Internet Disclosure of Information Regarding the Notice of the 13th Annual General Meeting of Shareholders

NEXON Co., Ltd.

Contents

Pursuant to applicable laws and regulations and Article 16 of Articles of Incorporation of the Company, the above matters are provided to shareholders by posting them on the Company's website (http://ir.nexon.co.jp/stock/meeting.html).

Systems and organization to ensure proper operation

The summary of decisions made to establish a system to ensure the execution of duties by directors is in compliance with laws and regulations and the articles of incorporation and other systems to ensure the appropriateness of operations of the Company is as follows:

① System to ensure that the execution of duties by directors and employees comply with laws and regulations and the articles of incorporation

(i) Board of directors

The meeting of the Board of Directors shall be held at least once a month in order to ensure the effective monitoring functions for directors' performance.

(ii) Statutory auditors

Statutory auditors shall attend the meeting of the board of directors to ensure the effective supervising functions for directors' performance. In addition, statutory auditors shall enhance their expertise in their supervising functions by appointing external professionals as external statutory auditors.

(iii) Internal audit office

The internal audit office shall be responsible for carrying out continuous internal audits of the business operations. The internal audit office shall report directly to President/CEO and maintain independence of internal audit.

(iv) Legal department

The legal department shall serve as the contact point for matters concerning the compliance of business operations ("compliance") to ensure compliance within the Company.

② System to store and control information on the directors' execution of their duties

Information on the directors' execution of their duties including minutes of the meetings of the Board of Directors and requests for approval shall be recorded and stored in a document format or electromagnetic devices in accordance with the documentation control regulations. Directors and statutory auditors shall be allowed to access any of these records at any time.

③ System to ensure the reliability of financial reporting

The Company shall establish systems to prepare proper financial reporting and to review the effectiveness of the system on a regular or as needed basis.

④ Regulations and other systems to manage potential risks of losses

The Company shall develop risk management regulations to minimize the potential exposure to risk of incurring losses. In addition, the Company shall prepare for serious incidents by developing a risk management manual and establishing a system enabling timely response.

⑤ System to ensure efficient execution of duties by directors

(i) Directors shall report the status of executing their respective duties on a monthly basis at a meeting of the Board of Directors. Obstructive factors in the execution of duties, if any, shall be addressed to improve the situation in a timely manner.

(ii) Directors shall facilitate the process of decision making and information sharing by taking advantage of the IT infrastructure.

⑥ System to ensure the proper execution of duties within the corporate group composed of the Company, its parent company and subsidiaries

While recognizing the independence of each entity due to unique local circumstances, the Company shall require periodical reporting from each entity of the Group on necessary matters in accordance with the related companies' management regulations.

⑦ Matters concerning employees assigned to assist the duties of the statutory auditor at the request of statutory auditors and their independence from directors

No full-time assistants shall be assigned, but the statutory auditors, if deemed necessary, may assign employees in the Internal Audit Office to assist statutory auditors in the execution of audit-related duties. In this context, the assigned employees shall not be subjected to instructions of directors or the head of the Internal Audit Office.

⑧ System for directors and/or employees to report to statutory auditors and other systems concerning reports to statutory auditors

Directors or employees shall immediately report to statutory auditors any facts that may cause substantial damages to the Company or the Group and any facts that execution of duties by directors is in violation of laws and regulations and the articles of incorporation.

⑨ Other systems to ensure effective performance of audit by statutory auditors

Statutory auditors shall hold periodic meetings to exchange opinions with each of President/CEO and the independent auditors. In addition, the head of the Internal Audit Office shall report to statutory auditors on the status of internal audit on a regular basis.

⑩ Basic policy and relevant system to eliminate anti-social forces

(i) Basic policy to eliminate the threats posed by anti-social forces

The Company shall maintain a firm attitude toward anti-social forces that may pose threats to the order and security of the society and block any relationships including ordinary commercial transactions.

(ii) System to eliminate anti-social forces

The Company shall exercise its best efforts to block any relationships with anti-social forces by assigning the Legal Office to be in charge of dealing with anti-social forces and conducting customer reviews. In case the Company is approached by anti-social forces, a systematic response shall be taken jointly with external special agencies.

Notes to Consolidated Financial Statements

1. Significant basis for preparation of the consolidated financial statements

(1) Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. Certain disclosure items required by IFRS are omitted in the consolidated financial statements as permitted by the second paragraph of the above-mentioned paragraph.

The Group adopted IFRS from the previous consolidated fiscal year, with the date of transition to IFRS to be January 1, 2012.

(2) Scope of consolidation

Status of consolidated subsidiaries

Number of consolidated subsidiaries: 20

Name of major consolidated subsidiaries

NEXON Korea Corporation (Korea)
Lexian Software Development (Shanghai) Co., Ltd. (China)
NEXON America Inc. (United States)
NEOPLE Inc. (Korea)
Ndoors Corporation (Korea)
NEXON GT Co., Ltd. (Korea)
gloops, Inc. (Japan)

GameHi Co., Ltd. (Korea) changed its name to NEXON GT Co., Ltd. (Korea).

(3) Application of the equity method

Status of affiliates accounted for using the equity method

Number of affiliates accounted for using the equity method: 6

Name of the major affiliates accounted for using the equity method

INTIVSOFT Co., Ltd. (Korea)
Human Works Co., Ltd. (Korea)
Six Waves Inc. (Hong Kong)

(4) Changes in the scope of consolidation and application of the equity method

1) Changes in the scope of consolidation

Rushmo America Inc. (USA) was newly established and included in the scope of consolidation as a consolidated subsidiary from the current consolidated fiscal year.

We executed absorption-type mergers with NEXON GT Co., Ltd. (Korea) as a surviving company and NexToric Corporations (Korea) as an absorbed company, and with NEXON Korea Corporation (Korea) as a surviving company and Weclay Inc. (Korea) as an absorbed company.

2) Changes in the scope of the equity method application

NFun Corporation (Korea) was excluded from the scope of companies accounted for by the equity method as a result of initiating a liquidation process during the current consolidated fiscal year.

(5) Matters related to fiscal year of consolidated subsidiaries

All consolidated subsidiaries have the same fiscal year-end as the consolidated fiscal year-end.

(6) Accounting policies

1) Valuation basis and method for financial assets

(a) Non-derivative 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.

The 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 existed 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 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.

The Group derecognizes financial assets when the contractual rights to cash flows from the asset expire, or when the 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 borrower.

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.

The Group assesses whether 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 are reversed to the extent that the assets' amortized cost does not exceed the amortized cost that would have been determined at the time of reversal of impairment had no impairment been recognized.

(c) 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 "4. Financial instrument" for calculation method of fair value.

2) Valuation basis and method and depreciation or amortization method for property, plant and equipment and intangible assets (excluding goodwill)

(a) Property, plant and equipment

(Recognition and measurement)

Property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes costs directly attributable to the acquisition, costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs to be capitalized.

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

(Depreciation)

Depreciation is calculated based on the depreciable amount. Depreciable amount 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 the 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
- Vehicles: 3 years
- 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.

(b) Intangible assets

(Software)

The 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 the 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 any accumulated amortization and any accumulated impairment losses.

(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 any accumulated amortization and any accumulated impairment losses.

(Intangible assets acquired through business combination)

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

Subsequently, those intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

The Group purchases distribution rights for online games developed by other companies and recognizes them in intangible assets as game copyrights. Game copyrights and other intangible assets acquired by the 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.

(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.

(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 the 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 in profit or loss on a straight-line basis over the lease term.

Variable lease payments are recognized as expenses in the period it incurs.

(Impairment loss of non-financial assets)

The carrying amounts of the 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, intangible assets with indefinite useful lives, and intangible assets 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.

The 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.

3) Major provisions

Provisions are recognized when the Group has a present legal or constructive obligation that can be reliably estimated as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are calculated as the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the liabilities. The unwinding of the discount is recognized as finance costs.

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, considering the conditions of each property individually and specifically, based on factors including the Group's past experience of restoration and the estimated periods of use determined taking into account the useful lives of leasehold improvements.

4) Revenue recognition

The Group is engaged in PC online business, mobile business, consulting business for PC online game distribution 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 the 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 recognized that are 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

The Group generates revenue primarily from (i) sales of items used in PC online business and mobile business (revenue from item charging); (ii) royalty from granting distribution rights for PC online games developed and commercialized by the Group; and (iii) consulting business for PC online game distribution 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 distributes PC online games developed by the Group or other companies. To play the 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 distributes mobile games developed by the Group or other companies through mobile equipment including mobile phones, tablets and smart phones. 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 revenue from granting distribution rights for PC online games developed and commercialized by the Group

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

Royalty revenue arising from granting distribution 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 revenue amount is reliably measurable.

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

In consulting business, a subsidiary provides Chinese domestic distribution companies with consulting services for setting up and maintaining billing systems and membership systems, business strategy development, game business management, 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 the Group acts as an intermediary or agent. In reporting revenue arising from these transactions, the 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 the Group is acting as a "principal" or an "agent" in a transaction. Accordingly, revenue is presented in the gross amount when the Group acts as a principal, and in the net amount when the Group acts as an agent. Whether the 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 the Group acts as a principal include:

- the Group has the primary responsibility to provide services to customers or fulfill the order;
- the Group has discretion in establishing prices, either directly or indirectly;
- the 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 the Group acts as an agent include:

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

5) Translation of major foreign currency denominated assets or liabilities to Japanese yen

(a) Functional currency and presentation currency

In preparing the financial statements, each of the 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 the 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 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 for 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 amount of foreign exchange differences is reclassified into profit or loss as part of gains or losses on disposal.

6) Goodwill

The Group measures goodwill as the excess of the aggregate of acquisition-date fair value of consideration transferred and the amount of any non-controlling interest in the acquiree over the net of the acquisition-date amount of identifiable assets acquired and liabilities assumed. The negative excess is recognized in profit or loss.

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

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

7) Hedge accounting

The Group uses currency swap contracts to hedge foreign exchange risk related to long-term borrowings denominated in foreign currencies and interest rate swap contracts to hedge interest rate risk related to the borrowings. Derivative transactions are executed and managed in accordance with the derivative transaction management rules, and carried out by the Accounting/Finance Department 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 owned by the Group are designated as a cash flow hedge.

At the inception of the hedge, the 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 inception of the hedge and on an ongoing basis, the derivatives used in the 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 contract-date fair value, 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 in 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, the Group continues to recognize the balance related to the cash flow hedge previously recognized in other comprehensive income until the forecasted transaction affects profit or loss. When a forecasted transaction is no longer considered probable, the balance related to the cash flow hedge is recognized in profit or loss immediately.

8) Other significant basis for preparation of the consolidated financial statements

Accounting for consumption taxes

Transactions subject to consumption taxes are stated at the amount net of the consumption taxes (“Zei-nuki method”).

(7) Changes in accounting policies

(Changes in accounting policies required by IFRS)

The Group has applied the following standards from the current consolidated fiscal year, but the application of these standards did not have material impacts on the current consolidated fiscal year.

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

2. Notes to consolidated statement of financial position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	¥1,018 million
Other financial assets (current)	¥1,344 million
Other current assets	¥90 million
Other financial assets (non-current)	¥1,243 million

(2) Accumulated depreciation of property, plant and equipment ¥11,539 million

(3) Assets pledged as collateral and liabilities corresponding to pledged assets

1) Assets pledged as collateral

Other financial assets (current)	
Time deposits	¥929 million
Other financial assets (non-current)	
Marketable securities	¥42,327 million
Time deposits	¥11 million
Total	¥43,267 million

2) Liabilities corresponding to pledged assets

The above assets are pledged as collateral for borrowings (current) of ¥11,622 million and borrowings (non-current) of ¥23,244 million.

(4) Liabilities for guarantee

Balance of liabilities for guarantee: ¥938 million

Guaranty of liabilities are provided for borrowings made by employees.

3. Notes to consolidated statement of changes in equity

(1) Class and number of shares issued and outstanding

Class of shares	Total number as of January 1, 2014	Increase	Decrease	Total number of shares as of December 31, 2014
Common stock	439,343,900 shares	2,482,000 shares	10,569,883 shares	431,256,017 shares

(Note) 1. The increase in common stock of 2,482,000 shares results from exercise of stock options.
2. The decrease in common stock of 10,569,883 shares results from cancellation of treasury stock.

(2) Class and number of treasury stocks

Class of shares	Total number as of January 1, 2014	Increase	Decrease	Total number of shares as of December 31, 2014
Common stock	83 shares	10,569,800 shares	10,569,883 shares	－ shares

(Note) 1. The increase in treasury common stock of 10,569,800 shares results from purchase of treasury stock.
2. The decrease in treasury common stock of 10,569,883 shares results from cancellation of treasury stock.

(3) Dividends from surplus

1) Amount of dividend paid

Resolution	Class of shares	Total dividends paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date	Dividend source
Board of Directors meeting on February 20, 2014	Common stock	2,197	5	December 31, 2013	March 26, 2014	Retained earnings
Board of Directors meeting on August 19, 2014	Common stock	2,176	5	June 30, 2014	September 24, 2014	Retained earnings

2) Dividends with the record date in the current consolidated fiscal year but the effective date in the following fiscal year

Resolution	Class of shares	Total dividends paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date	Dividend source
Board of Directors meeting on February 17, 2015	Common stock	2,156	5	December 31, 2014	March 30, 2015	Retained earnings

(4) Subscription rights to shares as of December 31, 2014

	Class of underlying share	Number of underlying share
Subscription rights to shares as 2007 Stock Option (1)	Common stock	3,382,000 shares
Subscription rights to shares as 2009 Stock Option (2-1)	Common stock	1,224,000 shares
Subscription rights to shares as 2010 Stock Option (2-2)	Common stock	200,000 shares
Subscription rights to shares as 2010 Stock Option (3-1)	Common stock	475,000 shares
Subscription rights to shares as 2011 Stock Option (3-3)	Common stock	54,000 shares
Subscription rights to shares as 2011 Stock Option (4)	Common stock	35,000 shares
Subscription rights to shares as 2012 Stock Option (5-1)	Common stock	7,394,000 shares
Subscription rights to shares as 2012 Stock Option (5-2)	Common stock	57,000 shares

(Note) Subscription rights to shares whose exercise period is yet to start and unvested subscription rights to shares are excluded.

4. Financial instruments

(1) Policies on the use of financial instruments

The Group raises necessary working capitals and investment fund based on the business plan. The Group mainly raises funds through loans from financial institutions. Excess funds are invested in short-term deposits and marketable securities. The Group uses derivative contracts mainly for the purpose of hedging interest rates and foreign exchange fluctuation risk and do not use them for speculative purposes.

(2) Descriptions and risks of financial instruments as well as the Group's risk management system

Trade and other receivables are exposed to credit risk of the Group's business partners. With regard to the credit risk, the Company and its consolidated subsidiaries, based on the respective credit 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 collectibility.

Marketable securities included in other financial assets primarily consist of shares of commercial companies held for business promotion purpose, investments in investment partnership and unlisted bonds. These securities are exposed to credit risk of issuers, market price fluctuation risk and foreign exchange fluctuation risk. The Group manages these risks by obtaining information about market values and financial conditions of these issuers regularly. Long-term loans receivable included in other financial assets is primarily loans receivable from subsidiaries and affiliates, and their financial conditions and other data are regularly monitored.

All trade and other payables become due within one year.

Borrowings are mainly financing from financial institutions to fund investments. Borrowings bearing variable interest rate are exposed to interest rate fluctuation risk and those denominated in foreign currency are exposed to foreign exchange fluctuation risk. Part of these risks are hedged by interest rate and currency swap.

Derivative transactions consist of interest rate and currency swap used to hedge interest rate or foreign exchange fluctuation risk associated with long-term borrowings denominated in foreign currencies. Execution and management of derivative transactions are in compliance with the derivative transaction management rules, and the use of derivatives are limited to the transactions with high-rated financial institutions to mitigate credit risk.

(3) Supplemental information on fair values of financial instruments

The fair values of financial instruments are estimated using values based on the fair value or discounting cash flows when there are no fair values. As such values are calculated using variable factors, using different assumptions may result in different values.

(4) Fair values of financial instruments

Amounts on the consolidated statement of financial position, fair values and difference between these values as of December 31, 2014 are as follows.

	Consolidated statement of financial position (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Cash and cash equivalents	117,729	117,729	—
Trade and other receivables	32,280	32,280	—
Other deposits	100,235	100,235	—
Other financial assets (current)	3,029	3,029	—
Other financial assets (non-current)	93,779	93,779	—
Total assets	347,052	347,052	—
Trade and other payables	10,214	10,214	—
Borrowings (current)	13,180	13,180	—
Other financial liabilities (current)	1,268	1,268	—
Borrowings (non-current)	23,244	23,205	(39)
Other financial liabilities (non-current)	1,820	1,820	—
Total liabilities	49,726	49,687	(39)

(Note) Calculation method of fair values of financial instruments

Cash and cash equivalents, other deposits, trade and other payables, other financial liabilities (current)

They are stated at carrying value as their carrying value approximates fair value because of the short period of time until its maturity or settlement.

Trade and other receivables

Fair values are 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 value as it approximates fair value.

Other financial assets (current)

Marketable securities are classified into financial assets measured at fair value through profit or loss 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 value 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 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 fair value through other comprehensive income are measured at fair value at the end of reporting period. Fair values are estimated primarily by discounting future cash flows.

Fair value of currency swap and interest rate swap to which hedge accounting is applied as derivative assets is calculated using the reasonable valuation method based on available information including market value provided by financial institutions.

Borrowings

The carrying value 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 the group companies are not expected to have changed significantly since the drawdown. 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 value as it approximates fair value.

Fair value of long-term borrowings is determined based on the present value of future cash flows discounted at the rate adjusted for the remaining period and credit risk.

Other financial liabilities (non-current)

Fair value of contingent consideration included in other financial liabilities (non-current) is determined by discounting future cash flows.

5. Rental properties

Disclosure is omitted as the total amount of rental properties is immaterial.

6. Per share information

(1) Equity attributable to owners of the parent per share	789.28 yen
(2) Basic earnings per share	67.43 yen

7. Subsequent events

Not applicable.

8. Other

During the current consolidated fiscal year, the Group performed impairment tests for goodwill and intangible assets and recognized impairment losses as realization of profits originally expected is no longer probable. Those impairment losses are included in “Other expenses” in the consolidated income statement.

Major components of impairment losses are as follows:

Item	Company	Impairment losses (Millions of yen)
Goodwill	gloops, Inc.	11,049
	Nexon Korea Corporation	263
	Fantage.com Inc.	110
Game copyrights	Nexon Korea Corporation	666
	NDOORS Corporation	292
Contents	gloops, Inc.	1,289

Impairment loss of ¥746 million was recognized for certain investments in associates as the recoverable amount fell below the carrying value and included in “Finance cost” in the consolidated income statement.

Notes to non-consolidated financial statements

1. Significant accounting policies

(1) Valuation basis and method for securities

Stocks of subsidiaries and affiliates

Stated at cost based on the moving-average method.

Available-for-sale securities

With fair value

Securities with fair values are stated at fair value with 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.

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

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.

Finance lease assets without ownership transfer with the lease start date prior to December 31, 2008 are accounted for using the similar method as the operating lease.

(4) Accounting for allowances

1) Allowance for doubtful accounts

Allowance for performing receivable 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 incurred at year-end based on the estimated retirement benefit obligation as of year-end.

(5) Revenue recognition

In the PC online game business, "Service period method" is applied whereby revenue is recognized ratably over the estimated period during which a game user can use in-game items purchased in exchange for game points.

(6) Basis of translation of foreign currency denominated assets and liabilities to Japanese yen

Foreign currency denominated monetary receivables and payables are translated into Japanese yen using the year-end spot foreign exchange rates, with resulting gains and losses included in earnings.

(7) Material hedge accounting

(i) Method of 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").

(ii) Hedging instruments and hedged items

Hedging instruments: interest rate and currency swaps

Hedged items: foreign currency denominated long-term loans payable

(iii) 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."

(iv) 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) Accounting for consumptions taxes

Transactions subject to consumption taxes are stated at the amount, net of the consumption taxes ("Zei Nuki method").

2. Notes to non-consolidated balance sheet

(1) Assets pledged as collateral and liabilities corresponding to pledged assets

Provision of collateral regarding long-term loans payable of the Company

(Millions of yen)

Assets pledged as collateral			Liabilities corresponding to pledged assets	
Type	Book value as of December 31, 2014	Type of security interest	Description	Balance as of December 31, 2014
Investment securities	42,327	Pledge	Current portion of long-term loans payable	9,934
			Long-term loans payable	19,869

(2) Liabilities for guarantees

Outstanding balance of liabilities for guarantees: ¥132 million

The Company provides guarantees mainly for lease obligations of the Company's subsidiaries.

(3) Monetary claims from and monetary debts to subsidiaries and affiliates other than those presented separately are as follows:

Short-term monetary claims: ¥6,682 million

Short-term monetary debts: ¥394 million

(4) Monetary claims from directors are as follows:

Short-term monetary claims: ¥90 million

3. Notes to non-consolidated statement of income

Transactions with subsidiaries and affiliates

Operating transactions

Net sales: ¥16 million

Purchase of goods: ¥2,131 million

Selling, general and administrating expenses: ¥1 million

Non-operating transactions: ¥24,658 million

4. Notes to non-consolidated statement of changes in net assets

Not applicable.

5. Deferred tax accounting

(1) Major components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Loss on valuation of stocks of subsidiaries and affiliates	7,653
Unearned revenue	428
Subscription rights to shares	411
Impairment loss	149
Loss on valuation of investment securities	460
Enterprise taxes payable	84
Provision for bonuses	49
Accrued expenses	52
Software	29
Allowance for doubtful accounts	71
Advertising expenses	19
Provision for retirement benefit	23
Asset retirement obligations	2
Deferred tax assets - subtotal	9,430
Valuation allowance	(8,072)
Total deferred tax assets	1,358
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(3,619)
Total deferred tax liabilities	(3,619)
Deferred tax liabilities, net	(2,261)

(2) Major components of significant differences between the statutory effective tax rate and the corporate tax rate after adoption of deferred tax accounting

Statutory effective tax rate	38.0 %
(Reconciliation)	
Entertainment and other permanently non-deductible expenses	13.0 %
Dividends and other permanently non-taxable income	(146.2) %
Valuation allowance	114.1 %
Foreign taxes	24.4 %
Taxation of retained earnings	35.1 %
Tax rates differences	(0.3) %
Other	(1.3) %
Corporate tax rate after adoption of deferred tax accounting	76.8 %

6. Related party transactions

(1) Parent company and major corporate shareholders

Not applicable.

(2) Subsidiaries and affiliated companies

Attribute	Name of company	Ownership ratio of voting rights	Relationship
Subsidiary	NEXON Korea Corporation	Holding Direct 100.00%	License for publishing developed game titles Concurrent position of directors

Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Purchase (Note 1)	1,313	Accounts payable-trade	227

Attribute	Name of company	Ownership ratio of voting rights	Relationship
Subsidiary	gloops, Inc.	Holding Direct 100.00%	—

Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Collection of loans	2,500	Short-term loans receivable from subsidiaries and affiliates	6,500
Loans made (Note 2)	6,500		
Interest income (Note 2)	42	Interest receivable	27

Attribute	Name of company	Ownership ratio of voting rights	Relationship
Subsidiary	NEXON America, Inc.	Holding Direct 100.00%	—

Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Loans made (Note 2)	1,966	Short-term loans receivable from subsidiaries and affiliates	1,085
Interest income (Note 2)	16		
		Long-term loans receivable from subsidiaries and affiliates	1,206
		Interest receivable	18

Attribute	Name of company	Ownership ratio of voting rights	Relationship
Subsidiary	NEXON M Inc.	Holding Direct 100.00%	—

Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Loans made (Note 2)	2,030	Long-term loans receivable from subsidiaries and affiliates	3,617
Interest income (Note 2)	24	Interest receivable	29

(3) Companies, etc. with the same parent company and other related companies' subsidiaries, etc.

Not applicable.

(4) Officers and major individual shareholders, etc.

Attribute	Name of company or individual	Ownership ratio of voting rights	Relationship
Officer	Owen Mahoney	0.03%	President and CEO of Nexon Co., Ltd.

Transactions	Transaction amount (Millions of yen)	Account	Balance at end of year (Millions of yen)
Loans made (Note 3)	90	Short-term loans receivable	90
Interest income (Note 3)	3		
Exercise of stock option (Note 4)	85		

Terms and conditions and its determination policies

(Note 1) Purchase relates to royalty and transaction terms are determined in consideration of general transaction terms prevailing in the PC online game market.

(Note 2) For loans receivable, transaction terms are determined based on funding costs in Japan in consideration of market rates.

(Note 3) Interest rate regarding the loans receivable from the officer disclosed above is determined in a reasonable manner based on the market rates. Also, securities owned by Mr. Mahoney are pledged as collateral for the loans receivable.

(Note 4) Subscription rights to shares exercised during the current business year are Subscription rights to shares as 2010 Stock Option (3-1) and Subscription rights to shares as 2011 Stock Option (3-3) granted based on the resolution at the extraordinary meeting of shareholders held on September 27, 2010.

7. Per share information

Net assets per share	¥242.68
Net income per share	¥3.23

8. Subsequent events

(Share Buyback Program)

Under Article 156 of the Companies Act of Japan as applied pursuant to Articles 165, Paragraph 3, a share buyback program had been resolved by the Board of Directors on February 26, 2015. Details of the share buyback program are as below:

1. Purpose of share buyback program

To improve capital efficiency and to implement flexible capital management policy

2. Details of share buyback program

(1) Class of shares : Common shares of Nexon

(2) Total number of shares : Up to 8,500,000 shares

(2.0% of the total number of outstanding shares as of December 31, 2014)

(3) Total amount : Up to JPY 10 billion

(4) Period : February 27, 2015 to May 27, 2015

(5) Acquisition method : Purchase at market on the Tokyo Stock Exchange

9. Other

Not applicable.