rather than as gross revenue coming directly from our customers.

As a management team, we believe we are well positioned to deliver above-market growth rates and profitability in our core business, augmented by our ambitious moves into mobile platforms.

Sincerely,



Seungwoo Choi, CEO



Owen Mahoney, CFO

Tokyo, Japan
February 13, 2013

Glossary of Terms

Term / Abbreviation	Meaning
AOS	AOS is a sub-genre of the real-time strategy genre, in which two teams of players compete with each other in discrete games, with each player controlling a single character through an RTS-style interface.
FPS (first person shooter)	A game in which the player plays from the point of view of the game character in three-dimensional graphics.
RTS (real-time strategy)	A game that is usually played from a third-person perspective, in which the player controls vast numbers of in-game characters in a tactical scenario.
MMORPG (massively multiplayer online role playing game)	An online role-playing game that has a “massive” number (usually several hundred or more) of players who play concurrently.
MAU (monthly active user)	The total number of accounts of users who log in and play a particular game in a given month.
ARPPU (average revenue per paying user)	Online game net revenues for any given period divided by the average number of paying players of such games during the period.
Pay Rate	The number of paying users divided by monthly active users for any given period of time.
MCCU (maximum concurrent users)	The maximum number of users concurrently accessing a game at a particular moment. MCCU is generally used to measure the popularity of a game.
Closed Beta	A trial period during which a trial model (beta version) of a game is tested by a limited number of users or groups.
Open Beta	A trial period during which a trial model (beta version) of a game is tested without restrictions on participation.

Tier One Update	Large scale updates to existing PC games typically launched in Q1 or Q3 around peak season.
Tier Two Update	Smaller updates to existing PC games released throughout the year.
Immersive games	Games that are designed to be played continuously for hours and enable thousands of concurrent users to interact with each other in real time. Our games are architected to evolve over years, in contrast to packaged goods games, which often have finite story lines and comparatively less open-ended player engagement.

Cautionary Statement regarding Forecast of Business Results

The forecast of business results is based on information available as of the date these data were released and, due to various risks, uncertainties and other factors arising in the future, actual results in the future may differ largely from the estimates set out in this document.

These risks, uncertainties and other factors include, without limitation: the continued growth and popularity of our key titles; our ability to maintain favorable relationships with key licensing partners; our continued ability to offer games in China, through local partners or otherwise; our ability to compete effectively in the online games industry; our ability to address hacking, viruses, security breaches and other technical challenges; fluctuations in currency exchange rates; our ability to maintain and further develop our brand name; our effective acquisition of new companies, businesses, technologies and games from third parties and the possibility of recognizing impairment losses; continued growth of the online games market, including the underlying infrastructure, and free-to-play/item-based revenue generation model; our ability to adapt to new technologies; our ability to enter into licensing arrangements for third-party titles on terms favorable to us; effective defense of our intellectual property; legislative, regulatory, accounting and taxation changes in the countries in which we operate; and any risk or uncertainty as listed from time to time in our press releases, earnings reports or annual reports.

Cautionary statement regarding unaudited consolidated financial information

With the exception of the first quarter ended March 31, 2012, all of our three month financial results, beginning with the fourth quarter ended December 31, 2011, are unaudited. We prepare the unaudited consolidated financial information on the same basis as our audited consolidated financial statements.