

# NEXON

B U S I N E S S R E P O R T



**NEXON**

BUSINESS REPORT TO SHAREHOLDERS

January 1 to December 31, 2013

Stock Code: 3659

# Globalization + Creativity

## A New Chapter for NEXON

This is my first Business Report since I was appointed President and CEO of Nexon – I am honored to have the opportunity to lead this company, and create value for our shareholders.

I would like to thank our shareholders for your continued strong support. I would also like to thank Seungwoo Choi for his extraordinary vision and his years of dedicated leadership, guiding our growth from a small, privately-held company into a publicly-traded, multinational industry leader.

We are proud of our accomplishments during 2013. Our China business demonstrated ongoing strength; we brought our Korea business back to growth through strong performance of new and existing titles; and we also made excellent progress on our long-term strategic initiatives, including a series of investments in studios around the world led by world-class management teams.

Looking forward, we will be focusing on three priorities to grow our business in 2014 and beyond. First is Products: to focus our resources to create the best online games in the world. Second is People: we will believe we are in a unique position to attract and retain the best people in the business. Third, we will leverage our unique capabilities in online games and our geographic footprint to expand our network of successful partnerships.

2014 will be a year of change for Nexon as the new leadership team refocuses the company on these three areas. We believe that these are the keys to unlocking substantial new growth for our company and our industry, and value for our shareholders.



**Owen Mahoney**

President and Chief Executive Officer

## We again achieved record levels for revenue and net income through business expansion in Chinese and Korean markets

### 2013 Annual Results

We continued to capitalize on our development and operating capability, and our strong overseas network to provide our players around the world with the content they desire.

In South Korea, there was strong performance among existing titles, and the successful launch of *FIFA Online 3*.

In China, performance was steady thanks to the contribution made by *Dungeon & Fighter* generating a significant cash flow.

Revenue was ¥155,300 million (an increase of 43.3% year-over-year), consolidated operating income ¥50,700 million (an increase of 7.3% year-over-year) and consolidated net income ¥30,100 million (an increase of 6.5% year-over-year).

### 2014 Business Outlook

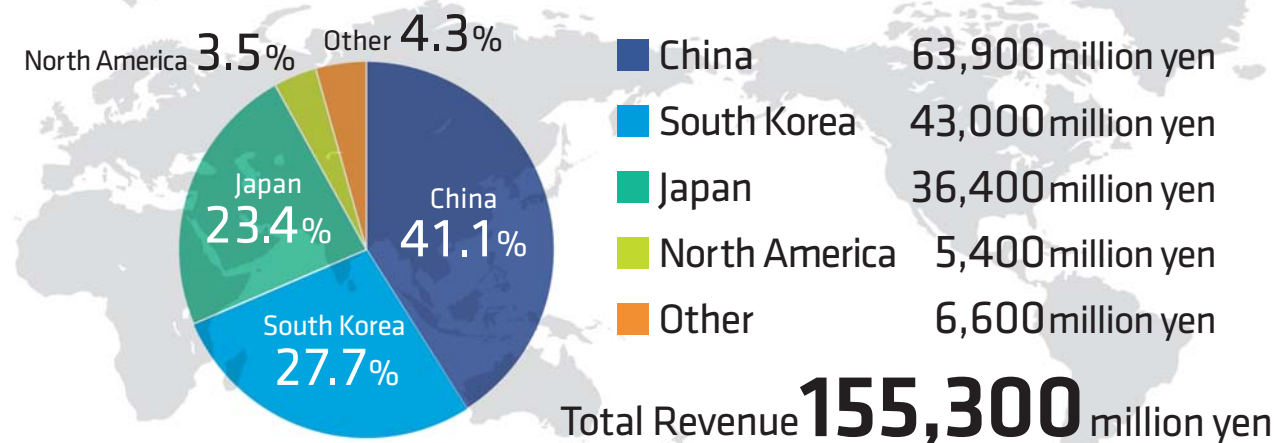
Our aim is to be the No. 1 Global Entertainment Company as the industry continues to move toward online, synchronous game play with free-to-play monetization.

Our priorities going forward are as follows:

- Sharpened focus on developing high-quality products
- Sharpened focus on excellence in live development
- Improve business in the West and Japan through content and operational improvements

We will continue to seek opportunities for partnerships with world-class developers to further expand our geographic footprint.

### Revenue by user location (Fiscal year 2013)



# We are following a flexible growth strategy in a rapidly-changing industry

The industry continues to undergo a platform transition toward online, synchronous game play with free-to-play monetization, a business model that we pioneered. We made progress toward our long-term strategic initiatives in 2013 by making strategic investments in

development companies headed by industry-leading talent to secure AAA content in the U.S. and Europe. We will continue to seek opportunities for investment, publishing agreements and other initiatives from a long-term and flexible perspective.

## 2013 Initiatives

- January 18**  
Social gaming business alliance with DeNA
- February 25**  
Strategic investment in Robotoki, a cutting-edge U.S. game development company
- April 22**  
Voluntary adoption of International Financial Reporting Standards (IFRS)
- June 3**  
Received A- credit rating from Japan Credit Rating Agency, Ltd.
- July 16**  
Strategic investment in U.S. social game development company SecretNewCo
- July 30**  
Strategic investment in U.S. game development company Rumble Entertainment
- September 10**  
Strategic investment in U.S. game development company Shiver Entertainment
- September 13**  
Acquired Korean game development company THINGSOFT
- October 24**  
Started commercial service of *Dota 2* in South Korea
- October 30**  
Strategic investment in Korean mobile game developer moonrabbit
- November 28**  
Started commercial service of *Counter-Strike Online 2* in Korea

## 2014 Priorities

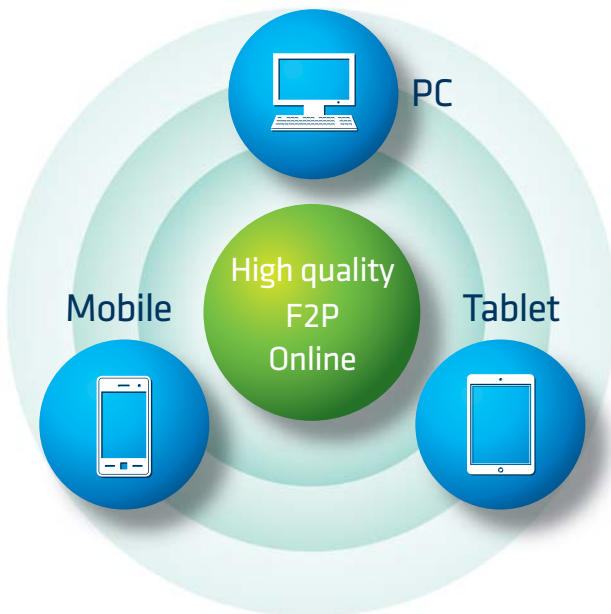
### Build and grow the best online games in the world

NEXON was founded in 1994 on the principle of delighting our users with the best online games. Looking ahead, we will sharpen our focus on quality.

#### Products

We believe that only the highest-quality, most original games will be truly successful. To this end, we will be narrowing Nexon's focus and resources to fewer better games.

Deliver the highest quality games  
across all platforms



#### People

To create radically innovative and entertaining games requires us to attract and retain the best people in the industry from around the world. We will further differentiate ourselves by offering developers the freedom to create the most exciting games, and the ability to reach our massive worldwide audience.

#### Partners

We have a uniquely strong track record in our industry of successful partnerships with leaders around the world, and a reputation for integrity and performance as a partner. We will continue to leverage our track record and capabilities to enter into significant new partnerships in 2014.

#### Main partners

##### China

- Tencent Holdings Limited
- Shanghai Post & Telecommunications Technology Co.,Ltd.

##### United States

- Electronic Arts Inc.
- Valve Corporation

##### Taiwan and Hong Kong

- Gamania Digital Entertainment Co.,Ltd.

##### Other regions

- AsiaSoft Corporation Public Company Limited

We offer a full lineup of game titles covering a rich range of genres,

## PC Online Games

NEXON is a worldwide leader in F2P online games, creating rich, deeply immersive games. Our lineup of PC online games includes around 60 titles with service in over 100 countries and regions.



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### MapleStory

MapleStory is a side-scrolling 2D action MMORPG where players advance by going on adventures. First serviced as a free-to-play game in Korea, MapleStory established the business model in Japan.



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### Dungeon&Fighter

Dungeon&Fighter is a 2D side-scrolling action RPG with a rich selection of character classes. Players undertake quests through dungeons to save the land of Arad, developing their skills along the way.



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### Mabinogi

Mabinogi is an online RPG based on ancient Celtic mythology. Characters can enjoy lifelike activities such as singing and sewing, in addition to going on quests in the mythical land of Erinn.



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Copyright © 2007 GameHi Co., Ltd. All Rights Reserved.

### Sudden Attack

Sudden Attack is a team vs. team FPS with a variety of modes. This game achieved longstanding popularity around the world through net café events and e-sports tournaments to decide the strongest team.



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### Vindictus

In development for 4 years, Vindictus is a groundbreaking realistic online action RPG. Advanced technology provides stunning graphics and lifelike renderings for a truly immersive experience.



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### Cyphers

Cyphers is an AoS developed by NEOPLE Inc. Set in a futuristic universe, players control characters with supernatural abilities in a team vs. team battle to destroy the opposing team's base.

## responding to the increasing diversity of player needs



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### Counter-Strike Online

Counter-Strike Online is a FPS developed in a partnership between NEXON Korea and Valve Corporation. This game is a realistic battle experience featuring missions, equipment and commando units.



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### FIFA Online 3

FIFA Online 3 is the next PC online soccer game from the world-acclaimed FIFA games franchise by EA SPORTS™. This game provides enhanced appeal and gaming experience through next-generation technologies.

## Mobile Games

NEXON is continually expanding to include new genres and platforms, leveraging our rich experience in developing immersive online games. Our M&A in 2012 expanded our diverse lineup with our full-fledged entrance to the mobile platform.



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### Euro Club Team Soccer Best☆Eleven+

Euro Club Team Soccer BEST\*ELEVEN+ is a card battle game featuring over 400 players from 17 European clubs. Players act as managers, collecting the best cards to become the top in the league.



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### SKYLOCK

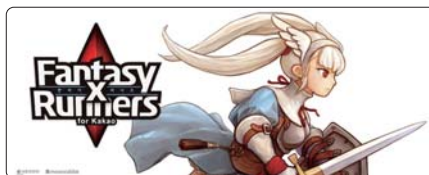
SKYLOCK is a RPG resulting from the collaboration of hit cartoon artist Daiki Miki and screenwriter Yusuke Watanabe. Players enjoy a rich story and battle monsters to stop the return of the evil Satanas.



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### Three Kingdoms Guild Battle

Three Kingdoms Guild Battle players use stratagems and secret techniques in real-time battles with opposing guilds. Beautiful artwork by famous manga artists adds to the popularity of the game.



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### Fantasy Runners for Kakao

Fantasy Runners for Kakao is a new genre combining side-scrolling action with RPG and social elements. A unique communication feature allows players to borrow a character from a fellow player.

## We are a global entertainment company

Our aim is to become the No. 1 Global Entertainment Company. We currently deliver around 60 online games in more than 100 countries and regions including Asia, North America, South America, and Europe.

We will continue to deliver even more fascinating online games to our users and aggressively grow our online business.

### Main Overseas Subsidiaries



**KOREA**

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



**U.S.A**

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

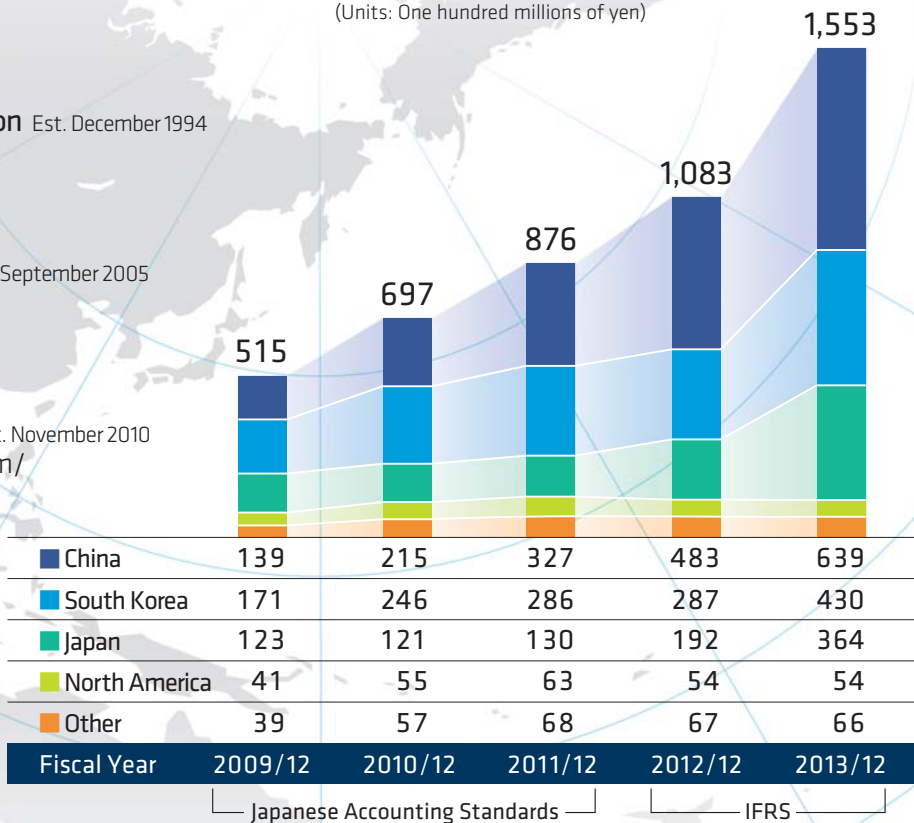


**LUXEMBOURG**

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

### Revenue by Region

(Units: One hundred millions of yen)



## Activities aimed at creating a social environment through our ties with the community and region

### Activities in Japan

At NEXON, we are actively involved in initiatives aimed at supporting healthy youth development and the prevention of Internet and online gaming problems.

#### ■ Support for career education

Through our activities such as our summer work experience program, we provide children with opportunities to think about work and their dreams for the future.

#### ■ Cooperation in Internet safety education

We distribute netiquette teaching materials and posters to educators.

#### ■ Efforts to prevent online-game trouble for children

We take measures such as setting payment limits to in-game purchases.

#### ■ Support for the healthy development of children

We are supporting the healthy development of children through initiatives such as the “NEXON and Chiba Lotte Marines Youth Baseball Camp.”



Summer work experience program



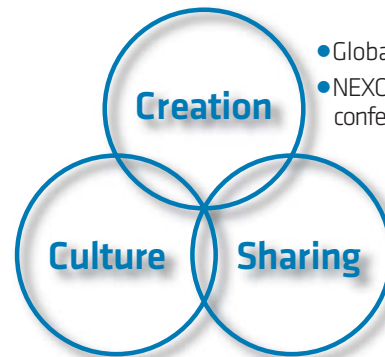
NEXON and Chiba Lotte Marines Youth Baseball Camp



Educational poster

### Overseas Activities

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.



- Global internships
- NEXON developer conference, and more

- Establishment of NEXON Mini Libraries
- Opening of play spaces to nurture digital sensibility
- Concerts for children
- Distribution of charcoal briquettes to elderly persons living alone, and other activities



NEXON Mini Library



## Consolidated Statement of Financial Condition (Units: millions of yen)

Account Items	Previous fiscal year As of December 31, 2012	Current fiscal year As of December 31, 2013
<b>Assets</b>		
Current assets	155,164	217,799
Non-current assets	165,024	201,052
Total assets	320,188	418,851
<b>Liabilities</b>		
Current liabilities	44,320	50,453
Non-current liabilities	53,623	55,339
Total liabilities	97,943	105,792
<b>Capital</b>		
Capital stock	51,342	51,952
Capital surplus	50,188	50,688
Treasury stock	—	(0)
Other components of capital	11,905	74,468
Retained earnings	105,293	131,374
Total capital attributable to owners of parent company	218,728	308,482
Non-controlling interests	3,517	4,577
Total capital	222,245	313,059
Total liabilities and capital	320,188	418,851

## Consolidated statements of income (Units: millions of yen)

Account Items	Previous fiscal year From January 1, 2012 to December 31, 2012	Current fiscal year From January 1, 2013 to December 31, 2013
Revenue	108,393	155,338
Cost of sales	(18,602)	(34,150)
Gross profit	89,791	121,188
Selling, general and administrative expenses	(39,073)	(59,575)
Other revenue	1,344	1,637
Other expenses	(4,795)	(12,545)
Operating income	47,267	50,705
Financial revenue	2,234	3,237
Financial expenses	(4,406)	(5,199)
Investment loss on equity method affiliates	(1,771)	(95)
Pretax net income	43,324	48,648
Income tax expenses	(15,165)	(18,343)
Net income	28,159	30,305

## Consolidated statements of cash flows (Units: millions of yen)

Account Items	Previous fiscal year From January 1, 2012 to December 31, 2012	Current fiscal year From January 1, 2013 to December 31, 2013
Operating activities	42,451	60,208
Investing activities	(112,155)	(6,345)
Financing activities	29,764	(13,033)
Net change in cash and cash equivalents	(39,940)	40,830
Cash and cash equivalents at beginning of period	117,599	84,736
Impact of exchange rate changes on cash and cash equivalents	7,077	13,277
Cash and cash equivalents at end of period	84,736	138,843

Note: With January 1, 2012 as the date of conversion to International Financial Reporting Standards (IFRS), from the current fiscal year our company is releasing consolidated financial statements based on IFRS. The data presented for the previous fiscal year is also based on IFRS.

# Corporate Overview & Share Information

## Corporate Profile (as of Dec. 31, 2013)

Corporate Name	NEXON Co., Ltd.
Founded	December 18, 2002
Location	2-3-1, Shinkawa, Chuo-ku, Tokyo 104-0033 Tel. 03-3523-7911
Paid-in Capital	¥51,868 million
Number of employees	266
Average age	32.4
Business	<ul style="list-style-type: none"> <li>•PC online game development and services</li> <li>•Mobile game development and services</li> <li>•Game publishing</li> <li>•Portal site planning and management</li> </ul>

## Board of Directors (as of Mar.25, 2014)

President and Chief Executive Officer	Owen Mahoney
Director	Jiwon Park
Director	Jungju Kim
External Director	Satoshi Honda
External Director	Shiro Kuniya
Full-time Statutory Auditor	Toshishige Tanaka
Statutory Auditor	Iwao Ohtomo
Statutory Auditor	Ryoji Mori

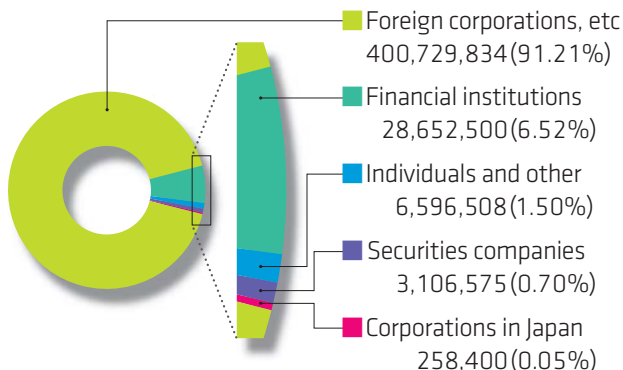
## Corporate Share Information (as of Dec. 31, 2013)

Total number of authorized shares	1,400,000,000
Number of shares issued	439,343,900
Number of shareholders	10,755

## Major Shareholders (Top 10 as of Dec. 31, 2013)

Name of Shareholders	Number of Shares (Thousand Shares)	Ratio (%)
NXC Corporation	198,631	45.21%
NXMH B.V.B.A.	72,593	16.52%
CBHK-KOREA SECURITIES DEPOSITORY-SAMSUNG	19,944	4.54%
STATE STREET BANK AND TRUST COMPANY	11,182	2.55%
Min Seo	10,557	2.40%
Japan Trustee Services Bank, Ltd. (Trust Account)	6,992	1.59%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,774	1.54%
CBNY-ORBIS SICAV	6,158	1.40%
CBNY-ORBIS FUNDS	4,749	1.08%
NORTHERN TRUST CO. (AVFC) SUB A/C 5220	4,589	1.04%

## Shareholder Breakdown (as of Dec. 31, 2013)



## 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 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Contact	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Planning Department 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063 ☎ 0120-782-031 URL <a href="http://www.smtb.jp/personal/agency/index.html">http://www.smtb.jp/personal/agency/index.html</a>
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 notices will be published in <i>Nihon Keizai Shimbun</i> . Public notices URL <a href="http://ir.nexon.co.jp/ir/kokoku.html">http://ir.nexon.co.jp/ir/kokoku.html</a>



**NEXON Co., Ltd.** 2-3-1, Shinkawa, Chuo-ku, Tokyo 104-0033

[www.nexon.co.jp](http://www.nexon.co.jp)