

[These documents are based on the Company's Annual Securities Report (Japanese only) prepared following the Financial Instruments and Exchange Act for the purpose of providing accurate financial information and other information in a manner that is easy to understand. In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translations.]

# Annual Securities Report

(The 15th Fiscal Year)

From January 1, 2016 to December 31, 2016

**NEXON Co., Ltd**

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| <b>【Cover】</b>                                                                       |                                                                                |
| <b>【Document filed】</b>                                                              | Annual Securities Report                                                       |
| <b>【Governing law】</b>                                                               | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan |
| <b>【Filed with】</b>                                                                  | Director, Kanto Local Finance Bureau                                           |
| <b>【Filing date】</b>                                                                 | March 29, 2017                                                                 |
| <b>【Fiscal year】</b>                                                                 | The 15th Fiscal Year (from January 1, 2016 to December 31, 2016)               |
| <b>【Company name】</b>                                                                | Kabushiki Kaisha NEXON                                                         |
| <b>【Company name in English】</b>                                                     | NEXON Co., Ltd.                                                                |
| <b>【Name and title of representative】</b>                                            | Owen Mahoney, Chief Executive Officer and President                            |
| <b>【Address of head office】</b>                                                      | 2-3-1 Shinkawa, Chuo-ku, Tokyo                                                 |
| <b>【Telephone number】</b>                                                            | 03-3523-7911 (main)                                                            |
| <b>【Contact person】</b>                                                              | Shiro Uemura, Representative Director and Chief Financial Officer              |
| <b>【Nearest contact address】</b>                                                     | 2-3-1 Shinkawa, Chuo-ku, Tokyo                                                 |
| <b>【Telephone number】</b>                                                            | 03-3523-7910                                                                   |
| <b>【Contact person】</b>                                                              | Shiro Uemura, Representative Director and Chief Financial Officer              |
| <b>【Place where a copy of this document is made available for public inspection】</b> | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)       |

## Part I 【Information on the Company】

### I. 【Overview of the Company】

#### 1 【Changes in Key Management Indicators】

(1) Consolidated management indicators, etc.

(Millions of yen, unless otherwise stated)

| Term                                                                             | International Accounting Standard |                     |                     |                     |                     |
|----------------------------------------------------------------------------------|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                                                  | 11 <sup>th</sup> FY               | 12 <sup>th</sup> FY | 13 <sup>th</sup> FY | 14 <sup>th</sup> FY | 15 <sup>th</sup> FY |
| Fiscal year-end                                                                  | December 2012                     | December 2013       | December 2014       | December 2015       | December 2016       |
| Revenue                                                                          | 108,393                           | 155,338             | 172,930             | 190,263             | 183,128             |
| Income before income taxes                                                       | 43,324                            | 48,648              | 52,671              | 68,006              | 47,123              |
| Net income attributable to owners of the parent company                          | 28,283                            | 30,132              | 29,316              | 55,132              | 20,133              |
| Total comprehensive income                                                       | 39,027                            | 93,019              | 41,824              | 40,642              | 2,905               |
| Total equity attributable to owners of the parent company                        | 218,728                           | 308,482             | 340,380             | 374,447             | 372,924             |
| Total assets                                                                     | 320,188                           | 418,851             | 437,022             | 425,586             | 441,832             |
| Total equity attributable to owners of the parent company per share (yen)        | 502.20                            | 702.14              | 789.28              | 862.55              | 857.55              |
| Basic earnings per share (yen)                                                   | 65.37                             | 68.83               | 67.43               | 127.86              | 46.26               |
| Diluted earnings per share (yen)                                                 | 63.68                             | 67.70               | 66.34               | 124.67              | 45.40               |
| Ratio of equity attributable to owners of the parent company to total assets (%) | 68.3                              | 73.6                | 77.9                | 88.0                | 84.4                |
| Return on equity (%)                                                             | 14.2                              | 11.4                | 9.0                 | 15.4                | 5.4                 |
| Price earnings ratio (times)                                                     | 13.3                              | 14.1                | 16.7                | 15.5                | 36.6                |
| Cash flows from operating activities                                             | 42,451                            | 60,208              | 58,118              | 60,152              | 73,293              |
| Cash flows from investing activities                                             | (112,155)                         | (6,345)             | (61,820)            | 56,412              | (97,084)            |
| Cash flows from financing activities                                             | 29,764                            | (13,033)            | (27,050)            | (35,639)            | (9,275)             |
| Cash and cash equivalents at end of year                                         | 84,736                            | 138,843             | 117,729             | 194,225             | 152,683             |
| Number of employees                                                              | 4,187                             | 4,661               | 4,656               | 5,033               | 5,525               |
| [average number of part-time workers]<br>(persons)                               | [289]                             | [295]               | [186]               | [169]               | [157]               |

(Notes) 1. From the 12th fiscal year, the Company has prepared the consolidated financial statements in accordance with the international accounting standards (“IFRS”).

2. Revenue does not include consumption taxes, etc.

3. During the 11th fiscal year, common stock increased by 9,407,000 shares due to exercise of stock options, resulting in the total number of issued shares of 435,539,900 shares.

4. During the 12th fiscal year, common stock increased by 3,804,000 shares due to exercise of stock options, resulting in the total number of issued shares of 439,343,900 shares.

5. During the 13th fiscal year, the total number of issued shares became 431,256,017 shares due to changes in common stock because of the following reasons:

- Decrease by 10,569,883 shares due to cancellation of treasury stock on August 29, 2014
- Increase by 2,482,000 shares due to exercise of stock options

6. During the 14th fiscal year, the total number of issued shares became 434,117,117 shares due to changes in

common stock because of the following reasons:

- Decrease by 7,313,900 shares due to cancellation of treasury stock on May 29, 2015
- Increase by 10,175,000 shares due to exercise of stock options

7. During the 15th fiscal year, the total number of issued shares became 434,871,414 shares due to changes in common stock because of the following reasons:

- Decrease by 3,168,703 shares due to cancellation of treasury stock on November 30, 2016
- Increase by 3,923,000 shares due to exercise of stock options

(Millions of yen, unless otherwise stated)

| Term                                                                      | Japan GAAP          |                     |
|---------------------------------------------------------------------------|---------------------|---------------------|
|                                                                           | 11 <sup>th</sup> FY | 12 <sup>th</sup> FY |
| Fiscal year-end                                                           | December 2012       | December 2013       |
| Net sales                                                                 | 108,448             | 155,910             |
| Ordinary income                                                           | 44,542              | 57,549              |
| Net income attributable to shareholders of the parent company             | 25,401              | 27,244              |
| Comprehensive income                                                      | 34,430              | 88,224              |
| Net assets                                                                | 214,925             | 303,338             |
| Total assets                                                              | 313,928             | 405,286             |
| Net assets per share (yen)                                                | 483.45              | 675.52              |
| Net income per share (yen)                                                | 58.71               | 62.23               |
| Diluted net income per share (yen)                                        | 57.18               | 61.21               |
| Shareholders' equity ratio (%)                                            | 67.1                | 73.2                |
| Return on equity (%)                                                      | 13.2                | 2.7                 |
| Price earnings ratio (times)                                              | 14.8                | 15.6                |
| Cash flows from operating activities                                      | 42,714              | 59,699              |
| Cash flows from investing activities                                      | (113,711)           | (7,729)             |
| Cash flows from financing activities                                      | 30,903              | (11,635)            |
| Cash and cash equivalents at end of year                                  | 84,399              | 137,893             |
| Number of employees<br>[average number of part-time workers]<br>(persons) | 4,187<br>[289]      | 4,661<br>[295]      |

- (Notes)
1. Net sales do not include consumption taxes, etc.
  2. During the 11th fiscal year, common stock increased by 9,407,000 shares due to exercise of stock options, resulting in the total number of issued shares of 435,539,900 shares.
  3. During the 12th fiscal year, common stock increased by 3,804,000 shares due to exercise of stock options, resulting in the total number of issued shares of 439,343,900 shares.
  4. As IFRS has been applied from the 12th fiscal year, the figures under Japan GAAP for the 12th fiscal year were not audited in accordance with provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

## (2) The Company's management indicators, etc.

(Millions of yen, unless otherwise stated)

| Term                                                                      | 11 <sup>th</sup> FY | 12 <sup>th</sup> FY | 13 <sup>th</sup> FY | 14 <sup>th</sup> FY | 15 <sup>th</sup> FY |
|---------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Fiscal year-end                                                           | December 2012       | December 2013       | December 2014       | December 2015       | December 2016       |
| Net sales                                                                 | 11,657              | 11,236              | 7,987               | 5,815               | 5,208               |
| Ordinary income (loss)                                                    | 522                 | 12,715              | 24,532              | 14,145              | (5,852)             |
| Net income (loss)                                                         | (2,153)             | 7,539               | 1,403               | 8,172               | (44,372)            |
| Capital stock                                                             | 51,342              | 51,868              | 52,332              | 56,227              | 3,307               |
| Total number of issued shares<br>(thousands of shares)                    | 435,539             | 439,343             | 431,256             | 434,117             | 434,871             |
| Net assets                                                                | 97,174              | 127,896             | 108,598             | 104,630             | 56,281              |
| Total assets                                                              | 151,707             | 180,643             | 148,097             | 108,634             | 59,070              |
| Net assets per share (yen)                                                | 221.31              | 286.81              | 242.68              | 230.41              | 116.69              |
| Dividend per share (yen)<br>[of which, interim dividend per share]        | 5<br>[—]            | 10<br>[5]           | 10<br>[5]           | 10<br>[5]           | 5<br>[5]            |
| Basic net income (loss) per share (yen)                                   | (4.98)              | 17.22               | 3.23                | 18.95               | (101.95)            |
| Diluted net income per share (yen)                                        | —                   | 16.94               | 3.18                | 18.53               | —                   |
| Shareholders' equity ratio (%)                                            | 63.5                | 69.8                | 70.7                | 92.1                | 85.9                |
| Return on equity (%)                                                      | —                   | 6.8                 | 1.2                 | 8.0                 | —                   |
| Price earnings ratio (times)                                              | —                   | 56.4                | 348.6               | 104.4               | —                   |
| Dividend payout ratio (%)                                                 | —                   | 58.1                | 309.9               | 52.8                | —                   |
| Number of employees<br>[average number of part-time<br>workers] (persons) | 251<br>[2]          | 266<br>[1]          | 243<br>[1]          | 251<br>[2]          | 253<br>[1]          |

(Notes) 1. Net sales do not include consumption taxes, etc.

2. For the 11th and 15th fiscal years, although there were outstanding subscription rights to shares, diluted net income per share is not disclosed as net loss was recorded.
3. For the 11th and 15th fiscal years, return on equity is not disclosed as net loss was recorded.
4. For the 11th and 15th fiscal years, price earnings ratio and dividend payout ratio are not disclosed as net loss was recorded.
5. During the 11th fiscal year, common stock increased by 9,407,000 shares due to exercise of stock options, resulting in the total number of issued shares of 435,539,900 shares.
6. During the 12th fiscal year, common stock increased by 3,804,000 shares due to exercise of stock options, resulting in the total number of issued shares of 439,343,900 shares.
7. During the 13th fiscal year, the total number of issued shares became 431,256,017 shares due to changes in common stock because of the following reasons:
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  - Decrease by 3,168,703 shares due to cancellation of treasury stock on November 30, 2016
  - Increase by 3,923,000 shares due to exercise of stock options

## 2 【History】

In December 1994, Jungju Kim founded the former NEXON Corporation (current NXC Corporation) in Seoul, Korea, and started the online game business, which is the origin of Nexon Group.

The former NEXON Corporation (current NXC Corporation) entered Japan in September 2000 by acquiring 50% of outstanding shares of Solid Networks, Inc. (former NEXON Japan Co., Ltd.).

In December 2002, the Company (then, new NEXON Japan Co., Ltd.) was established with the aim of a full-scale entry into on-line game business in Japan. The Company's history subsequent to its establishment is summarized below.

Note: Solid Networks, Inc. changed its name to the former NEXON Japan Co., Ltd. in October 2000 and then to Solid Networks, Inc. in October 2002.

<Subsequent to the establishment>

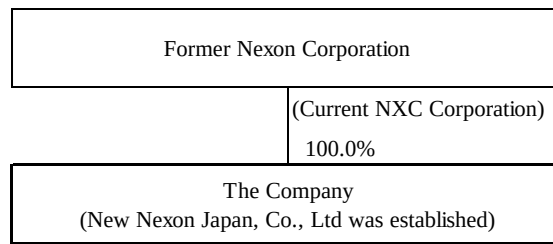
| Date           | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 2002  | The former NEXON Corporation (current NXC Corporation) established the Company (new NEXON Japan Co., Ltd.) in Chuo-ku, Tokyo.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| January 2003   | The former NEXON Corporation (current NXC Corporation) sold its shareholding in Solid Networks, Inc. (former NEXON Japan Co., Ltd.).<br>Following the dissolution of capital alliance between the former NEXON Corporation (current NXC Corporation) and Solid Networks, Inc. (former NEXON Japan Co., Ltd.), the Company took over the online game business from Solid Networks, Inc. (former NEXON Japan Co., Ltd.) and started full-scale operation of the online game business in Japan.                                                                                                                                                                                       |
| November 2003  | The Company moved its head office to 2-3-1 Shinkawa, Chuo-ku, Tokyo.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| January 2004   | The former NEXON Corporation (current NXC Corporation) established Lexian Software Development (Shanghai) Co., Ltd. in Shanghai, PRC.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| September 2005 | The Company established NX Games Inc. (current NEXON America Inc.) in the U.S.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| October 2005   | The former NEXON Corporation (current NXC Corporation) established new NEXON Corporation (current NEXON Korea Corporation) through a company split. The former NEXON Corporation (current NXC Corporation) changed its name to Nexon Holdings Corporation.<br>The Company acquired new NEXON Corporation (current NEXON Korea Corporation) from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary. (Note 2)<br>The new NEXON Corporation (current NEXON Korea Corporation) acquired Nexon Mobile Corporation from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary (merged into NEXON Korea Corporation in May 2012). |
| December 2005  | The new NEXON Corporation (current NEXON Korea Corporation) acquired <i>MapleStory</i> from Wizet Corporation (current NX Properties Corporation).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| March 2006     | The new NEXON Corporation (current NEXON Korea Corporation) acquired Nexon SD Corporation (current Nexon Networks Corporation) and made it its subsidiary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| April 2006     | The Company acquired Lexian Software Development (Shanghai) Co., Ltd. from Nexon Holdings Corporation (current NXC Corporation) and made it its subsidiary.<br>NX Games Inc. changed its name to Nexon America Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| July 2006      | The Company established Nexon Publishing North America Inc. in Canada (liquidated in March 2009).<br>The new NEXON Corporation (current NEXON Korea Corporation) acquired Doobic Entertainment Co., Ltd. and made it its subsidiary (liquidated in December 2007).                                                                                                                                                                                                                                                                                                                                                                                                                 |
| August 2006    | The new NEXON Corporation (current NEXON Korea Corporation) acquired <i>Kart Rider</i> and <i>BnB</i> from MPlay Games Corporation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

| Date           | Summary                                                                                                                                                                                                                                                                                  |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| September 2006 | The new NEXON Corporation (current NEXON Korea Corporation) established Nexon DD Corporation (liquidated in January 2013).                                                                                                                                                               |
| March 2007     | The Company established NEXON Europe Limited in the U.K. (liquidated in April 2012).                                                                                                                                                                                                     |
| July 2008      | The new NEXON Corporation (current NEXON Korea Corporation) acquired Xeogen, Inc. and made it its subsidiary (it became an affiliate as a result of partial sale of shares in April 2009).                                                                                               |
| August 2008    | The new NEXON Corporation (current NEXON Korea Corporation) acquired NEOPLE INC. and made it its subsidiary.                                                                                                                                                                             |
| October 2008   | The new NEXON Corporation (current NEXON Korea Corporation) acquired Silverportion Co., Ltd. and made it its subsidiary (liquidated in June 2010).                                                                                                                                       |
| March 2009     | The new NEXON Corporation (current NEXON Korea Corporation) established NexToric Corporation in Korea (merged into NEXON GT Co., Ltd. in February 2014).<br>Nexon Holdings Corporation changed its name to NXC Corporation.                                                              |
| April 2009     | The Company changed its name to NEXON Co., Ltd. from NEXON Japan Co., Ltd.                                                                                                                                                                                                               |
| May 2009       | Nexon DD Corporation changed its name to Nova Studio Corporation (current Redcard Studio Co., Ltd.) (liquidated in January 2013).                                                                                                                                                        |
| July 2009      | The new NEXON Corporation (current NEXON Korea Corporation) acquired Copersons Corporation (current UbiFun Corporation) and made it its subsidiary.                                                                                                                                      |
| August 2009    | Nova Studio Corporation changed its name to Nexon Nova Corporation (liquidated in January 2013).<br><br>The new NEXON Corporation (current NEXON Korea Corporation) acquired Symmetric Space Corporation and made it its subsidiary (merged into NexToric Corporation in December 2011). |
| October 2009   | The new NEXON Corporation (current NEXON Korea Corporation) established ExC Games Corporation (current Neon Studio Corporation) in Korea.                                                                                                                                                |
| January 2010   | The Company acquired Fantage.com Inc. and made it its subsidiary.                                                                                                                                                                                                                        |
| April 2010     | Nexon SD Corporation changed its name to Nexon Networks Corporation.<br><br>The new NEXON Corporation (current NEXON Korea Corporation) established Centum Interactive Co., Ltd. in Korea (liquidated in January 2013).                                                                  |
| May 2010       | The new NEXON Corporation (current NEXON Korea Corporation) acquired NDOORS Corporation and made it its subsidiary.                                                                                                                                                                      |
| July 2010      | The new NEXON Corporation (current NEXON Korea Corporation) acquired GameHi Co., Ltd. (current NEXON GT Co., Ltd.) and made it its subsidiary.                                                                                                                                           |
| October 2010   | The new NEXON Corporation (current NEXON Korea Corporation) acquired NCLIPSE Corporation and made it its subsidiary (merged into NexToric Corporation in December 2011).<br>Fantage.com Inc. established Wawagames Inc. in the U.S.A. (liquidated in April 2012).                        |
| November 2010  | The Company established NEXON Europe S.à.r.l. in Luxemburg (merged into Nexon Europe GmbH in December 2015).                                                                                                                                                                             |
| December 2010  | The Company acquired Quad Dimensions Co., Ltd. (current Rushmo Co., Ltd.) from NXC Corporation and made it its subsidiary.                                                                                                                                                               |
| February 2011  | The new NEXON Corporation (current NEXON Korea Corporation) changed its name to NEXON Korea Corporation.                                                                                                                                                                                 |
| August 2011    | Centum Interactive Co., Ltd. changed its name to Qbious Co., Ltd. (liquidated in January 2013).                                                                                                                                                                                          |
| October 2011   | The new NEXON Corporation (current NEXON Korea Corporation) established NEXON COMMUNICATIONS Co., Ltd. in Korea.                                                                                                                                                                         |
| December 2011  | The Company was listed on the First Section of the Tokyo Stock Exchange.                                                                                                                                                                                                                 |
| March 2012     | Nexon Nova Corporation changed its name to Redcard Studio Co., Ltd. (liquidated in January 2013).                                                                                                                                                                                        |

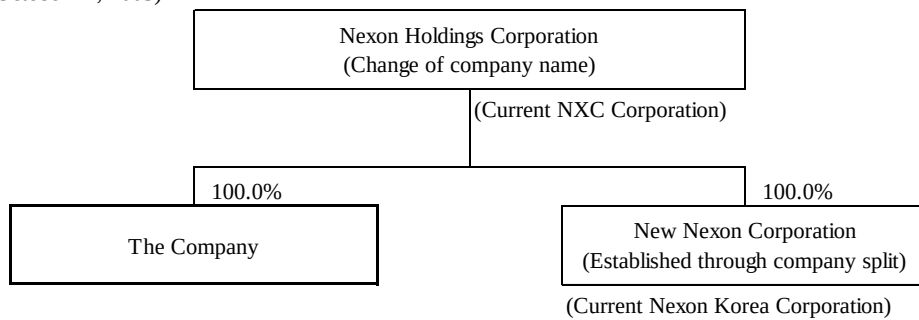
| Date           | Summary                                                                                                                         |
|----------------|---------------------------------------------------------------------------------------------------------------------------------|
| June 2012      | Qbious Co., Ltd. changed its name to Wizet Corporation (liquidated in January 2013).                                            |
| June 2012      | The Company acquired inBlue, Inc. and made it its subsidiary (merged into gloops, Inc. in May 2015).                            |
| July 2012      | Quad Dimensions Co., Ltd. changed its name to Rushmo Co., Ltd.                                                                  |
| October 2012   | The Company acquired gloops, Inc. and made it its subsidiary.                                                                   |
| December 2012  | ExC Games Corporation changed its name to Neon Studio Corporation.                                                              |
| July 2013      | Nexon Korea Corporation established Nexon Space Co., Ltd. in Korea.                                                             |
| September 2013 | The Company acquired gloops International Inc. (current Nexon M Inc.) from gloops, Inc. and made it its subsidiary.             |
| September 2013 | NEOPLE INC. acquired Thingsoft Inc. and made it its subsidiary.                                                                 |
| October 2013   | Nexon Korea Corporation acquired Weclay Inc. and made it its subsidiary (merged into Nexon Korea Corporation in December 2014). |
| March 2014     | GameHi Co. Ltd. changed its name to Nexon GT Co., Ltd.                                                                          |
| November 2014  | Rushmo Co., Ltd. established Rushmo America Inc. in the U.S.A.                                                                  |
| March 2015     | The Company established Nexon Europe GmbH in Germany.                                                                           |
| April 2015     | Nexon Korea Corporation acquired BOOLEAN GAMES Corporation and made it its subsidiary.                                          |
| December 2015  | Nexon Korea Corporation established NEXON TAIWAN Co., Ltd. in Taiwan.                                                           |
| February 2016  | Nexon Korea Corporation established Nexon US Holding Inc. in the U.S.A.                                                         |
| March 2016     | Nexon US Holding Inc. acquired Big Huge Games, Inc. and made it its subsidiary.                                                 |
| May 2016       | Nexon GT Co., Ltd. acquired Wellgames Corporation and made it its subsidiary.                                                   |
| July 2016      | Nexon Korea Corporation acquired N Media Platform Co., LTD. and made it its subsidiary.                                         |
| October 2016   | Nexon Korea Corporation acquired i Digital Connect Co., Ltd. and made it its subsidiary.                                        |
| November 2016  | Nexon Korea Corporation acquired NSC Corporation and made it its subsidiary.                                                    |

- (Notes) 1. In February 2017, Neon Studio Corporation became a company accounted for using equity method from a consolidated subsidiary as a result of partial transfer of its shares.
2. The former NEXON Corporation (current NXC Corporation) transferred its PC online business to the new NEXON Corporation (current NEXON Korea Corporation) in Korea through a company split on October 11, 2005 and all shares of the company to the Company on October 28, 2005. Since then, the company is engaged in investment business other than the game business as the Company's parent company, and the Company, as an operating holding company, is engaged in the online game business in Japan and also manages overseas group companies.
- The capital relationship of the former NEXON Corporation (current NXC Corporation), the Company and the new NEXON Corporation (current NEXON Korea Corporation) subsequent to the establishment of the Company by the former NEXON Corporation (current NXC Corporation) in December 2002 is illustrated below.

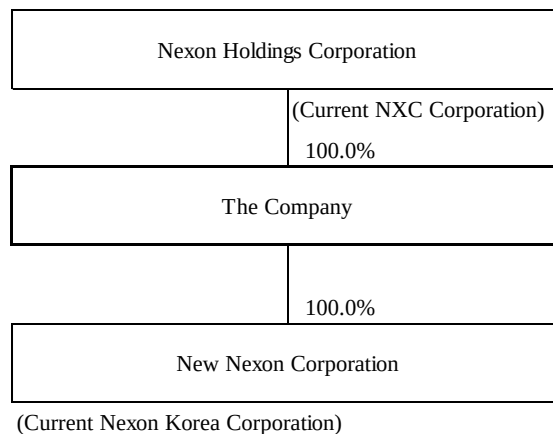
(December 2002)



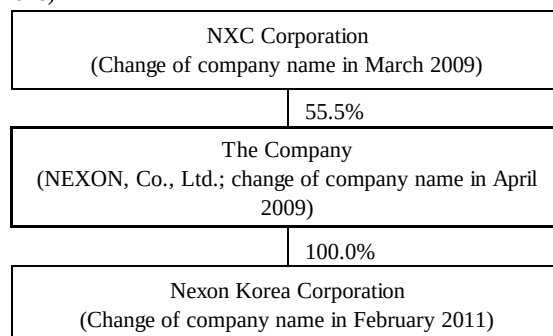
(October 11, 2005)



(October 28, 2005)



(As of December 31, 2016)



### 3 【Description of Business】

Nexon Group consists of the Company, its 26 consolidated subsidiaries and 9 affiliated companies (as of December 31, 2016), and is engaged in the production, development and service of PC online and mobile games. In Japan, mainly the Company and gloops, Inc. are responsible for developing the overall strategies for our products and services and operating the business, while overseas, our local consolidated subsidiaries do so in their respective regions as independently managed entities.

Accordingly, Nexon Group consists of geographical segments based on production, development and service of PC online and mobile games. The reportable segments include “Japan,” “Korea,” “China,” “North America,” and “Other.” European and Asian countries are included in “Other.”

See <Business description and positioning of the Company and its consolidated subsidiaries> in (5) Nexon Group below for the business description of each company.

|                |                                                                                                                                                                                                                                                                                                                           |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Japan:         | NEXON Co., Ltd.; gloops, Inc.                                                                                                                                                                                                                                                                                             |
| Korea:         | NEXON Korea Corporation; Rushmo Co., Ltd.; NEOPLE INC.;<br>Nexon Networks Corporation; Neon Studio Corporation; NDOORS Corporation;<br>NEXON GT Co., Ltd.; NEXON COMMUNICATIONS Co., Ltd.;<br>Nexon Space Co., Ltd.; Thingsoft Inc.; BOOLEAN GAMES; Wellgames Corporation;<br>N Media Platform Co., LTD.; NSC Corporation |
| China:         | Lexian Software Development (Shanghai) Co., Ltd.                                                                                                                                                                                                                                                                          |
| North America: | Nexon America Inc.; Fantage.com Inc.; NEXON M Inc.; Rushmo America, Inc.;<br>Nexon US Holding Inc.; Big Huge Games, Inc.;                                                                                                                                                                                                 |
| Other:         | NEXON Europe GmbH; gloops Vietnam Inc.; Nexon Taiwan Limited;<br>i Digital Connect Co., Ltd.                                                                                                                                                                                                                              |

Nexon Group classifies its lines of business into (a) PC Online business and (b) Mobile business.

#### (1) Lines of business

##### (a) PC Online business

The PC online business mostly involves the production, development and service of PC online games. Additional services we offer include consulting related to PC online game service, in-game advertising, and merchandising incidental to the PC online business.

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

Major PC online game titles serviced by Nexon Group include *MapleStory*, *Dungeon&Fighter* and *EA SPORTS™ FIFA Online 3* (“*FIFA Online 3*”). When we launch a new title, we flexibly adapt to market differences by conducting a test service of the game, taking into account the characteristics and preferences of users in the respective areas of the world and the genre of the game to be serviced.

PC online games developed within Nexon Group, by NEXON Korea Corporation, NEOPLE INC. or other group companies, are directly serviced by themselves or, in regions that have large markets, through other members of Nexon Group such as the Company, Nexon America Inc., or Nexon Europe GmbH. We have endeavored to maximize business synergy effects by establishing a closely coordinated structure within Nexon Group for the production, development and service of PC online games. In addition, with regards to PC online games developed by non-Nexon Group developers and for which we have acquired publishing rights, we try to maximize revenues by publishing those games through Nexon Group so that they reach a large audience and we also build rapport with such developers as we service their games. In regions where Nexon Group does not directly service games, we go through local publishers to service in-house developed PC online games. Through such business initiatives as above, we are making the utmost effort to service fun and creative games to users all over the world.

As for the consulting business, Lexian Software Development (Shanghai) Co., Ltd. provides Chinese publishers with consulting services for setting up and maintaining billing systems (see the Note below) and membership systems, business strategy development, game operation and marketing.

In Korea, Nexon Networks Corporation provides operation support services for PC online and mobile games, and N Media Platform Co., LTD. provides services related to net-café operation, advertisement platform for net-café and operation management services.

The in-game advertisement business capitalizes on the strengths of ad placements within PC online games, i.e. ongoing updates of game contents and advertisement information, and leverages such features as that enabling direct

exposure to players through in-game usage of functional items equipped with an advertisement function, or that enabling simultaneous exposure of different advertisements to their respective target users through dedicated servers that comprehensively manage all advertisements.

The merchandising business engages in the production and sales of goods that feature popular characters from games owned by Nexon Group.

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

<List of major game titles>

| Title                      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Genre          | Major serviced area                                                       | Launched in                                                                     |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| <i>MapleStory</i>          | <p>Side-scrolling 2D action MMORPG (Note 1) featured by friendly characters and gameplay with simple operation on low-spec PC.</p> <p>The fixed image of MMORPG being a hard-core game before the launch of <i>MapleStory</i> was successfully overturned by a success of this title.</p> <p>Since the launch in Korea in 2003, the title has actively introduced highly fashionable items, which played a role in establishing the microtransaction business model and became a major driving force to establish the microtransaction revenue model in the online game industry.</p> <p>NEXON Korea Corporation has the IP (Note 2) of this title.</p> | MMORPG         | <p>Japan</p> <p>Korea</p> <p>China</p> <p>North America</p> <p>Europe</p> | <p>Dec 2003</p> <p>May 2003</p> <p>Dec 2004</p> <p>Oct 2005</p> <p>May 2007</p> |
| <i>Dungeon&amp;Fighter</i> | <p>Side-scrolling action RPG featured by dynamic and speedy gameplay with a wide variety of skills and weapons that can be performed by simple operation along with various sound effects.</p> <p>By employing the stage-clear method, <i>Dungeon&amp;Fighter</i> offers simple gameplay in which a game is completed every time a player completes a dungeon (Note 3), and also creates a synergy effect with a sense of reality through arcade game-type combat method, which have earned the title popularity in all areas where it is serviced.</p> <p>NEOPLE INC. owns the IP of this title.</p>                                                   | MORPG (Note 4) | <p>Japan</p> <p>Korea</p> <p>China</p>                                    | <p>Mar 2009</p> <p>Nov 2005</p> <p>June 2008</p>                                |
| FIFA Online 3              | <p><i>FIFA Online 3</i> is a mainstream PC online football game descended from <i>FIFA</i>, a globally popular hit game by EA SPORTS™. It is featured by realistic gameplay developed by using the next-generation game engine and the cutting-edge graphic technology, and it allows game users to enjoy enhancement of players' skills and sophisticated strategic play in three different modes; as a player, a manager and an owner. Through gameplay experiences enhanced by the next-generation technology, this title offers new attraction of sports game.</p>                                                                                  | Sports         | Korea                                                                     | Jan 2013                                                                        |

- (Notes) 1. MMORPG: Massively multiplayer online role-playing game
2. IP: Intellectual property right which collectively refers to patent, trademark, copyright, etc.
3. Dungeon: A setting for the adventure in the game where various mysteries are hidden, including regions, labyrinths and other places where players earn experience points.
4. MORPG: Multiplayer online role-playing game. It is different from MMORPG in the number of players who actually play in the game world.

(b) Mobile business

The mobile business involves the development and service of mobile games playable on smartphones and tablet devices. Nexon Group develops and services mobile games in Japan and overseas. In Japan, while mobile game development and service are mostly conducted by gloops, Inc., the Company also services some mobile games. In Korea, mobile game development and service are conducted primarily through NEXON Korea Corporation, NEOPLE INC. NDOORS Corporation, and Nexon GT Co., Ltd. In the U.S., mobile game service is conducted primarily through NEXON M Inc.

(2) Business models for PC online and mobile games

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

(a) Self-publishing model

Self-publishing model is a model where a game developed by a Nexon Group member such as NEXON Korea Corporation or NEOPLE INC. is directly serviced (including the setup of a network environment, marketing and user support) by themselves or by the Company or a Nexon Group company including Nexon America Inc. and Nexon Europe GmbH.

Once a game is launched, service fees are collected from users according to the pre-determined monetization method. In many cases, we pay fees to payment gateway providers to have them collect service fees from users on our behalf.

(b) Licensing model

Licensing model is a model where Nexon Group, as a copyright holder of commercialized games, enters into licensing agreements with outside publishers and grants them the right to publish our games.

A publisher who enters into a licensing agreement with us and acquires the publishing rights for a game will be responsible for setting up the network environment, marketing and user support necessary to service the game. The respective Nexon Group company holding the copyright will provide support for such activities to enable the publisher to generate greater revenues.

Nexon Group members engaged in the development of PC online games, including NEXON Korea Corporation and NEOPLE INC., have licensed publishing rights to non-Nexon Group publishers in China, for instance.

Under the licensing agreements where publishing rights are granted by Nexon Group, in principle, license is granted to a single publisher per country per game title. In other words, Nexon Group grants local exclusive publishing rights to a publisher. The respective Nexon Group company holding the game copyright will provide game content updates and technical support on an ongoing basis to the publisher and in return receive contract money at the time of entering into the agreement, and once the game launches, receive a predetermined rate as royalty in accordance with the service fees that the publisher collects from users.

The conditions for royalty and other payments are determined individually for each agreement, taking into account the real local situation of the country in which the publisher is located.

(c) Licensed publishing model

Licensed publishing model is a model where Nexon Group enters into a licensing agreement with a non-Nexon Group developer of PC online games to acquire exclusive publishing rights to a game within a specified region. Nexon Group will set up the network environment for such service, conduct marketing and user support, as well as service the licensed game.

In this case, we will collect service fees from users and pay a certain amount out of it as royalty to the outside PC online game developer.

Nexon Group's deal with Valve Corporation related to *Counter-Strike Online*, the deals with Electronic Arts Inc. related to *FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M* ("*FIFA Online 3 M*") and the deal with NAT Games Co., Ltd. related to *HIT* fall into this category.

### (3) Monetization models for PC online games

Currently, there are three types of monetization methods for PC online games as follows. Nexon Group mainly uses the method under (a) for monetization.

#### (a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new PC online game. This allows new users to casually start playing a game, but on the other hand, it means that revenues generated by a game could be impacted by how appealing the in-game items offered for purchase are. In recent years, with heightening market awareness of free-to-play games, there are more and more PC online games in the market as a whole which have adopted this model to acquire new users.

Nexon Group was early to adopt the microtransaction model to PC online games because we wish for more users to enjoy the services of games we offer.

#### (b) Pay-as-you-go according to the period of use (subscription model)

Pay-as-you-go (subscription) is a model where users are charged with a fixed service fee based on the number of months, days or hours of use as fee for playing a game.

Although this method can generate a constant level of revenues by securing a certain number of users, it is likely that, compared to free-to-play games, new users would find making fixed monthly payments burdensome when starting a game.

#### (c) Advertisement revenue model

Advertisement revenue model is a model where a game is free to play and revenue is generated through advertisements which are displayed on screen before, after or during the game.

Since advertisements under this model are primarily sponsored by businesses, it is typically used in combination with method (a) or (b) above, and the popularity of the game itself (i.e. user traffic) will have a direct impact on revenues.

### (4) Monetization models for mobile games

Currently, there are two types of monetization methods for mobile games as follows. Nexon Group mainly uses the method under (a) for monetization.

#### (a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new mobile game. This allows new users to casually start playing a game, but on the other hand, it means that revenues generated by a game could be impacted by how appealing the in-game items offered for purchase are. Microtransaction model is the mainstream in the mobile game market.

#### (b) Premium model of upfront payment to download a game

Compared to the microtransaction model where games are basically free to play, the number of users may be limited for mobile games that demand an upfront payment to download (i.e. premium model) since new users would likely find it burdensome to spend a certain amount to begin a game.

(5) Nexon Group

The Company, an operating holding company, is engaged in game-related business, mainly service of PC online games, in Japan and also management of Group companies.

Nexon Group has subsidiaries that service PC online games in major overseas markets (NEXON Korea Corporation in Korea, Nexon America Inc. in the U.S.A, and NEXON Europe GmbH in Europe), and they are consolidated by the Company which directly owns 100% of their shares.

NEXON Korea Corporation and its related developers are engaged in production and development of PC online games as well as own intellectual property rights such as game copyrights of the developed games. For each game, they enter into an exclusive publishing agreement with (grants a license to) a group or third-party online game publisher in each region and receive royalty fees.

In China, the laws prohibit foreign invested companies to directly service PC online games, and therefore Lexian Software Development (Shanghai) Co., Ltd., a Chinese consolidated subsidiary, provides Chinese publishers with necessary infrastructures and consultation (on business strategy, game operation, and marketing) for servicing games. Korean subsidiaries, including NEXON Korea Corporation, which own IP of PC online games directly grant licenses to publishers having necessary infrastructure and know-how to operate PC online games. NEOPLE INC. services *Dungeon&Fighter* through Tencent Technology Company Limited.

While Nexon Group has in-house development team and develops world-class PC online game titles, it also acquires intellectual property rights of PC online games through joint development with, investments in, or acquisition of other developers. NEOPLE INC. which we acquired in August 2008 has the IP of *Dungeon&Fighter*, one of our main titles, and receives royalty from publishers based on the exclusive publishing agreement.

In the mobile game business, gloops Inc. and NEXON Korea Corporation are engaged in the development and service, NEXON M Inc. is engaged in the service, and Big Huge Games Inc., is engaged in the development.

The business description and positioning of the Company and its consolidated subsidiaries are as follows:

< Business description and positioning of the Company and its consolidated subsidiaries >

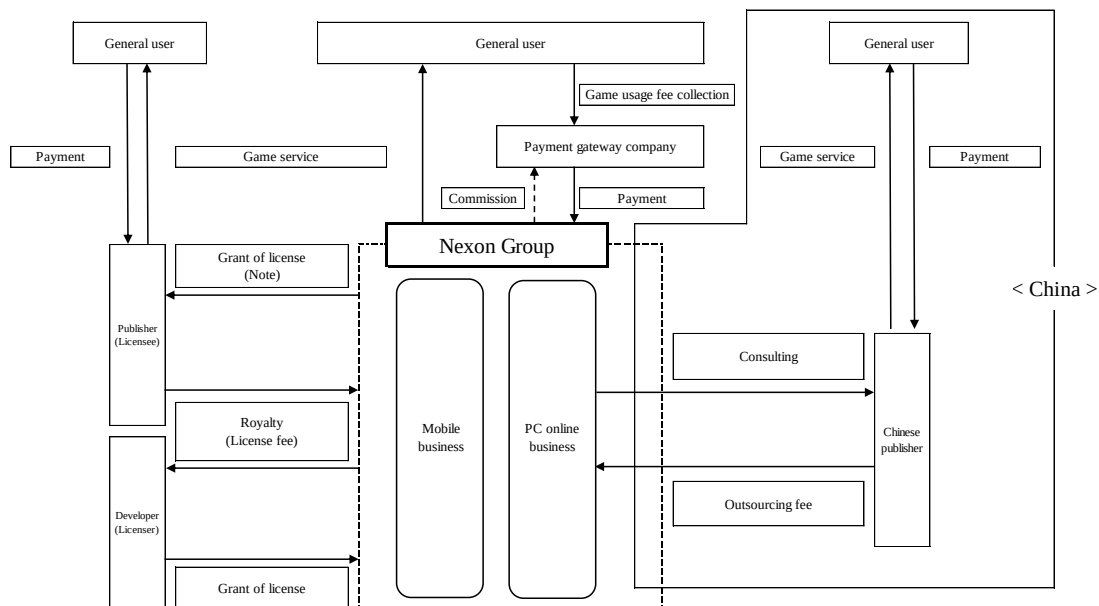
| Company name                                                   | Business description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Capital relationship within Nexon Group | Main business |                         |       |
|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------|-------------------------|-------|
|                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                         | Service       | Production/ Development | Other |
| NEXON Co., Ltd.<br>(The Company)<br>(Japan)                    | The Company is the core of game-related business, playing a leading role for overseas expansion of such game-related business as PC online and mobile games. It also manages domestic PC online game- and mobile game-related business and its subsidiaries.<br>It is also responsible for forming business alliance with its domestic peers and other companies and for promoting business alliance to service game titles developed by other Japanese companies in the global markets through Nexon Group.                                                                                                                                                                                                             | The Company                             | ○             |                         |       |
| NEXON Korea Corporation<br>(Korea)                             | Engaged in development and management of PC online and mobile game-related business in Korea as well as in-house development of PC online and mobile game titles.<br>It is also responsible for forming business alliance to service game titles developed by other Korean companies in the global markets through Nexon Group and for investment in and management of game developers in Korea.<br>When PC online game publishers service PC online games whose IP is owned by NEXON Korea Corporation, NEXON Korea Corporation enters into an exclusive publishing agreement with (grants a license to) publishers in each region and receives royalty.<br>Major game titles developed includes “ <i>MapleStory</i> .” | Subsidiary of the Company               | ○             | ○                       |       |
| Lexian Software Development<br>(Shanghai) Co., Ltd.<br>(China) | Provides publishers with necessary infrastructure and consultation (on business strategy, game operation and marketing) for servicing games in China                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Subsidiary of the Company               |               |                         | ○     |
| Nexon America Inc.<br>(North America,<br>U.S.A.)               | Engaged in service of PC online games mainly in North America                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Subsidiary of the Company               | ○             |                         |       |
| NEXON Europe GmbH<br>(Other, Germany)                          | Engaged in service of PC online games as a main service location in Europe.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Subsidiary of the Company               | ○             |                         |       |
| Fantage.com Inc.<br>(North America,<br>U.S.A.)                 | Engaged in business related to PC online games and online community service in North America                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Subsidiary of the Company               | ○             | ○                       |       |
| NEXON M Inc.<br>(North America,<br>U.S.A)                      | Engaged in service of mobile games mainly in North America and Europe                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Subsidiary of the Company               | ○             |                         |       |
| gloops, Inc.<br>(Japan)                                        | Engaged in production, development and service of mobile games in Japan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Subsidiary of the Company               | ○             | ○                       |       |
| NEOPLE INC.<br>(Korea)                                         | Engaged in development of PC online and mobile games in Korea, and developed and owns IP of <i>Dungeon&amp;Fighter</i> , one of our main game titles.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Subsidiary of NEXON Korea Corporation   | ○             | ○                       |       |
| Nexon Networks Corporation<br>(Korea)                          | Provides operation support service of PC online and mobile games in Korea                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Subsidiary of NEXON Korea Corporation   |               |                         | ○     |

| Company name                                  | Business description                                                                       | Capital relationship within Nexon Group | Main business |                        |       |
|-----------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------|---------------|------------------------|-------|
|                                               |                                                                                            |                                         | Service       | Production/Development | Other |
| NDOORS Corporation (Korea)                    | Engaged in development of PC online and mobile games in Korea                              | Subsidiary of NEXON Korea Corporation   | ○             | ○                      |       |
| NEXON GT Co., Ltd. (Korea)                    | Engaged in development of PC online and mobile games in Korea                              | Subsidiary of NEXON Korea Corporation   | ○             | ○                      |       |
| NEXON COMMUNICATIONS Co., Ltd. (Korea)        | Engaged in customer support business aiming at employment of disabled people in Korea      | Subsidiary of NEXON Korea Corporation   |               |                        | ○     |
| Nexon Space Co., Ltd (Korea)                  | Engaged in management of real estate including offices held by the Company in Korea        | Subsidiary of NEXON Korea Corporation   |               |                        | ○     |
| Rushmo Co., Ltd. (Korea)                      | Engaged in development of mobile games in Korea                                            | Subsidiary of NEXON Korea Corporation   |               | ○                      |       |
| BOOLEAN GAMES (Korea)                         | Engaged in development of mobile games in Korea                                            | Subsidiary of NEXON Korea Corporation   |               | ○                      |       |
| N Media Platform Co., LTD. (Korea)            | Engaged in production and sale of platform ads and net café infrastructure system in Korea | Subsidiary of NEXON Korea Corporation   |               |                        | ○     |
| NSC Corporation (Korea)                       | Engaged in development of mobile games in Korea                                            | Subsidiary of NEXON Korea Corporation   |               | ○                      |       |
| Nexon US Holding Inc. (North America, U.S.A.) | Holding company in North America                                                           | Subsidiary of NEXON Korea Corporation   |               |                        | ○     |
| Thingsoft Inc. (Korea)                        | Engaged in development of PC online and mobile games in Korea                              | Subsidiary of NEOPLE INC.               |               | ○                      |       |
| Wellgames Corporation (Korea)                 | Engaged in development of mobile games in Korea                                            | Subsidiary of NEXON GT Co., Ltd.        |               | ○                      |       |
| Big Huge Games, Inc. (North America, U.S.A)   | Engaged in development of mobile games in North America                                    | Subsidiary of Nexon US Holding Inc.     |               | ○                      |       |

[Business System Chart]

Chart 1 shows the matters described above.

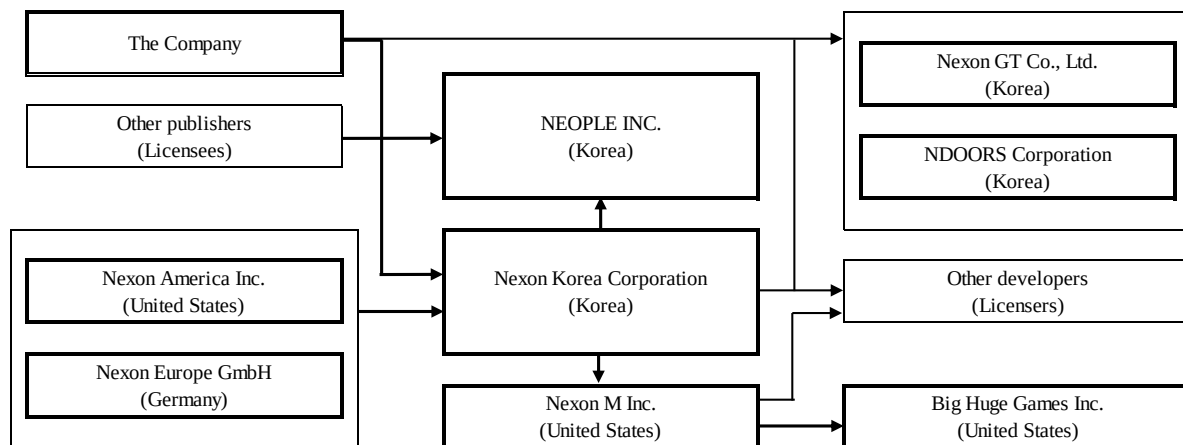
< Chart 1 >



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

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

< Chart 2 >



## 4 【Group Companies】

As of December 31, 2016

| Company name                                              | Location                            | Common stock      | Principal business                                       | Ownership ratio of voting rights (%) | Relationship                                                                                     |
|-----------------------------------------------------------|-------------------------------------|-------------------|----------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------|
| (Parent company)                                          |                                     |                   |                                                          |                                      |                                                                                                  |
| NXC Corporation<br>(Note) 1, 2                            | Jeju Self-Governing Province, Korea | KRW1,454 million  | Investment business                                      | Held 55.5 (19.2) [0.6]               | Not applicable                                                                                   |
| (Consolidated subsidiaries)                               |                                     |                   |                                                          |                                      |                                                                                                  |
| NEXON Korea Corporation<br>(Note) 3, 4                    | Seongnam, Gyeonggi-do, Korea        | KRW32,000 million | Development and service of PC online and mobile games    | 100.0                                | Provide license of PC online and mobile games to the Company<br>Concurrent position of directors |
| Lexian Software Development (Shanghai) Co., Ltd. (Note) 3 | Shanghai, PRC                       | USD4,100 thousand | Consulting                                               | 100.0                                | Concurrent position of directors                                                                 |
| Nexon America Inc.                                        | California, USA                     | USD210            | Service of PC online games                               | 100.0                                | Financial assistance (Note) 6<br>Concurrent position of directors                                |
| NEXON Europe GmbH                                         | Berlin, Germany                     | EUR25 thousand    | Service of PC online games                               | 100.0                                | Financial assistance (Note) 6<br>Concurrent position of directors                                |
| Rushmo Co., Ltd. (Note) 1                                 | Seoul, South Korea                  | KRW725 million    | Development of mobile games                              | 100.0 (100.0)                        | Financial assistance (Note) 6                                                                    |
| Fantage.com Inc.                                          | New Jersey, U.S.A.                  | USD3,407 thousand | Development of PC online games                           | 58.6                                 | Financial assistance (Note) 6                                                                    |
| NEOPLE INC.<br>(Note) 1, 3, 7                             | Jeju Self-Governing Province, Korea | KRW181 million    | Development and service of PC online and mobile games    | 100.0 (100.0)                        | Provide license of PC online games to the Company                                                |
| Nexon Networks Corporation (Note) 1                       | Jeju Self-Governing Province, Korea | KRW500 million    | Game services                                            | 100.0 (100.0)                        | Not applicable                                                                                   |
| NEXON COMMUNICATIONS Co., Ltd. (Note) 1                   | Busan, Korea                        | KRW2,500 million  | Customer support aiming at employment of disabled people | 100.0 (100.0)                        | Not applicable                                                                                   |
| NDOORS Corporation<br>(Note) 1, 3                         | Seoul, Korea                        | KRW9,400 million  | Development of PC online and mobile games                | 100.0 (100.0)                        | Not applicable                                                                                   |
| NEXON GT Co., Ltd.<br>(Note) 1, 3, 5                      | Seongnam, Gyeonggi-do, Korea        | KRW17,687 million | Development of PC online and mobile games                | 64.9 (64.9)                          | Provide license of PC online games to the Company                                                |
| gloops, Inc.                                              | Minato-ku, Tokyo                    | JPY26 million     | Development and service of mobile games                  | 100.0                                | Concurrent position of directors                                                                 |
| Nexon Space Co., Ltd.<br>(Note) 1                         | Seongnam, Gyeonggi-do, Korea        | KRW1,600 million  | Building facilities management and asset management      | 100.0 (100.0)                        | Not applicable                                                                                   |
| Thingsoft Inc. (Note) 1                                   | Seongnam, Gyeonggi-do, Korea        | KRW176 million    | Development of PC online and mobile games                | 100.0 (100.0)                        | Not applicable                                                                                   |
| NEXON M Inc.                                              | California, U.S.A.                  | USD1,500 thousand | Service of mobile games                                  | 100.0                                | Financial assistance (Note) 6<br>Concurrent position of directors                                |

| Company name                                             | Location                                     | Common stock       | Principal business                                                     | Ownership ratio of voting rights (%) | Relationship                  |
|----------------------------------------------------------|----------------------------------------------|--------------------|------------------------------------------------------------------------|--------------------------------------|-------------------------------|
| BOOLEAN GAMES (Note) 1                                   | Seongnam, Gyeonggi-do, Korea                 | KRW100 million     | Development of mobile games                                            | 100.0 (100.0)                        | Not applicable                |
| Wellgames Corporation (Note) 1                           | Seoul, Korea                                 | KRW60 million      | Development and service of mobile games                                | 64.9 (100.0)                         | Not applicable                |
| Nexon US Holding Inc. (Note) 1                           | California, U.S.A.                           | USD0.1             | Holding company                                                        | 100.0 (100.0)                        | Not applicable                |
| Big Huge Games, Inc. (Note) 1                            | Maryland, U.S.A.                             | USD1               | Development of mobile games                                            | 100.0 (100.0)                        | Not applicable                |
| N Media Platform Co., LTD. (Note) 1                      | Seongnam, Gyeonggi-do, Korea                 | KRW150 million     | Production and sale of platform ads and net café infrastructure system | 100.0 (100.0)                        | Not applicable                |
| NSC Corporation (Note) 1, 3                              | Seongnam, Gyeonggi-do, Korea                 | KRW4,007 million   | Development of mobile games                                            | 100.0 (100.0)                        | Financial assistance (Note) 6 |
| Other five companies                                     |                                              |                    |                                                                        |                                      |                               |
| (Affiliated companies accounted for using equity method) |                                              |                    |                                                                        |                                      |                               |
| 5 Ants Games S.L.                                        | Barcelona, Spain                             | EUR76 thousand     | Software development                                                   | 31.8                                 | Financial assistance (Note) 6 |
| Xeogen, Inc. (Note) 1                                    | Namdong District, Incheon, Korea             | KRW600 million     | Internet solution services                                             | 31.7 (31.7)                          | Not applicable                |
| Six Waves Inc.                                           | Hong Kong Special Administrative Region, PRC | USD74,608 thousand | Development and service of mobile games                                | 25.1                                 | Not applicable                |
| NAT Games Co., Ltd. (Note) 1                             | Seoul, Korea                                 | KRW2,500 million   | Development of mobile games                                            | 22.4 (22.4)                          | Not applicable                |
| Loud Communications Limited (Note) 1                     | Seoul, Korea                                 | KRW39 million      | Production of E-Sports programs                                        | 27.3 (27.3)                          | Not applicable                |
| Other four companies                                     |                                              |                    |                                                                        |                                      |                               |

(Note)1. Figures in parentheses in “Ownership ratio of voting rights” indicate indirect ownership ratio included in the total.

- Figures in brackets in “Ownership ratio of voting rights” indicate the ratio of voting rights held by closely related persons or those who have agreed and not included in the total.
- These companies fall under a category of specified subsidiary.
- Net sales of NEXON Korea Corporation (excluding internal sales between consolidated companies) account for more than 10% of revenue in the consolidated financial statements. Major profit or loss information of NEXON Korea Corporation for the year ended December 31, 2016 is as follows:  
Major profit or loss information
 

|                                |                  |
|--------------------------------|------------------|
| (1) Net sales                  | ¥87,766 million  |
| (2) Income before income taxes | ¥10,937 million  |
| (3) Net income                 | ¥7,506 million   |
| (4) Total equity               | ¥273,820 million |
| (5) Total assets               | ¥296,064 million |
- Nexon GT Co., Ltd. is Listed on KOSDAQ in Korea.
- Financial assistance represents loans from Nexon Group.
- Net sales of NEOPLE INC. (excluding internal sales between consolidated companies) account for more

than 10% of revenue in the consolidated financial statements. Major profit or loss information of NEOPLE INC. for the year ended December 31, 2016 is as follows:

|                                  |                                |                  |
|----------------------------------|--------------------------------|------------------|
| Major profit or loss information | (1) Net sales                  | ¥72,236 million  |
|                                  | (2) Income before income taxes | ¥67,328 million  |
|                                  | (3) Net income                 | ¥59,589 million  |
|                                  | (4) Total equity               | ¥132,225 million |
|                                  | (5) Total assets               | ¥144,829 million |

## 5 【Employees】

### (1) Employees of Nexon Group

As of December 31, 2016

| Name of reportable segment | Number of employees |
|----------------------------|---------------------|
| Japan                      | 606 (68)            |
| Korea                      | 4,234 (48)          |
| China                      | 260 (-)             |
| North America              | 340 (38)            |
| Other                      | 85 (3)              |
| Total                      | 5,525 (157)         |

(Note) The number of employees represent full-time employees, excluding those seconded from the Company to outside Nexon Group and including those seconded from outside Nexon Group to the Company. The average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.

### (2) Employees of the Company

As of December 31, 2016

| Number of employees | Average age    | Average service years | Average annual salary |
|---------------------|----------------|-----------------------|-----------------------|
| 253 (1)             | 34.6 years old | 4.7 years             | 5,866 thousand yen    |

- (Notes) 1. The number of employees represent full-time employees, excluding those seconded from the Company to outside Nexon Group and including those seconded from outside Nexon Group to the Company. The average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.
2. In addition to the employees included above, there is one employee seconded from the Company to other company.
3. Average service years for secondees from Nexon Group are calculated based on the total service years including those in the seconder company.
4. Average annual salary includes regular bonuses.

### (3) Labor union

No labor union is organized within Nexon Group, but management and employees maintain good relationship.

## II. 【Business Overview】

### 1 【Summary of Financial Results】

#### (1) Financial results

During the year ended December 31, 2016, the world economy as a whole generally witnessed a gradual recovery, mainly led by developed countries. In the U.S., steady consumer spending supported by an improvement of employment and income environment contributed to a continuing gradual growth despite a slow improvement in the corporate sector. In Europe, the U.K. and Spain maintained a high growth rate and the overall economy continued to show a gradual recovery, with a support of favorable consumer spending although the slowdown of emerging economies resulted in stagnant export. Asian economy also maintained a moderate growth but the Chinese economy showed a modest slowdown. The Japanese economy witnessed an improvement in corporate earnings, employment and income, but also a delay in the recovery of consumer spending.

Under these circumstances, Nexon Group is primarily engaged in PC online and mobile businesses. In order to provide users with an enjoyable game experience, Nexon Group has endeavored to develop high-quality games, obtain more contents, service new titles, and update existing titles. Specifically, Nexon Group has worked on various initiatives such as the enhancement of game development capabilities within Nexon Group, business alliance with other companies including joint development, servicing high-quality new game titles through acquisition of leading game developers, enhancement of Nexon Group's development capabilities in mobile business and further reinforcement of the business platform to enable attractive content updates for the existing game titles.

As a result, for the year ended December 31, 2016, Nexon Group recorded revenue of ¥183,128 million (down 3.8% year-over-year), operating income of ¥40,661 million (down 34.7% year-over-year), income before income taxes of ¥47,123 million (down 30.7% year-over-year) and net income attributable to owners of the parent company of ¥20,133 million (down 63.5% year-over-year).

Performance results by reportable segments are as follows:

#### (a) Japan

Revenue for the year ended December 31, 2016 amounted to ¥15,425 million (down 25.7% year-over-year), and segment loss amounted to ¥3,791 million (segment loss of ¥1,929 million for the year ended December 31, 2015). Both PC online game and mobile game revenues decreased.

#### (b) Korea

Revenue for the year ended December 31, 2016 amounted to ¥153,152 million (up 0.4% year-over-year), and segment profit amounted to ¥74,570 million (up 5.5% year-over-year). PC online game revenue decreased due to a foreign exchange impact despite well-received major content updates and item sales of *MapleStory* and *Dungeon&Fighter*. Meanwhile, mobile game revenue grew year-over-year due to *HIT* launched in Q4 2015 and newly released game titles such as *MapleStory M* and *Sangokushi Sousouden Online*. Revenue in Korea includes royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China. For the year ended December 31, 2016, revenue increased driven by solid performance of *Dungeon&Fighter*, our key PC online game title in China, supported by well-received item sales in line with major content updates including for the Lunar New Year (January) and the National Day (September).

#### (c) China

Revenue for the year ended December 31, 2016 amounted to ¥4,528 million (up 10.8% year-over-year), and segment profit amounted to ¥3,095 million (up 41.4% year-over-year). In China, consulting fees related to the existing PC online games increased; and accordingly, both revenue and profit increased.

#### (d) North America

Revenue for the year ended December 31, 2016 amounted to ¥8,780 million (down 21.0% year-over-year), and segment loss amounted to ¥4,839 million (segment loss of ¥4,024 million for the year ended December 31, 2015).

#### (e) Other

Revenue for the year ended December 31, 2016 amounted to ¥1,243 million (down 27.9% year-over-year), and segment loss amounted to ¥262 million (segment loss of ¥560 million for the year ended December 31, 2015).

(2) Cash flows

Cash and cash equivalents (“Cash”) as of December 31, 2016 was ¥152,683 million, a decrease of ¥41,542 million from December 31, 2015. The decrease includes ¥8,476 million of effects from exchange rate changes on cash and cash equivalents.

Cash flows from each activity for the fiscal year ended December 31, 2016 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥73,293 million, compared to ¥60,152 million for the year ended December 31, 2015. Major inflows include income before income taxes of ¥47,123 million, impairment loss of ¥28,785 million, depreciation and amortization of ¥6,366 million and an increase in deferred income of ¥6,755 million. Major outflows include payment of income taxes of ¥15,289 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥97,084 million, compared to net cash provided of ¥56,412 million for the year ended December 31, 2015. Major outflows include an increase in other deposits of ¥76,852 million, acquisition of subsidiaries of ¥7,301 million, and acquisition of affiliates of ¥4,530 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥9,275 million, compared to ¥35,639 million for the year ended December 31, 2015. Major outflows include purchase of treasury stock of ¥5,010 million, and payment of cash dividends of ¥4,358 million.

(3) Differences between major items in the consolidated financial statements prepared under IFRS and the equivalent items under Japan GAAP

Under Japan GAAP, goodwill was amortized over the period during which future benefits are expected to be received. Under IFRS, goodwill is not amortized. As a result, goodwill amortization (selling, general and administrative expenses) under IFRS decreased by ¥5,018 million and ¥3,959 million for the years ended December 31, 2015 and 2016, respectively, compared to those under Japan GAAP.

## 2 【Production, Orders Received and Sales】

This section presents information by reportable segment for the year ended December 31, 2016.

### (1) Production

The disclosure is omitted as the amount of Nexon Group's production is immaterial.

### (2) Orders received

Not applicable as Nexon Group does not receive orders.

### (3) Sales

Sales by reportable segment for the year ended December 31, 2016 are as follows:

| Name of reportable segment | Year ended December 31, 2016<br>(¥ million) | Year-over-year (%) |
|----------------------------|---------------------------------------------|--------------------|
| Japan                      | 15,425                                      | 74.3               |
| Korea                      | 153,152                                     | 100.4              |
| China                      | 4,528                                       | 110.8              |
| North America              | 8,780                                       | 79.0               |
| Other                      | 1,243                                       | 72.1               |
| Total                      | 183,128                                     | 96.2               |

(Notes) 1. Intersegment transactions are eliminated.

2. The amount of sales by major counterparties and its ratio to the total sales for the recent two consolidated fiscal years are as follows:

| Counterparty             | Year ended December 31, 2015 |           | Year ended December 31, 2016 |           |
|--------------------------|------------------------------|-----------|------------------------------|-----------|
|                          | Amount<br>(¥ million)        | Ratio (%) | Amount<br>(¥ million)        | Ratio (%) |
| Tencent Holdings Limited | 64,328                       | 33.8      | 64,600                       | 35.3      |

3. The above figures do not include consumption taxes, etc.

### 3 【Issues to be Addressed】

#### (1) Nexon Group's recognition of the current status

In order to achieve the future growth, Nexon Group recognizes the following matters as issues to be addressed.

#### (2) Details about the current issues to be addressed, the policy of measures to be taken and the status of specific initiatives

##### (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 Nexon Group is currently offering, including *Dungeon&Fighter* and *MapleStory*. 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 reinforce the business platform 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 Nexon Group, forming business alliance including joint development with other game developers, and investing in leading game developers.

##### (b) Strengthening information security

Nexon 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 appropriate internal information management organization.

Nexon Group has been focusing on enhancement of the information security structure through 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 【Risk Factors】

The following section provides an overview of the matters related to our business and financial information stated in this report that may have a significant impact on investors' judgments. Matters that are not necessarily considered as such risk factors but are deemed important for investors in making investment decisions are also disclosed from the viewpoint of active information disclosure to investors.

Fully recognizing the possibility of these risks occurring, the Company's policy is to prevent their occurrence and to prepare countermeasures in case of occurrence; however, it is our view that investment decisions concerning the Company's shares should be made after carefully considering the matters specifically noted below as well other information contained in this report.

Any forward-looking statements in the following discussion are based on the judgments of Nexon Group's management as of the filing date of the report and do not contain all risks that may arise in future.

##### (a) Risk concerning business environment

###### i) Growth potential of PC online and mobile game markets

In line with the growing number of Internet users in Asia and the increasing broadband penetration rate in China, Europe and North America, the Internet market is expected to keep expanding. The penetration rates of smartphones and tablets are also expected to increase globally. And above all, the Company expects to see further expansion of the global market of PC online and mobile games in which the Company operates.

However, if the PC online and mobile game markets do not grow in the manner the Company expects, if game license fees soar or if a prolonged game development period causes delay or suspension in service, Nexon Group's financial results or future business development could be adversely affected.

###### ii) Market environment of PC online and mobile games

The Company's core business is PC online and mobile games. The expansion of our PC online business is based on the premise that the Internet market continues growing with the spread of broadband environment. For the mobile game business, the mobile game market is also expected to continue growing along with the global spread of smartphones.

However, if the development of the Internet-related market is impeded by unexpected factors including introduction of new legal regulations, delay in technological innovation and trends of telecommunication providers such as revision of fees for Internet or mobile phone service, Nexon Group's business development and financial results could be adversely affected.

###### iii) New entrants and competitors

There are substantial number of competitors in the PC online and mobile game markets which are the major markets for Nexon Group's business.

We are in competition with not only PC online and mobile games but also other games in various genres including PC packaged games, console games and social-network games. We also compete for users' time with other online services than gaming such as social network and music streaming services. If users spend more time on these competing games and online services, Nexon Group's business development and financial results could be adversely affected.

With an aim to attain market supremacy, Nexon Group strives to differentiate itself from its competitors by offering unique services and game titles through the use of our experiences, know-how and brand in the PC online business accumulated over the years, and to acquire new users steadily by constantly developing and servicing attractive and competitive new PC online and mobile game titles.

However, if an intensified competition results in a decrease in the number of users of our PC online and mobile games, if the total number of users gradually decreases due to a reputational damage, or if service of game contents is delayed, Nexon Group's business development and financial results could be adversely affected.

###### iv) Technological innovation

The PC online and mobile game markets in which Nexon Group operates are closely linked to the Internet environment and network technology and subject to extremely fast-paced technological innovation and rapid advancement of programs, etc.

In an effort to keep up with such technological innovation, Nexon Group continues to develop software and contents that correspond to changes in service models and new functions. However, if we cannot respond to unexpected new technology or new services developed by our competitors in a timely manner, the competitiveness of our services could decline relatively and it could adversely affect Nexon Group's business development and financial results.

(b) Risks concerning Nexon Group's services

i) Business expansion into overseas markets

Nexon Group services or grants licenses of PC online and mobile games globally including in Japan, Korea, China and the United States, and its operating results and financial position may be affected by changes in political, economic and geopolitical situations in these countries and regions, especially in Korea and China.

In promoting business expansion in overseas markets, Nexon Group considers business alliance with other companies, establishment of joint ventures, or M&A as necessary, but if such process is delayed due to various uncertainties, Nexon Group's business development and financial results could be adversely affected.

ii) Concentration of sales on major games

Nexon Group's revenue depends heavily on certain major game titles, and *Dungeon&Fighter* accounted for a large percentage of consolidated revenue for the year ended December 31, 2016. Although Nexon Group is striving to diversify its portfolio through developing competitive new game titles and obtaining licenses of or acquiring titles developed by other companies, changes in users' preference, unexpected failure in servers or other systems, or disputes concerning intellectual property right could have an adverse effect on Nexon Group's business development and financial results.

iii) Seasonal fluctuations in financial results and business characteristics

In the PC online game market in which Nexon Group operates, revenue tends to increase during holiday seasons such as the New Year holidays, summer vacation and Lunar New Year around the world including Japan, Korea, China, Europe and the United States. Although we recognize such seasonal fluctuations as one of the variable factors affecting the number of game users, a significant fluctuation could have an adverse effect on Nexon Group's financial results.

iv) Expansion of PC online and mobile game portfolios

With an aim to increase the number of users, Nexon Group seeks to expand its portfolios by continuously developing new PC online and mobile game titles, but it is possible that development does not go as planned. We also work on the portfolio expansion by obtaining licenses of or acquiring PC online and mobile game titles developed by other companies, but if we fail to develop or acquire PC online and mobile game titles as planned, it could have an adverse effect on Nexon Group's business development and financial results.

v) Updates of the existing titles of PC online and mobile games

Nexon Group offers updates for new stories and holds highly entertaining in-game events regularly for the existing PC online and mobile game titles in order to increase continued users and extend their life cycle.

However, if we fail to update or expand the existing PC online and mobile game titles as planned, it could have an adverse effect on Nexon Group's financial results.

vi) Risks associated with service

Nexon Group develops its PC online and mobile game titles within the group, which enables us to accumulate its unique development know-how and have a flexible development system capable of promptly responding to changes in users' preferences that vary from country to country.

However, we cannot deny the possibility that we may not be able to understand customer demands in a timely and accurate manner for any reason, which may hinder enhancement of appropriate service for the existing game titles or development of new game titles meeting the users' preferences. In such an event, our appeal to users will deteriorate and Nexon Group's business development and financial results could be adversely affected.

vii) Microtransaction model

Nexon Group primarily offers PC online and mobile game services using free-to-play model whereby users can play games for free but pay to purchase items to enjoy the game including costumes, accessories, and weapons. While Nexon Group strives to develop an optimized revenue model by analyzing the item sales trend, there is a possibility that a different revenue model developed by our competitors may be accepted by users. If we fail to accommodate such new model, our appeal to users' may deteriorate and Nexon Group's business development and financial results could be adversely affected.

viii) Reputational damage and fraudulent act

Users' unfounded rumor about PC online and mobile games serviced by Nexon Group may damage our reputation and have an adverse effect on our financial results.

In addition, fraudulent act called "Real Money Trading" (Note) by certain malicious users was identified whereby in-game contents such as items, characters and non-cashable currency used within the games serviced by Nexon Group are obtained through illegal means and then used and transferred. In the past, the server of one of our U.S. subsidiaries was hacked from outside resulting in an anomalous increase in the in-game currency of certain users, and the subsidiary had to terminate the access by those users. Nexon Group works on preventing any illegal use or transactions of contents by introducing a system that enables in-game trading of contents among users. However, there are more ways of fraudulent act than we can imagine and we cannot assure that these countermeasures are sufficient.

In the event that a fraudulent act using our service is identified, the credibility of Nexon Group and the Company's services may be undermined, which could have an adverse effect on Nexon Group's business development and financial results.

(Note) Real Money Trading: Act to sell characters, items, in-game currency used in online games for real money.

ix) Damage to Nexon brand

Nexon Group enjoys high brand recognition in Korea, China and Japan, and we believe it is important to maintain and enhance such recognition in order to expand customer base and acquire new business partners.

If Nexon Group fails to make sufficient investment to maintain and enhance brand recognition, if our competitors establish a more competitive brand, or if the public image of the PC online and mobile game industry declines, it may damage Nexon Group's brand and could have an adverse effect on Nexon Group's business development and financial results.

(c) Risks concerning legal regulations

Nexon Group services or grants licenses of PC online and mobile games around the world including in Japan, Korea, China and the United States, and our business operation is subject to legal regulations in these countries and regions. Nexon Group operates its business faithfully in full compliance with laws and regulations. However, if Nexon Group receives administrative punishment for violating these regulations, or if these laws and regulations are tightened or new laws and regulations are established in the future and Nexon Group's business is subjected to the restrictions, Nexon Group's business development and financial results could be adversely affected.

Legal restrictions considered especially important are as follows:

i) Legal regulations concerning juveniles

Each country has regulations to prevent juveniles from becoming game addict and protect them from intense stimulus such as violence. In November 2011, the Korean government enacted an act requiring game publishers to block children under the age of 16 from playing online games for six hours from midnight to 6:00 a.m. In addition, the Ministry of Culture, Sports and Tourism of Korea advised to adopt an in-game special program with a function to prevent game users from playing games long hours, including by slowing down the speed of acquiring game items after the number of hours connecting to online games reaches a specified time. In China, as a measure to prevent juveniles from game addiction, game publishers are required to operate games in such a way that users get only half of normal in-game experience or other points after three hours of gaming in a day and users get no points after five hours of gaming. Also, the government intends to tighten regulations on playing online games by juveniles from midnight to early morning.

Nexon Group is striving to minimize potential impacts from these regulations by voluntarily introducing a game fatigue system and actively participating in social activities to prevent game addiction. However, if the interpretation of these regulations is revised or new laws and regulations are established in the future, the Company's business may be subjected to restrictions, or we may be required to take additional measures and spend more costs to comply with such regulations.

ii) Assessment of game contents

Prior to releasing games, Nexon Group undergoes an assessment by a third party organization designated by a country in which games will be released. If issues related to violence, gambling property or sensational contents are identified in the assessment, we may be required to limit access by certain age group or revise game contents. In addition, if serious violation of the assessment is identified after the launch, we may receive administrative punishment, etc. In such an event, the credibility and brand of Nexon Group and the Company's services are undermined, which could have an adverse effect on Nexon Group's business development and financial results.

iii) Legal regulations in China

The Chinese government has been promoting to foster its domestic online game industry and regulates the operation of games developed by foreign companies in China. On May 1, 2017, the Ministry of Culture is expected to strengthen regulations and administrative supervisory functions with respect to standard online game operation.

Nexon Group strives to minimize potential impacts of the above legal regulations mainly by forming partnership with local game publishers in China. However, if Nexon Group receives administrative punishment for violating these regulations due to unexpected circumstances, or if these laws and regulations are tightened or new laws and regulations are established in the future and Nexon Group's business is subjected to the restrictions, Nexon Group's business development and financial results could be adversely affected.

iv) Legal regulations in Japan

In Japan, it was clarified that “Kompu gacha (complete gacha)” falls under the category of “card matching” that is prohibited by the Act against Unjustifiable Premiums and Misleading Representations, and the industry group took the lead in establishing and releasing self-regulating guidelines. In-game currencies may also be subject to the Payment Services Act. Nexon Group has always operated its business by placing the most importance on continuous use and support by users while ensuring compliance with the laws and regulations. However, Nexon Group may be required to put into place a new system or framework in order to comply with laws that may be enacted or amended as well as the industry group's guidelines that may be established in future. If we fail to establish such system or framework in a timely manner, or if we incur more costs than expected to take necessary measures, it could have an adverse effect on the Company's financial results.

(d) Risks concerning business structure

i) Human resources

Nexon Group's PC online and mobile game business has been growing rapidly in recent years, and for further business expansion and diversification, we need to increase talented people with various skills including creativity, technical skills, ability to act and management skills. In addition, as our overseas consolidated subsidiaries play an important role in our business development, we consider it is important to have in place an internal control system in overseas subsidiaries as well as management systems in the administrative department including those securing talented people.

However, if, for example, a delay in recruiting talented people from outside or fostering within the group according to the level of expansion and diversification of our business causes problems in the management system, or if key personnel resigns, Nexon Group's business development and financial results could be adversely affected.

ii) Internal control framework

Nexon Group recognizes that effective corporate government is essential for continuous increase in corporate value.

Nexon Group is committed to ensuring proper operations and reliability of financial reporting as well as compliance with laws and regulations based on sound ethics. However, if we fail to maintain sufficient level of internal controls due to rapid growth of business, making it difficult to properly operate business, it could have an adverse effect on Nexon Group's business and financial results.

iii) Protection of personal information

In servicing or promoting online games and providing other services, Nexon Group acquires personal information of existing and potential users, including their addresses, names, telephone numbers and e-mail addresses. With regard to such action, Nexon Group is subject to the Act on the Protection of Personal Information as a “business operator handling personal information” in Japan and may be subject to administrative punishment or criminal charges in Korea in case of violating the laws and regulations on acquisition and safekeeping of personal information. Considering that an enormous amount of personal information is stored and managed in its server and that the cyber-attacks are increasing worldwide in recent years, Nexon Group has reinforced its security measures including by establishing “Global Security Center.” Our privacy policy and our approach toward information security are disclosed on our website.

Nexon Group pays careful attention to prevent leakage of personal data by reinforcing security measures on an ongoing basis and ensuring thorough employee training. In the past, however, there was a hacking attempt against Nexon Group's server from outside, and in Korea in 2011, it was identified that a large amount of personal information including users' names and encrypted resident registration numbers was leaked. If personal information

is leaked as a result of hacking attacks from outside or employees' fraudulent act, Nexon Group may face claim for damage from users, administrative punishment, or criminal charges, and the resulting damage to the credibility, which could have an adverse effect on Nexon Group's financial results.

iv) Dependence on specific persons

In determining and executing Nexon Group's management policy and business strategy, certain officers with abundant experience and knowledge about PC online and mobile game services as well as certain key employees including developers of major titles play very important roles, and the future success of Nexon Group's business depends on these specific officers and employees.

Although Nexon Group works on building a management structure that does not heavily depend on specific persons, if such officers or employees resign for any reason or if it becomes difficult for them to continue their duties and their competent replacements cannot be found in a timely manner, Nexon Group's business development and financial results could be adversely affected.

In addition, if any of our officers or key employees joins a competitor or forms a competing company, our business know-how may be compromised, which could have an adverse effect on Nexon Group's business development and financial results.

(e) Risks concerning intellectual property rights

Intellectual property rights, including copyright and trademark, of game titles owned by Nexon Group are essential to our business development, and we are making a special effort to protect and manage them. Certain PC online and mobile games serviced by Nexon Group include those using third parties' intellectual property, and therefore we pay a special attention not to infringe on such intellectual property rights and conducts various investigation in advance. In the license agreements with licensors, we incorporate a warranty of non-infringement and limitation of liability clause to ensure smooth execution of our business.

If Nexon Group's intellectual property right is infringed by a third party, we will take adequate measures against such party, but there is a possibility that we may not be able to eliminate it. Or if an insufficient investigation results in an infringement by Nexon Group of an intellectual property right of a third party, Nexon Group may face a lawsuit claiming for damages or seeking an injunction prohibiting the use of the intellectual property and also may be required to pay consideration for such intellectual property. In such an event, Nexon Group's financial results could be adversely affected.

(f) Risks concerning systems, etc.

i) System failure

As PC online and mobile games offered by Nexon Group use a network system, any system failure due to natural disaster, computer virus, power outage, overload of server, fraudulent activities including hacking by third parties and other unexpected circumstances may cause suspension of Nexon Group's operations.

Nexon Group is prepared for the quick recovery by having in place a 24-hour management system and a system to promptly notify monitoring staffs. However, if we cannot restore our systems for any reasons and provide our services, or if data is lost or leaked, it may lead to claims for damages or undermine our credibility, which could have an adverse effect on Nexon Group's financial results.

ii) Program defects

PC online and mobile games offered by Nexon Group are complex programs and may contain defects as we launch new game titles or introduce updates of the existing titles. Although Nexon Group endeavors to improve game quality and prevent defects by conducting pre-release tests, it is not possible to completely eliminate the possibility of defects due to various factors including human errors.

As the impact of program defects on game elements has been growing in recent years, if Nexon Group fails to prevent defects in advance or fails to respond to defects adequately, game elements and credibility of our PC online and mobile games are undermined, which could have an adverse effect on Nexon Group's business and financial results.

(g) Risks concerning misappropriation of games

PC online games may be used illegally by certain users through illegal servers or illegal copies. As our efforts to prevent misappropriation of our PC online games, Nexon Group has established a security system to protect the source codes of the programs for our PC online games. However, because of factors including human errors in the security system, there is a possibility that illegal acquisition and use of our programs through hacking from outside cannot be completely eliminated. Illegal servers and copies prevents us from collecting payments for purchased items from users who play pirated versions of our games and also impedes normal play by users due to its inferior game elements, which could have an adverse effect on Nexon Group's financial results and financial position.

(h) Risks concerning legal proceedings

Although Nexon Group has in place a compliance system primarily focusing on compliance with laws and regulations, there are possibilities that we may become subject to lawsuits filed by third parties or investigations by the government, in relation to default of contract, infringement of intellectual property rights, leak of personal information or labor issues during the course of our business operations. In addition to huge burden of responding to lawsuits, if unfavorable judgments or decisions are made and our brand image is undermined, Nexon Group's financial results and financial position could be adversely affected.

(i) Risks concerning M&A and business/capital alliance

i) Business expansion through M&A

Nexon Group has effectively utilized M&A targeting developers and operating companies of PC online and mobile games as an effective means to accelerate business expansion and intends to continue M&A and investment activities to secure competitive IP and development personnels. In doing so, we collect information on, scrutinize and consider business plans, financial condition and legal matters of target companies in advance to the extent considered necessary and sufficient in order to avoid risks as much as possible.

However, if we fail to identify certain items including contingent liabilities or unrecognized liabilities in the pre-acquisition investigation, if business development does not go as planned due to changes in market environment or competitive situation or unsuccessful post-acquisition business integration, or if the investment value in the target companies is impaired, Nexon Group's financial results and financial position could be adversely affected.

ii) Business/capital alliance with other companies

Nexon Group services PC online games by granting licenses to local companies in countries in which we operate, including the exclusive license agreement of *Dungeon&Fighter* in China. While Nexon Group will continue to work on business expansion through these business alliances, if the effects originally expected is not realized, if such alliance is terminated or if a license agreement is not renewed, Nexon Group's business and financial results could be adversely affected.

(j) Risks concerning fluctuations of foreign exchange rates

Overseas business expansion involves the risk of exchange-rate fluctuations and is affected mainly by fluctuation of Korean won, U.S. dollar and Chinese yuan. Nexon Group's consolidated financial statements are presented in Japanese yen, and fluctuations in exchange rates may have effects on Nexon Group's financial results as translation and transaction risk.

(k) Risks concerning natural disasters

If Nexon Group's major facilities are damaged or employees are affected by natural disasters such as earthquakes and typhoons, it may affect our operation and service of PC online games offered by Nexon Group. In addition, costs to repair damaged facilities and compensate affected employees could have an adverse effect on Nexon Group's financial results and financial position.

(l) Risks concerning dilution due to subscription rights to shares

Nexon Group has issued subscription rights to shares to provide incentives to our officers and employees. As a result of exercise of rights in the future, the Company's shares may be newly issued, resulting in dilution of existing shareholders' share value and the ownership ratio of voting rights. As of December 31, 2016, outstanding subscription rights to shares accounted for 5.19% of the total number of issued shares.

(m) Relationship with NXC Corporation

The Company's parent company is NXC Corporation, which owns 55.5% (including indirect shareholdings) of total issued shares of the Company as of December 31, 2016.

NXC Corporation and its subsidiaries engage in investment and other businesses that are not related to online game business which is the Company's primary business. The NXC Group has executed a non-compete agreement stipulating that they shall not engage in any businesses that may compete with the online game business of Nexon Group.

With regard to a company name trademark "NEXON" in Japan owned by NXC Corporation, the Company has entered into a trademark licensing agreement and agreed to pay license fee to NXC Corporation, which is set as the amount calculated as a certain percentage of the Company's revenue. NXC Corporation has agreed that the Company has a right to extend the trademark licensing agreement regarding the company name trademark "NEXON." Certain subsidiaries of the Company, including NEXON Korea Corporation and NEXON America, Inc., have also entered into the similar agreement with NXC Corporation.

In addition, the Company extends loans to NXC Corporation and collects them based on mutual consultation. As the interest rate on the loans is determined at arm's length through mutual consultation taking market interest rates into account, the Board of Directors believes these loans have no adverse effect on the Company's earnings.

Except for the above transactions, there are no other recurring transactions between Nexon Group and NXC Corporation, and the Company also has no plan in the future to engage in transactions, investments and business developments in which NXC Corporation may have influence on Nexon Group and/or which is advantageous to NXC Corporation

## 5 【Material Agreements, etc. in Business Operation】

### License agreement

As of December 31, 2016

| Contracting company                               | Counterparty                                             | Country                                                                                                                                                                                                                               | Contract date      | Contract description                                                                        | Contract period                                                                                                               |
|---------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| NEXON Korea Corporation (consolidated subsidiary) | Shanghai Posts & Telecommunications Technology Co., Ltd. | China                                                                                                                                                                                                                                 | September 14, 2004 | Exclusive license agreement for online game “ <i>Mabinogi</i> ” (licensing-out)             | From September 14, 2004 to September 13, 2017 (Note) 1                                                                        |
| NEXON Korea Corporation (consolidated subsidiary) | Shanghai Posts & Telecommunications Technology Co., Ltd. | China                                                                                                                                                                                                                                 | November 18, 2005  | Exclusive license agreement for online game “ <i>Kart Rider</i> ” (licensing-out)           | From November 18, 2005 to November 17, 2017 (Note) 2                                                                          |
| NEOPLE INC. (consolidated subsidiary)             | Tencent Holdings Limited                                 | China                                                                                                                                                                                                                                 | November 16, 2007  | Exclusive license agreement for online game “ <i>Dungeon&amp;Fighter</i> ” (licensing-out)  | From November 16, 2007 to June 16, 2026 (Note) 3                                                                              |
| NEXON Korea Corporation (consolidated subsidiary) | Lansha Information Technology (Shanghai) Co., Ltd.       | China                                                                                                                                                                                                                                 | April 21, 2004     | Exclusive license agreement for online game “ <i>MapleStory</i> ” (licensing-out)           | From April 21, 2004 to June 30, 2019 (Note) 4                                                                                 |
| NEXON Korea Corporation (consolidated subsidiary) | Valve Corporation                                        | Japan<br>Korea<br>China<br>Hong Kong<br>Macau<br>Taiwan<br>Singapore<br>Malaysia<br>Thailand<br>Vietnam<br>Philippines<br>Indonesia<br>Laos<br>Cambodia<br>Myanmar<br>Brunei<br>Turkey<br>Germany<br>Cyprus<br>Republic of Azerbaijan | May 18, 2007       | Exclusive license agreement for online game “ <i>Counter Strike Online</i> ” (licensing-in) | From May 18, 2007 to August 31, 2015, with automatic renewals for one-year period thereafter (Note) 5                         |
| NEXON Korea Corporation (consolidated subsidiary) | NXC Corporation                                          | Worldwide                                                                                                                                                                                                                             | June 29, 2011      | License agreement for company name trademark (licensing-in)                                 | From July 1, 2011 to December 31, 2015, with automatic renewals for three-year period thereafter (Note) 6                     |
| NEXON Korea Corporation (consolidated subsidiary) | Electronic Arts, Inc.                                    | Korea                                                                                                                                                                                                                                 | May 14, 2012       | License agreement for online game “ <i>FIFA Online 3</i> ” (licensing-in)                   | 3 years from the commercialization date, with automatic renewals for two-year period thereafter if certain conditions are met |

- (Notes) 1. The expiration date of the agreement was revised to September 13, 2017 by a renewal agreement dated September 14, 2014.
2. The expiration date of the agreement was revised to November 17, 2017 by a renewal agreement dated November 18, 2014.
3. The expiration date of the agreement was revised to June 16, 2026 by a renewal agreement dated May 1, 2015.
4. The expiration date of the agreement was revised to June 30, 2019 by a renewal agreement dated July 1, 2016.
5. The contracting parties, covered areas and contract period were modified by a modification agreement dated September 1, 2012.
6. The covered area and contract period were modified by a modification agreement dated December 21, 2012.

## 6 【Research and Development】

Overview of Nexon Group's research and development activities is as follows.

### (1) Research and development system

Nexon Group does not conduct any activity equivalent to research and development such as basic research and new technology development and does not have an independent research and development organization.

However, Nexon Group considers the process from planning through commercialization of online game contents developed within Nexon Group as “research and development,” which is conducted by development personnel within the group as part of our regular development activities.

### (2) Research and development policy

Nexon Group has no specific research and development policy as our research and development activities are conducted by development personnel within the group as part of our regular development activities.

### (3) Research and development expense

Nexon Group records expenses incurred from the approval of the plan through the commercialization of online game contents developed by Nexon Group (labor cost, outsourcing expenses and other expenses) as research and development expense, and ¥7,351 million was recorded as research and development expense for the year ended December 31, 2016.

Year ended December 31, 2016

Research and development expense by reportable segment for the year ended December 31, 2016 is as follows. There has been no significant change in the research and development activities during the year ended December 31, 2016.

| Name of reportable segment | Research and development expense<br>(¥ million) |
|----------------------------|-------------------------------------------------|
| Japan                      | 1,090                                           |
| Korea                      | 6,225                                           |
| China                      | —                                               |
| North America              | 55                                              |
| Other                      | —                                               |
| Total reportable segment   | 7,370                                           |
| Adjustments                | (19)                                            |
| Total (consolidated)       | 7,351                                           |

## 7 【Analysis of Financial Position, Operating Results and Cash Flows】

Any forward-looking statements in the following discussion are based on the judgment of Nexon Group's management as of the filing date of this report.

### (1) Significant accounting policies and estimates

Nexon Group's consolidated financial statements are prepared in accordance with IFRS. Significant accounting policies in preparation of these consolidated financial statements are described in "V. Financial Information, 1. Consolidated Financial Statements, etc., Notes to consolidated financial statements."

In preparing these consolidated financial statements, the management made certain estimates and judgments considered reasonable in accordance with accounting standards, taking into account historical performance and business conditions, the results of which are reflected in the amounts of assets, liabilities, revenue and expenses. As these estimates are made using some approximate figures based on past performance and subject to uncertainty, actual results may differ from these estimates.

### (2) Analysis of operating results

For the year ended December 31, 2016, Nexon Group recorded revenue of ¥183,128 million (down 3.8% year-over-year), operating income of ¥40,661 million (down 34.7% year-over-year), income before income taxes of ¥47,123 million (down 30.7% year-over-year) and net income attributable to owners of the parent company of ¥20,133 million (down 63.5% year-over-year).

#### (a) Analysis of revenue

For the year ended December 31, 2016, revenue decreased 3.8% year-over-year to ¥183,128 million due mainly to a strong foreign exchange rate headwind, with the Japanese yen appreciating year-over-year against major currencies in our business including the Korean won, Chinese yuan and the U.S. dollar. In existing PC online games, while revenue from *Sudden Attack* and *FIFA Online 3* decreased, revenue from *Dungeon&Fighter* and *MapleStory* increased year-over-year. In mobile games, strong performance of *HIT* released in FY2015 and *MapleStory M* and *Sangokushi Sousouden Online* released in Q4 2016 contributed to solid growth of revenue. Overall, however, revenue decreased year-over-year due to a foreign exchange impact. In China, royalty income increased due mainly to strong item sales and well-received major updates for *Dungeon&Fighter*, including the Lunar Year update (January) and the National Day update (September), but it had little impact on revenue due to a foreign exchange impact. See "II. Business Overview 1 Summary of Financial Results (1) Financial results" for the analysis of revenue by reportable segment.

#### (b) Analysis of cost of sales

Royalty costs decreased year-over-year because royalty payments for *DomiNations* launched in Q2 2015 are no longer required as Big Huge Games Inc. became our wholly-owned subsidiary in Q1 2016, coupled with a foreign exchange impact.

As a result, cost of sales for the year ended December 31, 2016 decreased 3.2% year-over-year to ¥48,131 million.

#### (c) Analysis of selling, general and administrative expenses

Selling, general and administrative expenses decreased year-over-year due to a foreign exchange impact and a decrease in depreciation and amortization following the completion of IP amortization related to *Dungeon&Fighter* while personnel cost increased due to an increase in headcount of employees in Korea.

As a result, selling, general and administrative expenses for the year ended December 31, 2016 decreased 10.8% year-over-year to ¥66,210 million.

#### (d) Analysis of other income (expenses)

Other income amounted to ¥1,021 million (down 37.0% year-over-year) mainly because contingent consideration related to subsidiaries' stock was reversed in FY2015 based on the revaluation which indicated a decline in the probability that the contingent consideration will be paid.

Other expenses amounted to ¥29,147 million (up 413.0% year-over-year) due mainly to recording impairment loss on goodwill and intangible assets.

#### (e) Analysis of finance income (costs)

Finance income amounted to ¥6,583 million (down 13.2% year-over-year) due mainly to fluctuations in exchange rates.

Finance costs amounted to ¥222 million (down 88.7% year-over-year) due mainly to sales commission related to sale of NSC Soft Corporation shares recorded in FY2015.

(f) Analysis of equity in profit (loss) of affiliates

Equity in profit of affiliates amounted to ¥101 million (up 10.5% year-over-year) due mainly to changes in performance in affiliates.

(g) Analysis of income taxes expense

Income taxes expense amounted to ¥26,602 million (up 114.4% year-over-year) due mainly to recording additional deferred tax liabilities in relation to undistributed profits of overseas subsidiaries.

(3) Factors that have material impacts on operating results

See “II. Business Overview 4 Risk Factors.”

(4) Current management strategy and projections

Nexon 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 games with high quality, and that for existing game titles is to provide users with games that continue to be fun for a long period of time, through attractive content updates and satisfiable game operation.

Three major trends are apparent in the game industry today; “online games,” “multiplayer games,” and “free-to-play games.”

Nexon Group enjoys advantages of procurement capability for new game contents through in-house development and publishing, game operation capability, global business base, and solid financial structure. By leveraging these strengths, Nexon 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.

In order to become the world’s top game company and achieve further growth, Nexon 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, we will be narrowing our 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:** Creating radically innovative and entertaining games requires us to attract and retain the best people in the industry from all over the world. This means taking a new approach to recruiting and people management in order to set ourselves apart as an attractive workplace in a highly competitive industry. By offering developers the freedom to create the most exciting games, and by having the ability to reach our massive worldwide audience, we will further differentiate ourselves.

**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 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.

(5) Analysis of sources of funding and funds liquidity

(a) Cash flows

See “II. Business Overview 1 Summary of Financial Results (2) Cash flows.”

(b) Analysis of financial position

(Assets)

Total assets as of December 31, 2016 amounted to ¥441,832 million, an increase of ¥16,246 million from December 31, 2015. Major components of the change in assets include an increase of ¥76,121 million in other deposits due to placement of term deposits, a decrease of ¥41,542 million in cash and cash equivalents, and a decrease of ¥17,864 million in goodwill due to impairment loss.

(Liabilities)

Total liabilities as of December 31, 2016 amounted to ¥64,138 million, an increase of ¥18,233 million from December 31, 2015. Major components of the change in liabilities include an increase of ¥15,057 million in deferred tax liabilities, an increase of ¥6,162 million in deferred income, a decrease of ¥1,899 million in borrowings due to repayment, and a decrease of ¥1,624 million in income taxes payable.

(Equity)

Equity as of December 31, 2016 totaled ¥377,694 million, a decrease of ¥1,987 million from December 31, 2015. Major components of the decrease in equity include a decrease of ¥52,922 million in capital stock and an increase of ¥52,156 million in capital surplus due to capital reduction, a decrease of ¥17,054 million in other equity interest due to changes in exchange differences on translating foreign operations, and an increase of ¥16,297 million in retained earnings from recording net income.

(6) Awareness of the issues by management and future policies

See “II. Business Overview 3 Issues to be Addressed.”

### III. 【Property, Plant and Equipment】

#### 1 【Summary of Capital Investment, etc.】

Total capital investment for the year ended December 31, 2016 amounted to ¥3,765 million, and capital investment by reportable segment are as follows.

There have been no disposals or sales of significant facilities during the year ended December 31, 2016.

| Name of reportable segment | Capital investment (¥ million) |
|----------------------------|--------------------------------|
| Japan                      | 517                            |
| Korea                      | 2,330                          |
| China                      | 78                             |
| North America              | 780                            |
| Other                      | 60                             |
| Total reportable segments  | 3,765                          |
| Adjustments                | —                              |
| Total (consolidated)       | 3,765                          |

(Note) Including investments in property, plant and equipment and intangible assets.

## 2 【Major Facilities】

Major facilities of Nexon Group are as follows:

### (1) The Company

As of December 31, 2016

| Office name<br>(Location)                                   | Reportable<br>segment | Description<br>of facility                       | Carrying amount                              |                                                    |                         |                                                        |                      |                      | Number of<br>employees<br>(persons) |
|-------------------------------------------------------------|-----------------------|--------------------------------------------------|----------------------------------------------|----------------------------------------------------|-------------------------|--------------------------------------------------------|----------------------|----------------------|-------------------------------------|
|                                                             |                       |                                                  | Building<br>and<br>structures<br>(¥ million) | Tools,<br>furniture and<br>fixtures<br>(¥ million) | Software<br>(¥ million) | Land<br>(¥ million)<br>(Floor area<br>m <sup>2</sup> ) | Other<br>(¥ million) | Total<br>(¥ million) |                                     |
| Head office<br>(Chuo-ku,<br>Tokyo)<br>(Minato-ku,<br>Tokyo) | Japan                 | Facility<br>for PC<br>online/<br>mobile<br>games | —                                            | 74                                                 | —                       | —                                                      | —                    | 74                   | 253<br>(1)                          |

- (Notes) 1. The number of employees represents full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.
2. The above figures do not include consumption taxes, etc.
3. Impairment loss is recorded during the year ended December 31, 2016, and the carrying amounts are stated, net of impairment loss.
4. In addition to the above, there is a major leased facility as listed below. The Company relocated part of the office from Chuo-ku, Tokyo to Minato-ku, Tokyo during the year ended December 31, 2016, and the annual rent is the sum of the rent before and after the relocation.

| Office name<br>(Location)                             | Description of facility | Leased facility | Floor area<br>(m <sup>2</sup> ) | Annual rent<br>(¥ million) |
|-------------------------------------------------------|-------------------------|-----------------|---------------------------------|----------------------------|
| Head office<br>(Chuo-ku, Tokyo)<br>(Minato-ku, Tokyo) | Business-use facility   | Building        | 1,920.62                        | 175                        |

(Note) The Company leases part of its office from gloops, Inc. and paid rent of ¥77 million for the year ended December 31, 2016.

### (2) Domestic subsidiaries

As of December 31, 2016

| Company<br>name<br>(Location)         | Reportable<br>segment | Description<br>of facility      | Carrying amount                              |                                                    |                         |                                                        |                      |                      | Number of<br>employees<br>(persons) |
|---------------------------------------|-----------------------|---------------------------------|----------------------------------------------|----------------------------------------------------|-------------------------|--------------------------------------------------------|----------------------|----------------------|-------------------------------------|
|                                       |                       |                                 | Building<br>and<br>structures<br>(¥ million) | Tools,<br>furniture and<br>fixtures<br>(¥ million) | Software<br>(¥ million) | Land<br>(¥ million)<br>(Floor area<br>m <sup>2</sup> ) | Other<br>(¥ million) | Total<br>(¥ million) |                                     |
| gloops, Inc.<br>(Minato-ku,<br>Tokyo) | Japan                 | Facility for<br>mobile<br>games | 303                                          | 134                                                | 8                       | —                                                      | 1                    | 446                  | 353<br>(66)                         |

- (Notes) 1. The number of employees represents full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.
2. The above figures do not include consumption taxes, etc.
3. Impairment loss is recorded during the year ended December 31, 2016, and the carrying amounts are stated, net of impairment loss.
4. In addition to the above, there is a major leased facility as listed below.

| Company name<br>(Location)         | Description of facility | Leased facility | Floor area<br>(m <sup>2</sup> ) | Annual rent<br>(¥ million) |
|------------------------------------|-------------------------|-----------------|---------------------------------|----------------------------|
| gloops, Inc.<br>(Minato-ku, Tokyo) | Business-use facility   | Building        | 4,706.50                        | 399                        |

## (3) Overseas subsidiaries

As of December 31, 2016

| Company name                                     | Location                            | Reportable segment | Description of facility                                                               | Carrying amount                    |                                          |                     |                                              |                  |                  | Number of employees (persons) |
|--------------------------------------------------|-------------------------------------|--------------------|---------------------------------------------------------------------------------------|------------------------------------|------------------------------------------|---------------------|----------------------------------------------|------------------|------------------|-------------------------------|
|                                                  |                                     |                    |                                                                                       | Building and structures (¥million) | Tools, furniture and fixtures (¥million) | Software (¥million) | Land (¥million) (Floor area m <sup>2</sup> ) | Other (¥million) | Total (¥million) |                               |
| NEXON Korea Corporation                          | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for PC online/mobile games                                                   | 11,464                             | 1,423                                    | 820                 | 3,950 (11,320)                               | 1,256            | 18,913           | 2,073 (37)                    |
| Lexian Software Development (Shanghai) Co., Ltd. | Shanghai, PRC                       | China              | Facility for PC online games                                                          | —                                  | 109                                      | 8                   | —                                            | 6                | 123              | 260 (-)                       |
| NEXON America, Inc.                              | California, U.S.A.                  | North America      | Facility for PC online games                                                          | —                                  | 275                                      | —                   | —                                            | —                | 275              | 217 (22)                      |
| NEOPLE INC.                                      | Jeju Self-Governing Province, Korea | Korea              | Facility for PC online/mobile games                                                   | 490                                | 166                                      | 44                  | 1,158 (14,677)                               | 236              | 2,094            | 543 (2)                       |
| NDOORS Corporation                               | Seoul, Korea                        | Korea              | Facility for PC online/mobile games                                                   | 6                                  | 31                                       | 32                  | —                                            | 293              | 362              | 189 (2)                       |
| Nexon GT Co, Ltd.                                | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for PC online/mobile games                                                   | 5                                  | 96                                       | 84                  | —                                            | 483              | 668              | 339 (2)                       |
| NEXON Networks Corporation                       | Jeju Self-Governing Province, Korea | Korea              | Facility for PC online games                                                          | 106                                | 61                                       | 19                  | 11 (445)                                     | —                | 197              | 669 (-)                       |
| BOOLEAN GAMES Corporation                        | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for mobile games                                                             | 6                                  | 4                                        | 4                   | —                                            | 314              | 328              | 32 (-)                        |
| Thingsoft Inc.                                   | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for PC online/mobile games                                                   | 18                                 | 22                                       | 18                  | —                                            | 665              | 723              | 148 (0)                       |
| Wellgames Corporation                            | Seoul, Korea                        | Korea              | Facility for mobile games                                                             | 2                                  | 2                                        | 3                   | —                                            | 902              | 909              | 8 (-)                         |
| N Media Platform Co., LTD.                       | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for production/sales of platform ads and internet café infrastructure system | 53                                 | 97                                       | 5                   | —                                            | 257              | 412              | 121 (7)                       |
| NSC Corporation                                  | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for mobile games                                                             | 1                                  | 2                                        | —                   | —                                            | 991              | 994              | 26 (-)                        |
| Big Huge Games Inc.                              | Maryland, U.S.A.                    | North America      | Facility for mobile games                                                             | 16                                 | 24                                       | 2                   | —                                            | 820              | 862              | 43 (5)                        |

- (Notes) 1. The number of employees represents full-time employees, and the average number of temporary workers (e.g. contract employees) during the year is shown in parentheses.
2. “Other” of Carrying amount consists mainly of game publishing rights. The above figures do not include consumption taxes.
3. The amount of investment property is not included in the above table.
4. Impairment loss is recorded during the year ended December 31, 2016, and the carrying amounts are stated, net of impairment loss.
5. In addition to the above, there are major leased facilities as listed below. The annual rent of the companies which relocated is the sum of the rent before and after the relocation.

| Company name               | Description of facility | Leased facility | Floor area (m <sup>2</sup> ) | Annual rent (¥ million) |
|----------------------------|-------------------------|-----------------|------------------------------|-------------------------|
| NEXON Korea Corporation    | Business-use facility   | Building        | 32,286.61                    | 609                     |
| Nexon Networks Corporation | Business-use facility   | Building        | 16,350.83                    | 146                     |
| Nexon GT Co., Ltd.         | Business-use facility   | Building        | 9,163.46                     | 131                     |
| NEXON America Inc.         | Business-use facility   | Building        | 4,346.51                     | 152                     |

(Note) Nexon Networks Corporation leases part of its office from NEXON Korea Corporation and paid rent of ¥109 million for the year ended December 31, 2016.

### 3 【Plans for Additions, Disposals, etc. of Property, Plant, and Equipment】

The facility planning of Nexon Group is developed taking into consideration economic forecast, industry trend, investment efficiently, etc. The facility planning is developed separately by each group company in principle but adjusted mainly by the Company.

The plans for additions and disposals of major facilities as of December 31, 2016 are as follows:

#### (1) New major facilities

| Company name                                     | Location                            | Reportable segment | Description of facility             | Planned investment   |                     | Funding method | Scheduled start and completion date |               |
|--------------------------------------------------|-------------------------------------|--------------------|-------------------------------------|----------------------|---------------------|----------------|-------------------------------------|---------------|
|                                                  |                                     |                    |                                     | Total<br>(¥ million) | Paid<br>(¥ million) |                | Start                               | Completion    |
| The Company                                      | Chuo-ku and Minato-ku, Tokyo        | Japan              | Facility for PC online/mobile games | 92                   | —                   | Own capital    | January 2017                        | December 2017 |
|                                                  |                                     |                    | Game publishing rights, etc.        | 180                  | —                   | Own capital    | January 2017                        | December 2017 |
| NEXON Korea Corporation                          | Seongnam, Gyeonggi-do, Korea        | Korea              | Facility for PC online/mobile games | 753                  | —                   | Own capital    | January 2017                        | December 2017 |
|                                                  |                                     |                    | Software, etc.                      | 446                  | —                   | Own capital    | January 2017                        | December 2017 |
|                                                  |                                     |                    | Game publishing rights, etc.        | 951                  | —                   | Own capital    | January 2017                        | December 2017 |
| NEOPLE INC.                                      | Jeju Self-Governing Province, Korea | Korea              | Facility for PC online/mobile games | 50                   | —                   | Own capital    | January 2017                        | December 2017 |
|                                                  |                                     |                    | Software, etc.                      | 70                   | —                   | Own capital    | January 2017                        | December 2017 |
|                                                  |                                     |                    | Building                            | 1,229                | —                   | Own capital    | January 2017                        | December 2017 |
| Lexian Software Development (Shanghai) Co., Ltd. | Shanghai, PRC                       | China              | Facility for PC online games        | 167                  | —                   | Own capital    | January 2017                        | December 2017 |
| Nexon America, Inc.                              | California, U.S.A.                  | North America      | Software, etc.                      | 78                   | —                   | Own capital    | January 2017                        | December 2017 |
| Total                                            | —                                   | —                  | —                                   | 4,016                | —                   | —              | —                                   | —             |

(Notes) 1. The disclosure of potential increase in capacity after completion is omitted as it is difficult to measure.

2. All facilities above are related to PC online business and mobile business.

#### (2) Disposals of major facilities, etc.

Not applicable.

#### IV. 【Information on the Company】

##### 1 【Information on the Company's Stock, etc.】

###### (1) 【Total number of shares, etc.】

###### (a) 【Total number of shares】

| Class        | Total number of authorized shares (shares) |
|--------------|--------------------------------------------|
| Common stock | 1,400,000,000                              |
| Total        | 1,400,000,000                              |

###### (b) 【Issued shares】

| Class        | Number of issued shares as of December 31, 2016 (shares) | Number of issued shares as of the filing date (shares) (March 29, 2017) | Name of the financial instruments exchange of listing or authorized financial instruments firms association | Description                                                                                                                                           |
|--------------|----------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Common stock | 434,871,414                                              | 435,889,414                                                             | First section of the Tokyo Stock Exchange                                                                   | Shares with full voting rights, which are standard shares of the Company with no restrictions on rights. The number of shares per unit is 100 shares. |
| Total        | 434,871,414                                              | 435,889,414                                                             | —                                                                                                           | —                                                                                                                                                     |

(Note) “Number of issued shares as of the filing date” does not include the number of shares issued due to exercise of subscription rights to shares during the period from March 1, 2017 to the filing date of this annual securities report.

(2) 【Subscription rights to shares】

Subscription rights to shares issued under the Companies Act are as follows:

(a) Board of Directors meeting held on August 17, 2012

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017            |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Number of subscription rights to shares (units)                                                                                        | 6,615<br>(Note 2)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 6,051                              |
| Of which, number of subscription rights to treasury stock (units)                                                                      | 211                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 17                                 |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left                |
| Number of underlying shares (shares)                                                                                                   | 6,615,000<br>(Notes) 1., 2. and 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 6,051,000<br>(Notes) 1., 2. and 3. |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1,367<br>(Note) 4.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left                |
| Exercise period of subscription rights to shares                                                                                       | (Qualified stock option)<br>From August 18, 2014<br>To September 5, 2018<br>(Non-qualified stock option)<br>From September 6, 2012<br>To September 5, 2018                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Same as on the left                |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1,367<br>Amount of capital stock to be increased: 684                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left                |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left                |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left                |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left                |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left                |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. The numbers of subscription rights to shares and underlying shares exclude those related to persons who have forfeited their rights due to resignation, etc.
3. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to subscription rights to shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of granted shares after adjustment}}{\text{Number of granted shares before adjustment}} = \text{Ratio of split or consolidation}$$

4. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, capital reduction or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable based on resolution at the Board of Directors meeting.

## (b) Board of Directors meeting held on April 22, 2013

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 150                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 150,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From May 7, 2013<br>To May 6, 2043                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1<br>Amount of capital stock to be increased: 0.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | Holders of subscription rights to shares may exercise their right within ten days from the following day of retirement from directorship during the exercise period (or during the calendar year in which the eligible person retires in case the holder resides in the U.S.). Holders who reside overseas may exercise their right during the period to be decided by the Board of Directors taking into consideration relevant overseas laws and regulations. Such retirement shall constitute “separation from service” provided in Section 409A of the Internal Revenue Code.                                                                                                                                                                             | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company’s restructuring                                                  | When approval is granted for proposals i), ii), or iii) below at the Company’s Annual General Meeting of Shareholders (or by resolution of the Company’s Board of Directors if a resolution of the Annual General Meeting of Shareholders is not required), the Company shall grant subscription rights to shares of the stock company specified below according to the ratio of the restructuring.<br>i) Proposal for the approval of a merger agreement in which the Company will become the extinct company<br>Surviving company (in case of absorption-type merger) or newly formed company (in case of consolidation-type merger)<br>ii) Proposal for the approval of a split agreement or a split plan in which the Company will become a split company | Same as on the left     |

| Category | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | As of February 28, 2017 |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|          | <p>Stock company succeeding to all or part of the rights and obligations relating to its business held by the stock company effecting the absorption-type company split (in case of absorption-type company split) or stock company to be incorporated by the incorporation-type company split (in case of incorporation-type company split)</p> <p>iii) Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary</p> <p>Stock company acquiring all issued shares of the stock company effecting the share exchange or stock company to be incorporated by the share transfer</p> |                         |

(Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.

2. In the event that the Company carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to subscription rights to shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \text{Number of shares before adjustment} \times \text{Ratio of split or consolidation}$$

## (c) Board of Directors meeting held on February 20, 2014

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017            |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Number of subscription rights to shares (units)                                                                                        | 6,798                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 5,949                              |
| Of which, number of subscription rights to treasury stock (units)                                                                      | 286                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 93                                 |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left                |
| Number of underlying shares (shares)                                                                                                   | 6,798,000<br>(Notes) 1., 2. and 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 5,949,000<br>(Notes) 1., 2. and 3. |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 853<br>(Note) 4.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left                |
| Exercise period of subscription rights to shares                                                                                       | (Qualified stock option)<br>From February 20, 2016<br>To March 2, 2020<br>(Non-qualified stock option)<br>From March 3, 2014<br>To March 2, 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left                |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 853<br>Amount of capital stock to be increased: 427                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left                |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left                |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left                |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left                |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left                |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. The numbers of subscription rights to shares and underlying shares exclude those related to persons who have forfeited their rights due to resignation, etc.
3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

4. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, capital reduction or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable based on resolution at the Board of Directors meeting.

## (d) Board of Directors meeting held on March 25, 2014

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 2,023                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 2,023,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 0.001<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From March 25, 2014<br>To (1) March 15, 2019<br>(2) March 24, 2020<br>(3) March 24, 2021                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 0.001<br>Amount of capital stock to be increased: 0.0005                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One fourth or one third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one fourth or one third of the units granted shall vest every year until the day on which four or three years have elapsed from the allotment date, respectively. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the date of allocation up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

## (e) Board of Directors meeting held on May 9, 2014

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 1,534                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 1,534,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 809<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From May 9, 2014<br>To May 8, 2021                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 809<br>Amount of capital stock to be increased: 405                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One fourth of the units granted shall vest on the day on which one year has elapsed from March 25, 2014. Thereafter, one fourth of the units granted shall vest every year until the day on which four years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Same as on the left     |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

## (f) Board of Directors meeting held on July 18, 2014

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 5,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 947<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From July 22, 2014<br>To July 21, 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 947<br>Amount of capital stock to be increased: 474                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

## (g) Board of Directors meeting held on October 20, 2014

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017     |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Number of subscription rights to shares (units)                                                                                        | 47                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 29                          |
| Of which, number of subscription rights to treasury stock (units)                                                                      | 15                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 9                           |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left         |
| Number of underlying shares (shares)                                                                                                   | 47,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 29,000<br>(Notes) 1. and 2. |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 865<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left         |
| Exercise period of subscription rights to shares                                                                                       | From October 21, 2014<br>To October 20, 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left         |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 865<br>Amount of capital stock to be increased: 433                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Same as on the left         |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left         |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left         |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left         |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left         |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

## (h) Board of Directors meeting held on July 17, 2015

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 50                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 50,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From August 3, 2015<br>To August 2, 2045                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1<br>Amount of capital stock to be increased: 0.5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | Holders of subscription rights to shares may exercise the rights within ten days from the following day of retirement from directorship during the exercise period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | <p>When approval is granted for proposals i), ii), or iii) below at the Company's Annual General Meeting of Shareholders (or by resolution of the Company's Board of Directors if a resolution of the Annual General Meeting of Shareholders is not required), the Company shall grant subscription rights to shares of the stock company specified below according to the ratio of the restructuring.</p> <p>i) Proposal for the approval of a merger agreement in which the Company will become the extinct company<br/>Surviving company (in case of absorption-type merger) or newly formed company (in case of consolidation-type merger)</p> <p>ii) Proposal for the approval of a split agreement or a split plan in which the Company will become a split company<br/>Stock company succeeding to all or part of the rights and obligations relating to its business held by the stock company effecting the absorption-type company split (in case of absorption-type company split) or stock company to be incorporated by the incorporation-type company</p> | Same as on the left     |

|  |                                                                                                                                                                                                                                                                                                                                                                  |  |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | split (in case of incorporation-type company split)<br>iii) Proposal for the approval of a share exchange agreement or a share transfer plan in which the Company will become a wholly owned subsidiary<br>Stock company acquiring all issued shares of the stock company effecting the share exchange or stock company to be incorporated by the share transfer |  |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

(Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable based on the resolution at the Board of Directors meeting.

(i) Board of Directors meeting held on January 22, 2016

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 80                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 80,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1,840<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | From January 25, 2016<br>To January 24, 2022                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1,840<br>Amount of capital stock to be increased: 920                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |

- (Notes) 1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to subscription rights to shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of shares after adjustment}}{\text{Number of shares before adjustment}} = \frac{\text{Number of shares before adjustment}}{\text{Number of shares before adjustment}} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the exercise price shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Amount to be paid after adjustment}}{\text{Amount to be paid after adjustment}} = \frac{\text{Exercise price before adjustment}}{\text{Exercise price before adjustment}} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the amount to be paid to be adjusted, the amount to be paid shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

## (j) Board of Directors meeting held on May 10, 2016

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017        |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Number of subscription rights to shares (units)                                                                                        | 5,263                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 5,177                          |
| Of which, number of subscription rights to treasury stock (units)                                                                      | 93                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 104                            |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left            |
| Number of underlying shares (shares)                                                                                                   | 5,263,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 5,177,000<br>(Notes) 1. and 2. |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1,863<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left            |
| Exercise period of subscription rights to shares                                                                                       | (Qualified stock option)<br>From May 10, 2018<br>To May 19, 2022<br>(Non-qualified stock option)<br>From May 20, 2016<br>To May 19, 2022                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Same as on the left            |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1,863<br>Amount of capital stock to be increased: 932                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left            |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left            |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left            |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left            |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left            |

- (Notes)1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.
2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to subscription rights to shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of shares after adjustment}}{\text{Number of shares before adjustment}} = \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the amount to be paid shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Amount to be paid after adjustment}}{\text{Amount to be paid before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the amount to be paid to be adjusted, the amount to be paid shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

## (k) Board of Directors meeting held on July 22, 2016

| Category                                                                                                                               | As of December 31, 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | As of February 28, 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Number of subscription rights to shares (units)                                                                                        | 15                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Of which, number of subscription rights to treasury stock (units)                                                                      | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | —                       |
| Class of underlying shares                                                                                                             | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Same as on the left     |
| Number of underlying shares (shares)                                                                                                   | 15,000<br>(Notes) 1. and 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Same as on the left     |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                                                 | 1,650<br>(Note) 3.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Exercise period of subscription rights to shares                                                                                       | (Non-qualified stock option)<br>From July 25, 2016<br>To July 24, 2022                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Same as on the left     |
| Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares (yen) | Issue price: 1,650<br>Amount of capital stock to be increased: 825                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Same as on the left     |
| Conditions for exercise of subscription rights to shares                                                                               | <ul style="list-style-type: none"> <li>• One third of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested subscription rights to shares may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Share Subscription Rights Allotment Agreement are satisfied.</li> <li>• In principle, holders of subscription rights to shares must continue to be director or employee of the Company or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right.</li> <li>• Partial exercise of subscription rights to shares is not allowed.</li> </ul> | Same as on the left     |
| Transfer of subscription rights to shares                                                                                              | Subscription rights to shares cannot be transferred or pledged as collateral.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Same as on the left     |
| Substitute payments                                                                                                                    | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |
| Issuance of subscription rights to shares associated with the Company's restructuring                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Same as on the left     |

(Notes)1. The number of underlying shares per unit of subscription right to shares is 1,000 shares of the Company's common stock.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to subscription rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of shares after adjustment}}{\text{Number of shares before adjustment}} = \frac{\text{Number of shares before adjustment}}{\text{Number of shares before adjustment}} \times \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

3. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock after the allotment date, the amount to be paid shall be adjusted according to the formula outlined below. Any fraction less than one yen shall be rounded up.

$$\frac{\text{Amount to be paid after adjustment}}{\text{Amount to be paid before adjustment}} = \frac{\text{Amount to be paid before adjustment}}{\text{Amount to be paid before adjustment}} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the amount to be paid to be adjusted, the amount to be paid shall be adjusted to the extent reasonable taking into consideration the terms and conditions of merger, company split, share exchange or share transfer, etc.

(3) 【Exercise status of convertible bonds with an exercise price adjustment clause, etc.】

Not applicable.

(4) 【Contents of rights plan】

Not applicable.

(5) 【Changes in the total number of issued shares, capital stock, etc.】

| Date                                            | Changes in total number of issued shares (shares) | Total number of issued shares (shares) | Changes in capital stock (¥ million) | Balance of capital stock (¥ million) | Changes in capital reserve (¥ million) | Balance of capital reserve (¥ million) |
|-------------------------------------------------|---------------------------------------------------|----------------------------------------|--------------------------------------|--------------------------------------|----------------------------------------|----------------------------------------|
| January 1, 2012 to March 29, 2012 (Note) 1.     | 6,339,000                                         | 432,471,900                            | 602                                  | 50,903                               | 602                                    | 50,763                                 |
| March 30, 2012 (Note) 2.                        | —                                                 | 432,471,900                            | —                                    | 50,903                               | (50,000)                               | 763                                    |
| March 31, 2012 to December 31, 2012 (Note) 1.   | 3,068,000                                         | 435,539,900                            | 439                                  | 51,342                               | 439                                    | 1,202                                  |
| January 1, 2013 to December 31, 2013 (Note) 1.  | 3,804,000                                         | 439,343,900                            | 526                                  | 51,868                               | 526                                    | 1,728                                  |
| January 1, 2014 to August 28, 2014 (Note) 1.    | 619,000                                           | 439,962,900                            | 162                                  | 52,030                               | 162                                    | 1,890                                  |
| August 29, 2014 (Note) 3.                       | (10,569,883)                                      | 429,393,017                            | —                                    | 52,030                               | —                                      | 1,890                                  |
| August 30, 2014 to December 31, 2014 (Note) 1.  | 1,863,000                                         | 431,256,017                            | 302                                  | 52,332                               | 302                                    | 2,192                                  |
| January 1, 2015 to May 29, 2015 (Note) 1.       | 4,897,000                                         | 436,153,017                            | 1,601                                | 53,933                               | 1,601                                  | 3,793                                  |
| May 29, 2015 (Note) 4.                          | (7,313,900)                                       | 428,839,117                            | —                                    | 53,933                               | —                                      | 3,793                                  |
| May 30, 2015 to December 31, 2015 (Note) 1.     | 5,278,000                                         | 434,117,117                            | 2,294                                | 56,227                               | 2,294                                  | 6,087                                  |
| January 1, 2016 to May 31, 2016 (Note) 1.       | 2,121,000                                         | 436,238,117                            | 1,208                                | 57,435                               | 1,208                                  | 7,295                                  |
| May 31, 2016 (Note) 5.                          | —                                                 | 436,238,117                            | (55,227)                             | 2,208                                | (5,837)                                | 1,458                                  |
| June 1, 2016 to November 30, 2016 (Note) 1.     | 1,705,000                                         | 437,943,117                            | 1,037                                | 3,245                                | 1,037                                  | 2,495                                  |
| November 30, 2016 (Note) 6.                     | (3,168,703)                                       | 434,774,414                            | —                                    | 3,245                                | —                                      | 2,495                                  |
| December 1, 2016 to December 31, 2016 (Note) 1. | 97,000                                            | 434,871,414                            | 62                                   | 3,307                                | 62                                     | 2,557                                  |

(Notes) 1. Represents an increase due to exercise of subscription rights to shares.

2. At the Annual General Meeting of Shareholders of the Company held on March 27, 2012, a resolution was passed to reclassify ¥50,000 million from capital reserve to other capital surplus in order to prepare for flexible capital policies in the future and secure resilience of financial strategy. As a result, ¥50,000 million was reclassified from capital reserve to other capital surplus on March 30, 2012.

3. Treasury stock purchased of 10,569,883 shares were all cancelled on August 29, 2014.

4. Treasury stock purchased of 7,313,900 shares were all cancelled on May 29, 2015.

5. At the Annual General Meeting of Shareholders held on March 29, 2016, a resolution was passed to

reclassify capital stock of ¥55,227 million and capital reserve of ¥5,837 million to other capital surplus. As a result, capital stock of ¥55,227 million and capital reserve of ¥5,837 million were reclassified to other capital surplus on May 31, 2016.

6. Treasury stock purchased of 3,168,703 shares were cancelled on November 30, 2016.
7. Between January 1, 2017 and February 28, 2017, the total number of issued shares increased by 1,018,000 shares and the amount of capital stock and capital reserve increased by ¥667 million, respectively, due to exercise of subscription rights to shares.

(6) 【Shareholdings by shareholder category】

As of December 31, 2016

As of December 31, 2010

| Category                         | Stock information (One unit = 100 shares) |                        |                                          |                    |                            |             |                       |           | Shares less than one unit (shares) |
|----------------------------------|-------------------------------------------|------------------------|------------------------------------------|--------------------|----------------------------|-------------|-----------------------|-----------|------------------------------------|
|                                  | Government and local public authorities   | Financial institutions | Financial instruments business operators | Other corporations | Foreign corporations, etc. |             | Individuals and other | Total     |                                    |
|                                  |                                           |                        |                                          |                    | Other than individuals     | Individuals |                       |           |                                    |
| Number of shareholders (persons) | —                                         | 32                     | 24                                       | 35                 | 502                        | 21          | 2,660                 | 3,274     | —                                  |
| Number of shares held (units)    | —                                         | 348,211                | 37,951                                   | 278                | 3,798,074                  | 151,953     | 12,154                | 4,348,621 | 9,314                              |
| Percentage of shares held (%)    | —                                         | 8.01                   | 0.87                                     | 0.01               | 87.34                      | 3.49        | 0.28                  | 100.00    | —                                  |

## (7) 【Major shareholders】

As of December 31, 2016

| Name                                                                                                                                                                                                                             | Address                                                                                             | Number of shares held (shares) | Percentage of shares held to total issued shares (%) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------|------------------------------------------------------|
| NXC Corporation<br>(Standing proxy: The Company)                                                                                                                                                                                 | 17 EUNSU-GIL, JEJU-SI, JEJU-DO,<br>690-817, KOREA<br>(2-3-1 Shinkawa, Chuo-ku, Tokyo)               | 157,631,400                    | 36.25                                                |
| NXMH B.V.B.A.<br>(Standing proxy: The Company, Sumitomo Mitsui Banking Corporation)                                                                                                                                              | AVENUE DES ARTS 53, 1000 BRUSSELS,<br>BELGIUM<br>(1-2-3 Otemachi, Chiyoda-ku, Tokyo)                | 83,593,200                     | 19.22                                                |
| CBHK-KOREA<br>SECURITIES<br>DEPOSITORY-SAMSUNG<br>(Standing proxy: Citibank, N.A.)                                                                                                                                               | 34-6, YEOUIDO-DONG,<br>YEONGDEUNGPO-GU, SEOUL, KOREA<br>(6-27-30 Shinjuku, Shinjuku-ku, Tokyo)      | 17,790,000                     | 4.09                                                 |
| CBNY - ORBIS SICAV<br>(Standing proxy: Citibank, N.A.)                                                                                                                                                                           | 31, Z.A. BOURMICH, L-8070<br>BERTRANGE, LUXEMBOURG<br>(6-27-30 Shinjuku, Shinjuku-ku, Tokyo)        | 12,322,402                     | 2.83                                                 |
| Japan Trustee Services Bank, Ltd. (trust account)                                                                                                                                                                                | 1-8-11 Harumi, Chuo-ku, Tokyo                                                                       | 8,917,800                      | 2.05                                                 |
| Min Seo                                                                                                                                                                                                                          | Chiyoda-ku, Tokyo                                                                                   | 7,607,500                      | 1.75                                                 |
| The Master Trust Bank of Japan, Ltd. (trust account)                                                                                                                                                                             | 2-11-3 Hamamatsucho, Minato-ku, Tokyo                                                               | 6,034,300                      | 1.39                                                 |
| CBNY - ORBIS FUNDS<br>(Standing proxy: Citibank, N.A.)                                                                                                                                                                           | LPG BUILDING 34 BERMUDIANA ROAD<br>HAMILTON HM 11 BERMUDA<br>(6-27-30 Shinjuku, Shinjuku-ku, Tokyo) | 5,541,893                      | 1.27                                                 |
| NORTHERN TRUST CO,<br>(AVFC) RE IEDU UCITS<br>CLIENTS NON LENDING<br>15 PCT TREATY ACCOUNT<br>(Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch, Custody services, Senior Manager, Operation) | 50 BANK STREET CANARY WHARF<br>LONDON E14 5NT, UK<br>(3-11-1 Nihonbashi, Chuo-ku, Tokyo)            | 5,088,400                      | 1.17                                                 |
| THE BANK OF NEW YORK<br>133522<br>(Mizuho Bank, Ltd., Settlement & Clearing Services Department)                                                                                                                                 | RUE MONTROYERSTRAAT 46, 1000<br>BRUSSELS, BELGIUM<br>(2-15-1 Konan, Minato-ku, Tokyo)               | 4,656,875                      | 1.07                                                 |
| Total                                                                                                                                                                                                                            | —                                                                                                   | 309,183,770                    | 71.09                                                |

(Note) NXC Corporation sold 6,000,000 shares of its shareholdings in the Company on March 14, 2017.

(8) 【Voting rights】

(a) 【Issued shares】

As of December 31, 2016

| Category                                                       | Number of shares<br>(shares) | Number of voting<br>rights (units) | Description                                                         |
|----------------------------------------------------------------|------------------------------|------------------------------------|---------------------------------------------------------------------|
| Non-voting shares                                              | —                            | —                                  | —                                                                   |
| Shares with restricted voting rights<br>(treasury stock, etc.) | —                            | —                                  | —                                                                   |
| Shares with restricted voting rights<br>(other)                | —                            | —                                  | —                                                                   |
| Shares with full voting rights (treasury<br>stock, etc.)       | —                            | —                                  | —                                                                   |
| Shares with full voting rights (other)                         | Common stock<br>434,862,100  | 4,348,621                          | Standard shares of the<br>Company with no<br>restrictions on rights |
| Shares less than one unit                                      | Common stock<br>9,314        | —                                  | Same as above                                                       |
| Total number of issued shares                                  | 434,871,414                  | —                                  | —                                                                   |
| Total number of voting rights                                  | —                            | 4,348,621                          | —                                                                   |

(Note) Common stock in “Shares less than one unit” includes 61 shares of treasury stock held by the Company.

(b) 【Treasury stock】

Not applicable.

The Company purchased shares less than one unit during the three months ended December 31, 2016, resulting in the number of treasury stock of 61 shares as of December 31, 2016.

(9) 【Description of stock option plan】

The Company has a stock option plan which issues subscription rights to shares in accordance with the Companies Act.

The description of the plan is as follows:

(Resolution at the Annual General Meeting of Shareholders held on March 27, 2012)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 27, 2012 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

Resolution at the Board of Directors meeting held on August 17, 2012

|                                                                                       |                                                                                                             |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: August 17, 2012                                                    |
| Category and number of eligible persons (persons)                                     | Directors of the Company: 5<br>Employees of the Company: 18<br>Directors and employees of subsidiaries: 186 |
| Class of underlying shares                                                            | See “(2) Subscription rights to shares”                                                                     |
| Number of shares (shares)                                                             | Same as above                                                                                               |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                                                                               |
| Exercise period of subscription rights to shares                                      | Same as above                                                                                               |
| Conditions for exercise of subscription rights to shares                              | Same as above                                                                                               |
| Transfer of subscription rights to shares                                             | Same as above                                                                                               |
| Substitute payment                                                                    | —                                                                                                           |
| Issuance of subscription rights to shares associated with the Company’s restructuring | —                                                                                                           |

(Resolution at the Annual General Meeting of Shareholders held on March 26, 2013)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 26, 2013 to issue subscription rights to shares to directors of the Company as equity-based stock options.

(a) Resolution at the Board of Directors meeting held on April 22, 2013

|                                                                                       |                                                         |
|---------------------------------------------------------------------------------------|---------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: April 22, 2013 |
| Category and number of eligible persons (persons)                                     | Directors of the Company: 3                             |
| Class of underlying shares                                                            | See “(2) Subscription rights to shares”                 |
| Number of shares (shares)                                                             | Same as above                                           |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                           |
| Exercise period of subscription rights to shares                                      | Same as above                                           |
| Conditions for exercise of subscription rights to shares                              | Same as above                                           |
| Transfer of subscription rights to shares                                             | Same as above                                           |
| Substitute payment                                                                    | —                                                       |
| Issuance of subscription rights to shares associated with the Company’s restructuring | Same as above                                           |

(b) Resolution at the Board of Directors meeting held on July 17, 2015

|                                                                                       |                                                        |
|---------------------------------------------------------------------------------------|--------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: July 17, 2015 |
| Category and number of eligible persons (persons)                                     | Director of the Company: 1                             |
| Class of underlying shares                                                            | See “(2) Subscription rights to shares”                |
| Number of shares (shares)                                                             | Same as above                                          |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                          |
| Exercise period of subscription rights to shares                                      | Same as above                                          |
| Conditions for exercise of subscription rights to shares                              | Same as above                                          |
| Transfer of subscription rights to shares                                             | Same as above                                          |
| Substitute payment                                                                    | —                                                      |
| Issuance of subscription rights to shares associated with the Company’s restructuring | Same as above                                          |

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 26, 2013 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

|                                                                                       |                                                                                                                           |
|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: February 20, 2014                                                                |
| Category and number of eligible persons (persons)                                     | Directors of the Company: 5<br>Employees of the Company: 20<br>Directors and employees of the Company’s subsidiaries: 234 |
| Class of underlying shares                                                            | See “(2) Subscription rights to shares”                                                                                   |
| Number of shares (shares)                                                             | Same as above                                                                                                             |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                                                                                             |
| Exercise period of subscription rights to shares                                      | Same as above                                                                                                             |
| Conditions for exercise of subscription rights to shares                              | Same as above                                                                                                             |
| Transfer of subscription rights to shares                                             | Same as above                                                                                                             |
| Substitute payment                                                                    | —                                                                                                                         |
| Issuance of subscription rights to shares associated with the Company’s restructuring | —                                                                                                                         |

(Resolution at the Annual General Meeting of Shareholders held on March 25, 2014)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 25, 2014 to issue subscription rights to shares as equity-based stock options to directors (excluding external directors) and employees of the Company and directors and employees of its subsidiaries.

|                                                                                       |                                                                        |
|---------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: March 25, 2014                |
| Category and number of eligible persons (persons)                                     | Directors of the Company: 2<br>Director of the Company's subsidiary: 1 |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                                |
| Number of shares (shares)                                                             | Same as above                                                          |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                                          |
| Exercise period of subscription rights to shares                                      | Same as above                                                          |
| Conditions for exercise of subscription rights to shares                              | Same as above                                                          |
| Transfer of subscription rights to shares                                             | Same as above                                                          |
| Substitute payment                                                                    | —                                                                      |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                                      |

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 25, 2014 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

(a) Resolution at the Board of Directors meeting held on May 9, 2014

|                                                                                       |                                                      |
|---------------------------------------------------------------------------------------|------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: May 9, 2014 |
| Category and number of eligible persons (persons)                                     | Directors of the Company: 2                          |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"              |
| Number of shares (shares)                                                             | Same as above                                        |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                        |
| Exercise period of subscription rights to shares                                      | Same as above                                        |
| Conditions for exercise of subscription rights to shares                              | Same as above                                        |
| Transfer of subscription rights to shares                                             | Same as above                                        |
| Substitute payment                                                                    | —                                                    |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                    |

(b) Resolution at the Board of Directors meeting held on July 18, 2014

|                                                                                       |                                                        |
|---------------------------------------------------------------------------------------|--------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: July 18, 2014 |
| Category and number of eligible persons (persons)                                     | Director of the Company's subsidiaries: 1              |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                |
| Number of shares (shares)                                                             | Same as above                                          |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                          |
| Exercise period of subscription rights to shares                                      | Same as above                                          |
| Conditions for exercise of subscription rights to shares                              | Same as above                                          |
| Transfer of subscription rights to shares                                             | Same as above                                          |
| Substitute payment                                                                    | —                                                      |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                      |

(c) Resolution at the Board of Directors meeting held on October 20, 2014

|                                                                                       |                                                                                          |
|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: October 20, 2014                                |
| Category and number of eligible persons (persons)                                     | Directors of the Company's subsidiaries: 2<br>Employees of the Company's subsidiaries: 2 |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                                                  |
| Number of shares (shares)                                                             | Same as above                                                                            |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                                                            |
| Exercise period of subscription rights to shares                                      | Same as above                                                                            |
| Conditions for exercise of subscription rights to shares                              | Same as above                                                                            |
| Transfer of subscription rights to shares                                             | Same as above                                                                            |
| Substitute payment                                                                    | —                                                                                        |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                                                        |

(Resolution at the Annual General Meeting of Shareholders held on March 27, 2015)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 27, 2015 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

|                                                                                       |                                                           |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: January 22, 2016 |
| Category and number of eligible persons (persons)                                     | Employee of the Company's subsidiary: 1                   |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                   |
| Number of shares (shares)                                                             | Same as above                                             |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                             |
| Exercise period of subscription rights to shares                                      | Same as above                                             |
| Conditions for exercise of subscription rights to shares                              | Same as above                                             |
| Transfer of subscription rights to shares                                             | Same as above                                             |
| Substitute payment                                                                    | —                                                         |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                         |

(Resolution at the Annual General Meeting of Shareholders held on March 29, 2016)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 29, 2016 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

(a) Resolution at the Board of Directors meeting held on May 10, 2016

|                                                                                       |                                                                                            |
|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: May 10, 2016                                      |
| Category and number of eligible persons (persons)                                     | Employees of the Company: 16<br>Directors and employees of the Company's subsidiaries: 282 |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                                                    |
| Number of shares (shares)                                                             | Same as above                                                                              |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                                                              |
| Exercise period of subscription rights to shares                                      | Same as above                                                                              |
| Conditions for exercise of subscription rights to shares                              | Same as above                                                                              |
| Transfer of subscription rights to shares                                             | Same as above                                                                              |
| Substitute payment                                                                    | —                                                                                          |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                                                          |

(b) Resolution at the Board of Directors meeting held on July 22, 2016

|                                                                                       |                                                        |
|---------------------------------------------------------------------------------------|--------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Board meeting: July 22, 2016 |
| Category and number of eligible persons (persons)                                     | Employee of the Company's subsidiary: 1                |
| Class of underlying shares                                                            | See "(2) Subscription rights to shares"                |
| Number of shares (shares)                                                             | Same as above                                          |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | Same as above                                          |
| Exercise period of subscription rights to shares                                      | Same as above                                          |
| Conditions for exercise of subscription rights to shares                              | Same as above                                          |
| Transfer of subscription rights to shares                                             | Same as above                                          |
| Substitute payment                                                                    | —                                                      |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                      |

(Resolution at the Annual General Meeting of Shareholders held on March 28, 2017)

Pursuant to the Companies Act, it was resolved at the Annual General Meeting of Shareholders held on March 28, 2017 to issue subscription rights to shares to certain directors and employees of the Company and certain directors and employees of its subsidiaries under preferential terms.

|                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date of resolution                                                                    | Date of resolution at the Annual General Meeting of Shareholders: March 28, 2017                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Category and number of eligible persons (persons)                                     | Directors and employees of the Company and directors and employees of its subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Class of underlying shares                                                            | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Number of shares (shares)                                                             | Not exceeding 7,000,000 shares (Note) 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Amount to be paid upon exercise of subscription rights to shares (yen)                | (Notes) 3. and 4.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Exercise period of subscription rights to shares                                      | The period to be determined by the Board of Directors within ten years from the Allotment Date of the subscription rights to shares. In the event that the last date of the exercise period is a non-business day of the Company, it shall be the business day immediately preceding such date.                                                                                                                                                                                                                                    |
| Conditions for exercise of subscription rights to shares                              | A person holding the subscription rights to shares must continue to be director or employee of the Company or its subsidiaries at the time of the exercise, except when a director or an employee of the Company or its subsidiaries has lost its position as a director or an employee due to resignation or retirement, dismissal or discharge (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors. |
| Transfer of subscription rights to shares                                             | Acquisition of subscription rights to shares through transfer shall require approval of the Board of Directors.                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Substitute payment                                                                    | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Issuance of subscription rights to shares associated with the Company's restructuring | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

(Notes)1. Matters not described above shall be determined pursuant to the resolution of the Board of Directors meeting to be held after the Annual General Meeting of Shareholders held on March 28, 2017.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidates its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. Provided, however, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of Granted Shares after adjustment} = \frac{\text{Number of Granted Shares before adjustment}}{\text{Ratio of split or consolidation}}$$

3. The amount to be paid upon exercise of subscription rights to shares shall be the closing price of the Company's common stock in regular transactions on the Tokyo Stock Exchange on the date of allotment of subscription rights to shares ("Allotment Date").
4. In the event that the Company carries out a stock split (including gratis allocation) or a consolidation of its common stock after the Allotment Date, the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen resulting from such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \frac{\text{Exercise price before adjustment}}{\text{Ratio of split or consolidation}}$$

In case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

## 2 【Information on Purchase, etc. of Treasury Stock】

【Class of shares】 Purchase of common stock under Article 155, Item 3 and Item 7 of the Companies Act.

### (1) 【Purchase approved by the Annual General Meeting of Shareholders】

Not applicable.

### (2) 【Purchase approved by the Board of Directors meeting】

| Category                                                                                                                              | Number of shares<br>(shares) | Total amount<br>(yen) |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------|
| Resolution at the Board of Directors meeting held on<br>September 5, 2016<br>(Purchase period: September 8, 2016 to October 31, 2016) | 4,500,000                    | 5,000,000,000         |
| Treasury stock purchased prior to the year ended December<br>31, 2016                                                                 | —                            | —                     |
| Treasury stock purchased during the year ended December 31,<br>2016                                                                   | 3,168,600                    | 4,999,884,500         |
| The remaining number of shares and amount authorized to<br>purchase                                                                   | 1,331,400                    | 115,500               |
| Unused ratio as of December 31, 2016 (%)                                                                                              | 29.6                         | 0.0                   |
| Treasury stock purchased during the current period                                                                                    | —                            | —                     |
| Unused ratio as of the filing date (%)                                                                                                | 29.6                         | 0.0                   |

### (3) 【Purchase not based on approval by the Annual General Meeting of Shareholders or Board of Directors meeting】

| Category                                                            | Number of shares<br>(shares) | Total amount<br>(yen) |
|---------------------------------------------------------------------|------------------------------|-----------------------|
| Treasury stock purchased during the year ended December<br>31, 2016 | 164                          | 277,867               |
| Treasury stock purchased during the current period                  | 78                           | 135,174               |

(Note) Treasury stock purchased during the current period does not include those purchased during the period from March 1, 2017 to the filing date of this annual securities report.

### (4) 【Status of disposition and holding of purchased treasury stock】

| Category                                                                                  | Year ended December 31, 2016 |                                      | Current period               |                                      |
|-------------------------------------------------------------------------------------------|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
|                                                                                           | Number of<br>shares (shares) | Total<br>disposition<br>amount (yen) | Number of<br>shares (shares) | Total<br>disposition<br>amount (yen) |
| Purchased treasury stock offered to<br>subscribers                                        | —                            | —                                    | —                            | —                                    |
| Purchased treasury stock cancelled                                                        | 3,168,703                    | 5,000,053,177                        | —                            | —                                    |
| Purchased treasury stock transferred<br>due to merger, share exchange or<br>company split | —                            | —                                    | —                            | —                                    |
| Other                                                                                     | —                            | —                                    | —                            | —                                    |
| Number of treasury stock held                                                             | 61                           | —                                    | 139                          | —                                    |

(Note) Treasury stock held during the current period does not include those purchased during the period from March 1, 2017 to the filing date of this annual securities report.

### 3 【Dividend Policy】

Recognizing that the return of profits to our shareholders is an important management issue, the Company's dividend policy is to return profits to our shareholders through dividend payment or share splits only after carefully considering shareholders' equity, actual performance and performance forecast in line with the financial results. We aim to effectively use retained earnings while maintaining balance between returning profits and making effective investments to aggressively expand the business for future growth by expanding existing businesses or starting new businesses to strengthen the management basis and enhance future business areas, pursuing opportunities in M&A, or acquiring game copyrights.

The basic policy on distribution of surplus, if any, is to pay dividends twice a year as interim dividend and year-end dividend.

The Company's Articles of Incorporation stipulates that "the decisions with regards to dividends from surplus and other matters as stipulated under each item of Article 459, Paragraph 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."

However, the Company has decided not to pay year-end dividends for the year ended December 31, 2016 because its retained earnings marked a negative balance affected by the loss on valuation on stocks of subsidiaries and affiliates and provision of allowance for doubtful accounts for subsidiaries and affiliates, which were recognized in the Company's standalone accounting. With regards to the dividends for the next fiscal year, we will promptly put ourselves in a position to resume dividend and return profits in a stable manner.

On the other hand, as part of our measures to return profits to shareholders, the Company has formulated a policy to conduct share buybacks with the total purchase amount of ¥10.0 billion in the one-year period beginning February 13, 2017.

Distributions of surplus attributable to the year ended December 31, 2016 are as follows:

| Date of resolution                                           | Total dividends<br>(¥ million) | Dividend per share<br>(yen) |
|--------------------------------------------------------------|--------------------------------|-----------------------------|
| Resolution at the Board of Directors<br>on August 22, 2016   | 2,182                          | 5                           |
| Resolution at the Board of Directors<br>on February 10, 2017 | —                              | —                           |

#### 4 【Changes in Share Prices】

##### (1) 【Highest and lowest share prices in the recent five fiscal years】

| Fiscal year   | 11th fiscal year | 12th fiscal year | 13th fiscal year | 14th fiscal year | 15th fiscal year |
|---------------|------------------|------------------|------------------|------------------|------------------|
| Year end      | December 2012    | December 2013    | December 2014    | December 2015    | December 2016    |
| Highest (yen) | 1,693            | 1,369            | 1,245            | 2,071            | 2,071            |
| Lowest (yen)  | 666              | 814              | 780              | 1,021            | 1,270            |

(Note) The highest and lowest share prices are market prices on the first section of the Tokyo Stock Exchange.

##### (2) 【Highest and lowest share prices in the recent six months】

| Month         | July 2016 | August | September | October | November | December |
|---------------|-----------|--------|-----------|---------|----------|----------|
| Highest (yen) | 1,683     | 1,589  | 1,622     | 1,794   | 1,804    | 1,736    |
| Lowest (yen)  | 1,371     | 1,270  | 1,399     | 1,573   | 1,551    | 1,543    |

(Note) The highest and lowest share prices are market prices on the first section of the Tokyo Stock Exchange.

## 5 【Information on the Company's Officers】

Male: 8 Female: — (Ratio of female officers: — %)

| Position                                                        | Responsibility                                   | Name         | Date of birth     | Career summary                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Term of office | Number of shares held (shares) |
|-----------------------------------------------------------------|--------------------------------------------------|--------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Chief Executive Officer and President (Representative Director) | —                                                | Owen Mahoney | December 28, 1966 | November 2000<br>September 2009<br>August 2010<br>September 2010<br>November 2010<br>March 2012<br>July 2012<br>August 2012<br>January 2013<br>March 2014<br>March 2015 | Chief vice-president of Electronic Arts Inc.<br>Representative Director of Outspark Inc.<br>Chief Financial Officer of NEXON Co., Ltd.<br>Director of NEXON Co., Ltd.<br>Chief Administrative Officer of NEXON Co., Ltd.<br>Director of NEXON Korea Corporation<br>Director of inBlue.com<br>Director of NEXON America, Inc.<br>Director of gloops, Inc.<br>Chief Executive Officer and President of NEXON Co., Ltd. (to present)<br>Director of transcosmos inc. (to present)                                                                                                                                           | (Note) 3       | 627,000                        |
| Representative Director                                         | Chief Financial and Chief Administrative Officer | Shiro Uemura | December 31, 1970 | December 2000<br>September 2003<br>December 2004<br><br>July 2011<br>March 2014<br><br>March 2015<br>April 2016<br>April 2016<br>April 2016<br>September 2016           | Joined Deloitte Touche Tohmatsu<br>Joined Pacific Golf Management K.K.<br>Joined Pacific Golf International Holdings K.K (current PGM Holdings K.K.)<br><br>Joined NEXON Co., Ltd.<br>Chief Financial and Chief Administrative Officer of NEXON Co., Ltd. (to present)<br>Director of gloops, Inc. (to present)<br>Director of inBlue.com<br>Representative Director of NEXON Co., Ltd. (to present)<br>Director of NEXON America, Inc. (to present)<br>Director of NEXON M Inc. (to present)<br>Director of Lexian Software Development (Shanghai) Co., Ltd. (to present)<br>Director of NEXON Europe GmbH (to present) | (Note) 3       | 4,000                          |
| Director                                                        | Chief Operating Officer                          | Jiwon Park   | June 30, 1977     | June 2003<br>May 2006<br>March 2009<br>September 2010<br>November 2010<br>November 2010<br>March 2012<br>August 2012<br>March 2014<br>July 2015                         | Joined NEXON Corporation (current NXC Corporation)<br>Seconded to NEXON Co., Ltd.<br>Director of NEXON Europe Limited<br>Director of NEXON Co., Ltd. (to present)<br>Chief Operating Officer of NEXON Co., Ltd.<br>Director of NEXON Europe S.à.r.l.<br>Director of NEOPLE Inc.<br>Director of NEXON America, Inc.<br>President and Chief Executive Officer of NEXON Korea Corporation (to present)<br>Chief Operating Officer of NEXON Co., Ltd. (to present)                                                                                                                                                           | (Note) 3       | 212,000                        |

| Position                    | Responsibility | Name          | Date of birth      | Career summary                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Term of office | Number of shares held (shares) |
|-----------------------------|----------------|---------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Director                    | —              | Satoshi Honda | September 29, 1947 | July 1971<br>June 1992<br>December 1992<br>August 1998<br>December 2009<br>November 2010<br>March 2012                                                                                  | Joined Victor Company of Japan, Limited<br>Director of Victor Entertainment Inc.<br>Representative Director of Electronic Arts Victor Co., Ltd. (current Electronic Arts Co., Ltd.)<br>Representative Director of Eidos Interactive KK<br>Director of Spline Network Inc. (to present)<br>Director of Software Imaging Technology Limited<br>Director of NEXON Co., Ltd. (to present)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | (Note) 3       | 8,000                          |
| Director                    | —              | Shiro Kuniya  | February 22, 1957  | April 1982<br>July 1987<br>June 1997<br>June 1999<br>April 2002<br>June 2006<br>June 2009<br>April 2011<br>April 2011<br>March 2012<br>June 2012<br>June 2013<br>June 2013<br>June 2016 | Registered as a lawyer<br>Joined Oh-Ebashi Law Offices<br>Registered as a lawyer in the State of New York<br>Statutory Auditor of Sunstar Inc.<br>Auditor of Kitano Hospital, The Tazuke Kofukai Medical Research Institute (to present)<br>Managing partner of Oh-Ebashi LPC & Partners (to present)<br>Statutory Auditor of Nidec Corporation<br>Board member of the Japan Commercial Arbitration Association (to present)<br>Board member of Japan Century Symphony Orchestra (to present)<br>President of Inter-Pacific Bar Association (IPBA)<br>Director of NEXON Co., Ltd. (to present)<br>Director of Ebara Corporation (to present)<br>Statutory Auditor of Takeda Pharmaceutical Company Limited<br>Director of Sony Financial Holdings Inc. (to present)<br>Director of Takeda Pharmaceutical Company Ltd. (Audit and Supervisory Committee member) (to present) | (Note) 3       | —                              |
| Full-Time Statutory Auditor | —              | Hideo Koyama  | December 18, 1952  | April 1978<br>April 1990<br>September 1998<br>June 2009<br>June 2011<br>June 2013<br>June 2013<br>June 2015<br>March 2017                                                               | Joined Tokyo Shibaura Electric Co., Ltd. (current TOSHIBA CORPORATION)<br>Seconded to Toshiba CAE System Inc.<br>Seconded to Toshiba Electronics Europe GmbH<br>Director of TOSHIBA I.S. CORPORATION<br>President-director of Enterprise Business System Solutions Corporation<br>Statutory Auditor of Toshiba Information Systems (Japan) Corporation<br>Statutory Auditor of Toshiba Office Mate Corporation<br>Joined Toshiba Information Systems (Japan) Corporation for part-time engagement<br>Statutory Auditor of NEXON Co., Ltd. (to present)                                                                                                                                                                                                                                                                                                                      | (Note) 4       | —                              |

| Position          | Responsibility | Name       | Date of birth      | Career summary                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Term of office | Number of shares held (shares) |
|-------------------|----------------|------------|--------------------|-------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Statutory Auditor | —              | Iwao Otomo | September 15, 1942 | April 1968<br>September 1974<br>May 1977<br>September 1985<br>June 1999<br>November 2001<br>November 2003<br>March 2006 | Joined Shell Sekiyu K.K. (current Showa Shell Sekiyu K.K.)<br>Registered as a certified public accountant<br>Registered as a tax accountant<br>Joined PricewaterhouseCoopers Aoyama Audit Corporation<br>President and Chief Executive Officer of Interlease<br>Director and Chief Administrative Office of Baltimore Technologies Japan Co., Ltd. (current Cybertrust Japan Co., Ltd.)<br>Opened Ohtomo Accounting Firm (to present)<br>Statutory Auditor of NEXON Co., Ltd. (to present) | (Note) 5       | —                              |
| Statutory Auditor | —              | Ryoji Mori | June 24, 1965      | April 1997<br>September 2003<br>March 2006                                                                              | Registered as a lawyer (Dai-ichi Tokyo BAR Association)<br>Partner of Eichi Law Offices, LLC (to present)<br>Statutory Auditor of NEXON Co., Ltd. (to present)                                                                                                                                                                                                                                                                                                                             | (Note) 5       | —                              |
| Total             |                |            |                    |                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                | 851,000                        |

- (Notes) 1. Mr. Satoshi Honda and Mr. Shiro Kuniya are external directors.  
 2. Mr. Hideo Koyama, Mr. Iwao Otomo, and Mr. Ryoji Mori are external statutory auditors.  
 3. From March 28, 2017 to the conclusion of the Annual General Meeting of Shareholders for the year ending December 31, 2017.  
 4. From March 28, 2017 to the conclusion of the Annual General Meeting of Shareholders for the year ending December 31, 2018.  
 5. From March 27, 2015 to the conclusion of the Annual General Meeting of Shareholders for the year ending December 31, 2018.

## 6 【Information on Corporate Governance, etc.】

### (1) 【Information on Corporate Governance】

#### Fundamental philosophy of corporate governance

Nexon Group has, recognizing that its most important management issue is to balance the maximization of its corporate value and securing of the soundness in business operations through effective and highly transparent management, stipulated (1) the maximization of shareholder value, (2) building of a good relationship of trust with stakeholders such as users, business partners, local communities and employees, and (3) sustainable and stable growth, as its basic policy of corporate governance.

To that end, we have been striving so that we will realize strict and proper supervisory and audit function over the execution of operations, and will focus on effective design and operation of internal control systems, management always mindful of compliance, and organization management through group governance, which is mindful of appropriate cooperation with subsidiaries.

#### (a) Corporate governance system, etc.

##### (i) Overview of corporate governance system and reason for adopting such system

The Company's corporate governance system consists of the Board of Directors, the Board of Statutory Auditors and independent auditors.

The Company's Board of Directors, consisting of five directors, convenes regular meetings monthly and special meetings, if necessary, to perform its function to mutually supervise directors' execution of their duties by exchanging opinions and deliberating.

The Company's Board of Statutory Auditors consists of three external statutory auditors to ensure independency of audit. Statutory auditors attend meetings of the Board of Directors and convene meetings at least monthly as well as perform operational and financial audits based on the audit plan in order to audit directors' execution of their duties. Nexon Group has in place the Board of Directors and the Board of Statutory Auditors so as to render our corporate governance effective.

PricewaterhouseCoopers Aarata LLC is the Company's independent auditor and performs audit with six certified public accountants and 19 assistant accountants in addition to the engagement partners listed below. Name, etc. of the certified public accountants who performed the audit is provided below. Due to the change in type of audit corporation, the audit corporation changed its name from PricewaterhouseCoopers Aarata to PricewaterhouseCoopers Aarata LLC on July 1, 2016.

| Name, etc. of certified public accountant |                   | Name of audit corporation to which CPAs belong |
|-------------------------------------------|-------------------|------------------------------------------------|
| Designated Partner<br>Engagement Partner  | Hideaki Zenba     | PricewaterhouseCoopers Aarata LLC              |
|                                           | Hiroyuki Sawayama |                                                |

(Note) The number of consecutive years being audited is omitted because it is less than 7 years.

##### (ii) Internal control system

The Company has approved "NEXON Corporate Governance Basic Policy," "NEXON Group Code of Conduct and Business Ethics (Code of Conduct)," and "Basic Policies relating to Internal Control Systems" at the Board of Directors meeting in order to develop the internal control system.

##### (iii) Risk management system

Nexon Group believes that risk management is one of the important factors in internal control. In addition to developing the "Risk Management Rules," we set up the "Risk Management (Internal Control) Project," consisting of the head of the Internal Audit Office as the project leader and other department heads as members, and prepared "Risk Map" in order to prevent risk from arising. If any risks should arise and cause serious situation, department heads will be called up based on the predetermined emergency network and a task force will be set up to handle such situation.

We also believe that another important matter in internal control is compliance. Accordingly, the Company has approved the "Compliance Program" and the "Compliance Regulations" at the Board of Directors meeting, established the "Compliance Committee" chaired by the head of the Legal Department, and designated the Legal

Department as a “department responsible for compliance,” with the aim of developing in-house compliance system.

(iv) System to ensure proper operations of the Company’s subsidiaries

Nexon Group ensures proper operations of the Company’s subsidiaries by, while respecting the independence of each entity due to unique local circumstances, establishing systems according to the system to ensure proper operation of the Company as described below.

- System for reporting matters regarding execution of duties by subsidiaries’ directors to the Company:

The Company shall request subsidiaries’ directors to report necessary matters regularly based on the Related Companies’ Management Regulations.

- Regulations and other systems to manage potential risks of losses of subsidiaries:

The Company shall request subsidiaries to minimize potential exposure to risk of incurring losses in accordance with the Company’s Risk Management Regulations and to establish a system enabling timely response in cooperation with the Company in the event of serious incidents.

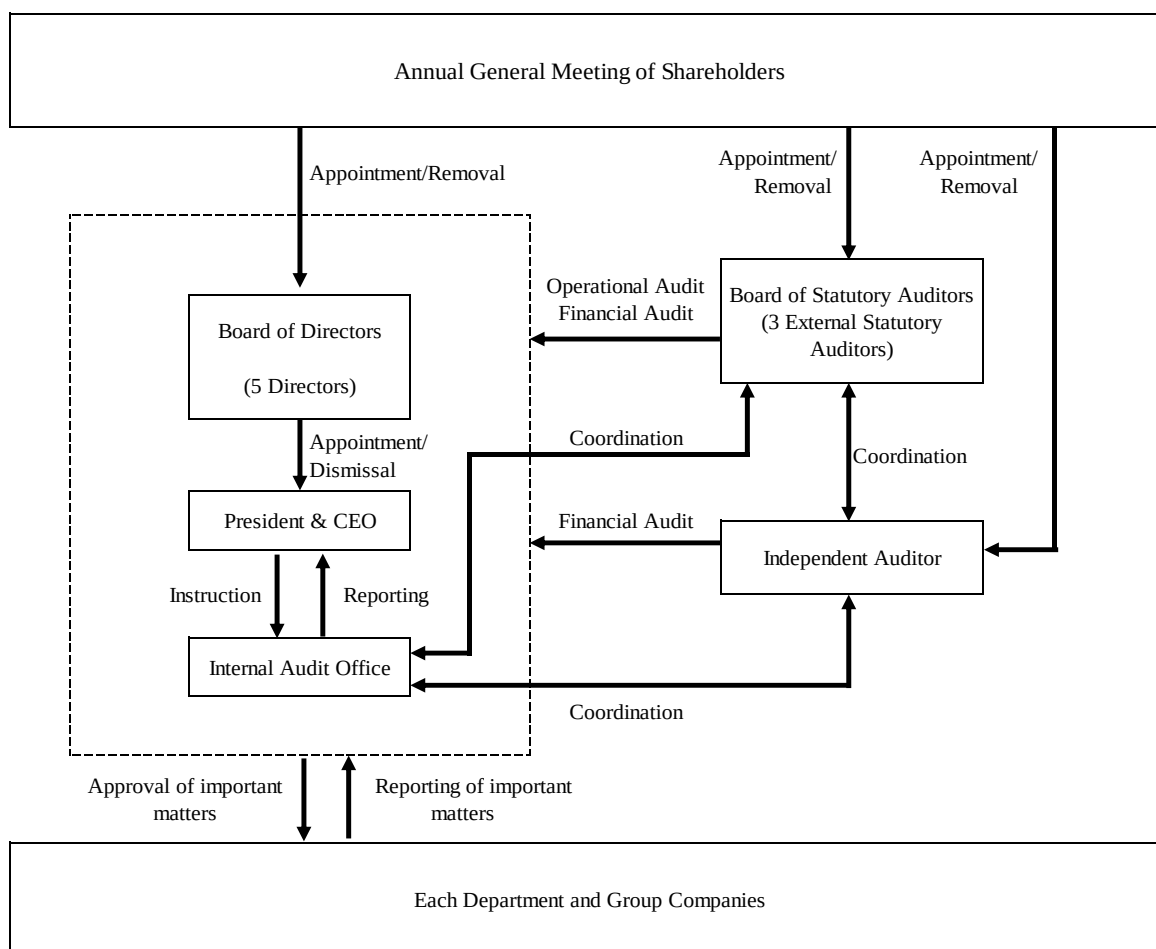
- System to ensure efficient execution of duties by subsidiaries’ directors, etc.:

The Company shall request subsidiaries’ directors to report the status of executing their respective duties on a monthly basis and to improve obstructive factors in the execution of duties in a timely manner, if any.

- System to ensure that the execution of duties by directors and employees of subsidiaries complies with laws and regulations and the articles of incorporation :

The Company shall review the compliance status by collecting and obtaining relevant information through methods including audit and investigation by directors, statutory auditors, the Internal Audit Office and the Legal Department of the Company. In addition, the Company shall request subsidiaries to take necessary measures including preventive measures.

(v) Below is a diagram of our corporate governance system described above.





(b) Internal audit and audit by Statutory Auditors

(i) Organization, personnel and procedures of internal audit and audit by Statutory Auditors

The Company has the Internal Audit Office, consisting of the head and three staffs, that directly reports to CEO/President for the purpose of properly evaluating the effectiveness of internal control and the operating status of departments so as to contribute to improvement of management.

The Internal Audit Office, in principle, performs internal audit for all departments once a year based on the internal audit plan developed for each year and approved by CEO/President in accordance with the Internal Audit Rules. With regard to consolidated subsidiaries, the Audit Office of NEXON Korea Corporation performs internal audit of the company and its consolidated subsidiaries, other consolidated subsidiaries having a department in charge of internal audit are audited by such department, and those without such department are audited by the Company's Internal Audit Office.

The Board of Statutory Auditors performs audit based on the audit plan developed for each year in accordance with the "Statutory Auditor Audit Standards." One of the three Statutory Auditors understands the status of operations within the company at all times as a full-time statutory auditor and performs audit by sharing information with the other two Statutory Auditors. One of the Company's Statutory Auditors is a certified public accountant and has finance and accounting knowledge.

(ii) Mutual cooperation between internal audit, audit by Statutory Auditors and financial audit and the relationship between these audits and the internal control division

Statutory Auditors and the head of the Internal Audit Office seek mutual cooperation by receiving reports on the results of the quarterly review or financial audit from our independent auditor at least on a quarterly basis.

In addition, the Internal Audit Office Manager who is the head of the "Risk Management (Internal Control) Project," which is an internal control division, and the head of the Legal Department who is the chairperson of the "Compliance Committee" exchange information by attending all Statutory Auditors' meetings.

(c) External Directors and External Statutory Auditors

In order to ensure effectiveness of the Board of Directors' function to supervise business management, two of the five members of the Company's Board of Directors are Independent External Directors who have no special interests in the Company. In addition, all three Statutory Auditors are Independent External Statutory Auditor who have no special interests in the Company in order to ensure independency and transparency of audit. The Company's policy on independence in appointing External Directors or External Statutory Auditors is to observe the Companies Act and the independence standards provided by the Tokyo Stock Exchange, and External Directors are appointed based on the premise that they can be sufficiently independent from the Company's management to execute their duties as external officers, taking into account their career history and relation with the Company.

In order to ensure that External Directors and External Statutory Auditors can fulfill their expected roles to the fullest extent, the Company's Articles of Incorporation stipulates that the Company may, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, enter into agreements with its External Directors and External Statutory Auditors to limit their liability with respect to any negligence in the performance of their duties. The Company entered into the agreement to limit liability with two external directors on March 27, 2012, with two External Statutory Auditors on December 14, 2011 and one External Statutory Auditor on March 28, 2017.

Mutual cooperation between audit by External Statutory Auditors and internal audit, audit by Statutory Auditors and financial audit and the relationship between internal control division are described above in "(ii) Mutual cooperation between internal audit, audit by Statutory Auditors and financial audit and the relationship between these audits and internal control division."

(d) Officers' remuneration, etc.

(i) Total amount of remuneration, etc. by officer category, total amount of remuneration, etc. by type, and number of eligible officers

| Officer category                         | Total amount of remuneration, etc.<br>(¥ million) | Total amount of remuneration, etc. by type (¥ million) |       |                    |                                            | Number of eligible officers (persons) |
|------------------------------------------|---------------------------------------------------|--------------------------------------------------------|-------|--------------------|--------------------------------------------|---------------------------------------|
|                                          |                                                   | Monetary compensation                                  |       | Stock compensation |                                            |                                       |
|                                          |                                                   | Basic compensation                                     | Bonus | Stock option       | Stock option (officers retirement benefit) |                                       |
| Directors (excluding external directors) | 1,015                                             | 103                                                    | 186   | 726                | —                                          | 3                                     |
| External directors                       | 23                                                | 14                                                     | —     | 9                  | —                                          | 2                                     |
| External statutory auditors              | 15                                                | 15                                                     | —     | —                  | —                                          | 3                                     |

(ii) Total amount of consolidated remuneration, etc. of officers whose total consolidated remuneration exceeds ¥100 million

| Name                      | Officer category           | Company category              | Consolidated remuneration, etc. by type<br>(¥ million) |       |                    |                                                     | Total amount<br>of consolidated<br>remuneration,<br>etc.<br>(¥ million) |
|---------------------------|----------------------------|-------------------------------|--------------------------------------------------------|-------|--------------------|-----------------------------------------------------|-------------------------------------------------------------------------|
|                           |                            |                               | Monetary compensation                                  |       | Stock compensation |                                                     |                                                                         |
|                           |                            |                               | Basic<br>compensation                                  | Bonus | Stock option       | Stock option<br>(officers<br>retirement<br>benefit) |                                                                         |
| Owen<br>Mahoney<br>(Note) | Representative<br>director | The<br>Company                | 108                                                    | 181   | 477                | —                                                   | 766                                                                     |
| Jiwon Park                | Director                   | The<br>Company                | —                                                      | —     | 243                | —                                                   | 371                                                                     |
|                           | Representative<br>director | NEXON<br>Korea<br>Corporation | 59                                                     | 69    | —                  | —                                                   |                                                                         |

(Note) Owen Mahoney, Representative Director, Chief Executive Officer and President, received ¥36 million from certain subsidiaries other than the Company as basic compensation for Representative Director of Nexon Group and such payment is included in the above basic compensation.

(iii) Policy and methodology for determining the amount of officers' remuneration or its calculation method

The remuneration Special Committee, consisting of two external directors, makes proposals to the Board of Directors on the directors' remuneration system and the level of remuneration of executive directors including representative directors based on the comparison with the level of remuneration of other leading game companies in Japan and abroad.

(e) Information on shareholdings

i. Equity securities held for purposes other than pure investment: Number of issues and the total amount recorded in the balance sheet

6 issues: ¥1,376 million

- ii. Equity securities held for purposes other than pure investment: Classification, stock name, number of shares, the amount recorded in the balance sheet and purpose of holding  
 Year ended December 31, 2015  
 Specified equity securities  
 Not applicable.  
  
 Year ended December 31, 2016  
 Specified equity securities  
 Not applicable.
- iii. Equity securities held for pure investment: Total amount recorded in the balance sheet as of December 31, 2015 and 2016, and total amount of dividend income, gains or losses on sales and valuation gains or losses for the year ended December 31, 2016  
 Not applicable.
- iv. Equity securities reclassified from held for pure investment to held for other than pure investment: Stock name, number of shares and the amount recorded in the balance sheet  
 Not applicable.
- v. Equity securities reclassified from held for other than pure investment to held for pure investment: Stock name, number of shares and the amount recorded in the balance sheet  
 Not applicable.
- (f) Number of directors  
 The Company's Articles of Incorporation stipulates that the Company shall have no more than ten directors.
- (g) Election criteria for directors  
 The Company's Articles of Incorporation stipulates that resolutions to elect directors shall be made by a majority vote by shareholders present at the meeting where one third or more of the eligible shareholders are present.  
 The Company's Articles of Incorporation also stipulates that resolutions to elect directors shall not be based on cumulative voting.
- (h) Purchase of treasury stock  
 In accordance with Article 165, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulates that the Company may purchase own shares through market transactions based on resolutions of the Board of Directors in order to flexibly implement capital policies in response to changes in business environment.
- (i) Dividends from surplus  
 The Company's Articles of Incorporation stipulates that "the decisions with regards to dividends from surplus and other matters as stipulated under each item of Article 459, Paragraph 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." This is for the purpose of returning profits to shareholders flexibly
- (j) Special resolutions of the General Meeting of Shareholders  
 The Company's Articles of Incorporation stipulates that special resolutions of the General Meeting of Shareholders as provided by Article 309, Paragraph 2 of the Companies Act shall be made by two thirds or more of the votes of the shareholders present at the meeting where one third or more of the eligible shareholders are present.  
 This is for the purpose of ensuring smooth management of the General Meeting of Shareholders by easing the quorum for special resolutions of the General Meeting of Shareholders.

(k) Guidelines on policy for protection of minority shareholders in transactions with controlling shareholders

Nexon Group has a controlling shareholder. It is generally said that companies having a controlling shareholder are controlled or affected by the controlling shareholder explicitly or implicitly, which may prejudice the interests of minority shareholders.

NXC Corporation, the Company's controlling shareholder, is engaged only in investment business and other businesses that are not related to online game business which is Nexon Group's primary business. It also has entered into a non-compete agreement with the Company under which NXC Corporation shall not engage in any businesses that may compete with the online game business of Nexon Group, and therefore NXC Corporation has no impact on Nexon Group's business development.

(2) 【Audit fees】

(a) 【Fees paid to independent auditors】

(Millions of yen)

| Category                  | Year ended December 31, 2015 |                             | Year ended December 31, 2016 |                             |
|---------------------------|------------------------------|-----------------------------|------------------------------|-----------------------------|
|                           | Fees for audit services      | Fees for non-audit services | Fees for audit services      | Fees for non-audit services |
| The Company               | 64                           | —                           | 62                           | —                           |
| Consolidated subsidiaries | —                            | —                           | —                            | —                           |
| Total                     | 64                           | —                           | 62                           | —                           |

(b) 【Other material fees】

(Year ended December 31, 2015)

The Company and its 6 consolidated subsidiaries including NEXON Korea Corporation paid professional fees for audit service of ¥113 million and for non-audit services of ¥14 million to PricewaterhouseCoopers LLP, member firms of the same global network of the Company's independent auditor. Non-audit services consist mainly of financial due diligence service and consulting services related to interpretation and implementation of tax laws.

(Year ended December 31, 2016)

The Company and its 10 consolidated subsidiaries including NEXON Korea Corporation paid professional fees for audit service of ¥93 million and for non-audit services of ¥28 million to PricewaterhouseCoopers LLP, member firms of the same global network of the Company's independent auditor. Non-audit services consist mainly of financial due diligence service and consulting services related to interpretation and implementation of tax laws.

(c) 【Non-audit services provided by independent auditor to the Company】

(Year ended December 31, 2015)

Not applicable.

(Year ended December 31, 2016)

Not applicable.

(d) 【Policy on determination of audit fee】

The Company's policy on determination of audit fee for the Company's independent auditor is to draft the fee amount based on the consent from the independent auditor, taking into consideration of the Company's size, business characteristics, and the number of days and personnels required for the audit, and obtain approval of the Board of Statutory Auditors.

## V. 【Financial Information】

### 1. Preparation of consolidated financial statements and non-consolidated financial statements

- (1) The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards pursuant to provisions of Article 93 of the “Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements” (Ministry of Finance Ordinance No. 28, 1976).

In the consolidated financial statements in this report, amounts less than one million yen are rounded to the nearest million yen.

- (2) The non-consolidated financial statements of the Company are prepared in accordance with the “Regulation for Terminology, Forms and Preparation of Financial Statements” (Ministry of Finance Ordinance No. 59, 1963, “Regulation for Non-Consolidated Financial Statements”).

Also, the non-consolidated financial statements are prepared in accordance with provisions of Article 127 of the Regulation for Non-Consolidated Financial Statements as the Company falls under the category of company that may be allowed to prepare its financial statements in accordance with special provisions. In the non-consolidated financial statements in this report, amounts less than one million yen are rounded to the nearest million yen.

### 2. Audit certificate

The Company’s consolidated financial statements for the consolidated fiscal year from January 1, 2016 to December 31, 2016 and the non-consolidated financial statements for the fiscal year from January 1, 2016 to December 31, 2016 were audited by PricewaterhouseCoopers Aarata LLC, in accordance with provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

Due to the change in type of audit corporation, our independent auditor PricewaterhouseCoopers Aarata changed its name to PricewaterhouseCoopers Aarata LLC effective July 1, 2016.

### 3. Special measures to ensure appropriateness of the consolidated financial statements and a system to ensure that the consolidated financial statements are appropriately prepared in accordance with IFRS

- (1) To establish a system that enables proper understanding of accounting standards, etc. and timely and appropriate response to changes in accounting standards, etc., the Company strives to accumulate technical knowledge by joining the Financial Accounting Standards Foundation of Japan, participating in seminars organized by bodies having technical knowledge and subscribing to accounting magazines.

- (2) In applying IFRS, the Company has developed Group accounting policies in accordance with IFRS and conducted accounting treatments based on these policies. The Company also obtains press releases and standards released by the International Accounting Standards Board on a regular basis to understand the latest standards and assess their potential impact on the Company, and update the Group accounting policies in a timely manner.

1 【Consolidated Financial Statements, etc.】

(1) 【Consolidated financial statements】

(a) 【Consolidated statement of financial position】

| (Millions of yen)                             |          |                         |                         |
|-----------------------------------------------|----------|-------------------------|-------------------------|
|                                               | Notes    | As of December 31, 2015 | As of December 31, 2016 |
| Assets                                        |          |                         |                         |
| Current assets                                |          |                         |                         |
| Cash and cash equivalents                     | 6,25,26  | 194,225                 | 152,683                 |
| Trade and other receivables                   | 7,25,26  | 33,362                  | 27,037                  |
| Other deposits                                | 8,26     | 97,105                  | 173,226                 |
| Other financial assets                        | 12,25,26 | 1,973                   | 2,895                   |
| Other current assets                          | 13       | 5,005                   | 10,256                  |
| Total current assets                          |          | 331,670                 | 366,097                 |
| Non-current assets                            |          |                         |                         |
| Property, plant and equipment                 | 9        | 22,027                  | 20,394                  |
| Goodwill                                      | 10       | 35,387                  | 17,523                  |
| Intangible assets                             | 10       | 7,520                   | 7,127                   |
| Investments accounted for using equity method | 11,31    | 2,071                   | 6,662                   |
| Other financial assets                        | 12,25,26 | 19,576                  | 18,236                  |
| Other non-current assets                      | 13       | 3,040                   | 551                     |
| Deferred tax assets                           | 14       | 4,295                   | 5,242                   |
| Total non-current assets                      |          | 93,916                  | 75,735                  |
| Total assets                                  |          | 425,586                 | 441,832                 |

(Millions of yen)

|                                                           | Notes       | As of December 31, 2015 | As of December 31, 2016 |
|-----------------------------------------------------------|-------------|-------------------------|-------------------------|
| Liabilities and equity                                    |             |                         |                         |
| Liabilities                                               |             |                         |                         |
| Current liabilities                                       |             |                         |                         |
| Trade and other payables                                  | 15,25,26    | 10,874                  | 9,472                   |
| Deferred income                                           | 16          | 9,558                   | 9,313                   |
| Borrowings                                                | 17,25,26    | 1,916                   | 1,683                   |
| Income taxes payable                                      |             | 7,135                   | 5,511                   |
| Other financial liabilities                               | 18,19,25,26 | 568                     | 1,523                   |
| Provisions                                                | 20          | 2,246                   | 2,396                   |
| Other current liabilities                                 | 21          | 4,587                   | 5,106                   |
| Total current liabilities                                 |             | 36,884                  | 35,004                  |
| Non-current liabilities                                   |             |                         |                         |
| Deferred income                                           | 16          | 1,985                   | 8,392                   |
| Borrowings                                                | 17,25,26    | 2,501                   | 835                     |
| Other financial liabilities                               | 18,19,25,26 | 790                     | 644                     |
| Provisions                                                | 20          | 327                     | 327                     |
| Other non-current liabilities                             | 21          | 1,280                   | 1,741                   |
| Deferred tax liabilities                                  | 14          | 2,138                   | 17,195                  |
| Total non-current liabilities                             |             | 9,021                   | 29,134                  |
| Total liabilities                                         |             | 45,905                  | 64,138                  |
| Equity                                                    |             |                         |                         |
| Capital stock                                             | 22          | 56,441                  | 3,519                   |
| Capital surplus                                           | 22          | 34,597                  | 86,753                  |
| Treasury Stock                                            | 22          | —                       | (0)                     |
| Other equity interest                                     | 22          | 73,308                  | 56,254                  |
| Retained earnings                                         | 22          | 210,101                 | 226,398                 |
| Total equity attributable to owners of the parent company |             | 374,447                 | 372,924                 |
| Non-controlling interests                                 | 35          | 5,234                   | 4,770                   |
| Total equity                                              | 25          | 379,681                 | 377,694                 |
| Total liabilities and equity                              |             | 425,586                 | 441,832                 |

## (b) 【Consolidated income statement】

(Millions of yen)

|                                                                      | Notes    | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|----------------------------------------------------------------------|----------|---------------------------------|---------------------------------|
| Revenue                                                              | 5,27     | 190,263                         | 183,128                         |
| Cost of sales                                                        | 10,28    | (49,701)                        | (48,131)                        |
| Gross profit                                                         |          | 140,562                         | 134,997                         |
| Selling, general and administrative expenses                         | 10,29    | (74,212)                        | (66,210)                        |
| Other income                                                         | 26,30    | 1,621                           | 1,021                           |
| Other expenses                                                       | 10,26,30 | (5,681)                         | (29,147)                        |
| Operating income                                                     |          | 62,290                          | 40,661                          |
| Finance income                                                       | 31       | 7,587                           | 6,583                           |
| Finance costs                                                        | 31       | (1,962)                         | (222)                           |
| Equity in profit of affiliates                                       | 11       | 91                              | 101                             |
| Income before income taxes                                           |          | 68,006                          | 47,123                          |
| Income taxes expense                                                 | 14       | (12,405)                        | (26,602)                        |
| Net income                                                           |          | 55,601                          | 20,521                          |
| Attributable to:                                                     |          |                                 |                                 |
| Owners of the parent company                                         |          | 55,132                          | 20,133                          |
| Non-controlling interests                                            | 35       | 469                             | 388                             |
| Net income                                                           |          | 55,601                          | 20,521                          |
| Earnings per share<br>(attributable to owners of the parent company) |          | (yen)                           | (yen)                           |
| Basic earnings per share                                             | 33       | 127.86                          | 46.26                           |
| Diluted earnings per share                                           | 33       | 124.67                          | 45.40                           |

## (c) 【Consolidated statement of comprehensive income】

(Millions of yen)

|                                                                            | Notes  | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|----------------------------------------------------------------------------|--------|---------------------------------|---------------------------------|
| Net income                                                                 |        | 55,601                          | 20,521                          |
| Other comprehensive income                                                 |        |                                 |                                 |
| Items that will not be reclassified to net income                          |        |                                 |                                 |
| Financial assets measured at fair value through other comprehensive income | 32     | 1,650                           | (1,831)                         |
| Remeasurement of defined benefit pension plans                             | 32     | 6                               | (8)                             |
| Other comprehensive income under equity method                             | 11, 32 | 2                               | —                               |
| Income taxes                                                               | 32     | (939)                           | 301                             |
| Total items that will not be reclassified to net income                    | 32     | 719                             | (1,538)                         |
| Items that may be reclassified subsequently to net income                  |        |                                 |                                 |
| Exchange differences on translating foreign operations                     | 32     | (15,715)                        | (16,078)                        |
| Cash flow hedges                                                           | 32     | 59                              | —                               |
| Other comprehensive income under equity method                             | 11,32  | (1)                             | (0)                             |
| Income taxes                                                               | 32     | (21)                            | —                               |
| Total items that may be reclassified subsequently to net income            | 32     | (15,678)                        | (16,078)                        |
| Total other comprehensive income                                           | 32     | (14,959)                        | (17,616)                        |
| Total comprehensive income                                                 |        | 40,642                          | 2,905                           |
| Attributable to:                                                           |        |                                 |                                 |
| Owners of the parent company                                               |        | 40,505                          | 2,868                           |
| Non-controlling interests                                                  |        | 137                             | 37                              |
| Total comprehensive income                                                 |        | 40,642                          | 2,905                           |

## (d) 【Consolidated statement of changes in equity】

Year ended December 31, 2015

(Millions of yen)

|                                                                  | Notes | Equity attributable to owners of the parent company |                 |                |                       |                   |          | Non-controlling interests | Total equity |
|------------------------------------------------------------------|-------|-----------------------------------------------------|-----------------|----------------|-----------------------|-------------------|----------|---------------------------|--------------|
|                                                                  |       | Capital stock                                       | Capital surplus | Treasury stock | Other equity interest | Retained earnings | Total    |                           |              |
| Balance at January 1, 2015                                       |       | 52,481                                              | 40,830          | —              | 92,044                | 155,025           | 340,380  | 5,097                     | 345,477      |
| Net income                                                       |       | —                                                   | —               | —              | —                     | 55,132            | 55,132   | 469                       | 55,601       |
| Other comprehensive income                                       |       | —                                                   | —               | —              | (14,627)              | —                 | (14,627) | (332)                     | (14,959)     |
| Total comprehensive income                                       |       | —                                                   | —               | —              | (14,627)              | 55,132            | 40,505   | 137                       | 40,642       |
| Issue of new shares                                              | 22    | 3,960                                               | 3,960           | —              | —                     | —                 | 7,920    | —                         | 7,920        |
| Stock issue cost                                                 |       | —                                                   | (27)            | —              | —                     | —                 | (27)     | —                         | (27)         |
| Dividends                                                        | 23    | —                                                   | —               | —              | —                     | (4,305)           | (4,305)  | —                         | (4,305)      |
| Share-based compensation                                         | 24    | —                                                   | —               | —              | 140                   | —                 | 140      | —                         | 140          |
| Purchases of treasury stock                                      | 22    | —                                                   | (169)           | (10,000)       | —                     | —                 | (10,169) | —                         | (10,169)     |
| Cancellation of treasury stock                                   | 22    | —                                                   | (10,000)        | 10,000         | —                     | —                 | —        | —                         | —            |
| Reclassification from other equity interest to retained earnings | 12,22 | —                                                   | —               | —              | (4,249)               | 4,249             | —        | —                         | —            |
| Other                                                            |       | —                                                   | 3               | —              | —                     | —                 | 3        | —                         | 3            |
| Total transactions with the owners                               |       | 3,960                                               | (6,233)         | —              | (4,109)               | (56)              | (6,438)  | —                         | (6,438)      |
| Balance at December 31, 2015                                     |       | 56,441                                              | 34,597          | —              | 73,308                | 210,101           | 374,447  | 5,234                     | 379,681      |

Year ended December 31, 2016

(Millions of yen)

|                                                                  | Notes | Equity attributable to owners of the parent company |                 |                |                       |                   |          | Non-controlling interests | Total equity |
|------------------------------------------------------------------|-------|-----------------------------------------------------|-----------------|----------------|-----------------------|-------------------|----------|---------------------------|--------------|
|                                                                  |       | Capital stock                                       | Capital surplus | Treasury stock | Other equity interest | Retained earnings | Total    |                           |              |
| Balance at January 1, 2016                                       |       | 56,441                                              | 34,597          | —              | 73,308                | 210,101           | 374,447  | 5,234                     | 379,681      |
| Net income                                                       |       | —                                                   | —               | —              | —                     | 20,133            | 20,133   | 388                       | 20,521       |
| Other comprehensive income                                       |       | —                                                   | —               | —              | (17,265)              | —                 | (17,265) | (351)                     | (17,616)     |
| Total comprehensive income                                       |       | —                                                   | —               | —              | (17,265)              | 20,133            | 2,868    | 37                        | 2,905        |
| Reclassification from capital stock to capital surplus           |       | (55,227)                                            | 55,227          | —              | —                     | —                 | —        | —                         | —            |
| Issue of new shares                                              | 22    | 2,305                                               | 2,305           | —              | —                     | —                 | 4,610    | —                         | 4,610        |
| Stock issue cost                                                 |       | —                                                   | (18)            | —              | —                     | —                 | (18)     | —                         | (18)         |
| Dividends                                                        | 23    | —                                                   | —               | —              | —                     | (4,353)           | (4,353)  | —                         | (4,353)      |
| Share-based compensation                                         | 24    | —                                                   | —               | —              | 718                   | —                 | 718      | —                         | 718          |
| Purchase of non-controlling interests                            |       | —                                                   | (348)           | —              | —                     | —                 | (348)    | (501)                     | (849)        |
| Purchase of treasury stock                                       | 22    | —                                                   | (10)            | (5,000)        | —                     | —                 | (5,010)  | —                         | (5,010)      |
| Cancellation of treasury stock                                   | 22    | —                                                   | (5,000)         | 5,000          | —                     | —                 | —        | —                         | —            |
| Reclassification from other equity interest to retained earnings | 12,22 | —                                                   | —               | —              | (507)                 | 507               | —        | —                         | —            |
| Other                                                            |       | —                                                   | —               | —              | —                     | 10                | 10       | —                         | 10           |
| Total transactions with the owners                               |       | (52,922)                                            | 52,156          | (0)            | 211                   | (3,836)           | (4,391)  | (501)                     | (4,892)      |
| Balance at December 31, 2016                                     |       | 3,519                                               | 86,753          | (0)            | 56,254                | 226,398           | 372,924  | 4,770                     | 377,694      |

## (e) 【Consolidated statement of cash flows】

(Millions of yen)

|                                                               | Notes | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|---------------------------------------------------------------|-------|---------------------------------|---------------------------------|
| Cash flows from operating activities                          |       |                                 |                                 |
| Income before income taxes                                    |       | 68,006                          | 47,123                          |
| Depreciation and amortization                                 |       | 13,060                          | 6,366                           |
| Share-based compensation expenses                             |       | 1,908                           | 2,136                           |
| Interest and dividend income                                  |       | (4,962)                         | (3,461)                         |
| Interest expense                                              |       | 322                             | 27                              |
| Impairment loss                                               |       | 5,321                           | 28,785                          |
| Equity in loss of affiliates                                  |       | (91)                            | (101)                           |
| Exchange loss                                                 |       | (562)                           | (3,190)                         |
| (Increase) decrease in trade and other receivables            |       | (3,167)                         | 4,642                           |
| Increase in other current assets                              |       | (1,873)                         | (3,937)                         |
| Increase (decrease) in trade and other payables               |       | 931                             | (1,205)                         |
| (Decrease) increase in deferred income                        |       | (865)                           | 6,755                           |
| Other                                                         |       | 685                             | 1,333                           |
| Subtotal                                                      |       | 78,713                          | 85,273                          |
| Interest and dividends received                               |       | 4,944                           | 3,326                           |
| Interest paid                                                 |       | (486)                           | (17)                            |
| Income taxes paid                                             |       | (23,019)                        | (15,289)                        |
| Net cash provided by operating activities                     |       | 60,152                          | 73,293                          |
| Cash flows from investing activities                          |       |                                 |                                 |
| Increase in other deposits                                    |       | (1,175)                         | (76,852)                        |
| Purchases of property, plant and equipment                    |       | (2,879)                         | (2,467)                         |
| Proceeds from sales of property, plant and equipment          |       | 57                              | 51                              |
| Purchases of intangible assets                                |       | (2,485)                         | (1,215)                         |
| Payments resulting in increase in long-term prepaid expenses  |       | (1,631)                         | (2,250)                         |
| Purchases of investment securities                            |       | (1,611)                         | (2,742)                         |
| Proceeds from sales of investment securities                  |       | 66,882                          | 405                             |
| Purchases of affiliates                                       |       | (78)                            | (4,530)                         |
| Purchases of subsidiaries                                     |       | (2,155)                         | (7,301)                         |
| Extension of long-term loans receivable                       |       | (12)                            | (5,011)                         |
| Proceed from collection of long-term loans receivable         |       | 799                             | 5,004                           |
| Other                                                         |       | 700                             | (176)                           |
| Net cash provided by (used in) investing activities           |       | 56,412                          | (97,084)                        |
| Cash flows from financing activities                          |       |                                 |                                 |
| Net increase (decrease) in short-term borrowings              |       | 250                             | (440)                           |
| Proceeds from long-term borrowings                            |       | 5,000                           | —                               |
| Repayment of long-term borrowings                             |       | (32,194)                        | (1,676)                         |
| Proceeds from exercise of stock options                       |       | 6,127                           | 3,174                           |
| Purchases of treasury stock                                   | 22    | (10,169)                        | (5,010)                         |
| Purchases of treasury stock of subsidiaries                   |       | —                               | (832)                           |
| Cash dividends paid                                           | 23    | (4,305)                         | (4,358)                         |
| Other                                                         |       | (348)                           | (133)                           |
| Net cash used in financing activities                         |       | (35,639)                        | (9,275)                         |
| Net increase (decrease) in cash and cash equivalents          |       | 80,925                          | (33,066)                        |
| Cash and cash equivalents at beginning of year                | 6     | 117,729                         | 194,225                         |
| Effects of exchange rate changes on cash and cash equivalents |       | (4,429)                         | (8,476)                         |
| Cash and cash equivalents at end of year                      | 6     | 194,225                         | 152,683                         |

## 【Notes to consolidated financial statements】

### 1 Reporting entity

NEXON Co., Ltd. (the “Company”) is a company incorporated in Japan. The accompanying consolidated financial statements comprise the Company and its group companies. Nexon Group is engaged mainly in the production, development and service of PC online and mobile games. Details of each business are described in “5 Segment information.”

NXC Corporation is the Company’s parent company and the ultimate parent company of Nexon Group.

### 2 Basis of preparation

#### (1) Compliance with IFRS

The consolidated financial statements of Nexon Group are prepared in accordance with IFRS pursuant to provisions of Article 93 of the “Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements” (Ministry of Finance Ordinance No. 28, 1976) as Nexon Group satisfies all requirements for a “Specified Company Complying with Designated International Accounting Standards” defined in Article 1-2 of the Regulation.

The consolidated financial statements are approved by Owen Mahoney, Chief Executive Officer and President, and Shiro Uemura, Representative Director and Chief Financial Officer, on March 29, 2017.

#### (2) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for the following material items in the consolidated statement of financial position.

- Derivative financial assets and liabilities (measured at fair value)
- Financial instruments measured at fair value with changes to be recognized in net profit
- Financial instruments measured at fair value with changes to be recognized in other comprehensive income

#### (3) Presentation currency

The consolidated financial statements are presented in millions of Japanese yen which is the functional currency of the Company. Amounts less than one million yen are rounded to the nearest million yen.

#### (4) Application of new standards and interpretations

The major standards and interpretations newly applied by Nexon Group from the year ended December 31, 2016 are as follows. The impact of the application of these standards on Nexon Group for the year ended December 31, 2016 was insignificant.

| Standard           | Title                                                        | Overview of new or amended standard                                                                                                                                                                                     |
|--------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IAS 1              | Presentation of Financial Statements                         | Clarified materiality and aggregation, presentation of subtotals, structure of financial statements and disclosure of accounting policies                                                                               |
| IFRS 5             | Non-current Assets Held for Sale and Discontinued Operations | Amended the methods of disposal for assets                                                                                                                                                                              |
| IFRS 7             | Financial instruments: Disclosures                           | Clarified that a servicing contract may constitute continuing involvement<br>Clarified conditions under which disclosure requirements related to offsetting should be applied to condensed interim financial statements |
| IFRS 10 and IAS 28 | Consolidated Financial Statements                            | Clarified application of consolidation exception to investment entities and their subsidiaries                                                                                                                          |
| IFRS 11            | Joint Arrangements                                           | Amended accounting for acquisition of an interest in a joint operation in which the activity constitutes a business                                                                                                     |
| IAS 16             | Property, Plant and Equipment                                | Clarified situations where a revenue-based depreciation method may be appropriate                                                                                                                                       |
| IAS 19             | Employee Benefits                                            | Amended accounting for employee contributions                                                                                                                                                                           |

| Standard | Title                         | Overview of new or amended standard                                                                                                                                |
|----------|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IAS 27   | Separate Financial Statements | Amended accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements                                |
| IAS 34   | Interim Financial Reporting   | Clarified that required interim disclosure should be reflected in interim financial statements or incorporated in applicable parts of the interim financial report |
| IAS 38   | Intangible Assets             | Clarified situations where a revenue-based amortization method may be appropriate                                                                                  |

(5) Early application of standards and interpretations

Nexon Group early applied IFRS 9 “Financial Instruments” (issued in November 2009 and amended in December 2011, “IFRS 9”) on the date of transition to IFRS (January 1, 2012).

(6) New standards and interpretation not yet applied

New and amended standards and new interpretations issued but not yet effective as of December 31, 2016 have not been applied in preparation of the consolidated financial statements, except for IFRS 9. IFRS 9 issued as of October 2013 has been applied. Major amended standards, etc. not applied as of December 31, 2016 are as follows.

The impact of application of IFRS 15 and IFRS 16 is under assessment and not yet calculated at this point. The impact of other standards, etc. not yet applied on Nexon Group’s consolidated financial statements is determined to be insignificant.

| Standard      | Title                                                   | Mandatory effective date<br>(year beginning on) | Application by the Company    | Overview of new and amend standard                                                                                                                                                      |
|---------------|---------------------------------------------------------|-------------------------------------------------|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 2        | Share-based Payment                                     | January 1, 2018                                 | Year ending December 31, 2018 | Clarified the accounting treatment for measurement of cash-settled share-based payment                                                                                                  |
| IFRS 9 (2014) | Financial Instruments                                   | January 1, 2018                                 | Year ending December 31, 2018 | Amended classification and measurement, impairment loss, hedge accounting of financial instruments                                                                                      |
| IFRS 12       | Disclosure of Interest in Other Entities                | January 1, 2017                                 | Year ending December 31, 2017 | Clarified that disclosure requirements under IFRS 12 apply to interest classified as held for sale or discontinued operations in accordance with IFRS 5 (subject to limited exceptions) |
| IFRS 15       | Revenue from Contracts with Customers                   | January 1, 2018                                 | Year ending December 31, 2018 | Amended the accounting treatment for revenue recognition                                                                                                                                |
| IFRS 16       | Leases                                                  | January 1, 2019                                 | Year ending December 31, 2019 | Amended the accounting treatment for lease contracts                                                                                                                                    |
| IAS 7         | Statement of Cash Flows                                 | January 1, 2017                                 | Year ending December 31, 2017 | Amended disclosure of changes in liabilities arising from financing activities                                                                                                          |
| IAS 12        | Income Taxes                                            | January 1, 2017                                 | Year ending December 31, 2017 | Clarified the accounting treatment for deferred tax assets related to debt instruments measured at fair value                                                                           |
| IAS 28        | Investments in Associates and Joint Ventures            | January 1, 2018                                 | Year ending December 31, 2018 | Clarified that election of FVTPL measurement is made separately for each investment when investors in associates, etc. are venture capital, etc.                                        |
| IAS 40        | Investment Property                                     | January 1, 2018                                 | Year ending December 31, 2018 | Clarified requirements for transfers to or from investment property                                                                                                                     |
| IFRIC 22      | Foreign Currency Transactions and Advance Consideration | January 1, 2018                                 | Year ending December 31, 2018 | Newly established to address how to determine the exchange rates to be used for transactions when advance consideration denominated in a foreign currency is paid or received           |

### 3 Significant accounting policies

The accounting policies described below have been applied in preparation of the consolidated financial statements in a consistent manner for all periods presented, unless otherwise stated.

#### (1) Basis of consolidation

##### (a) Subsidiaries

A subsidiary is an entity controlled by Nexon Group. Nexon Group controls enterprises where it is exposed, or has rights, to variable returns arising from its involvement in those enterprises and is able to have an impact on the said variable returns through its power over those enterprises. A subsidiary's financial statements are incorporated into the Company's consolidated financial statements from the date on which Nexon Group obtains control until the date that Nexon Group loses control.

Comprehensive income of a subsidiary is attributed to owners of the parent company and non-controlling interests, even if it results in non-controlling interests having a deficit balance.

All intra-group balances and transactions within Nexon Group as well as unrealized profits and losses resulting from transactions within Nexon Group are eliminated in preparation of the consolidated financial statements.

##### (b) Changes in ownership interests in subsidiaries not resulting in a loss of control

Changes in ownership interests in subsidiaries not resulting in a loss of control are accounted for as equity transactions. The carrying amount of Nexon Group's equity and non-controlling interests is adjusted to reflect changes in ownership interests in subsidiaries. Any difference between the adjustment to non-controlling interests and the fair value of consideration paid or received is recognized directly in equity as equity attributable to owners of the parent.

##### (c) Disposal of subsidiaries

In the event that Nexon Group loses a control over its subsidiary, any gain or loss on disposal is calculated as a difference between the total of the fair value of consideration received and the fair value of remaining interests and the previous carrying amount of assets including goodwill, liabilities and non-controlling interests of the said subsidiary, and recognized in profit or loss.

##### (d) Affiliates

Affiliates are entities which Nexon Group has significant influence over their financial and operating policies but which Nexon Group does not control. If Nexon Group holds at least 20% but less than 50% of the voting rights of another entity, it is presumed that Nexon Group has a significant influence over the entity.

Investments in affiliates are recognized at acquisition cost at the time of acquisition and accounted for using equity method. Under the equity method, investments in affiliates are initially recognized at acquisition cost and adjusted by recognizing Nexon Group's interests in profit or loss and other comprehensive income of affiliates (after adjustments to comply with Nexon Group's accounting policies) from the date on which Nexon Group obtains a significant influence over them until the date on which Nexon Group loses such influence.

If Nexon Group's interests in loss of affiliates exceed investments in those affiliates (including long-term investments that are virtually part of net investments in those affiliates), Nexon Group does not recognize such excess amount unless it bears or pays the obligations (legal or constructive) on behalf of those affiliates.

Any excess of "acquisition cost" over "Nexon Group's interests in the net fair value of identifiable assets, liabilities and contingent liabilities" of affiliates recognized on the acquisition date is recognized as goodwill and included in the carrying amount of investments in affiliates. Any excess of "Nexon Group's interests in the net fair value of identifiable assets, liabilities and contingent liabilities" of affiliates recognized on the acquisition date over "acquisition cost" is recognized in profit or loss immediately.

Nexon Group does not recognize goodwill comprising part of the carrying amount of investments in affiliates separately and does not perform impairment test individually, but performs impairment test on investments in affiliates as a single asset if there is an objective evidence that investments in affiliates is impaired.

Unrealized gains arising from transactions with affiliates accounted for using equity method are deducted from investments to the extent of the amount of Nexon Group's interests in those investees. Unrealized losses are deducted in the same manner as unrealized gains unless there is objective evidence of impairment.

## (2) Business combination

Nexon Group adopted exemptions under IFRS 1 that allowed selective application and did not apply IFRS 3 “Business Combination” (“IFRS 3”) retrospectively to business combinations conducted before the date of transition to IFRS.

Goodwill arising from acquisitions before the date of transition to IFRS is recorded at the carrying amount under the previous generally accepted accounting principles after the impairment test under IFRS performed at the date of transition to IFRS.

Nexon Group accounts for business combinations using the “acquisition method.” The acquisition price includes the fair values of assets transferred from the Company to the previous owner of the acquiree, liabilities incurred, equity interests issued by the Company and liabilities resulting from a contingent consideration arrangement.

Transaction costs incurred by Nexon Group in relation to business combination are expensed as incurred, except for those related to issuance of debt or equity securities.

Identifiable assets and liabilities and contingent liabilities of the acquiree that meet recognition criteria under IFRS 3 are measured at fair value at the acquisition date, except for:

- deferred tax assets and liabilities that are recognized and measured in accordance with IAS 12 “Income Taxes,” and liabilities (or assets) related to employee benefit contracts that are recognized and measured in accordance with IAS 19 “Employee Benefits” (“IAS 19”).

Nexon Group measures goodwill as the excess of the sum of acquisition-date fair value of acquisition price and non-controlling interests in the acquiree over the net of identifiable assets acquired and liabilities assumed on the date of acquisition. If the difference is negative, it is recognized in profit or loss.

On the date of acquisition, Nexon Group determines for each transaction whether to measure non-controlling interests at fair value or at proportionate share in the recognized amount of identifiable net asset.

Subsequently, goodwill is measured at cost less accumulated impairment losses. The carrying amount of investments accounted for using equity method includes the carrying amount of goodwill..

## (3) Foreign currencies

### (a) Functional currency and presentation currency

In preparing the financial statements, each of Nexon Group companies translates transactions denominated in currencies other than its functional currency into the functional currency using the exchange rates at the dates of the transactions. The presentation currency of Nexon Group’s consolidated financial statements is Japanese yen which is the Company’s functional currency.

### (b) Translation of items denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency using the exchange rates at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are retranslated into the functional currency using the exchange rates at the date the fair value is determined. Foreign exchange differences arising from the retranslation are recognized in profit or loss, except for those arising from retranslation of financial instruments measured at fair value with changes in fair value recognized in other comprehensive income and those arising from cash flow hedge, which are recognized in other comprehensive income. Non-monetary items denominated in foreign currencies measured at cost are translated using the exchange rates at the dates of the transactions.

### (c) Foreign operations

Group companies (mainly foreign operations) that have a functional currency different from the presentation currency translate their assets and liabilities, including goodwill arising from the acquisition of the foreign operations, identified assets and liabilities and related fair value adjustments, into the presentation currency using the exchange rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency using the average exchange rates of the reporting period, unless the exchange rates significantly fluctuated during that period.

Foreign exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income. On the disposal of the entire interest in a foreign operation and on the partial disposal of the interest resulting in loss of control or significant influence, the cumulative translation differences are reclassified into profit or loss as part of gains or losses on disposal.

Nexon Group adopted exemptions under IFRS 1 and selected to reset the cumulative translation differences as of the date of transition to IFRS to zero.

(4) Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to cash and subject to an insignificant risk of change in value with original maturities of three months or less from the date of acquisition.

(5) Financial instruments

(a) Non-derivative financial assets

Financial assets are initially recognized on the date when Nexon Group becomes a party to the contractual terms of such financial assets.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. If not, they are classified as financial assets measured at fair value.

- The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets measured at fair value are classified into financial assets measured at fair value through profit or loss (FVTPL) and measured at fair value through profit or loss.

Equity instruments, except for those held for trading purpose, that are designated as financial instruments measured at fair value through other comprehensive income (FVTOCI) at initial recognition are classified into financial assets measured at FVTOCI and measured at fair value through other comprehensive income. Such designation is made for individual equity instrument as an irrevocable election and applied consistently.

Nexon Group adopted the following exemption under IFRS 1 in respect of IFRS 9 and determined classification of equity instruments held on the date of transition to IFRS.

- Based on the facts and circumstances existing on the date of transition to IFRS, companies may designate investments in equity instruments as financial assets measured at fair value through other comprehensive income.

(Financial assets measured at amortized cost)

Financial assets measured at amortized cost are initially recognized at fair value plus directly attributable transaction costs.

Subsequently, the carrying amount of the financial assets measured at amortized cost is calculated using the effective interest method, less accumulated impairment loss, if any.

(Financial assets measured at FVTPL)

Financial assets measured at FVTPL are initially recognized at fair value, and transaction costs are recognized in profit or loss when incurred. Subsequently, they are measured at fair value, with changes in fair value recognized in profit or loss.

(Financial assets measured at FVTOCI)

Financial assets measured at FVTOCI are initially recognized at fair value plus directly attributable transaction costs. Subsequently, they are measured at fair value, with changes in fair value recognized in other comprehensive income. If they are derecognized or their fair value substantially declines, the accumulated gains or losses recognized through other comprehensive income are reclassified into retained earnings.

Dividends earned from these investments are recognized in profit or loss unless they clearly represent return of initial investment.

Nexon Group derecognizes financial assets when the contractual rights to cash flows from the asset expire, or when Nexon Group transfers the contractual rights to receive cash flows from financial assets in transactions in which substantially all risks and rewards of ownership of the asset are transferred.

(b) Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed on a quarterly basis as to whether there is any objective evidence that the assets are impaired. Objective evidence of impairment includes significant financial difficulty of the debtor or debtor group, default or delinquency in principal or interest payments, and bankruptcy of the debtor.

Financial assets measured at amortized cost are considered to be impaired when there is objective evidence that loss events occurred after the initial recognition of the assets, and when it is reasonably expected that the loss events have a negative impact on the estimated future cash flows of the assets.

Nexon Group assesses whether objective evidence of impairment exists individually and collectively for financial assets measured at amortized cost. Individually significant financial assets are individually assessed for impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet recognized. Financial assets that are not individually significant are collectively assessed for impairment in a group of financial assets with similar risk characteristics.

The impairment loss for financial assets measured at amortized cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the assets' original effective interest rate, and recognized in profit or loss. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If there are events that reduce the amount of an impairment loss after the recognition of the impairment, reversal of the impairment loss is recognized in profit or loss. Impairment losses may be reversed up to the carrying amount that would have been determined if the assets had been depreciated or amortized until the time of reversal.

(c) Non-derivative financial liabilities

Financial liabilities are recognized at the transaction date, on which Nexon Group becomes a party to the agreement of the said financial instrument.

Non-derivative financial liabilities held by Nexon Group include accounts payable, borrowings, and other short-term liabilities and are initially recognized at fair value less transaction costs directly attributable to the financial liabilities. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Nexon Group derecognizes financial liabilities when they are extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(d) Derivative and hedge accounting

Nexon Group uses currency swap to hedge foreign exchange fluctuation risk associated with long-term borrowings denominated in foreign currencies and interest rate swap to hedge interest rate fluctuation risk associated with such borrowings. Derivative transactions are executed and managed in accordance with the derivative transaction management rules by the Accounting & Finance Department of the Company based on the approval of authorized personnel. Use of derivatives are limited to transactions with high-rated financial institutions in order to mitigate credit risk.

Derivatives held by Nexon Group are designated as cash flow hedge.

At the inception of a hedge transaction, Nexon Group formally designates and documents the hedging relationship to which hedge accounting is applied and risk management objectives and strategies for undertaking the hedge. The documentation includes identification of hedging instruments, hedged items or transactions, the nature of the risks being hedged and the method to assess the effectiveness of hedging relationship.

Both at the inception of the hedge and on an ongoing basis, the derivatives used in hedge transactions are assessed whether they are highly effective in achieving offsetting changes in cash flows of the hedged item.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and subsequently measured at fair value with effective portion of changes in fair value recognized in other comprehensive income and ineffective portion recognized in profit or loss immediately. The cumulative amount of gains or losses recognized through other comprehensive income is reclassified into profit or loss in the consolidated statement of comprehensive income in the same period during which cash flows of the hedged item affect profit or loss.

Application of the hedge accounting is discontinued prospectively if the hedge no longer meets requirements for the hedge accounting, the hedging instrument expires or is sold, terminated, or exercised, or the hedge designation is removed. If the hedge accounting is discontinued, Nexon Group continues to report any balance related to the discontinued cash flow hedge previously recognized in other comprehensive income until the forecasted transaction affects profit or loss. If a forecasted transaction is no longer considered probable, the balance related to the cash flow hedge is recognized in profit or loss immediately.

(e) Presentation of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position when, and only when, there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(f) Fair value of financial assets

Fair values of financial assets are determined based on quoted market prices if assets are traded on active financial markets at the end of each reporting period.

If an active market does not exist, fair values of financial assets are determined using appropriate valuation techniques (e.g. income approach, market approach).

See “26. Fair value of financial instruments” for calculation method of fair value.

(6) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment losses.

The cost includes costs directly attributable to the acquisition of the assets, costs of dismantling and removing the assets and restoring the site on which they are located and borrowing costs to be capitalized.

Items of property, plant and equipment that have different useful lives are recorded as separate items.

(b) Depreciation

Depreciation is calculated based on the depreciable amount, which is calculated as the cost of an asset less its residual value.

Each item of property, plant and equipment is depreciated using the straight-line method over the estimated useful life. Leased assets are depreciated over the shorter of the lease term and their economic life, unless there is reasonable certainty that Nexon Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structure: 3 to 50 years
- Tools, furniture and fixtures: 3 to 15 years

The depreciation methods, useful lives and residual values are reviewed at the end of each consolidated fiscal year and revised if necessary.

(7) Goodwill and intangible assets

(a) Intangible assets acquired through business combination (goodwill and other intangible assets)

See “(2) Business combination” for measurement of goodwill at initial recognition.

Intangible assets acquired through business combination and recognized separately from goodwill are initially recognized at fair value on the date of acquisition.

Intangible assets excluding goodwill are carried at cost less accumulated amortization and accumulated impairment losses in the same manner as intangible assets acquired individually.

(b) Software

Nexon Group incurs certain costs to purchase or develop software for internal use.

Expenditures arising from research activities to obtain new scientific or technical knowledge are recognized as expenses when incurred. Expenditures arising from development activities are capitalized as intangible assets, if, and only if, they are reliably measurable, developments are technically feasible, it is highly probable to generate future economic benefits, and Nexon Group has an intention and adequate resources to complete the development of the assets to use or sell them.

Capitalized software costs are carried at cost less accumulated amortization and accumulated impairment losses.

(c) Research and development costs

Expenditures arising from research activities to obtain new scientific or technical knowledge and understanding are recognized as expenses when incurred. Development costs that satisfy certain conditions are capitalized and carried at cost less accumulated amortization and accumulated impairment losses.

(d) Game copyrights and other intangible assets (individually acquired intangible assets)

Nexon Group purchases publishing rights for online games developed by other companies and recognizes them as intangible assets. Game copyrights and other intangible assets acquired by Nexon Group with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. There are no intangible assets with indefinite useful lives.

(e) Amortization

Amortization is calculated based on the cost of an asset less its residual value. Amortization of intangible assets is computed using the straight-line method over their estimated useful lives from the date when the assets become available for use.

Estimated useful lives for major intangible assets are as follows:

- Game copyrights      2 to 7 years

The amortization methods, useful lives and residual values are reviewed at the end of each consolidated fiscal year and revised if necessary. Residual values are considered to be zero.

(8) Leases

Leases are classified as finance leases when substantially all the risks and rewards incidental to ownership of an asset in an arrangement are transferred to Nexon Group. All other leases are classified as operating leases.

Finance leases are recognized at the lower of fair value of the leased asset at the inception of the lease and present value of the minimum lease payments. Lease obligations are recorded in the consolidated statement of financial position as current liabilities and non-current liabilities. Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as expenses using the straight-line method over the lease term.

Variable lease payments are recognized as expenses in the period they are incurred.

(9) Impairment loss of non-financial assets

The carrying amounts of Nexon Group’s non-financial assets, excluding inventories and deferred tax assets, are assessed on a quarterly basis as to whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated. Regarding goodwill and intangible assets with indefinite useful lives or not yet available for use, the recoverable amount is estimated at the end of each consolidated fiscal year and when any

indication of impairment is identified.

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less cost to sell. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. A CGU is the smallest group of assets which generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

The CGU of goodwill is determined based on the unit by which the goodwill is monitored for internal management purposes and does not exceed an operating segment.

Because corporate assets do not generate independent cash inflows, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the CGU to which the corporate assets belong.

If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment loss is recognized through profit or loss. The impairment loss recognized related to a CGU is allocated to reduce the carrying amount of the goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a prorated basis.

Nexon Group assesses on a quarterly basis as to whether there is any indication that an impairment loss recognized in prior years for an asset may have decreased or may no longer exist. An impairment loss is reversed if an indication of reversal exists and there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed to the extent the carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Impairment losses recognized for goodwill are not reversed.

#### (10) Employee benefits

##### (a) Defined contribution pension plan

The Company and certain subsidiaries have defined contribution pension plans. A defined contribution pension plan is a post-retirement benefit plan under which the employer pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further contributions. Contributions under the defined contribution pension plans are expensed during the period in which employees have rendered their services.

##### (b) Defined benefit pension plan

Certain subsidiaries have defined benefit pension plans. A defined benefit pension plan is any post-retirement benefit plan other than a defined contribution pension plan. These subsidiaries calculate obligations related to the defined benefit pension plans by estimating the ultimate cost to the company of the benefits that employees have earned in return for their services in the current and prior periods and discounting such amount to determine the present value.

##### (c) Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount and expensed when relevant services have been rendered.

Nexon Group recognizes the estimated cost of bonus payments based on the plan as a liability when it has a present legal or constructive obligation to make such payments as a result of services rendered by employees in the past and a reliable estimate of the expected obligation can be made.

(11) Share-based compensation

Nexon Group has stock option plans as incentives to its directors and employees. The fair value of stock option on the grant date is recognized as expenses over the vesting period and the corresponding amount is recognized as an increase in other equity interest. The fair value of option granted is determined using the Black-Scholes model taking into consideration various conditions of the option. Nexon Group reviews these conditions regularly and revises the estimate of the number of rights expected to vest as necessary.

Nexon Group adopted exemptions under IFRS 1 and did not apply IFRS 2 “Share-based Payment” to stock options vested before the date of transition to IFRS.

When stock options are exercised, the Company will issue new shares and account for in the manner described in “(13) Shareholders’ equity.”

(12) Provisions

Provisions are recognized when Nexon Group has a present legal or constructive obligation that can be reasonably estimated as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are calculated as the estimated future cash flows discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount due to the passage of time is recognized as finance cost.

Asset retirement obligations are recognized to provide for obligations to restore leased offices and other premises to their original conditions. The amount of the obligations is estimated, recognized and measured considering the conditions of each property individually and specifically, based on factors including Nexon Group’s past experience of restoration and the expected period of use determined taking into account the useful lives of leasehold improvements.

(13) Shareholders’ equity

Common stock

The issue price of common stock issued by the Company is recorded in capital stock and capital surplus, and direct issue cost, net of taxes, is deducted from capital surplus.

(14) Revenue

Nexon Group is engaged in PC online business, mobile business, consulting business related to PC online game service and internet advertisement business. Revenue is measured at the fair value of the consideration received for services rendered in the ordinary course of business less sales-related taxes.

Revenue associated with a transaction involving the rendering of services is recognized by reference to the stage of completion at the end of the reporting period when all of the following conditions have been satisfied and also the outcome of the transaction can be estimated reliably:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to Nexon Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses considered recoverable.

Revenue recognition criteria and basis for gross versus net presentation of revenue for major revenue categories are as follows.

(a) Revenue recognition criteria by major revenue category

Nexon Group generates revenue primarily from (i) sales of items used in PC online business and mobile business (revenue from item charging); (ii) royalty income from granting publishing rights for PC online games developed and commercialized by Nexon Group; and (iii) consulting business for PC online game service and in-game advertisement business.

- (i) Revenue from sales of items used in PC online business and mobile business (revenue from item charging)

PC online business services PC online games developed by Nexon Group or other companies. To play Nexon Group's PC online games, there is no basic usage fee, but certain fees are charged to purchase necessary items or use certain services. In PC online game, revenue is recognized over the estimated usage period during which the game items purchased in exchange for game points are expected to be used.

Mobile business services mobile games developed by Nexon Group or other companies through terminals including smartphones and tablets. To play mobile games, there is no basic usage fee, but certain fees are charged to purchase necessary items or use certain services. In mobile game, revenue is recognized over the estimated usage period during which the game items purchased in exchange for game points are expected to be used.

- (ii) Royalty income from granting publishing rights for PC online games developed and commercialized by Nexon Group

As the owner of the copyright, Nexon Group enters into a license agreement with third party publishers and grant publishing rights for PC online games developed and commercialized by Nexon Group.

Royalty income arising from granting publishing rights to third parties is accrued, having regard to the substance of the related royalty agreement, only when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of income is reliably measurable.

- (iii) Revenue from consulting business for PC online game service and in-game advertisement business

In consulting business, a subsidiary provides Chinese domestic publishers with consulting services for setting up and maintaining billing systems and membership systems, business strategy development, game operation, and marketing, and recognize revenue for rendered services by reference to the stage of completion of the transaction.

In in-game advertisement business, advertisements are directly exposed to users through their usage of functional items that are equipped with advertisement function in the game, and revenue is recognized over the advertisement period.

- (b) Gross versus net presentation of revenue

In the ordinary course of business, there are cases where Nexon Group acts as an intermediary or agent. In reporting revenue arising from these transactions, Nexon Group determines whether to present revenue in the gross amount of the consideration received from customers or in the amount of consideration net of commissions and other fees payable to third parties. However, the decision as to whether revenue is presented in gross or net amount has no impact on profit or loss.

Determining whether to present revenue in the gross or net amount is based on an assessment of whether Nexon Group is acting as a "principal" or an "agent" in a transaction. Accordingly, revenue is presented in the gross amount when Nexon Group acts as a principal, and in the net amount when Nexon Group acts as an agent. Whether Nexon Group acts as a principal or an agent is determined based on an assessment of terms and conditions of each arrangement with respect to exposure to the significant risks and rewards associated with sale of goods or the rendering of services.

Factors to be considered as requirements for gross presentation of revenue arising from a transaction in which Nexon Group acts as a principal include:

- Nexon Group has the primary responsibility to provide services to customers or fulfill the order;
- Nexon Group has discretion in establishing prices, either directly or indirectly; or
- Nexon Group bears the customer's credit risk for the amount receivable from the customer.

Factors to be considered as requirements for net presentation of revenue arising from a transaction in which Nexon Group acts as an agent include:

- the amount of the consideration (commissions or fees) for the service rendered is predetermined; or
- the amount of the consideration for Nexon Group is calculated as a certain percentage of the value of services rendered.

(15) Finance income and finance costs

Finance income mainly consists of interest income, dividend income and changes in fair value of financial assets measured at fair value through profit or loss. Interest income is recognized on an accrual basis using the effective interest rate method. Dividend income is recognized on the date when Nexon Group's right to dividend is fixed. Finance costs mainly consist of interest expense and changes in fair value of financial assets measured at FVTPL. Interest expense is recognized on an accrual basis using the effective interest rate method.

(16) Income taxes

Income taxes comprise current and deferred taxes. They are recognized in profit or loss, except for those related to business combination and items recognized directly in equity or other comprehensive income.

Current taxes are measured at the amount expected to be paid to (or recovered from) taxation authorities on taxable income or loss for the current year, using the rates that have been enacted or substantively enacted on each reporting date.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of an asset or liability for accounting purposes and its tax base. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Future taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit;
- Future taxable temporary differences associated with investments in subsidiaries and affiliates to the extent that it is possible to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future; or
- Future deductible temporary differences associated with investments in subsidiaries and affiliates to the extent that it is not probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if, and only if, the entity has a legally enforceable right to set off the current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(17) Earnings per share

Nexon Group discloses basic and diluted earnings (attributable to owners of the parent company) per share of common stock. Basic earnings per share is calculated by dividing net income attributable to owners of the parent company by the weighted average number of common stock outstanding during the period adjusted for treasury stock. Diluted earnings per share is calculated by adjusting net income attributable to owners of the parent company and the weighted average number of common stock outstanding during the period adjusted for treasury stock for the effects of all dilutive potential common stock. All dilutive potential common stock of Nexon Group relates to our stock option plans.

(18) Dividends

Dividends to the Company's shareholders are recognized as a liability in the period in which the Board of Directors of the Company approves them.

(19) Segment information

Business segments are components of business activities that earn revenues and incur expenses including transactions with other business segments. Results of all business segments, for which separate financial information is available, are reviewed regularly by the Board of Directors of the Company in deciding how to allocate management resources and in assessing performance.

#### 4 Critical accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the period in which the estimates were reviewed and in future periods.

The judgment made in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statement is as follows:

- Determination of the scope of subsidiaries and affiliates (“3 Significant accounting policies (1)”)

Information on assumptions about the future that have a risk of resulting in material adjustments in the current and following fiscal years and other estimation uncertainty at the end of the current fiscal year is as follows:

- Method of measuring fair value of financial instruments (Note 3 Significant accounting policies (5) and Note 26 Fair value of financial instruments)
- Valuation of goodwill and intangible assets (Note 3 Significant accounting policies (7) and Note 10 Goodwill and intangible assets)
- Impairment loss of non-financial assets (Note 3 Significant accounting policies (9) and Note 9 Property, plant and equipment)
- Usage period of game items in PC online business (Note 3 Significant accounting policies (14)(a)(i) and Note 16 Deferred income)
- Recoverability of deferred tax assets (Note 3 Significant accounting policies (16) and Note 14 Deferred tax assets and deferred tax liabilities)

## 5 Segment information

### (1) Outline of reportable segments

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

Nexon Group is engaged in production, development and service of PC online games and mobile games, and the Company and its 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, Nexon Group is comprised of geographical business segments based on production, development, and service of PC online games and mobile games. Nexon Group has formed its reportable segments by consolidating business segments based on the geographic location since subsidiaries in the same region, due to their business characteristics, receive similar impact of the foreign exchange fluctuation risk on their operating results and the ratio of the impact to operating results is high. There are five reportable segments: “Japan,” “Korea,” “China,” “North America” and “Other” which includes Europe and Asian countries.

### (2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Year ended December 31, 2015

(Millions of yen)

|                                                    | Reportable Segments |         |       |               |       |         | Adjustments<br>(Note 3) | Consolidated |
|----------------------------------------------------|---------------------|---------|-------|---------------|-------|---------|-------------------------|--------------|
|                                                    | Japan               | Korea   | China | North America | Other | Total   |                         |              |
| Revenue                                            |                     |         |       |               |       |         |                         |              |
| Revenue from external customers                    | 20,772              | 152,571 | 4,087 | 11,111        | 1,722 | 190,263 | —                       | 190,263      |
| Intersegment revenue                               | 89                  | 3,257   | —     | 846           | 133   | 4,325   | (4,325)                 | —            |
| Total                                              | 20,861              | 155,828 | 4,087 | 11,957        | 1,855 | 194,588 | (4,325)                 | 190,263      |
| Segment profit or loss (Note 1)                    | (1,929)             | 70,709  | 2,189 | (4,024)       | (560) | 66,385  | (35)                    | 66,350       |
| Other income (expense), net                        | —                   | —       | —     | —             | —     | —       | —                       | (4,060)      |
| Operating income                                   | —                   | —       | —     | —             | —     | —       | —                       | 62,290       |
| Finance income (costs), net                        | —                   | —       | —     | —             | —     | —       | —                       | 5,625        |
| Equity in profit of affiliates                     | —                   | —       | —     | —             | —     | —       | —                       | 91           |
| Income before income taxes                         | —                   | —       | —     | —             | —     | —       | —                       | 68,006       |
| (Other items)                                      |                     |         |       |               |       |         |                         |              |
| Depreciation and amortization                      | 608                 | 11,439  | 207   | 517           | 289   | 13,060  | —                       | 13,060       |
| Impairment loss                                    | 540                 | 2,688   | —     | 1,983         | 110   | 5,321   | —                       | 5,321        |
| Capital expenditures (including intangible assets) | 766                 | 3,410   | 144   | 1,858         | 244   | 6,422   | —                       | 6,422        |

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

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

3. Adjustments in segment profit or loss of ¥(35) million represent elimination of intersegment transactions.

Year ended December 31, 2016

(Millions of yen)

|                                                    | Reportable Segments |         |       |               |       |         | Adjustments<br>(Note 3) | Consolidated |
|----------------------------------------------------|---------------------|---------|-------|---------------|-------|---------|-------------------------|--------------|
|                                                    | Japan               | Korea   | China | North America | Other | Total   |                         |              |
| Revenue                                            |                     |         |       |               |       |         |                         |              |
| Revenue from external customers                    | 15,425              | 153,152 | 4,528 | 8,780         | 1,243 | 183,128 | —                       | 183,128      |
| Intersegment revenue                               | 201                 | 2,111   | —     | 851           | 190   | 3,353   | (3,353)                 | —            |
| Total                                              | 15,626              | 155,263 | 4,528 | 9,631         | 1,433 | 186,481 | (3,353)                 | 183,128      |
| Segment profit or loss (Note 1)                    | (3,791)             | 74,570  | 3,095 | (4,839)       | (262) | 68,773  | 14                      | 68,787       |
| Other income (expense), net                        | —                   | —       | —     | —             | —     | —       | —                       | (28,126)     |
| Operating income                                   | —                   | —       | —     | —             | —     | —       | —                       | 40,661       |
| Finance income (costs), net                        | —                   | —       | —     | —             | —     | —       | —                       | 6,361        |
| Equity in profit of affiliates                     | —                   | —       | —     | —             | —     | —       | —                       | 101          |
| Income before income taxes                         | —                   | —       | —     | —             | —     | —       | —                       | 47,123       |
| (Other items)                                      |                     |         |       |               |       |         |                         |              |
| Depreciation and amortization                      | 552                 | 4,813   | 91    | 759           | 151   | 6,366   | —                       | 6,366        |
| Impairment loss                                    | 24,117              | 949     | —     | 3,600         | 119   | 28,785  | —                       | 28,785       |
| Capital expenditures (including intangible assets) | 517                 | 2,330   | 78    | 780           | 60    | 3,765   | —                       | 3,765        |

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

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

3. Adjustments in segment profit or loss of ¥14 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)

|               | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|---------------|---------------------------------|---------------------------------|
| Item charging | 109,912                         | 104,493                         |
| Royalty       | 74,720                          | 72,511                          |
| Other         | 5,631                           | 6,124                           |
| Total         | 190,263                         | 183,128                         |

(4) Information by region

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

(Millions of yen)

|               | As of December 31, 2015 | As of December 31, 2016 |
|---------------|-------------------------|-------------------------|
| Japan         | 24,305                  | 634                     |
| Korea         | 40,242                  | 40,047                  |
| China         | 177                     | 143                     |
| North America | 2,973                   | 4,697                   |
| Other         | 277                     | 74                      |
| Total         | 67,974                  | 45,595                  |

(Notes) 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)

|               | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|---------------|---------------------------------|---------------------------------|
| Japan         | 21,026                          | 16,879                          |
| Korea         | 76,964                          | 74,248                          |
| China         | 75,388                          | 74,198                          |
| North America | 8,971                           | 8,105                           |
| Other         | 7,914                           | 9,698                           |
| Total         | 190,263                         | 183,128                         |

(Notes) 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

For the years ended December 31, 2015 and 2016, one customer accounted for more than 10% of Nexon Group's consolidated revenue, and revenue earned from the customer was ¥64,328 million (Korea segment) and ¥64,600 million (Korea segment), respectively.

(6) Revenue by business

Revenue by business is as follows:

(Millions of yen)

|           | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|-----------|---------------------------------|---------------------------------|
| PC online | 146,771                         | 138,522                         |
| Mobile    | 41,992                          | 43,332                          |
| Other     | 1,500                           | 1,274                           |
| Total     | 190,263                         | 183,128                         |

6 Cash and cash equivalents

Cash and cash equivalents consisted of the following:

(Millions of yen)

|                | As of December 31, 2015 | As of December 31, 2016 |
|----------------|-------------------------|-------------------------|
| Cash           | 2                       | 4                       |
| Demand deposit | 194,223                 | 152,679                 |
| Total          | 194,225                 | 152,683                 |

7 Trade and other receivables

Trade and other receivables consisted of the following:

(Millions of yen)

|                                 | As of December 31, 2015 | As of December 31, 2016 |
|---------------------------------|-------------------------|-------------------------|
| Accounts receivable             | 33,505                  | 27,122                  |
| Other receivables               | 842                     | 893                     |
| Allowance for doubtful accounts | (985)                   | (978)                   |
| Total                           | 33,362                  | 27,037                  |

The following table shows aging analysis of trade and other receivables that are overdue but not impaired.

(Millions of yen)

|                               | As of December 31, 2015 | As of December 31, 2016 |
|-------------------------------|-------------------------|-------------------------|
| Less than 3 months            | 86                      | 181                     |
| Between 3 months and 6 months | 4                       | 3                       |
| Between 6 months and 1 year   | 6                       | 14                      |
| Over 1 year                   | 8                       | 7                       |
| Total                         | 104                     | 205                     |

Nexon Group assesses collectibility of trade receivables according to credit standing of customers and provides allowance for doubtful accounts. Changes in allowance for doubtful accounts are as follows:

(Millions of yen)

|                                                        | Year ended December 31, 2015 | Year ended December 31, 2016 |
|--------------------------------------------------------|------------------------------|------------------------------|
| Beginning balance                                      | 1,018                        | 985                          |
| Provision of allowance for doubtful accounts           | 142                          | 71                           |
| Acquisition of new subsidiaries                        | —                            | 24                           |
| Utilized for intended purpose                          | (113)                        | (42)                         |
| Exchange differences on translating foreign operations | (62)                         | (60)                         |
| Ending balance                                         | 985                          | 978                          |

As of December 31, 2015 and 2016, receivables that were individually impaired due to bankruptcy, etc. of customers were ¥985 million and ¥978 million, respectively, and allowance for doubtful accounts was provided for the whole amount.

8 Other deposits

Other deposits consist only of term deposits with maturity of over three months.

9 Property, plant and equipment

Changes in costs, accumulated depreciation and accumulated impairment loss, and the carrying amounts of property, plant and equipment are as follows:

| (Millions of yen)                                         |                                |          |                                     |       |                             |         |
|-----------------------------------------------------------|--------------------------------|----------|-------------------------------------|-------|-----------------------------|---------|
| Cost                                                      | Buildings<br>and<br>structures | Vehicles | Tools,<br>furniture and<br>fixtures | Land  | Construction<br>in progress | Total   |
| January 1, 2015                                           | 16,567                         | 46       | 13,041                              | 4,556 | 1,368                       | 35,578  |
| Acquisition of new subsidiaries                           | 25                             | —        | 5                                   | —     | —                           | 30      |
| Additions                                                 | 207                            | 0        | 1,645                               | —     | 730                         | 2,582   |
| Retirement                                                | (606)                          | —        | (780)                               | —     | —                           | (1,386) |
| Sales or disposals                                        | —                              | (7)      | (368)                               | —     | —                           | (375)   |
| Transfers between accounts                                | 554                            | 2        | 93                                  | 1,233 | (2,069)                     | (187)   |
| Other                                                     | 2                              | —        | —                                   | —     | —                           | 2       |
| Exchange differences on translating<br>foreign operations | (937)                          | (2)      | (569)                               | (334) | (19)                        | (1,861) |
| December 31, 2015                                         | 15,812                         | 39       | 13,067                              | 5,455 | 10                          | 34,383  |
| Acquisition of new subsidiaries                           | 118                            | 6        | 314                                 | —     | —                           | 438     |
| Additions                                                 | 412                            | 9        | 1,940                               | 3     | 218                         | 2,582   |
| Retirement                                                | (139)                          | (0)      | (143)                               | —     | —                           | (282)   |
| Sales or disposals                                        | (106)                          | (14)     | (557)                               | —     | —                           | (677)   |
| Transfers between accounts                                | (53)                           | —        | (53)                                | 3     | (25)                        | (128)   |
| Other                                                     | 12                             | —        | —                                   | —     | —                           | 12      |
| Exchange differences on translating<br>foreign operations | (944)                          | (2)      | (711)                               | (343) | 5                           | (1,995) |
| December 31, 2016                                         | 15,112                         | 38       | 13,857                              | 5,118 | 208                         | 34,333  |

(Millions of yen)

| Accumulated depreciation and<br>accumulated impairment loss | Buildings<br>and<br>structures | Vehicles | Tools,<br>furniture and<br>fixtures | Land | Construction<br>in progress | Total    |
|-------------------------------------------------------------|--------------------------------|----------|-------------------------------------|------|-----------------------------|----------|
| January 1, 2015                                             | (2,102)                        | (39)     | (9,398)                             | —    | —                           | (11,539) |
| Acquisition of new subsidiaries                             | (3)                            | —        | (2)                                 | —    | —                           | (5)      |
| Depreciation                                                | (693)                          | (4)      | (2,235)                             | —    | —                           | (2,932)  |
| Retirement                                                  | 511                            | —        | 778                                 | —    | —                           | 1,289    |
| Sales or disposals                                          | —                              | 7        | 312                                 | —    | —                           | 319      |
| Transfers between accounts                                  | 4                              | (2)      | (3)                                 | —    | —                           | (1)      |
| Exchange differences on translating<br>foreign operations   | 112                            | 3        | 398                                 | —    | —                           | 513      |
| December 31, 2015                                           | (2,171)                        | (35)     | (10,150)                            | —    | —                           | (12,356) |
| Acquisition of new subsidiaries                             | (65)                           | (5)      | (205)                               | —    | —                           | (275)    |
| Depreciation                                                | (637)                          | (4)      | (1,895)                             | —    | —                           | (2,536)  |
| Impairment loss (Note)                                      | (42)                           | —        | (292)                               | —    | —                           | (334)    |
| Retirement                                                  | 71                             | 0        | 137                                 | —    | —                           | 208      |
| Sales or disposals                                          | 46                             | 13       | 533                                 | —    | —                           | 592      |
| Transfers between accounts                                  | 54                             | —        | 40                                  | —    | —                           | 94       |
| Exchange differences on translating<br>foreign operations   | 107                            | 3        | 558                                 | —    | —                           | 668      |
| December 31, 2016                                           | (2,637)                        | (28)     | (11,274)                            | —    | —                           | (13,939) |

(Note) Nexon Group recognized impairment losses for the year ended December 31, 2016 as realization of profits originally expected was no longer probable. Those impairment losses are included in “Other expenses” in the consolidated income statement.

(Millions of yen)

| Carrying amount   | Buildings<br>and<br>structures | Vehicles | Tools,<br>furniture and<br>fixtures | Land  | Construction<br>in progress | Total  |
|-------------------|--------------------------------|----------|-------------------------------------|-------|-----------------------------|--------|
| January 1, 2015   | 14,465                         | 7        | 3,643                               | 4,556 | 1,368                       | 24,039 |
| December 31, 2015 | 13,641                         | 4        | 2,917                               | 5,455 | 10                          | 22,027 |
| December 31, 2016 | 12,475                         | 10       | 2,583                               | 5,118 | 208                         | 20,394 |

The carrying amounts of property, plant and equipment include the carrying amounts of the following lease assets.

(Millions of yen)

| Carrying amount of<br>finance lease assets | Buildings<br>and<br>structures | Vehicles | Tools,<br>furniture and<br>fixtures | Land | Construction<br>in progress | Total |
|--------------------------------------------|--------------------------------|----------|-------------------------------------|------|-----------------------------|-------|
| January 1, 2015                            | —                              | —        | 348                                 | —    | —                           | 348   |
| December 31, 2015                          | —                              | —        | 133                                 | —    | —                           | 133   |
| December 31, 2016                          | —                              | —        | —                                   | —    | —                           | —     |

# 10 Goodwill and intangible assets

Changes in costs, accumulated amortization and accumulated impairment loss, and the carrying amounts of goodwill and intangible assets are as follows:

(Millions of yen)

| Cost                                                   | Goodwill | Intangible assets |          |        |         |
|--------------------------------------------------------|----------|-------------------|----------|--------|---------|
|                                                        |          | Game copyrights   | Contents | Other  | Total   |
| January 1, 2015                                        | 63,251   | 88,334            | 2,317    | 10,811 | 101,462 |
| Acquisition of consolidated subsidiaries               | 1,818    | 880               | —        | 3      | 883     |
| Additions                                              | —        | 49                | 513      | 1,716  | 2,278   |
| Retirement                                             | —        | —                 | (1,198)  | (183)  | (1,381) |
| Sales or disposals                                     | (1,095)  | (1,518)           | —        | (38)   | (1,556) |
| Transfers between accounts                             | —        | —                 | (5)      | 548    | 543     |
| Exchange differences on translating foreign operations | (1,810)  | (5,144)           | —        | (639)  | (5,783) |
| December 31, 2015                                      | 62,164   | 82,601            | 1,627    | 12,218 | 96,446  |
| Acquisition of consolidated subsidiaries               | 5,806    | 4,241             | —        | 33     | 4,274   |
| Additions                                              | —        | 53                | 111      | 1,052  | 1,216   |
| Retirement                                             | —        | (7,102)           | (638)    | (516)  | (8,256) |
| Sales or disposals                                     | —        | —                 | —        | (7)    | (7)     |
| Transfers between accounts                             | —        | —                 | —        | 826    | 826     |
| Exchange differences on translating foreign operations | (1,643)  | (5,248)           | —        | (659)  | (5,907) |
| December 31, 2016                                      | 66,327   | 74,545            | 1,100    | 12,947 | 88,592  |

(Millions of yen)

| Accumulated amortization and<br>accumulated impairment loss | Goodwill | Intangible assets  |          |          |          |
|-------------------------------------------------------------|----------|--------------------|----------|----------|----------|
|                                                             |          | Game<br>copyrights | Contents | Other    | Total    |
| January 1, 2015                                             | (27,825) | (75,604)           | (1,589)  | (7,695)  | (84,888) |
| Acquisition of consolidated<br>subsidiaries                 | —        | —                  | —        | (1)      | (1)      |
| Amortization                                                | —        | (7,724)            | (301)    | (1,899)  | (9,924)  |
| Impairment loss                                             | (1,004)  | (1,646)            | (411)    | (209)    | (2,266)  |
| Retirement                                                  | —        | —                  | 1,178    | 150      | 1,328    |
| Sales or disposals                                          | 1,095    | 1,401              | —        | 2        | 1,403    |
| Transfers between accounts                                  | —        | —                  | 101      | 145      | 246      |
| Exchange differences on<br>translating foreign operations   | 957      | 4,719              | —        | 457      | 5,176    |
| December 31, 2015                                           | (26,777) | (78,854)           | (1,022)  | (9,050)  | (88,926) |
| Acquisition of consolidated<br>subsidiaries                 | —        | (3)                | —        | (19)     | (22)     |
| Amortization                                                | —        | (2,501)            | (61)     | (1,263)  | (3,825)  |
| Impairment loss                                             | (23,000) | (377)              | (654)    | (1,291)  | (2,322)  |
| Retirement                                                  | —        | 7,102              | 638      | 516      | 8,256    |
| Sales or disposals                                          | —        | —                  | —        | 4        | 4        |
| Transfers between accounts                                  | —        | —                  | —        | (2)      | (2)      |
| Exchange differences on<br>translating foreign operations   | 973      | 4,940              | —        | 432      | 5,372    |
| December 31, 2016                                           | (48,804) | (69,693)           | (1,099)  | (10,673) | (81,465) |

(Millions of yen)

| Carrying amount   | Goodwill | Intangible assets  |          |       |        |
|-------------------|----------|--------------------|----------|-------|--------|
|                   |          | Game<br>copyrights | Contents | Other | Total  |
| January 1, 2015   | 35,426   | 12,730             | 728      | 3,116 | 16,574 |
| December 31, 2015 | 35,387   | 3,747              | 1,612    | 2,161 | 7,520  |
| December 31, 2016 | 17,523   | 4,852              | 1,052    | 1,223 | 7,127  |

(Notes) 1. Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated income statement.

2. There are no material internally-generated intangible assets for the years ended December 31, 2015 and 2016.

3. The carrying amount and the remaining amortization period as of December 31, 2016 of major game copyrights of Nexon Group are as follows:

| Company               | As of<br>December 31, 2015 | As of<br>December 31, 2016 | Remaining<br>amortization period |
|-----------------------|----------------------------|----------------------------|----------------------------------|
|                       | (¥ million)                | (¥ million)                | (Years)                          |
| NDOORS Corporation    | 954                        | 284                        | 1                                |
| NEXON GT Co., Ltd.    | 1,379                      | 476                        | 1                                |
| Wellgames Corporation | —                          | 902                        | 3                                |
| NSC Corporation       | —                          | 991                        | 3                                |

Nexon Group conducts impairment test on goodwill at least annually. In addition, Nexon Group conducts impairment test each time when there is an indication that goodwill and intangible assets are impaired. Nexon Group calculates the recoverable amount in the impairment test for goodwill and intangible assets based on the value in use.

The value in use is calculated by discounting estimated future cash flows expected to be generated by a cash generating unit to the present value.

The estimated future cash flows are based on cash flow projections included in the latest business plan approved by the management with the projection period of less than five years unless there is a justifiable reason to choose otherwise. After the fifth year, a certain growth rate that takes into account the long-term average growth rate of the market is used, and the growth rate used to measure the value in use was up to 1% as of December 31, 2015 and 2016, respectively. This growth rate is lower than the long-term average growth rate of the market.

The pre-tax discount rate used to measure the value in use was between 7.2% and 19.6% and between 8.4% and 21.3% as of December 31, 2015 and 2016 respectively.

The management believes that it is unlikely that a change within a reasonable range of the growth rate and the discount rate used for the impairment test will result in material impairment loss in the relevant cash generating units. However, in certain subsidiaries where the recoverable amount exceeds the carrying amount only slightly, a decrease in the estimated future cash flows may result in impairment loss.

Goodwill arising from business combination is allocated to cash generating units that are expected to benefit from the business combination on the acquisition date. The carrying amounts of goodwill by reportable segment are as follows:

| (Millions of yen) |                         |                         |
|-------------------|-------------------------|-------------------------|
|                   | As of December 31, 2015 | As of December 31, 2016 |
| Japan             | 22,563                  | —                       |
| Korea             | 12,824                  | 13,940                  |
| China             | —                       | —                       |
| North America     | —                       | 3,556                   |
| Other             | —                       | 27                      |
| Total             | 35,387                  | 17,523                  |

Of those, major goodwill by reportable segment of Nexon Group is as follows:

| (Millions of yen)  |                      |                         |                         |
|--------------------|----------------------|-------------------------|-------------------------|
| Reportable segment | Company              | As of December 31, 2015 | As of December 31, 2016 |
| Japan              | gloops, Inc.         | 22,563                  | —                       |
| Korea              | NDOORS Corporation   | 2,077                   | 1,500                   |
|                    | NEXON GT Co., Ltd.   | 6,070                   | 5,688                   |
|                    | Thingsoft Inc.       | 1,474                   | 1,381                   |
| North America      | Big Huge Games, Inc. | —                       | 3,556                   |

Nexon Group recognized impairment losses as realization of profits originally expected was no longer probable. Those impairment losses are included in “Other expenses” in the consolidated income statement. The major components of impairment losses are as follows:

Year ended December 31, 2015

| Item            | Reportable segment | Company                   | Impairment loss<br>(¥ million) |
|-----------------|--------------------|---------------------------|--------------------------------|
| Goodwill        | Korea              | Thingsoft Inc.            | 783                            |
|                 |                    | NDOORS Corporation        | 221                            |
| Game copyrights | Korea              | Nexon Korea Corporation   | 135                            |
|                 |                    | Thingsoft Inc.            | 895                            |
|                 |                    | NDOORS Corporation        | 460                            |
|                 |                    | BOOLEAN GAMES Corporation | 156                            |
| Contents        | Japan              | gloops, Inc.              | 411                            |

Year ended December 31, 2016

| Item                   | Reportable segment | Company              | Impairment loss<br>(¥ million) |
|------------------------|--------------------|----------------------|--------------------------------|
| Goodwill               | Japan              | gloops, Inc. (Note)  | 22,563                         |
|                        | Korea              | NDOORS Corporation   | 437                            |
| Game copyrights        | North America      | Big Huge Games, Inc. | 345                            |
| Contents               | Japan              | gloops, Inc.         | 654                            |
| Game publishing rights | Japan              | NEXON Co., Ltd.      | 405                            |
|                        | North America      | Nexon America Inc.   | 594                            |

(Note) We have reviewed future profitability of gloops, Inc. as it has not been able to produce new hit game titles since it became our consolidated subsidiary in December 2012 and the release of major new titles scheduled after Q2 FY2016 was postponed based on their development status in Q1 FY2016. As a result, we determined that uncertainty over future profitability of gloops, Inc. increased and its recoverable amount fell below the carrying amount of the cash generating unit including goodwill; and accordingly, impairment loss was recognized. The recoverable amount was calculated based on value in use, and future cash flows were estimated based on the business plan for the next five years which was approved by the management with an adjustment to reflect the uncertainty mentioned above. We assume the growth rate after the fifth year to be zero and use a pre-tax discount rate of 10.1%

# 11 Investments accounted for using equity method

The following table shows information on the Company's affiliates. There are no material affiliates for the Company.

(Millions of yen)

|                                                                  | Year ended December 31, 2015 | Year ended December 31, 2016 |
|------------------------------------------------------------------|------------------------------|------------------------------|
| Carrying amount of investments accounted for using equity method | 2,071                        | 6,662                        |
| Nexon Group's share in net income                                | 91                           | 101                          |
| Nexon Group's share in other comprehensive income (loss)         | 1                            | (0)                          |
| Nexon Group's share in total comprehensive income                | 92                           | 101                          |

Nexon Group did not recognize certain share in loss of investees accounted for using equity method as the cumulative loss of such investees exceeded their carrying amount. Unrecognized share in such loss was ¥37 million and ¥83 million for the years ended December 31, 2016 and 2015, respectively. Accumulated unrecognized share in loss was ¥105 million and ¥161 million as of December 31, 2016 and 2015, respectively

# 12 Other financial assets

Other financial assets consisted of the following:

(Millions of yen)

|                                             | As of December 31, 2015 | As of December 31, 2016 |
|---------------------------------------------|-------------------------|-------------------------|
| Financial assets measured at FVTOCI         | 11,238                  | 10,231                  |
| Financial assets measured at amortized cost | 10,311                  | 10,900                  |
| Total                                       | 21,549                  | 21,131                  |
| Current assets                              | 1,973                   | 2,895                   |
| Non-current assets                          | 19,576                  | 18,236                  |
| Total                                       | 21,549                  | 21,131                  |

Nexon Group designates investments held for maintaining and reinforcing business relationship with investees as financial assets measured at FVTOCI.

The following table presents the fair value of financial assets measured at FVTOCI that are recorded in other assets in the consolidated statement of financial position.

(Millions of yen)

|            | As of December 31, 2015 | As of December 31, 2016 |
|------------|-------------------------|-------------------------|
| Fair value |                         |                         |
| Listed     | 3,314                   | 2,938                   |
| Unlisted   | 7,924                   | 7,293                   |
| Total      | 11,238                  | 10,231                  |

The following table presents the fair value of major issues of financial assets measured at FVTOCI that are recorded in other assets in the consolidated statement of financial position:

|                      | (Millions of yen)       |                         |
|----------------------|-------------------------|-------------------------|
|                      | As of December 31, 2015 | As of December 31, 2016 |
| SB Next-On-Rush Fund | 2,980                   | 1,618                   |
| JOYCITY Corporation  | 3,302                   | 2,165                   |

Financial assets measured at FVTOCI disposed of during the year are as follows:

| Year ended December 31, 2015   |                         |                 | Year ended December 31, 2016   |                         |                 |
|--------------------------------|-------------------------|-----------------|--------------------------------|-------------------------|-----------------|
| Fair value on the date of sale | Accumulated gain (loss) | Dividend income | Fair value on the date of sale | Accumulated gain (loss) | Dividend income |
| 68,344                         | 10,867                  | 1,233           | 1,498                          | 665                     | 22              |

Nexon Group sells or derecognizes financial assets measured at FVTOCI for streamlining and effective use of assets held. For the years ended December 31, 2015 and 2016, accumulated gains (net of tax) reclassified from other equity interest to retained earnings were ¥4,273 million and ¥562 million, respectively

### 13 Other assets

Other assets consisted of the following:

(Millions of yen)

|                            | As of December 31, 2015 | As of December 31, 2016 |
|----------------------------|-------------------------|-------------------------|
| Prepaid expenses           | 4,008                   | 8,060                   |
| Long-term prepaid expenses | 2,532                   | 101                     |
| Advance payment            | 242                     | 672                     |
| Other                      | 1,263                   | 1,974                   |
| Total                      | 8,045                   | 10,807                  |
| Current assets             | 5,005                   | 10,256                  |
| Non-current assets         | 3,040                   | 551                     |
| Total                      | 8,045                   | 10,807                  |

### 14 Deferred tax assets and deferred tax liabilities

#### (1) Deferred tax

The following table presents major components of and changes in deferred tax assets and liabilities:

Year ended December 31, 2015

(Millions of yen)

|                                                                | January 1,<br>2015 | Recognized in<br>profit or loss | Recognized in<br>other<br>comprehensive<br>income | Other | December 31,<br>2015 |
|----------------------------------------------------------------|--------------------|---------------------------------|---------------------------------------------------|-------|----------------------|
| Deferred tax assets                                            |                    |                                 |                                                   |       |                      |
| Deferred income                                                | 2,190              | (438)                           | —                                                 | (101) | 1,651                |
| Amortization                                                   | 864                | 129                             | —                                                 | (51)  | 942                  |
| Subscription rights to shares                                  | 791                | (791)                           | —                                                 | —     | —                    |
| Provisions                                                     | 660                | (115)                           | —                                                 | (32)  | 513                  |
| Carryforward of unused tax losses                              | 399                | (37)                            | —                                                 | (23)  | 339                  |
| Impairment loss                                                | 305                | (161)                           | —                                                 | (4)   | 140                  |
| Unused tax credits                                             | 191                | (135)                           | —                                                 | (9)   | 47                   |
| Other payables and accrued expenses                            | 58                 | 69                              | —                                                 | (10)  | 117                  |
| Other                                                          | 1,763              | (607)                           | (21)                                              | (68)  | 1,067                |
| Total                                                          | 7,221              | (2,086)                         | (21)                                              | (298) | 4,816                |
| Deferred tax liabilities                                       |                    |                                 |                                                   |       |                      |
| Unrealized gains (losses) on available-for-sale securities     | 3,332              | —                               | (3,213)                                           | (2)   | 117                  |
| Unrealized gains (losses) on intangible assets of subsidiaries | 2,979              | (2,214)                         | —                                                 | 54    | 819                  |
| Undistributed profits of overseas subsidiaries                 | 1,493              | 134                             | —                                                 | —     | 1,627                |
| Other                                                          | 69                 | 31                              | —                                                 | (4)   | 96                   |
| Total                                                          | 7,873              | (2,049)                         | (3,213)                                           | 48    | 2,659                |

Year ended December 31, 2016

(Millions of yen)

|                                                                               | January 1,<br>2016 | Recognized in<br>profit or loss | Recognized in<br>other<br>comprehensive<br>income | Other | December 31,<br>2016 |
|-------------------------------------------------------------------------------|--------------------|---------------------------------|---------------------------------------------------|-------|----------------------|
| Deferred tax assets                                                           |                    |                                 |                                                   |       |                      |
| Unrealized gains (losses) on<br>available-for-sale securities                 | —                  | (4)                             | 428                                               | (137) | 287                  |
| Deferred income                                                               | 1,651              | 884                             | —                                                 | (84)  | 2,451                |
| Amortization                                                                  | 942                | (296)                           | —                                                 | (68)  | 578                  |
| Provisions                                                                    | 513                | 19                              | —                                                 | (24)  | 508                  |
| Carryforward of unused tax losses                                             | 339                | (114)                           | —                                                 | 132   | 357                  |
| Impairment loss                                                               | 140                | 1                               | —                                                 | (6)   | 135                  |
| Unused tax credits                                                            | 47                 | (30)                            | —                                                 | (4)   | 13                   |
| Other payables and accrued<br>expenses                                        | 117                | 153                             | —                                                 | (0)   | 270                  |
| Other                                                                         | 1,067              | (104)                           | —                                                 | 92    | 1,055                |
| Total                                                                         | 4,816              | 509                             | 428                                               | (99)  | 5,654                |
| Deferred tax liabilities                                                      |                    |                                 |                                                   |       |                      |
| Unrealized gains (losses) on<br>available-for-sale securities                 | 117                | —                               | (117)                                             | —     | —                    |
| Unrealized gains (losses) on<br>intangible assets of subsidiaries<br>(Note 1) | 819                | (862)                           | —                                                 | 1,253 | 1,210                |
| Undistributed profits of overseas<br>subsidiaries (Note 2)                    | 1,627              | 14,748                          | —                                                 | —     | 16,375               |
| Other                                                                         | 96                 | (71)                            | —                                                 | (3)   | 22                   |
| Total                                                                         | 2,659              | 13,815                          | (117)                                             | 1,250 | 17,607               |

(Notes) 1. Other of Unrealized gains (losses) on intangible assets of subsidiaries included the effect of new consolidation of Big Huge Games, Inc.

2. Undistributed profits of overseas subsidiaries for the year ended December 31, 2016 included deferred income tax expenses and deferred tax liabilities of ¥14,608 million, respectively, which were additionally recorded in relation to undistributed profits of overseas subsidiaries.

Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position are as follows:

|                          | (Millions of yen)       |                         |
|--------------------------|-------------------------|-------------------------|
|                          | As of December 31, 2015 | As of December 31, 2016 |
| Deferred tax assets      |                         |                         |
| Within 1 year            | 2,168                   | 2,205                   |
| Over 1 year              | 2,127                   | 3,037                   |
| Total                    | 4,295                   | 5,242                   |
| Deferred tax liabilities |                         |                         |
| Within 1 year            | —                       | 222                     |
| Over 1 year              | 2,138                   | 16,973                  |
| Total                    | 2,138                   | 17,195                  |

Nexon Group recognizes deferred tax assets taking into consideration the possibility that part or all of future deductible temporary differences or carryforward of unused tax losses can be utilized against future taxable profits. Nexon Group assesses recoverability of deferred tax assets taking into consideration scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning. Nexon Group determined that it is highly likely that tax benefit will be realized for recognized deferred tax assets based on the level of taxable profits in the past and the projected future taxable profits for the periods during which deferred tax assets can be recognized.

The amounts of unused tax losses and future deductible temporary differences for which no deferred tax asset is recognized are as follows:

|                    | (Millions of yen)       |                         |
|--------------------|-------------------------|-------------------------|
|                    | As of December 31, 2015 | As of December 31, 2016 |
| Unused tax losses  | 15,829                  | 27,590                  |
| Unused tax credits | 291                     | 239                     |
| Other              | 10,923                  | 13,202                  |
| Total              | 27,043                  | 41,031                  |

The following table summarizes the amount and expiry date of unused tax losses for which no deferred tax asset is recognized:

|                         | (Millions of yen)       |                         |
|-------------------------|-------------------------|-------------------------|
|                         | As of December 31, 2015 | As of December 31, 2016 |
| 1st year                | —                       | —                       |
| 2nd year                | —                       | —                       |
| 3rd year                | —                       | 98                      |
| 4th year                | 66                      | 235                     |
| 5th year and thereafter | 15,763                  | 27,257                  |
| Total                   | 15,829                  | 27,590                  |

Nexon Group recorded losses for the years ended December 31, 2015 and 2016. It also recognized deferred tax

assets in excess of deferred tax liabilities of ¥717 million and ¥660 million for the years ended December 31, 2015 and 2016, respectively, relating to certain subsidiaries where the recoverability of their deferred tax assets are dependent on future taxable profits. This is based on the management assessment that it is highly likely that these subsidiaries will generate taxable profits against which carryforward of unused tax losses and tax credits and future deductible temporary differences can be utilized.

As of December 31, 2015 and 2016, future taxable temporary differences associated with investments in subsidiaries and affiliates for which no deferred tax liability is recognized were ¥66,286 million and ¥112,759 million, respectively

(2) Income taxes expense

Income taxes expense consisted of the following:

|                               | (Millions of yen)            |                              |
|-------------------------------|------------------------------|------------------------------|
|                               | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Income tax expense - current  | 12,277                       | 13,296                       |
| Income tax expense - deferred | 128                          | 13,306                       |
| Total                         | 12,405                       | 26,602                       |

During the year ended December 31, 2015, “Act Partially Amending the Income Tax Act, etc.” (Act No. 9 of 2015) and “Act Partially Amending the Local Tax Act, etc.” (Act No. 2 of 2015) were passed by the Diet on March 31, 2015, resulting in changes in corporate income tax rates and local tax rates from the fiscal year beginning on or after April 1, 2015. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and liabilities was changed from 35.6% to 33.1% for temporary differences expected to reverse during the period from January 1, 2016 to December 31, 2016 and to 32.3% for temporary differences expected to reverse in the fiscal years beginning on or after January 1, 2017. The impact of these changes in tax rates is insignificant.

During the year ended December 31, 2016, “Act Partially Amending the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act Partially Amending the Local Tax Act, etc.” (Act No. 13 of 2016) were passed by the Diet on March 29, 2016, resulting in changes in corporate income tax rates and local tax rates from the fiscal year beginning on or after April 1, 2016. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to reverse in the fiscal years beginning on or after January 1, 2017 and 2018 and to 30.6% for temporary differences expected to reverse in the fiscal years beginning on or after January 1, 2019. The impact of these changes in tax rates is insignificant.

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the statutory effective tax rates calculated based on these taxes were 35.6% and 33.1% for the years ended December 31, 2015 and 2016, respectively. Overseas subsidiaries are subject to local corporate tax, etc. in countries where they are located.

The reconciliation of the statutory effective tax rates to the average actual rates of tax burden in the consolidated income statement is as follows:

|                                                                                   | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-----------------------------------------------------------------------------------|------------------------------|------------------------------|
|                                                                                   | %                            | %                            |
| Statutory effective tax rate                                                      | 35.6                         | 33.1                         |
| Permanent differences                                                             | 1.0                          | 0.9                          |
| Difference in tax rates of overseas subsidiaries                                  | (17.1)                       | (18.4)                       |
| Tax relief associated with tax incentives for overseas subsidiaries (Note 1)      | (19.7)                       | (33.1)                       |
| Changes in temporary differences for which deferred tax assets are not recognized | 6.6                          | 11.2                         |
| Foreign taxes                                                                     | 11.6                         | 17.4                         |
| Effects of companies accounted for using equity method                            | 0.0                          | (0.1)                        |
| Impairment loss of goodwill                                                       | 0.5                          | 16.1                         |
| Accumulated earnings tax                                                          | 2.1                          | 0.1                          |
| Undistributed profits of overseas subsidiaries (Note 2)                           | 0.2                          | 31.3                         |
| Additional corporate taxes                                                        | (4.1)                        | 0.0                          |
| Other                                                                             | 1.5                          | (2.0)                        |
| Average actual rates of tax burden                                                | 18.2                         | 56.5                         |

(Notes) 1. Tax relief associated with tax incentives for overseas subsidiaries represents corporate tax incentives received by our Korean subsidiary NEOPLE INC. upon its relocation to Jeju in Korea.

2. Undistributed profits of overseas subsidiaries for the year ended December 31, 2016 included deferred income tax expenses and deferred tax liabilities of ¥14,608 million, respectively, which were additionally recorded in relation to undistributed profits of overseas subsidiaries.

15 Trade and other payables

Trade and other payables consisted of the following:

|                  | (Millions of yen)       |                         |
|------------------|-------------------------|-------------------------|
|                  | As of December 31, 2015 | As of December 31, 2016 |
| Accounts payable | 4,089                   | 3,955                   |
| Other payables   | 6,785                   | 5,517                   |
| Total            | 10,874                  | 9,472                   |

16 Deferred income

Deferred income consisted of the following:

|                        | (Millions of yen)       |             |                         |             |
|------------------------|-------------------------|-------------|-------------------------|-------------|
|                        | As of December 31, 2015 |             | As of December 31, 2016 |             |
|                        | Current                 | Non-current | Current                 | Non-current |
| Item charging (Note 1) | 8,030                   | 987         | 7,937                   | 873         |
| Royalty (Note 2)       | 1,518                   | 998         | 1,367                   | 7,519       |
| Other                  | 10                      | —           | 9                       | —           |
| Total                  | 9,558                   | 1,985       | 9,313                   | 8,392       |

- (Notes) 1. Nexon Group defers revenue from sales of items used in PC online business and mobile business in order to recognize it over the estimated usage period of game items. See “3 Significant accounting policies (14)(a)(i)” for the method of estimating the usage period.
2. Royalty as of December 31, 2016 included royalty income related to the license of *Dungeon&Fighter* in China under the 10-year contract.

17 Borrowings

(1) Breakdown of borrowings

Borrowings consisted of the following:

|                                         | As of December 31, 2015 | As of December 31, 2016 | Average interest rate (Note 1) | Repayment date (Note 2) |
|-----------------------------------------|-------------------------|-------------------------|--------------------------------|-------------------------|
|                                         | (¥ millions)            | (¥ millions)            | %                              |                         |
| Short-term borrowings                   | 250                     | —                       | —                              | —                       |
| Current portion of long-term borrowings | 1,666                   | 1,683                   | 0.5                            | —                       |
| Long-term borrowings                    | 2,501                   | 835                     | 0.5                            | 2018                    |
| Total                                   | 4,417                   | 2,518                   |                                |                         |

- (Notes) 1. Average interest rates are calculated based on interest rates and balances as of December 31, 2016.
2. Repayment date is for the balance as of December 31, 2016.

(2) Assets pledged as collateral

Not applicable.

18 Other financial liabilities

Other financial liabilities consisted of the following:

|                                                                  |                         | (Millions of yen)       |
|------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                  | As of December 31, 2015 | As of December 31, 2016 |
| Lease obligations                                                | 159                     | 81                      |
| Liabilities resulting from contingent consideration arrangements | 877                     | 1,235                   |
| Other                                                            | 322                     | 851                     |
| Total                                                            | 1,358                   | 2,167                   |
|                                                                  |                         |                         |
| Current liabilities                                              | 568                     | 1,523                   |
| Non-current liabilities                                          | 790                     | 644                     |
| Total                                                            | 1,358                   | 2,167                   |

## 19 Lease transactions

Nexon Group leases server equipment (tools, furniture and fixtures) and software as a lessee.

### (1) Present value of finance lease obligations

The following table shows future minimum lease payments corresponding to lease assets recorded under finance lease agreements, their present value and future finance costs.

|                                     | (Millions of yen)       |                         |
|-------------------------------------|-------------------------|-------------------------|
|                                     | As of December 31, 2015 | As of December 31, 2016 |
| Due within 1 year                   |                         |                         |
| Total future minimum lease payments | 134                     | 27                      |
| Future finance costs                | (0)                     | (0)                     |
| Present value                       | 134                     | 27                      |
| Over 1 year but within 5 years      |                         |                         |
| Total future minimum lease payments | 25                      | 55                      |
| Future finance costs                | (0)                     | (0)                     |
| Present value                       | 25                      | 55                      |
| Total                               |                         |                         |
| Total future minimum lease payments | 159                     | 82                      |
| Future finance costs                | (0)                     | (1)                     |
| Present value                       | 159                     | 81                      |

### (2) Future minimum lease payments under non-cancelable operating leases

Total future minimum lease payments under non-cancelable operating leases are as follows:

|                                | (Millions of yen)       |                         |
|--------------------------------|-------------------------|-------------------------|
|                                | As of December 31, 2015 | As of December 31, 2016 |
| Due within 1 year              | 214                     | 282                     |
| Over 1 year but within 5 years | 1,141                   | 1,480                   |
| Over 5 years                   | 1,281                   | 1,016                   |
| Total                          | 2,636                   | 2,778                   |

### (3) Total minimum lease payments

Total minimum lease payments under operating lease contracts recognized as expenses in each year are as follows:

|                              | (Millions of yen)            |                              |
|------------------------------|------------------------------|------------------------------|
|                              | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Total minimum lease payments | 1,739                        | 1,831                        |

## 20 Provisions

The components and changes in provisions are as follows:

|                                                        |                              |                                  | (Millions of yen) |
|--------------------------------------------------------|------------------------------|----------------------------------|-------------------|
|                                                        | Asset retirement obligations | Provisions for employee benefits | Total             |
| January 1, 2015                                        | 344                          | 2,270                            | 2,614             |
| Acquisition of new subsidiaries                        | 2                            | 12                               | 14                |
| Additions                                              | 50                           | 2,669                            | 2,719             |
| Utilized for intended purpose                          | (44)                         | (2,309)                          | (2,353)           |
| Reversal                                               | —                            | (337)                            | (337)             |
| Increase due to passage of time                        | 10                           | —                                | 10                |
| Transfers between accounts                             | —                            | 0                                | 0                 |
| Exchange differences on translating foreign operations | (10)                         | (84)                             | (94)              |
| December 31, 2015                                      | 352                          | 2,221                            | 2,573             |
| Acquisition of new subsidiaries                        | 26                           | —                                | 26                |
| Additions                                              | 7                            | 2,611                            | 2,618             |
| Utilized for intended purpose                          | (21)                         | (2,176)                          | (2,197)           |
| Reversal                                               | (9)                          | (221)                            | (230)             |
| Increase due to passage of time                        | 12                           | —                                | 12                |
| Transfers between accounts                             | —                            | (1)                              | (1)               |
| Exchange differences on translating foreign operations | (10)                         | (68)                             | (78)              |
| December 31, 2016                                      | 357                          | 2,366                            | 2,723             |
| Current liabilities                                    | 30                           | 2,366                            | 2,396             |
| Non-current liabilities                                | 327                          | —                                | 327               |
| Total                                                  | 357                          | 2,366                            | 2,723             |

Asset retirement obligations are provided for the obligations to restore property that Nexon Group leases, including offices and buildings, to its original state for the amount of estimated future expenditures based on past experience. These expenditures are expected to be paid after the expected period of use determined taking into account the useful lives of the leasehold improvements but will be affected by future business plans.

Provisions for employee benefits consist of provisions for bonuses and are expected to be paid within a year.

21 Other liabilities

Other liabilities consisted of the following:

(Millions of yen)

|                           | As of December 31, 2015 | As of December 31, 2016 |
|---------------------------|-------------------------|-------------------------|
| Deposit received          | 487                     | 478                     |
| Consumption taxes payable | 1,182                   | 1,027                   |
| Accrued expenses          | 1,327                   | 2,306                   |
| Accrued vacation pay      | 1,237                   | 1,219                   |
| Other                     | 1,634                   | 1,817                   |
| Total                     | 5,867                   | 6,847                   |
| Current liabilities       | 4,587                   | 5,106                   |
| Non-current liabilities   | 1,280                   | 1,741                   |
| Total                     | 5,867                   | 6,847                   |

22 Equity and other equity interest

(1) Capital stock and treasury stock

Total number of authorized shares and issued shares of the Company is as follows:

|                                   | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-----------------------------------|------------------------------|------------------------------|
|                                   | Shares                       | Shares                       |
| Total number of authorized shares |                              |                              |
| Common stock (Note 1)             | 1,400,000,000                | 1,400,000,000                |
| Total number of issued shares     |                              |                              |
| January 1                         | 431,256,017                  | 434,117,117                  |
| Increase                          | 10,175,000 (Note 2)          | 3,923,000 (Note 2)           |
| Decrease                          | (7,313,900) (Note 3)         | (3,168,703) (Note 4)         |
| December 31                       | 434,117,117                  | 434,871,414                  |

- (Notes) 1. All shares issued by the Company are no-par value common stock with no restrictions on rights, and issued shares are fully paid.
2. Represents an increase due to exercise of subscription rights to shares.
3. Represents a decrease due to cancellation of treasury stock based on the resolution at the Board of Directors meeting on May 22, 2015.
4. Represents a decrease due to cancellation of treasury stock based on the resolution at the Board of Directors meeting on November 10, 2016.

The number of treasury stock included in the total number of issued shares above is as follows:

|                          | Year ended December 31, 2015 | Year ended December 31, 2016 |
|--------------------------|------------------------------|------------------------------|
|                          | Shares                       | Shares                       |
| Number of treasury stock |                              |                              |
| January 1                | —                            | —                            |
| Increase                 | 7,313,900 (Note 1)           | 3,168,764 (Note 3)           |
| Decrease                 | (7,313,900) (Note 2)         | (3,168,703) (Note 4)         |
| December 31              | —                            | 61                           |

- (Notes) 1. Represents an increase due to purchase of treasury stock based on the resolution at the Board of Directors meeting on February 26, 2015.
2. Represents a decrease due to cancellation of treasury stock based on the resolution at the Board of Directors meeting on May 22, 2015.
3. Represents increases due to purchase of treasury stock based on the resolution at the Board of Directors meeting on September 5, 2016 and purchase demand of shares less than one unit.
4. Represents a decrease due to cancellation of treasury stock based on the resolution at the Board of Directors meeting on November 10, 2016.

(2) Capital surplus

The Companies Act of Japan provides that at least 50% of the amount paid or contributed for issuance of shares shall be included in capital stock with the remainder to be included in capital reserve which is a component of capital surplus. The Companies Act also provides that the amount of capital reserve may be reclassified to capital stock based on resolution at the General Meeting of Shareholders.

(3) Retained earnings

The Companies Act of Japan provides that an amount equal to 10% of a decrease in surplus due to distribution of surplus shall be appropriated and set aside as capital reserve or retained earnings reserve until the sum of capital reserve and retained earnings reserve equals 25% of capital stock. The accumulated retained earnings reserve may be used to offset losses. Also, retained earnings reserve may be reversed based on resolution at the General Meeting of Shareholders.

(4) Other equity interest

Changes in other equity interest are as follows:

(Millions of yen)

|                                       | Other equity interest                                  |                                     |                               |       |          |
|---------------------------------------|--------------------------------------------------------|-------------------------------------|-------------------------------|-------|----------|
|                                       | Exchange differences on translating foreign operations | Financial assets measured at FVTOCI | Subscription rights to shares | Other | Total    |
| January 1, 2015                       | 78,421                                                 | 7,189                               | 6,506                         | (72)  | 92,044   |
| Changes during the year               | (15,384)                                               | 711                                 | 140                           | 46    | (14,487) |
| Reclassification to retained earnings | —                                                      | (4,273)                             | —                             | 24    | (4,249)  |
| December 31, 2015                     | 63,037                                                 | 3,627                               | 6,646                         | (2)   | 73,308   |
| Changes during the year               | (15,687)                                               | (1,513)                             | 718                           | (65)  | (16,547) |
| Reclassification to retained earnings | —                                                      | (562)                               | —                             | 55    | (507)    |
| December 31, 2016                     | 47,350                                                 | 1,552                               | 7,364                         | (12)  | 56,254   |

23 Dividends

The amount of dividends paid during the years ended December 31, 2015 and 2016 is as follows.

Year ended December 31, 2015

|                                              | Class of shares | Total dividends | Dividend per share | Record date       | Effective date     |
|----------------------------------------------|-----------------|-----------------|--------------------|-------------------|--------------------|
| Resolution at Board of Directors meeting on: |                 | (¥ million)     | (¥)                |                   |                    |
| February 17, 2015                            | Common stock    | 2,156           | 5                  | December 31, 2014 | March 30, 2015     |
| September 2, 2015                            | Common stock    | 2,149           | 5                  | June 30, 2015     | September 25, 2015 |

Year ended December 31, 2016

|                                              | Class of shares | Total dividends | Dividend per share | Record date       | Effective date     |
|----------------------------------------------|-----------------|-----------------|--------------------|-------------------|--------------------|
| Resolution at Board of Directors meeting on: |                 | (¥ million)     | (¥)                |                   |                    |
| February 22, 2016                            | Common stock    | 2,171           | 5                  | December 31, 2015 | March 30, 2016     |
| August 22, 2016                              | Common stock    | 2,182           | 5                  | June 30, 2016     | September 26, 2016 |

## 24 Share-based compensation

### (1) Description of share-based compensation plan

Nexon Group has a stock option plan with an aim to raise its directors' and employees' motivation and morale to improve Nexon Group's performance and corporate value as well as to secure talented people.

Options are granted to eligible persons approved by the Board of Directors of the Company and its subsidiaries without consideration based on the plan details approved at the General Meeting of Shareholders of the Company and its subsidiaries. The exercise period is provided by the allotment agreement, and options not exercised during such exercise period will lapse. If eligible persons leave Nexon Group during the vesting period, their options will lapse.

Stock options granted to eligible persons are accounted for as equity-settled share-based compensation, and expenses relating to equity-settled share-based compensation transactions for the years ended December 31, 2015 and 2016 were ¥1,908 million and ¥2,136 million, respectively.

Details of Nexon Group's stock option plan in effect during the years ended December 31, 2016 and 2015 are as follows:

|          | Number of grant | Grant date         | Exercise period    | Exercise price | Fair value on grant date<br>(Note 1) |
|----------|-----------------|--------------------|--------------------|----------------|--------------------------------------|
|          | Shares          |                    |                    | Yen            | Yen                                  |
| No. 5-1  | 12,623,000      | September 6, 2012  | September 5, 2018  | 1,367          | 275                                  |
| No. 5-2  | 77,000          | September 20, 2012 | September 19, 2018 | 1,367          | 337                                  |
| No. 6    | 250,000         | May 7, 2013        | May 6, 2043        | 1              | 944                                  |
| No. 7    | 12,999,000      | March 3, 2014      | March 2, 2020      | 853            | 267                                  |
| No. 8    | 3,025,000       | March 25, 2014     | March 24, 2021     | 0.001          | (Note 2)                             |
| No. 9-1  | 1,831,000       | May 9, 2014        | May 8, 2021        | 809            | 268                                  |
| No. 9-2  | 20,000          | July 22, 2014      | July 21, 2020      | 947            | 296                                  |
| No. 9-3  | 100,000         | October 21, 2014   | October 20, 2020   | 865            | 270                                  |
| No. 10   | 50,000          | August 3, 2015     | August 2, 2045     | 1              | 1,558                                |
| No. 11   | 80,000          | January 25, 2016   | January 24, 2022   | 1,840          | 625                                  |
| No. 12-1 | 5,263,000       | May 20, 2016       | May 19, 2022       | 1,863          | 633                                  |
| No. 12-2 | 15,000          | July 25, 2016      | July 24, 2022      | 1,650          | 551                                  |

- (Notes) 1. Stock options of No. 5-1, No. 7, No. 8, No. 9-1, No. 9-2, No. 9-3, No. 11, No. 12-1 and No. 12-2 become exercisable in multiple installments in a phased manner over time, and therefore their fair unit value on grant date vary for each start date of the exercise period. The fair value on grant date of these options represents the weighted average of the fair unit value on grant date for each start date of the exercise period calculated using the number of shares that become exercisable on such date.
2. There are three eligible persons for Stock Option No. 8 granted on March 25, 2014, and because each person is subject to different terms and conditions of the subscription rights allotment agreement, the fair unit value on grant date is also different. The fair unit values on grant date for each eligible person were ¥794, ¥790 and ¥790, respectively.

(2) Option pricing

The weighted average fair values of stock options granted during the years ended December 31, 2015 and 2016 were ¥1,558 and ¥633, respectively.

The Black-Scholes model is used to evaluate options in calculating share-based compensation expenses. The assumptions used in the Black-Scholes model for stock options granted during the years ended December 31, 2015 and 2016 are as follows.

Expected volatility is calculated based on the historical stock prices for the latest period corresponding to the expected life of options from the grant date, with stock information collected on a daily basis.

|          | Share price on<br>grant date | Exercise price | Expected<br>volatility | Expected life | Expected<br>dividend | Risk-free rate |
|----------|------------------------------|----------------|------------------------|---------------|----------------------|----------------|
|          | Yen                          | Yen            | %                      | Years         | Yen                  | %              |
| No. 10   | 1,706                        | 1              | 78.9                   | 1 to 15       | 10                   | 0.8            |
| No. 11   | 1,840                        | 1,840          | 46.7                   | 4 to 5        | 10                   | (0)~0          |
| No. 12-1 | 1,863                        | 1,863          | 45.8~47.8              | 4 to 5        | 10                   | (0.3)          |
| No. 12-2 | 1,650                        | 1,650          | 45.4~47.3              | 4 to 5        | 10                   | (0.3)          |

(3) Total number of exercisable shares and average exercise price

|                                  | Year ended December 31, 2015 |                                       | Year ended December 31, 2016 |                                       |
|----------------------------------|------------------------------|---------------------------------------|------------------------------|---------------------------------------|
|                                  | Number of<br>option          | Weighted<br>average exercise<br>price | Number of<br>option          | Weighted<br>average exercise<br>price |
|                                  | Shares                       | Yen                                   | Shares                       | Yen                                   |
| Outstanding at beginning of year | 32,406,000                   | 825                                   | 21,150,000                   | 913                                   |
| Granted                          | 50,000                       | 1                                     | 5,358,000                    | 1,862                                 |
| Forfeited                        | (1,131,000)                  | 1,101                                 | (403,000)                    | 1,069                                 |
| Exercised                        | (10,175,000)                 | 607                                   | (3,923,000)                  | 813                                   |
| Expired                          | —                            | —                                     | (194,000)                    | 1,367                                 |
| Outstanding at end of year       | 21,150,000                   | 913                                   | 21,988,000                   | 1,155                                 |
| Exercisable at end of year       | 12,607,000                   | 1,124                                 | 13,174,000                   | 1,065                                 |

The weighted average remaining contractual life for the years ended December 31, 2015 and 2016 was 3.7 years.

The weighted average stock prices at the time of exercise of stock options exercised during the years ended December 31, 2015 and 2016 were ¥1,599 and ¥1,688, respectively.

## 25 Financial risk management

### (1) Capital management

Nexon Group has a basic policy of maintaining adequate level of capital and balance between assets and liabilities corresponding to its business risk, with the aim of maintaining financial soundness and efficiencies as well as achieving the sustainable growth. Nexon Group focuses on the balance between cash and cash equivalents, interest-bearing liabilities and equity, and their balances are as follows:

|                              | (Millions of yen)       |                         |
|------------------------------|-------------------------|-------------------------|
|                              | As of December 31, 2015 | As of December 31, 2016 |
| Cash and cash equivalents    | 194,225                 | 152,683                 |
| Interest-bearing liabilities | 4,878                   | 2,890                   |
| Equity                       | 379,681                 | 377,694                 |

Nexon Group promotes cash flow-oriented management and maintained cash and cash equivalents in excess of interest-bearing liabilities as of December 31, 2015 and 2016. Nexon Group is not subject to any material capital control.

### (2) Financial risk management policy

Nexon Group is exposed to financial risks during the course of its business operations. The Company developed the risk management regulations to prevent risks from arising and mitigate risks. Nexon Group also has a policy to use derivative contracts only for the purpose of mitigating financial risks and prohibit the use of derivative contracts for speculative purposes.

### (3) Credit risk

Receivables arising from Nexon Group's operating activities are exposed to credit risk of customers.

Trade receivables and other receivables are exposed to credit risk of customers. With regard to the credit risk, the Company and its consolidated subsidiaries, based on the respective receivable management regulations, regularly conduct credit reviews of their customers to obtain their credit information and manage due dates and outstanding credit balances by customer, in order to detect signs of deteriorating financial conditions of customers at an early stage and mitigate potential risks regarding collectability.

The carrying amount of financial assets, net of impairment loss, presented in the consolidated financial statements are the maximum exposure to credit risk associated with financial assets of Nexon Group without considering the value of related collaterals.

### (4) Liquidity risk

Nexon Group raises funds through borrowings and is exposed to liquidity risk that Nexon Group is unable to meet its obligations as they come due.

Nexon Group monitors liquidity risk by preparing a funding plan based on the business plan and assessing the positions of cash in hand and interest-bearing liabilities on a regular basis.

The following table summarizes Nexon Group's financial liabilities by maturity dates:

As of December 31, 2015

|                                           | (Millions of yen) |                        |                  |              |              |              |              |              |
|-------------------------------------------|-------------------|------------------------|------------------|--------------|--------------|--------------|--------------|--------------|
|                                           | Carrying amount   | Contractual cash flows | Less than 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Over 5 years |
| Trade and other payables                  | 10,874            | 10,874                 | 10,874           | —            | —            | —            | —            | —            |
| Borrowings (current)                      | 1,916             | 1,916                  | 1,916            | —            | —            | —            | —            | —            |
| Other financial liabilities (current)     | 568               | 576                    | 576              | —            | —            | —            | —            | —            |
| Borrowings (non-current)                  | 2,501             | 2,501                  | —                | 1,666        | 835          | —            | —            | —            |
| Other financial liabilities (non-current) | 790               | 955                    | —                | 525          | 159          | 269          | 2            | —            |

As of December 31, 2016

|                                           | (Millions of yen) |                        |                  |              |              |              |              |              |
|-------------------------------------------|-------------------|------------------------|------------------|--------------|--------------|--------------|--------------|--------------|
|                                           | Carrying amount   | Contractual cash flows | Less than 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | Over 5 years |
| Trade and other payables                  | 9,472             | 9,472                  | 9,472            | —            | —            | —            | —            | —            |
| Borrowings (current)                      | 1,683             | 1,683                  | 1,683            | —            | —            | —            | —            | —            |
| Other financial liabilities (current)     | 1,523             | 1,524                  | 1,524            | —            | —            | —            | —            | —            |
| Borrowings (non-current)                  | 835               | 835                    | —                | 835          | —            | —            | —            | —            |
| Other financial liabilities (non-current) | 644               | 735                    | —                | 17           | 382          | 330          | 6            | —            |

#### (5) Foreign exchange risk

Nexon Group operates global business and is exposed to foreign exchange fluctuation risk related mainly to Korean won, the U.S. dollar and Chinese yuan.

Assuming a 1% rise in all foreign currencies against the functional currency for financial instruments held by Nexon Group that are denominated in foreign currencies, income before income taxes in the consolidated income statement would increase ¥3,107 million and ¥3,594 million for the years ended December 31, 2015 and 2016, respectively.

#### (6) Interest rate risk

Nexon Group raises funds through borrowings from leading financial institutions and is exposed to interest rate fluctuation risk.

Assuming a 1% rise in interest rates on borrowings held by Nexon Group, the impact on income before income taxes in the consolidated income statement for the years ended December 31, 2015 and 2016 would be a decrease of ¥3 million and nil, respectively.

#### (7) Market price fluctuation risk

Nexon Group is exposed to price fluctuation risk associated with securities recognized in the consolidated statement of financial position.

Assuming a 1% increase in the fair value of marketable securities held by Nexon Group, comprehensive income in the consolidated statement of comprehensive income for the years December 31, 2015 and 2016 would increase ¥33 million and ¥29 million, respectively.

#### (8) Derivatives and hedge accounting

Nexon Group uses currency swap to hedge foreign exchange fluctuation risk associated with long-term borrowings denominated in foreign currencies and interest rate swap to hedge interest rate fluctuation risk associated with borrowings. Nexon Group's derivative contracts had been designated as cash flow hedge but were terminated on November 17, 2015.

## 26 Fair value of financial instruments

## (1) Calculation method of fair value

(Millions of yen)

| As of December 31, 2015                    |                                                |                                                 |                                                         |         |            |
|--------------------------------------------|------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|---------|------------|
|                                            | Carrying amount                                |                                                 |                                                         | Total   | Fair value |
|                                            | Financial assets/liabilities measured at FVTPL | Financial assets/liabilities measured at FVTOCI | Financial assets/liabilities measured at amortized cost |         |            |
| Cash and cash equivalents                  | —                                              | —                                               | 194,225                                                 | 194,225 | 194,225    |
| Trade and other receivables                | —                                              | —                                               | 33,362                                                  | 33,362  | 33,362     |
| Other deposits                             | —                                              | —                                               | 97,105                                                  | 97,105  | 97,105     |
| Other financial assets (current)           | —                                              | —                                               | 1,973                                                   | 1,973   | 1,973      |
| Other financial assets (non-current)(note) | —                                              | 11,238                                          | 8,338                                                   | 19,576  | 19,219     |
| Trade and other payables                   | —                                              | —                                               | 10,874                                                  | 10,874  | 10,874     |
| Borrowings (current)                       | —                                              | —                                               | 1,916                                                   | 1,916   | 1,916      |
| Other financial liabilities (current)      | 112                                            | —                                               | 456                                                     | 568     | 568        |
| Borrowings (non-current)                   | —                                              | —                                               | 2,501                                                   | 2,501   | 2,501      |
| Other financial liabilities (non-current)  | 765                                            | —                                               | 25                                                      | 790     | 790        |

(Note) Derivative assets recorded on other financial assets (non-current) were extinguished as its hedge accounting was terminated following the repayment of borrowings which were the hedged item during the year ended December 31, 2015.

(Millions of yen)

| As of December 31, 2016                   |                                                |                                                 |                                                         |         |            |
|-------------------------------------------|------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|---------|------------|
|                                           | Carrying amount                                |                                                 |                                                         | Total   | Fair value |
|                                           | Financial assets/liabilities measured at FVTPL | Financial assets/liabilities measured at FVTOCI | Financial assets/liabilities measured at amortized cost |         |            |
| Cash and cash equivalents                 | —                                              | —                                               | 152,683                                                 | 152,683 | 152,683    |
| Trade and other receivables               | —                                              | —                                               | 27,037                                                  | 27,037  | 27,037     |
| Other deposits                            | —                                              | —                                               | 173,226                                                 | 173,226 | 173,226    |
| Other financial assets (current)          | —                                              | —                                               | 2,895                                                   | 2,895   | 2,895      |
| Other financial assets (non-current)      | —                                              | 10,231                                          | 8,005                                                   | 18,236  | 17,887     |
| Trade and other payables                  | —                                              | —                                               | 9,472                                                   | 9,472   | 9,472      |
| Borrowings (current)                      | —                                              | —                                               | 1,683                                                   | 1,683   | 1,683      |
| Other financial liabilities (current)     | 961                                            | —                                               | 562                                                     | 1,523   | 1,523      |
| Borrowings (non-current)                  | —                                              | —                                               | 835                                                     | 835     | 835        |
| Other financial liabilities (non-current) | 275                                            | —                                               | 369                                                     | 644     | 644        |

The fair value of financial assets and liabilities is determined as follows. The fair value of financial instruments is estimated using their market price or discounting future cash flows when the market price is not available.

Cash and cash equivalents, other deposits, trade and other payables, other financial liabilities (current)

They are stated at carrying amount as it approximates fair value because of the short period of time until its maturity or settlement.

Trade and other receivables

The fair value is estimated based on the present value of future cash flows of receivables grouped by category discounted at the appropriate rate such as government bonds yields adjusted with credit risk. Trade and other receivables with short maturities are stated at carrying amount as it approximates fair value.

Other financial assets (current)

Marketable securities are classified as financial assets measured at fair value through profit or loss (FVTPL) and measured at fair value at the end of the reporting period. Fair values are based on market prices.

Other items presented in this category are stated at carrying amount as it approximates fair value because of the short period of time until its maturity or settlement.

Other financial assets (non-current)

Marketable securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI) and measured at fair value at the end of reporting period. Fair values are based on market prices.

Unlisted securities classified as financial assets measured at FVTOCI are measured at fair value at the end of reporting period. Fair values are estimated primarily by discounting future cash flows.

For other items presented in this category, fair values are estimated primarily by discounting future cash flows.

Borrowings

The carrying amount of borrowings with floating interest rates approximates fair value as it reflects market interest rate within a short period of time and the credit condition of Nexon Group companies are not expected to have changed significantly since the drawdown. The fair value of borrowings with fixed interest rates is estimated by discounting the sum of principal and interest at the rate adjusted for the remaining period and credit risk. Borrowings with short maturity are stated at the carrying amount as it approximates fair value.

The fair value of long-term borrowings is determined by discounting future cash flows at the rate adjusted for the remaining period until maturity and credit risk.

Other financial liabilities (non-current)

The fair value of contingent consideration included in other financial liabilities (non-current) is determined by discounting future cash flows.

(2) Financial instruments measured at fair value

IFRS 13 “Fair Value Measurement” requires fair value measurements to be categorized using the fair value hierarchy based on the significance of the inputs used to measure fair value.

The fair value hierarchy consists of the following three levels:

- Level 1: Quoted prices for identical assets or liabilities in active markets
- Level 2: Inputs made up of prices, other than quoted prices, that are observable, either directly or indirectly
- Level 3: Inputs that include unobservable prices

The level of the fair value used to measure fair value is determined based on the lowest level input that is significant to the fair value measurement. Transfers between levels are recognized on the date of the event or change in circumstances that caused the transfer.

The following tables present the financial assets and liabilities recognized at fair value in the consolidated statement of financial position on a recurring basis, by fair value hierarchy level.

(Millions of yen)

| As of December 31, 2015                                          |         |         |         |        |
|------------------------------------------------------------------|---------|---------|---------|--------|
|                                                                  | Level 1 | Level 2 | Level 3 | Total  |
| Other financial assets (non-current)                             |         |         |         |        |
| Equity financial assets                                          | 3,314   | —       | 7,924   | 11,238 |
| Total financial assets                                           | 3,314   | —       | 7,924   | 11,238 |
| Other financial liabilities (current)                            |         |         |         |        |
| Liabilities resulting from contingent consideration arrangements | —       | —       | 112     | 112    |
| Other financial liabilities (non-current)                        |         |         |         |        |
| Liabilities resulting from contingent consideration arrangements | —       | —       | 765     | 765    |
| Total financial liabilities                                      | —       | —       | 877     | 877    |

(Millions of yen)

| As of December 31, 2016                                          |         |         |         |        |
|------------------------------------------------------------------|---------|---------|---------|--------|
|                                                                  | Level 1 | Level 2 | Level 3 | Total  |
| Other financial assets (non-current)                             |         |         |         |        |
| Equity financial assets                                          | 2,938   | 1       | 7,292   | 10,231 |
| Total financial assets                                           | 2,938   | 1       | 7,292   | 10,231 |
| Other financial liabilities (current)                            |         |         |         |        |
| Liabilities resulting from contingent consideration arrangements | —       | —       | 961     | 961    |
| Other financial liabilities (non-current)                        |         |         |         |        |
| Liabilities resulting from contingent consideration arrangements | —       | —       | 275     | 275    |
| Total financial liabilities                                      | —       | —       | 1,236   | 1,236  |

The following table presents changes in financial instruments measured at fair value on a recurring basis classified as Level 3:

(Millions of yen)

|                                                                                                                              | Year ended December 31, 2015  |                          | Year ended December 31, 2016  |                          |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------------|-------------------------------|--------------------------|
|                                                                                                                              | Equity<br>financial<br>assets | Financial<br>liabilities | Equity<br>financial<br>assets | Financial<br>liabilities |
| Balance at January 1                                                                                                         | 7,316                         | 2,225                    | 7,924                         | 877                      |
| Gains or losses (Note 1)                                                                                                     |                               |                          |                               |                          |
| Net income                                                                                                                   | —                             | (918)                    | —                             | (84)                     |
| Other comprehensive income                                                                                                   | (186)                         | —                        | (1,949)                       | —                        |
| Purchases                                                                                                                    | 1,552                         | —                        | 2,737                         | —                        |
| Sales                                                                                                                        | (3)                           | —                        | —                             | —                        |
| Transfers due to acquisition of control (Note 2)                                                                             | —                             | —                        | (422)                         | —                        |
| Distributions                                                                                                                | (382)                         | —                        | (487)                         | —                        |
| Exchange differences on translating foreign operations                                                                       | (295)                         | (98)                     | (308)                         | (42)                     |
| Recognition of contingent consideration (Notes 3, 4 and 5)                                                                   | —                             | 408                      | —                             | 706                      |
| Payments of contingent consideration                                                                                         | —                             | (740)                    | —                             | (221)                    |
| Transfers from Level 3 (Note 6)                                                                                              | —                             | —                        | (189)                         | —                        |
| Other                                                                                                                        | (78)                          | —                        | (14)                          | —                        |
| Balance at December 31                                                                                                       | 7,924                         | 877                      | 7,292                         | 1,236                    |
| Unrealized gains (losses) recognized in earnings relating to assets held at the end of the previous consolidated fiscal year | —                             | —                        | —                             | —                        |

- (Notes) 1. Gains or losses recognized in net income are presented in other income and other expenses. Gains or losses recognized in other comprehensive income are presented in financial assets measured at fair value through other comprehensive income.
2. Represents a transfer as a result of Big Huge Games Inc. becoming a consolidated subsidiary of Nexon U.S. Holding Inc., a consolidated subsidiary of the Company, during Q1 FY2016.
3. Represents liabilities recognized in connection with a contingent consideration arrangement for part of the consideration for shares of BOOLEAN GAMES Corporation acquired by NEXON Korea Corporation, the Company's consolidated subsidiary, during Q2 FY2015.
4. Represents liabilities recognized in connection with a contingent consideration arrangement for part of the consideration for shares of Wellgames Corporation acquired by NEXON GT Co., Ltd., the Company's consolidated subsidiary, during Q2 FY2016.
5. Represents liabilities recognized in connection with a contingent consideration arrangement for part of the consideration for shares of NSC Corporation acquired by NEXON Korea Corporation, the Company's consolidated subsidiary, during Q4 FY2016.
6. The transfer from Level 3 during the year ended December 31, 2016 was due to listing of the investee on the stock exchange.

Fair values of financial instruments classified as Level 3 are measured by the Accounting & Finance Department of the Company and its consolidated subsidiaries in accordance with relevant internal regulations. Fair values are measured with reasonably estimated inputs using the most appropriate valuation model determined based on the nature of the assets, etc., and a proper internal approval process is followed in making such decisions to ensure the validity of the valuation of fair values.

The valuation technique used to measure fair values of financial instruments measured at fair value on a recurring basis that are classified as Level 3 is mainly the discounted cash flow method, and the significant unobservable input is usually a discount rate. A rise or fall in discount rates result in a decrease or increase in these fair values, respectively. The effect on fair values of using reasonably possible alternative assumptions as inputs are insignificant.

(3) Financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position but whose fair value is disclosed.

Classification by hierarchy of financial assets and liabilities which are not measured at fair value in the consolidated statement of financial position but for which the fair value is disclosed are as follows. Financial assets and liabilities and lease obligations whose carrying amounts approximate their fair values are excluded.

| (Millions of yen)                               |         |         |         |       |
|-------------------------------------------------|---------|---------|---------|-------|
| As of December 31, 2015                         |         |         |         |       |
|                                                 | Level 1 | Level 2 | Level 3 | Total |
| Other financial assets (non-current)            |         |         |         |       |
| Term deposits                                   | —       | 416     | —       | 416   |
| Security deposits and guarantees                | —       | —       | 6,915   | 6,915 |
| Other                                           | —       | —       | 650     | 650   |
| Total other financial assets (non-current)      | —       | 416     | 7,565   | 7,981 |
| Borrowings (non-current)                        |         | 2,501   | —       | 2,501 |
| Other financial liabilities (non-current)       |         |         |         |       |
| Other                                           | —       | —       | 0       | 0     |
| Total other financial liabilities (non-current) | —       | —       | 0       | 0     |

| (Millions of yen)                               |         |         |         |       |
|-------------------------------------------------|---------|---------|---------|-------|
| As of December 31, 2016                         |         |         |         |       |
|                                                 | Level 1 | Level 2 | Level 3 | Total |
| Other financial assets (non-current)            |         |         |         |       |
| Term deposits                                   | —       | 390     | —       | 390   |
| Security deposits and guarantees                | —       | —       | 6,527   | 6,527 |
| Other                                           | —       | —       | 740     | 740   |
| Total other financial assets (non-current)      | —       | 390     | 7,267   | 7,657 |
| Borrowings (non-current)                        | —       | 835     | —       | 835   |
| Other financial liabilities (non-current)       |         |         |         |       |
| Other                                           | —       | —       | 316     | 316   |
| Total other financial liabilities (non-current) | —       | —       | 316     | 316   |

27 Revenue

Revenue is generated mostly by provision of services and royalty. See “5 Segment Information” for details of revenue.

28 Cost of sales

Cost of sales consisted of the following:

(Millions of yen)

|                               | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-------------------------------|------------------------------|------------------------------|
| Outsourcing cost              | 2,815                        | 2,511                        |
| Employee benefit costs        | 16,980                       | 18,635                       |
| Data center usage fee         | 2,161                        | 3,075                        |
| Royalty                       | 20,984                       | 17,933                       |
| Depreciation and amortization | 3,460                        | 2,630                        |
| Rent                          | 643                          | 632                          |
| Other costs                   | 2,658                        | 2,715                        |
| Total                         | 49,701                       | 48,131                       |

Employee benefit costs consisted of the following:

(Millions of yen)

|                                  | Year ended December 31, 2015 | Year ended December 31, 2016 |
|----------------------------------|------------------------------|------------------------------|
| Salary and bonus                 | 13,861                       | 15,090                       |
| Share-based compensation expense | 28                           | 42                           |
| Retirement benefit expense       | 753                          | 892                          |
| Welfare expense                  | 958                          | 1,082                        |
| Statutory welfare expense        | 1,367                        | 1,509                        |
| Other                            | 13                           | 20                           |
| Total                            | 16,980                       | 18,635                       |

29 Selling, general and administrative expenses

Selling, general and administrative expenses consisted of the following:

(Millions of yen)

|                                  | Year ended December 31, 2015 | Year ended December 31, 2016 |
|----------------------------------|------------------------------|------------------------------|
| Employee benefit costs           | 14,463                       | 14,807                       |
| Commission paid                  | 7,967                        | 6,516                        |
| Advertising expense              | 14,551                       | 13,856                       |
| Depreciation and amortization    | 9,427                        | 3,563                        |
| Research and development expense | 7,233                        | 7,351                        |
| Platform usage fee               | 12,313                       | 12,708                       |
| Other                            | 8,258                        | 7,409                        |
| Total                            | 74,212                       | 66,210                       |

Employee benefit costs consisted of the following:

(Millions of yen)

|                                  | Year ended December 31, 2015 | Year ended December 31, 2016 |
|----------------------------------|------------------------------|------------------------------|
| Salary and bonus                 | 8,770                        | 9,046                        |
| Share-based compensation expense | 1,880                        | 2,094                        |
| Retirement benefit expense       | 409                          | 404                          |
| Welfare expense                  | 1,394                        | 1,295                        |
| Statutory welfare expense        | 1,076                        | 1,040                        |
| Other                            | 934                          | 928                          |
| Total                            | 14,463                       | 14,807                       |

30 Other income and other expenses

(1) Other income

Other income consisted of the following:

(Millions of yen)

|                                                             | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-------------------------------------------------------------|------------------------------|------------------------------|
| Gain on cancellation of points                              | 249                          | 254                          |
| Gain on remeasurement of<br>contingent consideration (Note) | 918                          | 217                          |
| Other                                                       | 454                          | 550                          |
| Total                                                       | 1,621                        | 1,021                        |

(Note) Gain on remeasurement of contingent consideration for the year ended December 31, 2015 represents reversal of contingent consideration related to the acquisition of shares of a subsidiary Thingsoft Inc. in 2013 to reflect a decrease in the expected future payment based on the remeasurement.

Gain on remeasurement of contingent consideration for the year ended December 31, 2016 represents reversal of contingent consideration related to the acquisition of shares of a subsidiary Wellgames Corporation in 2016 to reflect a decrease in the expected future payment based on the remeasurement.

(2) Other expenses

Other expenses consisted of the following:

(Millions of yen)

|                                                             | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-------------------------------------------------------------|------------------------------|------------------------------|
| Impairment loss                                             | 5,321                        | 28,785                       |
| Loss on remeasurement of<br>contingent consideration (Note) | —                            | 133                          |
| Loss on sales or disposals of fixed<br>assets               | 293                          | 103                          |
| Other                                                       | 67                           | 126                          |
| Total                                                       | 5,681                        | 29,147                       |

(Note) Represents additional liability recognized for contingent consideration related to the acquisition of shares of a subsidiary BOOLEAN GAMES CORPORATION in 2015 to reflect an increase in expected future payment based on the remeasurement.

### 31 Finance income and finance costs

#### (1) Finance income

Finance income consisted of the following:

(Millions of yen)

|                                                | Year ended December 31, 2015 | Year ended December 31, 2016 |
|------------------------------------------------|------------------------------|------------------------------|
| Interest income                                |                              |                              |
| Financial assets measured at<br>amortized cost | 3,729                        | 3,439                        |
| Dividend income                                | 1,233                        | 22                           |
| Foreign exchange gain                          | 2,625                        | 2,948                        |
| Other                                          | 0                            | 174                          |
| Total                                          | 7,587                        | 6,583                        |

#### (2) Finance costs

Finance costs consisted of the following:

(Millions of yen)

|                                                     | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-----------------------------------------------------|------------------------------|------------------------------|
| Interest expense                                    |                              |                              |
| Financial liabilities measured at<br>amortized cost | 322                          | 27                           |
| Commission paid                                     | 1,502                        | 17                           |
| Other                                               | 138                          | 178                          |
| Total                                               | 1,962                        | 222                          |

### 32 Other comprehensive income

The amounts recorded during the year and reclassified to profit or loss and income tax effect by other comprehensive income item are as follows:

Year ended December 31, 2015

|                                                                 | (Millions of yen) |              |            |            |           |
|-----------------------------------------------------------------|-------------------|--------------|------------|------------|-----------|
|                                                                 | Recorded          | Reclassified | Before tax | Income tax | After tax |
| Items that will not be reclassified to net income               |                   |              |            |            |           |
| Financial assets measured at FVTOCI                             | 1,650             | —            | 1,650      | (939)      | 711       |
| Remeasurement of defined benefit pension plans                  | 6                 | —            | 6          | (0)        | 6         |
| Other comprehensive income under equity method                  | 2                 | —            | 2          | —          | 2         |
| Total items that will not be reclassified to net income         | 1,658             | —            | 1,658      | (939)      | 719       |
| Items that may be reclassified subsequently to net income       |                   |              |            |            |           |
| Exchange differences on translating foreign operations          | (15,715)          | —            | (15,715)   | —          | (15,715)  |
| Cash flow hedge                                                 | 5,383             | (5,324)      | 59         | (21)       | 38        |
| Other comprehensive income under equity method                  | (1)               | —            | (1)        | —          | (1)       |
| Total items that may be reclassified subsequently to net income | (10,333)          | (5,324)      | (15,657)   | (21)       | (15,678)  |
| Total other comprehensive income                                | (8,675)           | (5,324)      | (13,999)   | (960)      | (14,959)  |

Year ended December 31, 2016

|                                                                 | (Millions of yen) |              |            |            |           |
|-----------------------------------------------------------------|-------------------|--------------|------------|------------|-----------|
|                                                                 | Recorded          | Reclassified | Before tax | Income tax | After tax |
| Items that will not be reclassified to net income               |                   |              |            |            |           |
| Financial assets measured at FVTOCI                             | (1,831)           | —            | (1,831)    | 301        | (1,530)   |
| Remeasurement of defined benefit pension plans                  | (8)               | —            | (8)        | —          | (8)       |
| Total items that will not be reclassified to net income         | (1,839)           | —            | (1,839)    | 301        | (1,538)   |
| Items that may be reclassified subsequently to net income       |                   |              |            |            |           |
| Exchange differences on translating foreign operations          | (16,078)          | —            | (16,078)   | —          | (16,078)  |
| Other comprehensive income under equity method                  | (0)               | —            | (0)        | —          | (0)       |
| Total items that may be reclassified subsequently to net income | (16,078)          | —            | (16,078)   | —          | (16,078)  |
| Total other comprehensive income                                | (17,917)          | —            | (17,917)   | 301        | (17,616)  |

### 33 Earnings per share

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

|                                                                                                                                                                            | Year ended December 31,<br>2015 | Year ended December 31,<br>2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| Net income attributable to owners of the parent company (millions of yen)                                                                                                  | 55,132                          | 20,133                          |
| Adjustments to net income used to calculate diluted earnings per share (millions of yen)                                                                                   | —                               | —                               |
| Diluted net income attributable to owners of the parent company (millions of yen)                                                                                          | 55,132                          | 20,133                          |
| Number of weighted-average common stock applicable to basic EPS (shares)                                                                                                   | 431,176,948                     | 435,248,842                     |
| Dilution : Stock options (shares)                                                                                                                                          | 11,033,830                      | 8,255,662                       |
| Number of adjusted weighted-average common stock applicable to diluted EPS (shares)                                                                                        | 442,210,778                     | 443,504,504                     |
| Earnings per share (attributable to owners of the parent company)                                                                                                          |                                 |                                 |
| Basic (yen)                                                                                                                                                                | 127.86                          | 46.26                           |
| Diluted (yen) (Note)                                                                                                                                                       | 124.67                          | 45.40                           |
| (Note) Some of the subscription rights to shares issued by the Company were not included in the calculation of diluted earnings per share because they were anti-dilutive. |                                 |                                 |

### 34 Non-cash transactions

Non-cash transactions (investments and financing transactions not needing the use of cash and cash equivalents) executed during the years ended December 31, 2015 and 2016 were purchases of assets associated with new finance leases amounting to ¥20 million and ¥57 million, respectively.

### 35 Subsidiaries

#### (1) Composition of the corporate group

Composition of Nexon Group is as follows:

| Reportable segment | As of December 31, 2015   |                                             | As of December 31, 2016   |                                             |
|--------------------|---------------------------|---------------------------------------------|---------------------------|---------------------------------------------|
|                    | Wholly-owned subsidiaries | Subsidiaries with non-controlling interests | Wholly-owned subsidiaries | Subsidiaries with non-controlling interests |
|                    | Number of companies       | Number of companies                         | Number of companies       | Number of companies                         |
| Japan              | 2                         | —                                           | 1                         | —                                           |
| Korea              | 10                        | 1                                           | 12                        | 2                                           |
| China              | 1                         | —                                           | 1                         | —                                           |
| North America      | 3                         | 1                                           | 5                         | 1                                           |
| Other              | 3                         | —                                           | 3                         | 1                                           |
| Total              | 19                        | 2                                           | 22                        | 4                                           |

(2) Major subsidiaries

Major subsidiaries as of December 31, 2016 are as follows:

| Company                                          | Reportable segment | Location                            | Capital stock      | Ownership ratio (%) |        |
|--------------------------------------------------|--------------------|-------------------------------------|--------------------|---------------------|--------|
|                                                  |                    |                                     |                    | FY2015              | FY2016 |
| NEXON Korea Corporation                          | Korea              | Seongnam, Gyeonggi-do, Korea        | KRW 32,000 million | 100.0               | 100.0  |
| Lexian Software Development (Shanghai) Co., Ltd. | China              | Shanghai, PRC                       | USD 4,100 thousand | 100.0               | 100.0  |
| NEXON America, Inc.                              | North America      | California, USA                     | USD 210            | 100.0               | 100.0  |
| NEOPLE INC.                                      | Korea              | Jeju Self-Governing Province, Korea | KRW 181 million    | 100.0               | 100.0  |
| gloops, Inc.                                     | Japan              | Minato-ku, Tokyo                    | ¥26 million        | 100.0               | 100.0  |
| NEXON M Inc.                                     | North America      | California, U.S.A.                  | USD 1,500 thousand | 100.0               | 100.0  |
| NEXON Europe GmbH                                | Other              | Berlin, Germany                     | EUR 25 thousand    | 100.0               | 100.0  |

(3) Subsidiaries with non-controlling interests

The Company's subsidiaries with material non-controlling interests are as follows:

| (Millions of yen, unless otherwise stated) |                          |                                    |        |                                                        |        |                                                |        |
|--------------------------------------------|--------------------------|------------------------------------|--------|--------------------------------------------------------|--------|------------------------------------------------|--------|
| Company name                               | Location of subsidiaries | Ratio of non-controlling interests |        | Net profit/loss allocated to non-controlling interests |        | Cumulative amount of non-controlling interests |        |
|                                            |                          | FY2015                             | FY2016 | FY2015                                                 | FY2016 | FY2015                                         | FY2016 |
| NEXON GT Co., Ltd.                         | Korea                    | 36.8%                              | 35.1%  | 449                                                    | 376    | 5,363                                          | 4,856  |

The condensed financial statements of NEXON GT Co., Ltd. are as follows:

| (Millions of yen)               |                         |                         |
|---------------------------------|-------------------------|-------------------------|
| Statement of financial position | As of December 31, 2015 | As of December 31, 2016 |
| Total assets                    | 15,485                  | 14,474                  |
| Total liabilities               | 2,023                   | 1,049                   |
| Total equity                    | 13,462                  | 13,425                  |

| (Millions of yen)                 |                              |                              |
|-----------------------------------|------------------------------|------------------------------|
| Statement of comprehensive income | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Revenue                           | 6,470                        | 5,099                        |
| Net income                        | 1,932                        | 1,487                        |
| Comprehensive income              | 1,932                        | 1,487                        |

(Millions of yen)

| Statement of cash flows                                       | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
|---------------------------------------------------------------|---------------------------------|---------------------------------|
| Cash flows from operating activities                          | 2,147                           | 1,642                           |
| Cash flows from investing activities                          | (1,114)                         | (156)                           |
| Cash flows from financing activities                          | —                               | (817)                           |
| Net increase in cash and cash equivalents                     | 1,033                           | 669                             |
| Cash and cash equivalents at beginning of year                | 568                             | 1,502                           |
| Effects of exchange rate changes on cash and cash equivalents | (99)                            | (32)                            |
| Cash and cash equivalents at end of year                      | 1,502                           | 2,139                           |

## 36 Related party transactions

## (1) Transactions with related parties

Nexon Group conducts transactions with the following related parties.

Year ended December 31, 2015

(Millions of yen)

| Attribute | Name            | Profession/<br>business | Description of transactions<br>with related parties | Transaction<br>amount | Outstanding<br>balance |
|-----------|-----------------|-------------------------|-----------------------------------------------------|-----------------------|------------------------|
| Officer   | Owen<br>Mahoney | Representative          | Loans made                                          | 26                    | 116                    |
|           |                 | Director of the         | Interest income                                     | 3                     | 6                      |
|           |                 | Company                 | Exercise of stock options                           | 22                    | —                      |

(Note) Terms and conditions and its determination policies, etc.

1. The interest rate for loans made to the officer disclosed above is reasonably determined based on the market rates. Also, securities owned by Mr. Mahoney were pledged as collateral for the loans receivable.
2. See “24 Share-based compensation” for exercise price, etc. of stock options.

Year ended December 31, 2016

(Millions of yen)

| Attribute         | Name               | Profession/<br>business    | Description of transactions<br>with related parties | Transaction<br>amount | Outstanding<br>balance |
|-------------------|--------------------|----------------------------|-----------------------------------------------------|-----------------------|------------------------|
| Officer           | Owen<br>Mahoney    | Representative             | Collection of loans                                 | 116                   | —                      |
|                   |                    | Director of the<br>Company | Interest income                                     | 1                     | —                      |
| Officer           | Jiwon Park         | Director of the<br>Company | Exercise of stock options                           | 291                   | —                      |
| Parent<br>company | NXC<br>Corporation | Investment<br>business     | Loans made                                          | 5,000                 | —                      |
|                   |                    |                            | Collection of loans                                 | 5,000                 | —                      |
|                   |                    |                            | Interest income                                     | 34                    | —                      |

(Note) Terms and conditions and its determination policies, etc.

1. The interest rate for loans made to the officer disclosed above is determined based on the market rates. Also, securities owned by Mr. Mahoney were pledged as collateral for the loans receivable.
2. See “24 Share-based compensation” for exercise price, etc. of stock options.
3. For loans made to the parent company, transaction terms are determined based on funding costs in Japan in consideration of market rates.

(2) Remuneration to key management personnel

Remuneration to key management personnel of Nexon Group is as follows:

|                          | (Millions of yen)               |                                 |
|--------------------------|---------------------------------|---------------------------------|
|                          | Year ended<br>December 31, 2015 | Year ended<br>December 31, 2016 |
| Remuneration and bonus   | 441                             | 482                             |
| Share-based compensation | 922                             | 433                             |
| Total                    | 1,363                           | 915                             |

(3) Information on the parent company

The parent company of the Company is NXC Corporation, which is the ultimate controlling party of Nexon Group.

37 Business combinations

(1) Year ended December 31, 2015

The disclosure is omitted as the amount is immaterial.

(2) Year ended December 31, 2016

Nexon Group acquired shares of several companies during the year ended December 31, 2016, but separate disclosure of each acquisition is omitted because the impact on the consolidated financial statements is not material.

Total acquisition price of the share acquisitions and its components are as follows:

|                                                                              | (Millions of yen) |
|------------------------------------------------------------------------------|-------------------|
|                                                                              | Acquisition price |
| Cash                                                                         | 7,612             |
| Fair value of equity interest held immediately prior to the acquisition date | 1,368             |
| Contingent consideration (Note)                                              | 698               |
| Total acquisition price                                                      | 9,678             |

(Note) Contingent consideration is an additional payment under the agreement to be made according to the level of achievement of certain performance indicators by the acquirees.

Nexon Group estimated a potential achievement level of such indicators and recognized the maximum amount under the agreement of ¥698 million as acquisition price payable.

Total fair value of assets acquired and liabilities assumed from the business combination is as follows:

|                         | (Millions of yen) |
|-------------------------|-------------------|
|                         | Fair value        |
| Current assets          | 1,258             |
| Non-current assets      | 4,737             |
| Total assets            | 5,995             |
| Current liabilities     | 701               |
| Non-current liabilities | 1,349             |
| Total liabilities       | 2,050             |
| Goodwill                | 5,733             |

Goodwill represents excess earning power derived from business integration including enhancement of the business platform in each market. The fair value of assets acquired and liabilities assumed above is the amount recognized as of the acquisition date and adjusted for amortization and translation at the year-end closing.

The disclosure of revenue and net income of the acquirees after the acquisition date, revenue and net income of the acquirees assuming the acquisitions had taken place at January 1, 2016, and acquisition-related expenses associated with the business combinations are omitted because their impact is immaterial.

38 Sale of subsidiaries

(1) Year ended December 31, 2015

Not applicable.

(2) Year ended December 31, 2016

Not applicable.

39 Contingent liabilities

As of December 31, 2015 and 2016, the Company provided guarantee primarily for borrowings made by employees of Nexon Group. The outstanding balance of guarantee liabilities as of December 31, 2015 and 2016 was ¥636 million and ¥596 million, respectively.

#### 40 Subsequent events

##### Issuance of stock options (subscription rights to shares)

At the Company's Annual General Meeting of Shareholders held on March 28, 2017, it was resolved to issue subscription rights to shares as stock options without consideration to certain directors and employees of the Company and certain directors and employees of its subsidiaries and to delegate to the Company's Board of Directors the authority to determine subscription requirements, pursuant to provisions of Articles 236, 238 and 239 of the Companies Act.

The details are as follows:

|                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date of resolution                                                                                           | Date of resolution at the Annual General Meeting of Shareholders: March 28, 2017                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Category of eligible persons                                                                                 | Directors and employees of the Company and directors and employees of its subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Class of underlying shares                                                                                   | Common stock                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Number of shares (shares)                                                                                    | Not exceeding 7,000,000 shares (Note) 2.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Amount to be paid upon exercise of subscription rights to shares (yen)                                       | (Notes) 3. and 4.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Exercise period of subscription rights to shares                                                             | The period to be determined by the Board of Directors within ten years from the allotment date of the subscription rights to shares. In the event that the last date of the exercise period is a non-business day of the Company, it shall be the business day immediately preceding such date.                                                                                                                                                                                                                             |
| Amount of capital stock to be increased by issuance of shares upon exercise of subscription rights to shares | The amount of capital stock to be increased by the issuance of shares upon exercise of subscription rights to shares shall be one-half of the amount of the maximum limit on the increase in capital stock as calculated pursuant to Article 17, Paragraph 1 of the Ordinance on Accounting of Companies. Any fraction of less than one yen shall be rounded up.                                                                                                                                                            |
| Conditions for exercise of subscription rights to shares                                                     | A person holding the subscription rights to shares must be a director or an employee of the Company or its subsidiaries at the time of the exercise, except when a director or an employee of the Company or its subsidiaries has lost its position as a director or an employee due to resignation or retirement, dismissal or discharge (excluding punitive dismissal or any other event similar thereto), or death or disability, or when there is any other due reason specifically provided by the Board of Directors. |
| Transfer of subscription rights to shares                                                                    | Acquisition of subscription rights to shares through transfer shall require approval of the Board of Directors.                                                                                                                                                                                                                                                                                                                                                                                                             |
| Substitute payment                                                                                           | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Issuance of subscription rights to shares associated with the Company's restructuring                        | —                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

(Notes)1. Matters not described above shall be determined pursuant to the resolution of the Board of Directors meeting to be held after the Annual General Meeting of Shareholders held on March 28, 2017.

2. In the event that the Company splits its common stock (including gratis allocation) or consolidate its common stock, the number of underlying shares ("Number of Granted Shares") shall be adjusted according to the formula outlined below. Provided, however, such adjustment shall be made only to the Number of Granted Shares unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of Granted Shares after adjustment}}{\text{Number of Granted Shares before adjustment}} = \text{Ratio of split or consolidation}$$

3. The amount to be paid upon exercise of subscription rights to shares shall be the closing price of the Company's common stock in regular transactions on the Tokyo Stock Exchange on the date of allotment of subscription rights to share ("Allotment Date").
4. In the event that the Company carries out a stock split (including gratis allocation) or a consolidation of its common stock after the Allotment Date, the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen resulting from such adjustment shall be rounded up.

$$\frac{\text{Exercise price after adjustment}}{\text{Exercise price before adjustment}} = \frac{1}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable.

(2) 【Other】

(a) Quarterly information for the year ended December 31, 2016

| (Cumulative)                                                                             | First quarter | Second quarter | Third quarter | Fiscal year |
|------------------------------------------------------------------------------------------|---------------|----------------|---------------|-------------|
| Revenue (millions of yen)                                                                | 57,497        | 95,620         | 139,875       | 183,128     |
| Income (loss) before income taxes<br>(millions of yen)                                   | (2,007)       | 7,832          | 18,007        | 47,123      |
| Net income (loss) attributable to<br>owners of the parent company<br>(millions of yen)   | (6,273)       | 1,292          | 8,927         | 20,133      |
| Basic earnings (loss) per share<br>attributable to owners of the parent<br>company (yen) | (14.43)       | 2.97           | 20.50         | 46.26       |

| (Accounting period)                                                                      | First quarter | Second quarter | Third quarter | Fourth quarter |
|------------------------------------------------------------------------------------------|---------------|----------------|---------------|----------------|
| Basic earnings (loss) per share<br>attributable to owners of the parent<br>company (yen) | (14.43)       | 17.36          | 17.50         | 25.78          |

(b) Conditions subsequent to the fiscal year-end

There are no special matters that need to be reported.

(c) Legal proceedings

Not applicable.

## 2 【Non-Consolidated Financial Statements, etc.】

### (1) 【Non-consolidated financial statements】

#### (a) 【Non-consolidated balance sheet】

(Millions of yen)

|                                                              | As of December 31, 2015 | As of December 31, 2016 |
|--------------------------------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                                                |                         |                         |
| Current assets                                               |                         |                         |
| Cash and deposits                                            | 68,997                  | 49,531                  |
| Accounts receivable-trade                                    | ※ 1 570                 | ※ 1 880                 |
| Prepaid expenses                                             | 182                     | 108                     |
| Short-term loans receivable from subsidiaries and affiliates | 3,923                   | —                       |
| Other receivables                                            | 369                     | 486                     |
| Income taxes refund receivable                               | —                       | 1,282                   |
| Other                                                        | ※ 1 451                 | ※ 1 345                 |
| Allowance for doubtful accounts                              | (4,048)                 | (0)                     |
| <b>Total current assets</b>                                  | <b>70,444</b>           | <b>52,632</b>           |
| Non-current assets                                           |                         |                         |
| Tangible fixed assets                                        |                         |                         |
| Leasehold improvements                                       | 120                     | 71                      |
| Tools, furniture and fixtures                                | 403                     | 477                     |
| Accumulated impairment loss                                  | —                       | (161)                   |
| Accumulated depreciation                                     | (323)                   | (313)                   |
| <b>Total tangible fixed assets</b>                           | <b>200</b>              | <b>74</b>               |
| Intangible fixed assets                                      |                         |                         |
| Software                                                     | 66                      | —                       |
| Other                                                        | 0                       | —                       |
| <b>Total intangible assets</b>                               | <b>66</b>               | <b>—</b>                |
| Investments and other assets                                 |                         |                         |
| Investment securities                                        | 3,039                   | 1,643                   |
| Stocks of subsidiaries and affiliates                        | 28,211                  | 4,423                   |
| Long-term loans receivable from subsidiaries and affiliates  | 8,455                   | 20,264                  |
| Long-term prepaid expenses                                   | 485                     | 32                      |
| Other                                                        | 327                     | 946                     |
| Allowance for doubtful accounts                              | (2,593)                 | (20,944)                |
| <b>Total investments and other assets</b>                    | <b>37,924</b>           | <b>6,364</b>            |
| <b>Total non-current assets</b>                              | <b>38,190</b>           | <b>6,438</b>            |
| <b>Total assets</b>                                          | <b>108,634</b>          | <b>59,070</b>           |

(Millions of yen)

|                                                       | As of December 31, 2015 | As of December 31, 2016 |
|-------------------------------------------------------|-------------------------|-------------------------|
| <b>Liabilities</b>                                    |                         |                         |
| Current liabilities                                   |                         |                         |
| Accounts payable-trade                                | ※ 1 268                 | ※ 1 341                 |
| Other payables                                        | ※ 1 261                 | ※ 1 353                 |
| Accrued expenses                                      | 106                     | 604                     |
| Income taxes payable                                  | 1,835                   | —                       |
| Provision for bonuses                                 | 121                     | 126                     |
| Unearned revenue                                      | 657                     | 657                     |
| Other                                                 | 258                     | 260                     |
| Total current liabilities                             | 3,506                   | 2,341                   |
| Non-current liabilities                               |                         |                         |
| Lease obligations                                     | 25                      | 54                      |
| Long-term unearned revenue                            | 269                     | 273                     |
| Provision for retirement benefits                     | 74                      | 89                      |
| Asset retirement obligations                          | 13                      | 5                       |
| Deferred tax liabilities                              | 117                     | 27                      |
| Total non-current liabilities                         | 498                     | 448                     |
| Total liabilities                                     | 4,004                   | 2,789                   |
| <b>Net assets</b>                                     |                         |                         |
| Shareholders' equity                                  |                         |                         |
| Capital stock                                         | 56,227                  | 3,307                   |
| Capital surplus                                       |                         |                         |
| Capital reserve                                       | 6,087                   | 2,557                   |
| Other capital surplus                                 | 30,000                  | 86,064                  |
| Total capital surplus                                 | 36,087                  | 88,621                  |
| Retained earnings                                     |                         |                         |
| Retained earnings reserve                             | 1,305                   | 217                     |
| Other retained earning                                |                         |                         |
| Retained earnings brought forward                     | 6,160                   | (41,476)                |
| Total retained earnings                               | 7,465                   | (41,259)                |
| Treasury stock                                        | —                       | (0)                     |
| Total shareholders' equity                            | 99,779                  | 50,669                  |
| Valuation and translation adjustments                 |                         |                         |
| Valuation difference on available-for-sale securities | 246                     | 77                      |
| Total valuation and translation adjustments           | 246                     | 77                      |
| Subscription rights to shares                         | 4,605                   | 5,535                   |
| Total net assets                                      | 104,630                 | 56,281                  |
| Total liabilities and net assets                      | 108,634                 | 59,070                  |

## (b) 【Non-consolidated statement of income】

(Millions of yen)

|                                                                              | Year ended December 31, 2015 | Year ended December 31, 2016 |
|------------------------------------------------------------------------------|------------------------------|------------------------------|
| Net sales                                                                    | ※ 1 5,815                    | ※ 1 5,208                    |
| Cost of sales                                                                | ※ 1 3,117                    | ※ 1 3,134                    |
| Gross profit                                                                 | 2,698                        | 2,074                        |
| Selling, general and administrative expenses                                 | ※ 1, ※ 2 6,470               | ※ 1, ※ 2 6,736               |
| Operating loss                                                               | (3,772)                      | (4,662)                      |
| Non-operating income                                                         |                              |                              |
| Interest income                                                              | ※ 1 213                      | ※ 1 567                      |
| Dividend income                                                              | ※ 1 18,869                   | ※ 1 22                       |
| Other                                                                        | 81                           | 47                           |
| Total non-operating income                                                   | 19,163                       | 636                          |
| Non-operating expenses                                                       |                              |                              |
| Interest expenses                                                            | 285                          | 0                            |
| Foreign exchange loss                                                        | 759                          | 1,733                        |
| Stock issue cost                                                             | 27                           | 17                           |
| Treasury stock purchase cost                                                 | 169                          | 9                            |
| Other                                                                        | 6                            | 67                           |
| Total non-operating expenses                                                 | 1,246                        | 1,826                        |
| Ordinary income (loss)                                                       | 14,145                       | (5,852)                      |
| Extraordinary gain                                                           |                              |                              |
| Gain from reversal of subscription rights to shares                          | 145                          | 82                           |
| Gain on sale of investment securities                                        | 6,298                        | 747                          |
| Gain on sale of stocks of subsidiaries and affiliates                        | —                            | 23                           |
| Total extraordinary gain                                                     | 6,443                        | 852                          |
| Extraordinary loss                                                           |                              |                              |
| Provision of allowance for doubtful accounts for subsidiaries and affiliates | ※ 4 6,483                    | ※ 4 14,243                   |
| Loss on sale or disposal of non-current assets                               | 33                           | 54                           |
| Loss on valuation of stocks of subsidiaries and affiliates                   | ※ 3 192                      | ※ 3 23,789                   |
| Loss on valuation of investment securities                                   | 109                          | 800                          |
| Impairment loss                                                              | 80                           | 687                          |
| Total extraordinary loss                                                     | 6,897                        | 39,573                       |
| Profit (loss) before income taxes                                            | 13,691                       | (44,573)                     |
| Income taxes - current                                                       | 4,160                        | (201)                        |
| Income taxes - deferred                                                      | 1,359                        | —                            |
| Total taxes                                                                  | 5,519                        | (201)                        |
| Net profit (loss)                                                            | 8,172                        | (44,372)                     |

【Details of cost of sales】

|                    |      | Year ended December 31, 2015 |              | Year ended December 31, 2016 |              |
|--------------------|------|------------------------------|--------------|------------------------------|--------------|
| Category           | Note | Amount<br>(¥ million)        | Ratio<br>(%) | Amount<br>(¥ million)        | Ratio<br>(%) |
| I Outsourcing cost |      | 355                          | 11.4         | 321                          | 10.2         |
| II Labor cost      |      | 601                          | 19.3         | 736                          | 23.5         |
| III Other costs    | ※1   | 2,161                        | 69.3         | 2,077                        | 66.3         |
| Cost of sales      |      | 3,117                        | 100.0        | 3,134                        | 100.0        |

(Note) ※ 1 . Major components are as follows:

| Item                                    | Year ended December 31, 2015 | Year ended December 31, 2016 |
|-----------------------------------------|------------------------------|------------------------------|
| Data center usage fee (millions of yen) | 203                          | 206                          |
| Royalty (millions of yen)               | 1,528                        | 1,373                        |
| Depreciation (millions of yen)          | 94                           | 121                          |

## (c) 【Non-consolidated statement of changes in net assets】

Year ended December 31, 2015

(Millions of yen)

|                                                      | Shareholders' equity |                 |                       |                       |                           |                                                              |                         |
|------------------------------------------------------|----------------------|-----------------|-----------------------|-----------------------|---------------------------|--------------------------------------------------------------|-------------------------|
|                                                      | Capital stock        | Capital surplus |                       |                       | Retained earnings         |                                                              |                         |
|                                                      |                      | Capital reserve | Other capital surplus | Total capital surplus | Retained earnings reserve | Other retained earnings<br>Retained earnings brought forward | Total retained earnings |
| Balance at January 1                                 | 52,332               | 2,192           | 40,000                | 42,192                | 874                       | 2,724                                                        | 3,598                   |
| Changes during the year                              |                      |                 |                       |                       |                           |                                                              |                         |
| Issue of new stock                                   | 3,895                | 3,895           |                       | 3,895                 |                           |                                                              |                         |
| Dividends                                            |                      |                 |                       |                       | 431                       | (4,736)                                                      | (4,305)                 |
| Reclassification from capital stock to surplus       |                      |                 |                       |                       |                           |                                                              |                         |
| Reclassification from reserve to surplus             |                      |                 |                       |                       |                           |                                                              |                         |
| Net profit                                           |                      |                 |                       |                       |                           | 8,172                                                        | 8,172                   |
| Purchase of treasury stock                           |                      |                 |                       |                       |                           |                                                              |                         |
| Cancellation of treasury stock                       |                      |                 | (10,000)              | (10,000)              |                           |                                                              |                         |
| Net changes of items other than shareholders' equity |                      |                 |                       |                       |                           |                                                              |                         |
| Total changes during the year                        | 3,895                | 3,895           | (10,000)              | (6,105)               | 431                       | 3,436                                                        | 3,867                   |
| Balance at December 31                               | 56,227               | 6,087           | 30,000                | 36,087                | 1,305                     | 6,160                                                        | 7,465                   |

|                                                      | Shareholders' equity |                            | Valuation and translation adjustments                 |                                             | Subscription rights to shares | Total net assets |
|------------------------------------------------------|----------------------|----------------------------|-------------------------------------------------------|---------------------------------------------|-------------------------------|------------------|
|                                                      | Treasury stock       | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                               |                  |
| Balance at January 1                                 | —                    | 98,122                     | 6,536                                                 | 6,536                                       | 3,940                         | 108,598          |
| Changes during the year                              |                      |                            |                                                       |                                             |                               |                  |
| Issue of new stock                                   |                      | 7,790                      |                                                       |                                             |                               | 7,790            |
| Dividends                                            |                      | (4,305)                    |                                                       |                                             |                               | (4,305)          |
| Reclassification from capital stock to surplus       |                      | —                          |                                                       |                                             |                               | —                |
| Reclassification from reserve to surplus             |                      | —                          |                                                       |                                             |                               | —                |
| Net profit                                           |                      | 8,172                      |                                                       |                                             |                               | 8,172            |
| Purchase of treasury stock                           | (10,000)             | (10,000)                   |                                                       |                                             |                               | (10,000)         |
| Cancellation of treasury stock                       | 10,000               | —                          |                                                       |                                             |                               | —                |
| Net changes of items other than shareholders' equity |                      |                            | (6,290)                                               | (6,290)                                     | 665                           | (5,625)          |
| Total changes during the year                        | —                    | 1,657                      | (6,290)                                               | (6,290)                                     | 665                           | (3,968)          |
| Balance at December 31                               | —                    | 99,779                     | 246                                                   | 246                                         | 4,605                         | 104,630          |

Year ended December 31, 2016

(Millions of yen)

|                                                      | Shareholders' equity |                 |                       |                       |                           |                                                              |                         |
|------------------------------------------------------|----------------------|-----------------|-----------------------|-----------------------|---------------------------|--------------------------------------------------------------|-------------------------|
|                                                      | Capital stock        | Capital surplus |                       |                       | Retained earnings         |                                                              |                         |
|                                                      |                      | Capital reserve | Other capital surplus | Total capital surplus | Retained earnings reserve | Other retained earnings<br>Retained earnings brought forward | Total retained earnings |
| Balance at January 1                                 | 56,227               | 6,087           | 30,000                | 36,087                | 1,305                     | 6,160                                                        | 7,465                   |
| Changes during the year                              |                      |                 |                       |                       |                           |                                                              |                         |
| Issue of new stock                                   | 2,307                | 2,307           |                       | 2,307                 |                           |                                                              |                         |
| Dividends                                            |                      |                 |                       |                       | 217                       | (4,569)                                                      | (4,352)                 |
| Reclassification from capital stock to surplus       | (55,227)             |                 | 55,227                | 55,227                |                           |                                                              |                         |
| Reclassification from reserve to surplus             |                      | (5,837)         | 5,837                 |                       | (1,305)                   | 1,305                                                        |                         |
| Net loss                                             |                      |                 |                       |                       |                           | (44,372)                                                     | (44,372)                |
| Purchase of treasury stock                           |                      |                 |                       |                       |                           |                                                              |                         |
| Cancellation of treasury stock                       |                      |                 | (5,000)               | (5,000)               |                           |                                                              |                         |
| Net changes of items other than shareholders' equity |                      |                 |                       |                       |                           |                                                              |                         |
| Total changes during the year                        | (52,920)             | (3,530)         | 56,064                | 52,534                | (1,088)                   | (47,636)                                                     | (48,724)                |
| Balance at December 31                               | 3,307                | 2,557           | 86,064                | 88,621                | 217                       | (41,476)                                                     | (41,259)                |

|                                                      | Shareholders' equity |                            | Valuation and translation adjustments                 |                                             | Subscription rights to shares | Total net assets |
|------------------------------------------------------|----------------------|----------------------------|-------------------------------------------------------|---------------------------------------------|-------------------------------|------------------|
|                                                      | Treasury stock       | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                               |                  |
| Balance at January 1                                 | —                    | 99,779                     | 246                                                   | 246                                         | 4,605                         | 104,630          |
| Changes during the year                              |                      |                            |                                                       |                                             |                               |                  |
| Issue of new stock                                   |                      | 4,614                      |                                                       |                                             |                               | 4,614            |
| Dividends                                            |                      | (4,352)                    |                                                       |                                             |                               | (4,352)          |
| Reclassification from capital stock to surplus       |                      | —                          |                                                       |                                             |                               | —                |
| Reclassification from reserve to surplus             |                      | —                          |                                                       |                                             |                               | —                |
| Net loss                                             |                      | (44,372)                   |                                                       |                                             |                               | (44,372)         |
| Purchase of treasury stock                           | (5,000)              | (5,000)                    |                                                       |                                             |                               | (5,000)          |
| Cancellation of treasury stock                       | 5,000                | —                          |                                                       |                                             |                               | —                |
| Net changes of items other than shareholders' equity |                      |                            | (169)                                                 | (169)                                       | 930                           | 761              |
| Total changes during the year                        | (0)                  | (49,110)                   | (169)                                                 | (169)                                       | 930                           | (48,349)         |
| Balance at December 31                               | (0)                  | 50,669                     | 77                                                    | 77                                          | 5,535                         | 56,281           |

【Notes to non-consolidated financial statements】

(Significant accounting policies)

1. Valuation basis and method for securities

(1) Stocks of subsidiaries and affiliates

Stated at cost based on the moving-average method

(2) Available-for-sale securities

(a) With fair value

Securities with fair values are stated at fair market value at year-end. Unrealized gains and losses, net of applicable taxes, are directly recorded in net assets and cost of securities sold is calculated using the moving-average method.

(b) Without fair value

Securities without fair values are stated at cost based on the moving-average method.

2. Valuation basis and method for derivatives

Marked-to-market method

3. Depreciation method for non-current assets

(1) Tangible fixed assets, excluding lease assets

Straight-line method

Useful lives of major assets are as follows:

Leasehold improvements: 10 to 15 years

Tools, furniture and fixtures: 4 to 5 years

(2) Intangible fixed assets, excluding lease assets

Software for internal use is amortized using the straight-line method over the expected useful life (five years).

(3) Lease assets

Finance lease transactions that do not transfer ownership

Finance lease assets without ownership transfer are depreciated using the straight-line method over the lease period, assuming no residual value.

4. Accounting for allowance

(1) Allowance for doubtful accounts

Allowance for performing receivables is provided based on the actual credit loss ratio. Allowance for specific receivable such as those with doubtful collectibility is provided for the expected uncollectible amount based on the individual assessment for collectibility.

(2) Provision for bonuses

Provision for bonuses is provided for the estimated bonus amount to be paid to the employees attributable to the current fiscal year.

(3) Provision for retirement benefits

Provision for employees' retirement benefits is provided for the amount of obligation expected to have been incurred at year-end based on the estimated retirement benefit obligation as of year-end.

5. Revenue recognition

In the PC online business, "Service period method" is applied whereby revenue is recognized ratably over the estimated period during which game users can use in-game items purchased in exchange for game points.

6. Basis for translation of assets and liabilities denominated in foreign currencies to Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen using spot foreign exchange rates at year-end, with resulting gains and losses included in earnings.

## 7. Hedge accounting

### (1) Hedge accounting

Interest rate and currency swap transactions are accounted for using the synthetic instrument accounting as they satisfy the requirements of the synthetic instrument accounting (exceptional method (“tokurei-shori”)/designation method (“furiate-shori”).

### (2) Hedging instruments and hedged items

Hedging instruments: Interest rate and currency swaps

Hedged items: Long-term borrowings denominated in foreign currencies

### (3) Hedge policy

The Company’s policy is to hedge risks arising from fluctuation in interest rates and foreign exchange rates in accordance with the Company’s internal regulation “Derivative Transaction Management Rules.”

### (4) Assessment method of hedge effectiveness

The assessment of hedge effectiveness is omitted as the transactions satisfy the requirements of the synthetic instrument accounting for interest rate and currency swap.

## 8. Other significant matters in preparation of non-consolidated financial statements

### Accounting for consumption taxes

Transactions subject to consumption taxes are stated at the amount, net of consumption taxes.

(Notes to non-consolidated balance sheet)

※1 Assets and liabilities related to subsidiaries and affiliates (excluding those presented separately)

|                            | (Millions of yen)       |                         |
|----------------------------|-------------------------|-------------------------|
|                            | As of December 31, 2015 | As of December 31, 2016 |
| Short-term monetary claims | 608                     | 545                     |
| Long-term monetary claims  | —                       | 660                     |
| Short-term monetary debts  | 271                     | 236                     |

2 Contingent liabilities

Guarantee liabilities

The Company provides guarantee for the following subsidiaries as follows:

|   | (Millions of yen)       |                                                    |
|---|-------------------------|----------------------------------------------------|
|   | As of December 31, 2015 | As of December 31, 2016                            |
|   |                         | Nexon America Inc.                                 |
| — |                         | Joint and several guarantee for rent agreement 534 |
|   |                         | Nexon America Inc.                                 |
|   |                         | Joint and several guarantee for rent agreement 643 |

(Notes to non-consolidated statement of income)

※1 Transactions with subsidiaries and affiliates

|                                              | (Millions of yen)            |                              |
|----------------------------------------------|------------------------------|------------------------------|
|                                              | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Operating transactions                       |                              |                              |
| Net sales                                    | 66                           | 236                          |
| Purchases                                    | 1,405                        | 1,029                        |
| Selling, general and administrative expenses | 0                            | 2                            |
| Non-operating transactions                   | 17,779                       | 258                          |

- ※2 The ratio of selling expenses and general and administrative expenses is approximately 41.1% and 58.9%, respectively, for the year ended December 31, 2015 and 44.3% and 55.7%, respectively, for the year ended December 31, 2016.

Major components and amounts are as follows:

|                                             | (Millions of yen)            |                              |
|---------------------------------------------|------------------------------|------------------------------|
|                                             | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Sales commission                            | 414                          | 332                          |
| Advertising expenses                        | 709                          | 1,109                        |
| Commission fee                              | 395                          | 346                          |
| Salary and bonus                            | 975                          | 839                          |
| Provision for bonuses                       | 76                           | 80                           |
| Share-based compensation expense            | 1,477                        | 1,636                        |
| Directors' share-based compensation expense | 889                          | 755                          |

- ※3 Loss on valuation of stocks of subsidiaries and affiliates consisted of the following:

|                    | (Millions of yen)            |                              |
|--------------------|------------------------------|------------------------------|
|                    | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Rushmo Co., Ltd.   | 192                          | —                            |
| gloops, Inc.       | —                            | 23,548                       |
| Nexon America Inc. | —                            | 69                           |
| NEXON Europe GmbH  | —                            | 172                          |
| Total              | 192                          | 23,789                       |

- ※4 Provision of allowance for doubtful accounts for subsidiaries and affiliates consisted of the following:

|                    | (Millions of yen)            |                              |
|--------------------|------------------------------|------------------------------|
|                    | Year ended December 31, 2015 | Year ended December 31, 2016 |
| Nexon America Inc. | —                            | 12,110                       |
| NEXON Europe GmbH  | —                            | 743                          |
| NEXON M Inc.       | 5,693                        | 1,059                        |
| Other              | 790                          | 331                          |
| Total              | 6,483                        | 14,243                       |

(Securities)

The fair values of stocks of subsidiaries and affiliates (the carrying amounts on the balance sheet of subsidiaries' stock and affiliates' stock were ¥2,824 million and ¥1,599 million, respectively, as of December 31, 2016 and ¥26,612 million and ¥1,599 million, respectively, as of December 31, 2015) are not disclosed as their market prices are not available and it is extremely difficult to determine their fair values.

(Deferred tax accounting)

1. Major components of deferred tax assets and liabilities are as follows:

|                                                            | (Millions of yen)       |                         |
|------------------------------------------------------------|-------------------------|-------------------------|
|                                                            | As of December 31, 2015 | As of December 31, 2016 |
| Deferred tax assets                                        |                         |                         |
| Loss on valuation of stocks of subsidiaries and affiliates | 6,989                   | 13,283                  |
| Loss on valuation of investment securities                 | 452                     | 595                     |
| Unearned revenue                                           | 304                     | 287                     |
| Subscription rights to shares                              | 612                     | 719                     |
| Enterprise tax payable                                     | 122                     | —                       |
| Impairment loss                                            | 127                     | 202                     |
| Allowance for doubtful accounts                            | 2,175                   | 6,413                   |
| Other                                                      | 174                     | 343                     |
| Deferred tax assets – subtotal                             | 10,955                  | 21,842                  |
| Valuation allowance                                        | (10,955)                | (21,842)                |
| Total deferred tax assets                                  | —                       | —                       |
| Deferred tax liabilities                                   |                         |                         |
| Valuation difference on available-for-sale securities      | (117)                   | (27)                    |
| Total deferred tax liabilities                             | (117)                   | (27)                    |
| Deferred tax assets (liabilities), net                     | (117)                   | (27)                    |

2. Major components of significant differences between the statutory effective tax rate and the corporate tax rate after adoption of deferred tax accounting

|                                                              | As of December 31, 2015 | As of December 31, 2016 |
|--------------------------------------------------------------|-------------------------|-------------------------|
| Statutory effective tax rate                                 | 35.6%                   | —%                      |
| (Reconciliation)                                             |                         |                         |
| Entertainment and other permanently non-deductible expenses  | 3.0                     | —                       |
| Dividends and other permanently non-taxable income           | (43.8)                  | —                       |
| Valuation allowance                                          | 29.1                    | —                       |
| Foreign taxes                                                | 6.1                     | —                       |
| Accumulated earnings tax                                     | 10.4                    | —                       |
| Tax rates differences                                        | 1.6                     | —                       |
| Other                                                        | (1.7)                   | —                       |
| Corporate tax rate after adoption of deferred tax accounting | 40.3%                   | —%                      |

(Note) The disclosure as of December 31, 2016 is omitted because loss before income taxes was recorded for the year ended December 31, 2016.

3. Revision of the amounts of deferred tax assets and liabilities due to amendment of the corporate income tax rate, etc.

During the year ended December 31, 2015, “Act Partially Amending the Income Tax Act, etc.” (Act No. 9 of 2015) and “Act Partially Amending the Local Tax Act, etc.” (Act No. 2 of 2015) were passed by the Diet on March 31, 2015, resulting in changes in corporate income tax rates and local tax rates from the fiscal year beginning on or after April 1, 2015. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and liabilities was changed from 35.6% to 33.1% for temporary differences expected to reverse during the period from January 1, 2016 to December 31, 2016 and to 32.3% for temporary differences expected to reverse in the fiscal years beginning on or after January 1, 2017. The impact of these changes in tax rates is insignificant.

During the year ended December 31, 2016, “Act Partially Amending the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act Partially Amending the Local Tax Act, etc.” (Act No. 13 of 2016) were passed by the Diet on March 29, 2016, resulting in changes in corporate income tax rates and local tax rates from the fiscal year beginning on or after April 1, 2016. Accordingly, the statutory effective tax rate used to calculate deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to reverse during the period from January 1, 2017 to December 31, 2018 and to 30.6% for temporary differences expected to reverse in the fiscal years beginning on or after January 1, 2019. The impact of these changes in tax rates is insignificant.

(Business combination)

Not applicable.

(Material subsequent events)

Issuance of stock options (subscription rights to shares)

At the Company’s Annual General Meeting of Shareholders held on March 28, 2017, it was resolved to issue subscription rights to shares as stock options without consideration to directors and employees of the Company and its subsidiaries and to delegate to the Company’s Board of Directors the authority to determine subscription requirements, pursuant to provisions of Articles 236, 238 and 239 of the Companies Act.

Refer to “V. Financial Information, 1. Consolidated Financial Statements, etc., Notes to consolidated financial statements, 40 Subsequent events” for details.

(d) 【Supplementary schedules】  
 【Details of tangible fixed assets】

(Millions of yen)

| Category                | Asset type                    | Beginning balance | Increase | Decrease | Depreciation | Ending balance | Accumulated depreciation/ impairment loss |
|-------------------------|-------------------------------|-------------------|----------|----------|--------------|----------------|-------------------------------------------|
| Tangible fixed assets   | Leasehold improvements        | 120               | 24       | 73       | 36<br>(35)   | 71             | 71                                        |
|                         | Tools, furniture and fixtures | 403               | 159      | 85       | 194<br>(126) | 477            | 403                                       |
|                         | Total                         | 523               | 183      | 158      | 230<br>(161) | 548            | 474                                       |
| Intangible fixed assets | Software                      | 96                | 5        | 39       | 71<br>(55)   | 62             | 62                                        |
|                         | Other                         | 0                 | —        | —        | 0<br>(0)     | 0              | 0                                         |
|                         | Total                         | 96                | 5        | 39       | 71<br>(55)   | 62             | 62                                        |

(Note 1) Beginning and ending balance is based on cost.

(Note 2) Figures in parentheses in “Depreciation” represent impairment loss.

【Details of allowance】

(Millions of yen)

| Account                         | Beginning balance | Increase | Decrease | Ending balance |
|---------------------------------|-------------------|----------|----------|----------------|
| Allowance for doubtful accounts | 6,641             | 14,303   | —        | 20,944         |
| Provision for bonuses           | 121               | 126      | 121      | 126            |

(2) 【Major assets and liabilities】

The disclosure is omitted as the Company prepares the consolidated financial statements.

(3) 【Other】

Not applicable.

## VI. 【Stock-Related Administrative Information of the Company】

|                                        |                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fiscal year                            | From January 1 to December 31 of each year                                                                                                                                                                                                                                                                                                |
| Annual General Meeting of Shareholders | March of each year                                                                                                                                                                                                                                                                                                                        |
| Record date                            | December 31                                                                                                                                                                                                                                                                                                                               |
| Record date of distribution of surplus | June 30<br>December 31                                                                                                                                                                                                                                                                                                                    |
| Number of shares per trading unit      | 100 shares                                                                                                                                                                                                                                                                                                                                |
| Purchase of shares less than one unit  |                                                                                                                                                                                                                                                                                                                                           |
| Place of business                      | Stock Transfer Agency Business Planning Department of Sumitomo Mitsui Trust Bank, Limited<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo                                                                                                                                                                                                          |
| Administrator of shareholder registry  | Sumitomo Mitsui Trust Bank, Limited<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo                                                                                                                                                                                                                                                                |
| Contact place                          | —                                                                                                                                                                                                                                                                                                                                         |
| Purchase fee                           | None                                                                                                                                                                                                                                                                                                                                      |
| Method of public notice                | By way of electronic public notice. However, in cases where electronic public notice is not available due to accidents or any other unavoidable circumstances, public notice will be given in the Nihon Keizai Shimbun.<br>URL for public notice: <a href="http://ir.nexon.co.jp/ir/kokoku.html">http://ir.nexon.co.jp/ir/kokoku.html</a> |
| Privileges to shareholders             | Not applicable.                                                                                                                                                                                                                                                                                                                           |

(Notes) 1. It is stipulated in the Articles of Incorporation that shareholders of the Company may not exercise any rights other than those listed below.

- (1) Right under each item of Article 189, Paragraph 2 of the Companies Act
- (2) Rights to demand under provisions of Article 166, Paragraph 1 of the Companies Act
- (3) Rights to receive an allotment of shares to be offered and subscription rights to shares according to the number of shares held by shareholders
- (4) Rights to demand sale of odd-lot shares

## VII. 【Reference Information on the Company】

### 1 【Information on the Company's Parent Company, etc.】

The Company's parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act is NXC Corporation.

### 2 【Other Reference Information】

The Company has filed the following documents during the period from the beginning of the current fiscal year to the filing date of the annual securities report.

#### (1) Annual Securities Report and its accompanying document and Confirmation Letter

Fiscal year (The 14th FY)(From January 1, 2015 to December 31, 2015): Filed with the Director of the Kanto Local Finance Bureau on March 30, 2016

#### (2) Internal Control Report and its accompanying document

Filed with the Director of the Kanto Local Finance Bureau on March 30, 2016

#### (3) Quarterly Report and Confirmation Letter

(First quarter of the 15th FY)(From January 1, 2016 to March 31, 2016): Filed with the Director of the Kanto Local Finance Bureau on May 13, 2016

(Second quarter of the 15th FY)(From April 1, 2016 to June 30, 2016): Filed with the Director of the Kanto Local Finance Bureau on August 12, 2016

(Third quarter of the 15th FY)(From July 1, 2016 to September 30, 2016): Filed with the Director of the Kanto Local Finance Bureau on November 11, 2016

#### (4) Extraordinary Report

Filed with the Director of the Kanto Local Finance Bureau on March 30, 2016.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on May 12, 2016.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Items 12 and 19 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on November 11, 2016.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Items 12 and 19 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on February 8, 2017.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 3 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed with the Director of the Kanto Local Finance Bureau on February 10, 2017.

This is an Extraordinary Report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(5) Securities Registration Statement

Filed with the Director of the Kanto Local Finance Bureau on May 10, 2016.

Filed with the Director of the Kanto Local Finance Bureau on May 13, 2016.

This is an Amendment to the Securities Registration Statement filed on May 10, 2016.

Filed with the Director of the Kanto Local Finance Bureau on May 20, 2016.

This is an Amendment to the Securities Registration Statement filed on May 10, 2016.

(6) Share Buyback Report

Filed with the Director of the Kanto Local Finance Bureau on October 11, 2016.

Filed with the Director of the Kanto Local Finance Bureau on November 8, 2016.

Part II 【Information on Guarantors, etc. for the Company】

Not applicable.