

BUSINESS REPORT
TO SHAREHOLDERS
January 1 to December 31, 2012



NEXON

Stock Code: 3659



No.1 Global Online Entertainment Company

Creativity+ Globalization

In this Business Report to Shareholders for our eleventh year, I would first of all like to extend my warmest greetings to all of our shareholders and express my strong appreciation for their support. Fiscal year 2012 was truly a year of change for NEXON. In addition to the PC online business that has traditionally been our core, we moved forward with our business model reorganization efforts by making a serious entry into the rapidly growing mobile market.

The game industry surrounding NEXON is witnessing three transformative trends. These are the transitions from offline to online, from single player to multiplayer and from pay-to-play*¹ to free-to-play*². NEXON is the leading company in each of these trends, and these will provide a strong tailwind for our development.

With this vision, we will use our strengths in “Creativity + Globalization” to increase our corporate value as we continue our high-rate growth as the No. 1 Global Online Entertainment Company.

Thank you for your continued support.

Seungwoo Choi,
Chief Executive Officer and President

崔承祐

*¹ Under the subscription method, a fixed fee is charged at the time of game acquisition and for a set period of game play.

*² Under the free-to-play method, gameplay is free, but fees are charged for the purchase of in-game items (clothing, weapons, etc.) and designated services.

PC online and mobile business expansion Achieved record levels of revenue, operating income and ordinary income

2012 Performance

In fiscal year 2012, we made investments in the PC online business and the rapidly developing mobile business market in order to reduce our dependence on specific regions and revenue sources. In our PC online business, we invested in NCsoft, a Korean PC development company, in order to enhance our ability to develop new games. For our mobile business we made large-scale investments to acquire gloops and inBlue. Through such initiatives, we are steadily strengthening both our PC online and mobile businesses.

At the same time, we also made solid progress in the development of our fundamental strategy and operational capabilities.

For fiscal year 2012, our results were: consolidated revenue ¥108.4 billion (an increase of 23.8% year-over-year), consolidated operating income ¥47.8 billion (an increase of 25.2% year-over-year) and consolidated net income ¥25.4 billion (a decrease of 1.4% year-over-year).

2013 Business Outlook

In the PC online business, we will recover our growth track in Korea by strengthening key existing titles and releasing major new titles. In China, we will build a foundation for further growth by introducing powerful new content.

In the mobile business, we have established an alliance with DeNA and are working to achieve an overwhelming share of Japan's browser game market while at the same time expanding our industry-leading development expertise into native applications and overseas markets.

As the "No. 1 Global Online Entertainment Company," we will continue creating new industry trends by providing innovative games as sought by worldwide users.

Revenue Percentage by Region

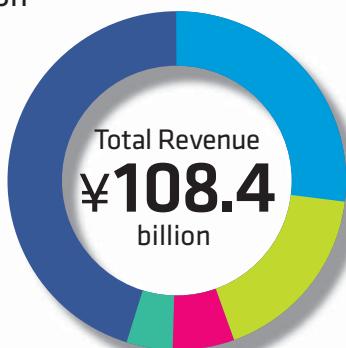
(as of Fiscal Year 2012)

■ China **44.6%**

Revenue ¥48.3 billion

■ South Korea **26.5%**

Revenue ¥28.7 billion



■ Japan **17.7%**

Revenue ¥19.1 billion

■ Other **6.2%**

Revenue ¥6.7 billion

■ North America **5.0%**

Revenue ¥5.3 billion

Four initiatives targeting industry-leading growth potential and profitability

We are aiming for even greater growth in the future. The four growth drivers for achieving this goal are: growth from existing titles, expansion to new geographies, introduction of new IP, and expansion onto new platforms.

Four Growth Drivers

1 Growth from Existing Titles

Increase profit stability by achieving growth for existing titles and extending the game lifecycle.

2 Expansion to New Geographies

Contribute to profit stability and risk diversification by expanding to new geographies (globalization).

3 Introduction of New IP

Create value and increase growth potential by expanding our portfolio through the introduction of new titles.

4 Expansion onto New Platforms

Enhance growth potential and profitability by expanding to new platforms and devices.

In 2012, we made several investments and entered into business alliances.

We plan to continue aggressively seeking investment and business alliance opportunities to spur future growth.

Aggressive Pursuit of Investments and Business Alliances

2012 Investments and Business Alliances

Feb.	Korea: Acquired approximately 20% of MOYASOFT, a smartphone social game developer
June	Korea: Acquired approximately 14.7% of NCsoft, a PC online game developer and publisher
June	Japan: Acquired 100% ownership of inBlue, a mobile social game developer
July	US: Established a business alliance with Electronic Arts for the publishing rights for FIFA Online 3 in South Korea
Oct.	Japan: Acquired 100% ownership of gloops, the largest mobile social game developer in Japan

Full-Fledged Entrance into the Mobile Market with gloops and inBlue as Wholly-Owned Subsidiaries

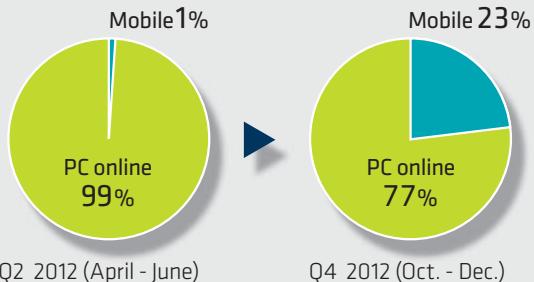
In fiscal year 2012, we made aggressive large-scale investments with the objective of expanding our business into the mobile game arena. Our full-fledged entrance into the mobile game market has attracted considerable attention, particularly in Japan.

Moving forward, we will expand our share of the browser game market and achieve a competitive advantage by leveraging the strengths of inBlue and gloops. At the same time, we will also further enhance our business foundation by making a strong entry into the native game market.

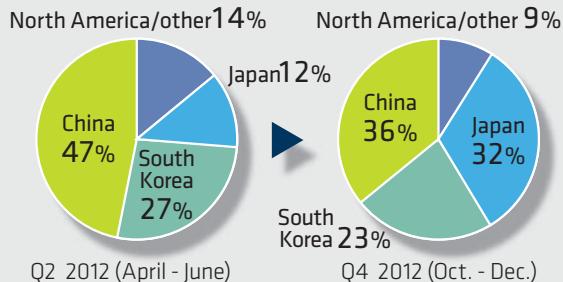
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  </div> <div style="text-align: center;">  </div> </div> <ul style="list-style-type: none"> ● The largest mobile social game development company in Japan's game industry ● Game development strengths: the successful incorporation of innovative game elements such as real-time guild battles ● A leading Japanese mobile social game development company with superior development capabilities ● Representative title <i>Barbarossa</i> was released on the GREE platform and became a top-ranking seller in the App Store 	<h3>Objectives / Benefits of Acquisition</h3> <ul style="list-style-type: none"> ▶ Establish a leading position in the mobile market, the largest segment of Japan's game market ▶ Acquire superior mobile game development capabilities ▶ Enhance growth by expanding our business into the mobile market
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Impact of gloops Acquisition

Revenue by Platform



Revenue by Region



We offer a portfolio of game titles covering a rich range of genres,

PC Online Games

Main Contents



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MapleStory

The first globally successful 2D side-scrolling action online game using avatars. Players go on adventures while battling mushrooms, pigs and other cute monsters in various island and village settings.



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Dungeon&Fighter

A 2D side-scrolling 2D action game featuring easy game play, dynamic visuals and an arcade feel. Players can form a party with multiple players to capitalize on the special skills of each character.



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Sudden Attack

Set in the central African country of Tanzirilo, this first-person shooter game portrays the battles of a UG-FORCE special forces unit sent to maintain order. Supporting gameplay on low-spec PCs, the game introduces a quick matching system and offers a realistic battlefield experience in a variety of modes.

New Contents



Copyright EA SPORTS™ FIFA Online 3

FIFA Online 3

The next PC online soccer game from the world-acclaimed FIFA games franchise by EA SPORTS. Around 15,000 athletes appear in the game including players from 32 soccer leagues and 45 national teams. The game provides enhanced appeal and gaming experience through next-generation technologies.



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DOTA 2

A PC online game comprised of five-on-five team battles. Players operate their own characters while working with team members to destroy the opposing team's stronghold. Based on Valve Corporation's latest game engine, this game features high-quality graphics and a superior matching system to enhance battle gameplay.



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Counter-Strike Online 2

A sequel to the first-person shooter Counter-Strike Online, which was successful in many countries worldwide. Based on a customized version of Valve Corporation's latest game engine, this sequel features even better graphics and game effects than its predecessor. It is in joint development by NEXON Korea and Valve Corporation.

responding to the increasing diversity of player needs

Mobile Games



©gloops, Inc.

Three Kingdoms Guild Battle

A real-time battle game in which players assemble their own units to command several hundred generals and tacticians from the Sangokushi (Romance of Three Kingdoms). The players form alliances, and use stratagems and secret techniques to collaborate and compete with other players.



©gloops, Inc.

Warriors of Odin

An extremely popular game enjoyed by more than 1.5 million users in Japan, the game takes place in a world based on Norse mythology. Players become warriors of the chief god Odin and compete with other guild members in preparation for the ultimate battle against the forces of darkness.



©gloops, Inc.

Maji Gate Summoner's Battle

In this popular game with more than 1.5 million users in Japan, players create decks from more than one thousand cards to subdue and catch monsters, turning them into cards. The social element provides ways for players to cooperate as the story progresses.



©gloops, Inc.

Guardians of the Royale

This strategy-oriented battle game provides the fiercest battles since the debut of the Super Smash Brothers series. Players fight for world peace as guardians belonging to a team known as Royale.



©gloops, Inc.

Crystal Crusade

In this real-time battle game with high-quality graphics, players can toggle jobs between three avatars depending on the battle situation, creating their own teams and collaborating with other players to challenge the Seven Great Evils.



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Mabinogi Social

A social game that unfolds in the world of the popular online game Mabinogi. As heroes leading "Mabi Knights," players form alliances to build the strongest Mabi Knight stage, battling other players and the forces of darkness.

Becoming the No.1 entertainment company as a global fun leader

We aim to lead the entertainment culture by providing amazing experiences to players worldwide through a wide range of entertainment businesses centered on gaming.

We are currently delivering over 60 game titles in more than 100 countries and regions in Asia, North America, South America, and Europe.

We will continue to grow as a global pioneer of the game industry.

Main Overseas Subsidiaries



NEXON Korea Corporation Est. December 1994
<http://www.nexon.com/>

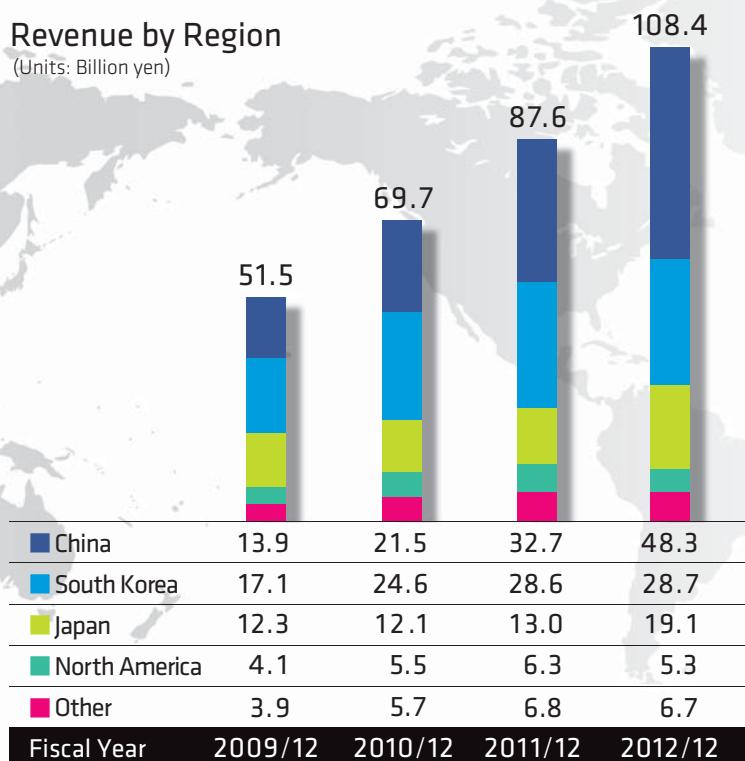


NEXON America Inc. Est. September 2005
<http://www.nexon.net/>



NEXON Europe S.à.r.l. Est. November 2010
<http://www.nexoneu.com/>

Revenue by Region
 (Units: Billion yen)



Activities aimed at creating a social environment emphasizing ties to the community and region

NEXON Safety School

With the spread of online games, there has been an increase in problems among youth with respect to communication and fee-charging methods. The "Safety School" section on NEXON's website distributes material for users, including netiquette teaching materials to educators.



Sponsorship

Through sponsorships of professional baseball teams both in Japan and South Korea, we aim to encourage the development of healthy youth.

Japan
Chiba Lotte Marines



©CHIBA LOTTE MARINES

South Korea
Lotte Giants



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NEXONHANDS

We have established the NEXONHANDS brand at our subsidiary NEXON Korea to represent the group's community service participation. Together with subsidiaries, we are taking action in three categories.

Creation

Global internships
NEXON developer conference

Culture

Establishment of the NEXON Mini Bookshop
Creation of a play space to nurture digital sensibility

Sharing

Concerts for children
Distribution of coal briquettes to elderly people living alone, and other activities



NEXON Mini Bookshop

Condensed Consolidated Financial Statements

Consolidated balance sheet (Millions of yen)

Account	As of December 31, 2011	As of December 31, 2012
Assets		
Current assets	150,722	155,310
Noncurrent assets	85,043	158,618
Property, plant and equipment	16,016	9,730
Intangible assets	44,074	73,436
Investments and other assets	24,952	75,451
Total assets	235,765	313,928
Liabilities		
Current liabilities	24,562	44,241
Noncurrent liabilities	33,316	54,761
Total liabilities	57,878	99,003
Net assets		
Shareholders' equity	191,219	218,703
Capital stock	50,300	51,342
Capital surplus	50,162	51,202
Retained earnings	90,757	116,158
Total accumulated other comprehensive income	(17,239)	(8,141)
Subscription rights to shares	455	786
Minority interests	3,451	3,576
Total net assets	177,886	214,925
Total liabilities and net assets	235,765	313,928

Consolidated statements of income (Millions of yen)

Account	From January 1, 2011 to December 31, 2011	From January 1, 2012 to December 31, 2012
Net sales	87,613	108,448
Cost of sales	14,948	18,551
Gross profit	72,665	89,897
Selling, general and administrative expenses	34,415	42,022
Operating income	38,249	47,874
Non-operating income	2,652	3,851
Non-operating expenses	3,997	7,184
Ordinary income	36,905	44,541
Extraordinary income	540	284
Extraordinary loss	1,944	4,209
Income before income taxes and minority interests	35,500	40,616
Total income taxes	9,953	15,285
Income before minority interests	25,547	25,330
Minority interests in loss	(208)	(70)
Net income	25,755	25,401

Consolidated statements of cash flows (Millions of yen)

Account	From January 1, 2011 to December 31, 2011	From January 1, 2012 to December 31, 2012
Operating activities	39,762	42,714
Investing activities	(29,486)	(113,711)
Financing activities	83,499	30,902
Effect of exchange rate change on cash and cash equivalents	(650)	6,893
Net increase or decrease in cash and cash equivalents	93,125	(33,199)
Cash and cash equivalents at beginning of period	24,473	117,598
Cash and cash equivalents at end of period	117,598	84,398

Corporate Overview & Shares Information

Corporate Profile (as of Dec. 31, 2012)

Corporate Name	NEXON Co., Ltd.
Founded	December 18, 2002
Location	3-1, Shinkawa, 2-chome, Chuo-ku, Tokyo 104-0033 Tel.03-3523-7911
Paid-in Capital	¥51,342 million
Number of employees	251
Average age	31.8
Business	<ul style="list-style-type: none"> •PC online game development and services •Mobile game development and services •Publishing •Portal site planning and management

Board of Directors (as of Dec. 31, 2012)

Chief Executive Officer and President	Seungwoo Choi
Chief Financial and Chief Administrative Officer	Owen Mahoney
Directors	Jiwon Park
	Jungju Kim
External Directors	Satoshi Honda
	Shiro Kuniya
Auditors	Toshishige Tanaka
	Iwao Ohtomo
	Ryoji Mori

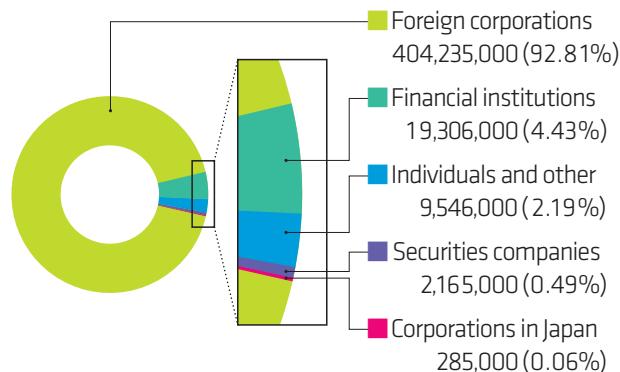
Corporate Shares Information (as of Dec. 31, 2012)

Number of authorized shares	1,400,000,000
Number of shares issued and outstanding	435,539,900
Number of shareholders	9,459

Major Shareholders (Top 10 as of Dec. 31, 2012)

Name	Number of Shares	Ownership
NXC Corporation	210,631,400	48.36%
NXMH B.V.B.A.	60,593,200	13.91%
CBHK-KOREA SECURITIES DEPOSITORY-SAMSUNG	24,967,700	5.73%
STATE STREET BANK AND TRUST COMPANY	11,698,479	2.68%
Min Seo	10,557,500	2.42%
NXMH B.V.	8,349,200	1.91%
Lee Seung Chan	5,500,000	1.26%
Japan Trustee Services Bank, Ltd. (Trust Account)	5,069,400	1.16%
KIM SANG BEOM	5,000,000	1.14%
NORTHERN TRUST CO. (AVFC) SUB A/C 5220	4,276,099	0.98%

Shareholder Breakdown (as of Dec. 31, 2012)



*Amounts of less than one thousand are rounded down to the nearest thousand.

IR Information

Fiscal year	From January 1 to December 31
Annual general meeting of shareholders	March
Record date	December 31
Dividend record dates	June 30 and December 31
The number of shares per unit	100 shares
Administrator of shareholder registry	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi, 1-chome, Chiyoda-ku, Tokyo
Contact	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Planning Department 8-4, Izumi, 2-chome, Suginami-ku, Tokyo 168-0063 ☎ 0120-782-031
Method for public notices	Electronic public notices are to be used. However, in the event that an accident or other unavoidable circumstances make it impossible to use an electronic public notice, the notice will be published in <i>Nihon Keizai Shimbun</i> . Public notices URL http://ir.nexon.co.jp/ir/kokoku.html



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