

NXC Corporation and Subsidiaries

Consolidated Financial Statements

December 31, 2016 and 2015

NXC Corporation and Subsidiaries

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December 31, 2016 and 2015

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
NXC Corporation

We have audited the accompanying consolidated financial statements of NXC Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
March 27, 2017

This report is effective as at March 27, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NXC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

<i>(in Korean won)</i>	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4,6,7,9	₩ 1,764,950,301,045	₩ 1,967,108,516,441
Financial assets at fair value through profit or loss	4,5,6,13	127,957,128,577	128,907,776,370
Trade receivables	4,6,8	296,077,868,577	337,854,693,922
Other financial assets	4,5,6,7,10,11	1,821,777,744,350	967,854,269,670
Other assets	12	97,194,586,042	45,564,685,751
Current tax assets		13,668,738,400	4,580,757,885
Inventories	14	23,477,172,381	21,050,639,722
		<u>4,145,103,539,372</u>	<u>3,472,921,339,761</u>
Non-current assets			
Available-for-sale financial assets	5,6,16	270,749,582,699	256,084,371,313
Other financial assets	4,5,6,7,10,11	81,852,049,489	77,005,471,952
Other assets	12	1,051,028,853	26,024,087,841
Property and equipment	17	249,671,169,796	250,090,696,634
Intangible assets	18	776,870,277,295	931,447,091,404
Investment property	19	31,689,927,310	23,703,650,015
Investment in associates	20	121,844,972,447	62,534,365,413
Deferred tax assets	26	66,873,940,654	25,885,699,273
		<u>1,600,602,948,543</u>	<u>1,652,775,433,845</u>
Total assets		<u>₩ 5,745,706,487,915</u>	<u>₩ 5,125,696,773,606</u>

NXC Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

<i>(in Korean won)</i>	Notes	2016	2015
Liabilities			
Current liabilities			
Trade payables	4,6	56,566,770,069	52,720,617,576
Borrowings	4,6,22	268,340,072,908	176,908,825,902
Other financial liabilities	4,5,6,11,21,39	137,750,939,587	131,747,510,282
Other liabilities	23	122,660,469,679	118,417,665,384
Provisions	24	305,751,101	238,385,919
Current tax liabilities		<u>109,641,915,326</u>	<u>96,941,140,654</u>
		<u>695,265,918,670</u>	<u>576,974,145,717</u>
Non-current liabilities			
Borrowings	4,6,22	9,185,471,275	141,774,813,591
Other financial liabilities	4,5,6,21,39	22,200,703,919	21,806,024,142
Other liabilities	23	86,691,667,837	19,213,366,891
Provisions	24	5,336,027,265	3,168,127,821
Net defined benefit liabilities	25	2,571,349,282	2,153,985,587
Deferred tax liabilities	26	<u>281,322,014,774</u>	<u>100,819,692,712</u>
		<u>407,307,234,352</u>	<u>288,936,010,744</u>
Total liabilities		<u>1,102,573,153,022</u>	<u>865,910,156,461</u>
Equity attributable to owners of the Parent Company			
Share capital	27	1,454,250,000	1,454,250,000
Share premium	27	5,257,138,814	5,257,138,814
Other components of equity	28	626,475,566,550	301,429,838,748
Retained earnings	29	2,201,346,819,628	2,337,540,138,726
Non-controlling interest	40	<u>1,808,599,559,901</u>	<u>1,614,105,250,857</u>
Total equity		<u>4,643,133,334,893</u>	<u>4,259,786,617,145</u>
Total liabilities and equity		<u>₩ 5,745,706,487,915</u>	<u>₩ 5,125,696,773,606</u>

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

NXC Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

<i>(in Korean won)</i>	Notes	2016		2015	
Revenue	31	₩	2,157,279,133,253	₩	1,976,638,534,843
Cost of sales	33				
Cost of service			527,183,976,271		541,571,641,959
Cost of finished goods sold			86,293,520,959		85,433,926,122
			<u>613,477,497,230</u>		<u>627,005,568,081</u>
Gross profit			1,543,801,636,023		1,349,632,966,762
Selling and administrative expenses	32,33		<u>792,538,087,840</u>		<u>712,076,759,736</u>
Operating profit			751,263,548,183		637,556,207,026
Other income	34		42,251,364,689		166,987,624,993
Other expenses	34		372,951,394,218		108,437,915,570
Financial income	35		165,286,030,249		93,588,545,266
Financial costs	35		88,237,702,363		61,133,793,738
Share of net profit of associates using equity method	20		<u>3,117,614,673</u>		<u>4,410,923,345</u>
Profit before income tax			500,729,461,213		732,971,591,322
Income tax expense	26		<u>325,084,644,718</u>		<u>187,419,805,648</u>
Profit for the period		₩	<u>175,644,816,495</u>	₩	<u>545,551,785,674</u>
Profit is attributable to:					
Owners of the Parent Company		₩	83,764,051,571	₩	314,374,802,865
Non-controlling interests			91,880,764,924		231,176,982,809
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities	25	₩	(86,883,618)	₩	(38,112,228)
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of available-for-sale financial assets	16		(12,197,084,681)		(53,071,559,005)
Gain on valuation of derivatives			-		349,760,662
Share of other comprehensive income of associates	20		463,617,009		910,879,912
Exchange differences on translating foreign operations			93,279,859,411		50,374,564,164
			<u>81,459,508,121</u>		<u>(1,474,466,495)</u>
Total comprehensive income for the period		₩	<u>257,104,324,616</u>	₩	<u>544,077,319,179</u>
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company		₩	136,283,641,056	₩	308,297,288,259
Non-controlling interest			120,820,683,560		235,780,030,920

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

NXC Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

	Notes	Attributable to owners of the Parent Company					Non-controlling Interest	Total equity
		Share capital	Share premium	Other components of equity	Retained earnings	Total		
<i>(in Korean won)</i>								
Balance at January 1, 2015		₩ 2,023,659,000	₩ 5,257,138,814	₩ 300,342,314,623	₩ 2,032,073,319,848	₩ 2,339,696,432,285	₩ 1,234,706,699,200	₩ 3,574,403,131,485
Total comprehensive income:								
Profit for the period		-	-	-	314,374,802,865	314,374,802,865	231,176,982,809	545,551,785,674
Other comprehensive income		-	-	(6,054,030,620)	-	(6,054,030,620)	4,617,676,353	(1,436,354,267)
Remeasurements of net defined benefit liabilities	25	-	-	-	(23,483,987)	(23,483,987)	(14,628,241)	(38,112,228)
Total transactions with owners								
Capital reduction with consideration paid		(26,500,000)	-	(70,100,715,000)	-	(70,127,215,000)	-	(70,127,215,000)
Capital reduction without consideration paid		(542,909,000)	-	542,909,000	-	-	-	-
Dividends paid		-	-	-	(8,884,500,000)	(8,884,500,000)	-	(8,884,500,000)
Dividends of subsidiaries paid		-	-	-	-	-	(15,770,978,909)	(15,770,978,909)
Changes in shares of subsidiaries		-	-	78,939,803,974	-	78,939,803,974	139,012,684,672	217,952,488,646
Share-based payment associated with share options of subsidiaries	30	-	-	-	-	-	17,787,852,343	17,787,852,343
Changes in scope of consolidation		-	-	(2,240,443,229)	-	(2,240,443,229)	2,588,962,630	348,519,401
Balance at December 31, 2015		₩ 1,454,250,000	₩ 5,257,138,814	₩ 301,429,838,748	₩ 2,337,540,138,726	₩ 2,645,681,366,288	₩ 1,614,105,250,857	₩ 4,259,786,617,145
Balance at January 1, 2016		₩ 1,454,250,000	₩ 5,257,138,814	₩ 301,429,838,748	₩ 2,337,540,138,726	₩ 2,645,681,366,288	₩ 1,614,105,250,857	₩ 4,259,786,617,145
Total comprehensive income:								
Profit for the period		-	-	-	83,764,051,571	83,764,051,571	91,880,764,924	175,644,816,495
Other comprehensive income		-	-	52,565,887,154	6,742,052	52,572,629,206	28,973,762,533	81,546,391,739
Remeasurements of net defined benefit liabilities	25	-	-	-	(53,039,721)	(53,039,721)	(33,843,897)	(86,883,618)
Total transactions with owners								
Recovery of loss on capital reduction		-	-	199,551,573,000	(199,551,573,000)	-	-	-
Dividends paid		-	-	-	(20,359,500,000)	(20,359,500,000)	-	(20,359,500,000)
Dividends of subsidiaries paid		-	-	-	-	-	(19,690,958,601)	(19,690,958,601)
Changes in shares of subsidiaries		-	-	72,928,267,648	-	72,928,267,648	66,821,278,227	139,749,545,875
Share-based payment associated with share options of subsidiaries	30	-	-	-	-	-	22,767,380,431	22,767,380,431
Changes in scope of consolidation		-	-	-	-	-	3,775,925,427	3,775,925,427
Balance at December 31, 2016		₩ 1,454,250,000	₩ 5,257,138,814	₩ 626,475,566,550	₩ 2,201,346,819,628	₩ 2,834,533,774,992	₩ 1,808,599,559,901	₩ 4,643,133,334,893

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

NXC Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

<i>(in Korean won)</i>	Notes	2016	2015
Cash flows from operating activities			
Cash generated from operations	36	943,426,264,463	761,569,412,898
Interest received		36,540,822,518	35,024,632,462
Interest paid		(6,016,083,656)	(9,707,347,088)
Dividends income		2,964,337,436	20,432,093,635
Income tax paid		(196,459,985,254)	(229,995,206,242)
Net cash inflow from operating activities		<u>780,455,355,507</u>	<u>577,323,585,665</u>
Cash flows from investing activities			
Decrease in financial deposits		1,512,690,084,637	1,182,076,718,972
Increase in financial deposits		(2,349,088,117,828)	(1,189,805,057,525)
Decrease in financial assets at fair value through profit or loss		127,987,641,844	259,691,757,512
Increase in financial assets at fair value through profit or loss		(125,049,919,314)	(232,984,072,708)
Decrease in available-for-sale financial assets	16	12,316,662,282	639,663,033,515
Increase in available-for-sale financial assets	16	(55,661,407,955)	(150,684,422,273)
Decrease in other receivables		56,526,384,111	13,168,645,154
Increase in other receivables		(60,008,809,156)	(2,403,942,740)
Disposal of property and equipment	17	1,379,695,574	706,065,079
Acquisition of property and equipment	17	(35,938,461,167)	(24,801,310,935)
Disposal of intangible assets	18	517,245,480	701,977,572
Acquisition of intangible assets	18	(6,261,960,213)	(24,842,013,469)
Acquisition of investment property	19	(8,959,602,303)	(77,577,877)
Acquisition of investment in associates	20	(60,693,832,400)	(1,000,000,000)
Disposal of investment in subsidiaries		-	59,382,172,627
Contingent consideration	37	(350,009,608)	(6,926,795,536)
Business combination	39	(88,389,648,611)	(19,466,206,034)
Net cash inflow(outflow) from investing activities		<u>(1,078,984,054,627)</u>	<u>502,398,971,334</u>
Cash flows from financing activities			
Capital reduction with consideration paid		-	(70,127,215,000)
Increase in short-term borrowings		444,646,011,019	300,621,661,724
Decrease in short-term borrowings		(434,841,338,487)	(413,818,826,654)
Redemption of current portion of borrowings		(44,068,588,916)	(240,017,641,430)
Increase in long-term borrowings		-	49,430,166,100
Decrease in long-term borrowings		-	(123,361,025,520)
Decrease in financial lease liabilities		(1,405,023,034)	(3,262,127,679)
Dividends paid		(20,359,500,000)	(8,884,500,000)
Dividends of subsidiaries paid		(19,690,958,601)	(15,770,978,909)
Transactions with equity holders of the Company		145,086,906,370	220,394,135,624
Net cash inflow(outflow) from financing activities		<u>69,367,508,351</u>	<u>(304,796,351,744)</u>
Net increase (decrease) in cash and cash equivalents		(229,161,190,769)	774,926,205,255
Cash and cash equivalents at the beginning of the year		1,967,108,516,441	1,122,293,940,854
Effects of exchange rate changes on cash and cash equivalents		27,002,975,373	69,888,370,332
Cash and cash equivalents at the end of the year		<u>1,764,950,301,045</u>	<u>1,967,108,516,441</u>

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

NXC Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. General Information

NXC Corporation (the Parent Company) and its subsidiaries (collectively 'the Group') primarily engage in the business of game development and services, and lease and investment of real estate. The Group's offices are located in Korea, Japan, United States and other locations.

As at December 31, 2016, the Parent Company's paid-in capital amounted to ₩1,454 million after several capital increases and the Parent Company's shareholders consist of Mr. Kim Jeong-Ju and four others.

1.1 Consolidated Subsidiaries

Details of the consolidated subsidiaries as at December 31, 2016 and 2015, are as follows:

Subsidiaries	Location	Percentage of ownership (%)		Closing month	Controlling company
		2016	2015		
NEXON Co., Ltd.	Japan	55.47	57.87	December	The Parent Company and one other
NXMH B.V.B.A. ¹	Belgium	100.00	100.00	December	The Parent Company
NXCL Corporation	Korea	100.00	100.00	December	The Parent Company
VIP Private Equity Fund	Korea	100.00	100.00	December	The Parent Company
Alignment B-Corp CircleUp Fund LLC	USA	100.00	100.00	December	The Parent Company
ATMedia Investor LLC	USA	95.22	83.00	December	The Parent Company
NXC, LLC	USA	100.00	-	December	The Parent Company
NX Bricks	Korea	100.00	-	December	The Parent Company
Tokyo Precision	Japan	100.00	-	December	The Parent Company
Simple Capital Future, LLC	USA	100.00	-	December	NXC, LLC
Innovative Fund, LLC (formerly Future Foods, LLC) ²	USA	66.82	100.00	December	NXC, LLC
FutureFood, LLC	USA	80.00	80.00	December	Innovative Fund, LLC
NEXON Korea Corporation	Korea	100.00	100.00	December	Nexon Co., Ltd.
Nexon America, Inc.	USA	100.00	100.00	December	Nexon Co., Ltd.
Nexon Software Development (Shanghai) Co., Ltd.	China	100.00	100.00	December	Nexon Co., Ltd.
gloops Inc.	Japan	100.00	100.00	December	Nexon Co., Ltd.
Fantage.com Inc.	USA	58.57	58.57	December	Nexon Co., Ltd.
NEXON Europe GmbH	Germany	100.00	100.00	December	Nexon Co., Ltd.
Nexon M (formerly gloops International Inc.)	USA	100.00	100.00	December	Nexon Co., Ltd.
Neople Inc.	Korea	100.00	100.00	December	NEXON Korea Corporation
Nexon GT Co., Ltd.	Korea	64.85	63.16	December	NEXON Korea Corporation
Nexon Networks Corporation	Korea	100.00	100.00	December	NEXON Korea Corporation
NDOORS Corporation	Korea	100.00	100.00	December	NEXON Korea Corporation
Nexon Communications	Korea	100.00	100.00	December	NEXON Korea Corporation
Nexon Space Co., Ltd.	Korea	100.00	100.00	December	NEXON Korea Corporation
Neon Studio Corporation	Korea	100.00	100.00	December	NEXON Korea Corporation
Boolean Games	Korea	100.00	100.00	December	NEXON Korea Corporation

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Subsidiaries	Location	Percentage of ownership (%)		Closing month	Controlling company
		2016	2015		
Rushmo Co.,Ltd. ³	Korea	100.00	100.00	December	NEXON Korea Corporation
NEXON Taiwan Ltd.	Taiwan	100.00	100.00	December	NEXON Korea Corporation
NEXON US Holding Inc.	USA	100.00	-	December	NEXON Korea Corporation
N Media Platform Co.,Ltd.	Korea	100.00	-	December	NEXON Korea Corporation
NSC CO.,LTD.	Korea	100.00	-	December	NEXON Korea Corporation
i Digital Connect Co., Ltd. ⁴	Thailand	49.00	-	December	NEXON Korea Corporation
THINGSOFT Inc.	Korea	100.00	100.00	December	Neople Inc.
Rushmo America, Inc.	USA	100.00	100.00	December	Rushmo Co.,Ltd.
gloops Vietnam Co., Ltd.	Vietnam	100.00	100.00	December	gloops Inc.
Well Games Co.,Ltd.	Korea	100.00	-	December	Nexon GT Co.,Ltd.
COMLIE.INC	Japan	-	100.00	December	gloops Inc.
Big Huge Games Inc.	USA	100.00	-	December	Nexon US Holding Inc.
BRICKLINK LIMITED	Hong Kong	100.00	100.00	December	NXMH B.V.B.A.
NXMH LLC	USA	100.00	100.00	December	NXMH B.V.B.A.
NXMH AS	Norway	100.00	100.00	December	NXMH B.V.B.A.
347 BOWERY COMMERCIAL HOLDINGS, LLC	USA	100.00	-	December	NXMH LLC
Stokke AS	Norway	100.00	100.00	December	NXMH AS
Stokke Amerika AS	Norway	100.00	100.00	December	Stokke AS
Stokke Fabriker AB	Sweden	100.00	100.00	December	Stokke AS
Stokke Danmark ApS	Denmark	100.00	100.00	December	Stokke AS
Stokke Nederland BV	Netherlands	100.00	100.00	December	Stokke AS
Stokke GmbH	Germany	100.00	100.00	December	Stokke AS
Stokke GesmbH	Austria	100.00	100.00	December	Stokke AS
Stokke AG	Switzerland	100.00	100.00	December	Stokke AS
Stokke France S.A.	France	100.00	100.00	December	Stokke AS
Stokke UK LTD	UK	100.00	100.00	December	Stokke AS
Stokke Mobiliario SL	Spain	100.00	100.00	December	Stokke AS
Stokke SRL	Italy	100.00	100.00	December	Stokke AS
Stokke Hong Kong Limited	Hong Kong	100.00	100.00	December	Stokke AS
Stokke Ltd (Japan)	Japan	100.00	100.00	December	Stokke AS
Stokke Korea Co., Ltd	Korea	100.00	100.00	December	Stokke AS
Stokke China Ltd	China	100.00	100.00	December	Stokke AS
Stokke RU LLC	Russia	100.00	100.00	December	Stokke AS
Stokke LLC	USA	100.00	100.00	December	Stokke Amerika AS

¹ NXMH B.V.B.A changed its fiscal year end from September to December for the year ended December 31, 2016.

² Innovative Fund, LLC (formerly Future Foods, LLC) merged with InnovativeFund, LLC, its associate, and changed its name from Future Foods, LLC to Innovative Fund, LLC for the year ended December 31, 2016.

³ Due to the intercompany transactions, NEXON Korea Corporation became the Parent Company

NXC Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
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of Rushmo Co.,Ltd. from NEXON Co.,Ltd..

⁴ Although the Group owns less than 50% of the voting rights of i Digital Connect Co., Ltd., the Group has conclude that i Digital Connect Co., Ltd. is a subsidiary. This is because the Group can determine the financial and operating policies.

1.2 Summarized Financial Information on Significant Subsidiaries

Summarized financial information for significant consolidated subsidiaries as at and for the periods ended December 31, 2016 and 2015, is as follows:

(In thousands of Korean won)

	2016				
	Assets	Liabilities	Equity	Sales	Profit (loss) for the period
NEXON Co., Ltd. and its subsidiaries	₩4,564,855,793	₩669,430,651	₩3,895,425,142	₩1,954,835,352	₩209,461,814
NXMH B.V.B.A.	1,585,392,039	132,335,353	1,453,056,686	961,745	(7,982,617)
NXMH AS and its subsidiaries	578,306,506	233,424,567	344,881,939	200,787,265	20,810,459
BrickLink Limited.	8,942,306	14,925	8,927,381	139,193	(269,805)
NXCL Corporation	2,522,605	270,121	2,252,484	1,507,913	(1,047,759)

(In thousands of Korean won)

	2015				
	Assets	Liabilities	Equity	Sales	Profit (loss) for the period
NEXON Co., Ltd. and its subsidiaries	₩4,118,606,511	₩448,458,425	₩3,670,148,086	₩1,791,254,208	₩593,474,004
NXMH B.V.B.A.	1,537,673,012	128,671,066	1,409,001,946	626,125	42,053,460
NXMH AS and its subsidiaries	569,624,568	260,242,736	309,381,832	183,690,054	11,357,181
BrickLink Limited.	8,700,484	904	8,699,580	135,425	(31,046)
NXCL Corporation	2,679,713	377,730	2,301,983	1,259,161	(1,891,424)

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1.3 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2016:

Location	Subsidiary	Reason
USA	NXC,LLC	Newly established
Korea	NX Bricks	Newly established
Japan	Tokyo Precision	Newly established
USA	Simple Capital Future, LLC	Newly established
USA	NEXON US Holding Inc.	Newly established
Korea	N Media Platform Co.,Ltd.	Newly acquired
Korea	NSC CO.,LTD.	Newly acquired
Korea	Well Games Co.,Ltd.	Newly acquired
Thailand	i Digital Connect Co., Ltd.	Newly acquired
USA	Big Huge Games Inc.	Newly acquired
USA	347 BOWERY COMMERCIAL HOLDINGS, LLC	Newly established

Subsidiaries excluded from the consolidation for the year ended December 31, 2016:

Location	Subsidiary	Reason
Japan	COMLIE.INC	Liquidated

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any material impact on the consolidated financial statements.

- Disclosure Initiative – Amendments to Korean IFRS 1001 Presentation of Financial Statements

Korean IFRS 1001 *Presentation of Financial Statements* clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. And also, clarifies that the share of OCI arising from equity-accounted should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to a particular order of the notes and other.

- Agriculture: Bearer Plants – Amendments to Korean IFRS 1016 Property, Plant and Equipment, and Korean IFRS 1041 Agriculture

Korean IFRS 1041 *Agriculture* now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as Korean IFRS 1016 *Property, Plant and Equipment*.

- Clarification of Acceptable methods of Depreciation and Amortization – Amendments to Korean IFRS 1016 Property, Plant and Equipment, and Korean IFRS 1038 Intangible assets

Amendments to Korean IFRS 1016 *Property, Plant and Equipment* clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 *Intangible assets* now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

- Investment entities: Applying the Consolidation Exception – Amendments to Korean IFRS 1110 Consolidated Financial Statements, Korean IFRS 1028 Investments in Associates and Joint Ventures, and Korean IFRS 1112 Disclosures of Interests in Other Entities

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

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- Amendments made to Korean IFRS 1028 *Investments in Associates and Joint Ventures* clarify that entities which are not investment entities but have an interest in an associate which is an investment entity have a policy choice when applying the equity method of accounting.
- Amendments made to Korean IFRS 1112 *Disclosures of Interests in Other Entities* clarify that an investment entity which does not prepare consolidated financial statements should present disclosures relating to investment entities required by Korean IFRS 1112.

- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111 *Joint Arrangements*

Amendments to Korean IFRS 1111 *Joint Arrangements* clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.

- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Annual Improvements to Korean IFRS 2012-2014 *Cycle* consist of the following amendments. The application does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operation* – clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not have to be accounted for as such.
- Korean IFRS 1107 *Financial Instruments: Disclosures* – clarifies the specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement', and also clarifies that the additional disclosures relating to the amendments in 2012 *'Offsetting of Financial Assets and Financial Liabilities'* only need to be included in interim reports if required by Korean IFRS 1034 *Interim Financial Reporting*.
- Korean IFRS 1019 *Employee Benefits* clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important, and not the country where they arise.
- Korean IFRS 1034 *Interim Financial Reporting* clarifies what is meant by the reference in the standard to *'information disclosed elsewhere in the interim financial report'*; and also amended requirements for a cross-reference from the interim financial statements to the location of that information.

- Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

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(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 *Statement of Cash flows* requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Group will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Group will apply the amendments for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 Share-based Payment

Amendments to IFRS 2 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Group will apply the amendments for annual periods beginning on or after January 1, 2018 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 Financial Instruments

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

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Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018, and earlier application is permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*. The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as of January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2016, the Group is monitoring the necessity of changing internal control process and accounting system in relation to implementation of Korean IFRS 1115. Also, the Group is analyzing the financial effects of applying the standard. The Group plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the consolidated financial statement as at December 31, 2017.

The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

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2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Parent Company controls an entity when the Parent Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the change in carrying amount recognized in profit or loss.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint

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control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on

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trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(b) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The Group considers that there is objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments for more than three months is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost by more than 50%, or prolonged decline for more than 12 months is considered an objective evidence of impairment.

(c) Derecognition

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the

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liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

The Group has entered into derivative financial instruments, including foreign exchange forward contracts and interest rate swaps, in purpose of selling in short term or managing its exposure to interest rate risk and foreign exchange rate risk. These derivatives are presented as other financial assets (liabilities) in the consolidated statement of financial position, regardless of retention purposes and subsequent measurement standards.

The Group designated some derivatives as hedging instruments to hedge risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge), and cash flow risk (a cash flow hedge).

At the inception of the hedging transaction, the Group has designated and documented the relationship between hedging instruments and hedged items, as well as its objectives in risk management and strategy for undertaking various hedging transactions. The document contains hedging instrument, hedged items, nature of hedge, and assessment of whether the hedging instrument are highly effective in offsetting risk of changes in fair value of hedged items.

(a) Derivative financial instruments for trading

Derivative financial instruments, other than the derivatives that are effective in hedge, are measured at fair value. Gain or loss on valuation of fair value is recognized in consolidated statement of comprehensive income as 'finance income or cost'.

(b) Derivative financial instruments for fair value hedge

Changes in the fair value of a derivative financial instrument, designated as hedging instrument and satisfied the criteria for fair value hedge accounting, are recognized in profit or loss as well as changes in fair value of hedged items. The change in fair value of hedging instrument and hedged items are all recognized in consolidated statement of comprehensive income as part of profit or loss. The fair value accounting is discontinued if the hedging instrument is expired, sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized and recognized in profit or loss from the date the hedge accounting is discontinued.

(c) Derivative financial instruments for cash flow hedge

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The effective portion of changes in fair value of derivatives that are designated and qualify as fair value hedges is recognized as other comprehensive income, and the ineffective portion is recognized immediately in profit or loss. The previously recognized profit or loss in other comprehensive income is reclassified as 'reclassification adjustment' from equity to profit or loss during accounting period that is in effect of expected cash flow related with the hedge. If the hedging instrument no longer meets the criteria for hedge accounting; the hedging instrument is expired, sold, terminated, or exercised; or the designation is revoked; then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the gross average method.

2.8 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.9 Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful life
Building	40 years
Structure	15
Tools and equipment	3 - 8
Leasehold improvements	3
Others	3

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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2.10 Intangible Assets

Goodwill is measured as described in Note 2.3 (a), and carried at cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Intellectual property	5 - 80 years
Software	3
Others	1 - 10

2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the consolidated statement of financial position either by deducting the grant in arriving at the carrying amount of the asset, and government grants related to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.12 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

2.13 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of

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disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.14 Financial Liabilities

(a) Classification and measurement

The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other financial liabilities' in the consolidated statement of financial position.

(b) Derecognition

Financial liabilities are removed from the consolidated statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.15 Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

2.16 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated

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financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.17 Employee Benefits

(a) Post-employment benefits

The Group operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or

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curtailments are recognized immediately in profit or loss as past service costs.

(b) Other long-term employee benefits

Certain entities within the Group provide long-term employee benefits that are entitled to employees with certain service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the period. These liabilities are valued annually by an independent qualified actuary.

(c) Share-based payments

Equity-settled share-based payment is recognized at fair value of equity instruments granted, and employee benefit expense is recognized over the vesting period. At the end of each period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Compensation expenses arising from share-based payments granted by subsidiaries are recognized according to the ownership interest of equity holders of the Parent Company and non-controlling interest, and re-classified as non-controlling interest in consolidated statement of financial position.

(d) Annual paid leave

The Group recognizes expenses and liabilities related to annual paid leave during an accounting period when an employee has rendered service that gives rise to employee's entitlement to future annual paid leave.

2.18 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

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(b) Sale of virtual goods

The Group provides online games to individual customers for free. However, the Group sells virtual items that are used in online games at a cost. Revenue from the sales of item is recognized when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably. Revenue from the sales of item is generally recognized on a straight-line basis over the period for which the item is expected to be used (Note 3).

(c) Sale of goods

Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler.

(d) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.19 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

If the Group is a lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

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2.20 Approval of Issuance of the Financial Statements

The consolidated financial statements as at and for the year ended December 31, 2016 were approved for issue by the Board of Directors on February 28, 2017 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of consolidated financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 18).

(b) Estimates on using period of game item

The Group provides the online games (PC and mobile) for free to individual users and sells virtual items that are used in the free game. Revenue from the sale of the item is deferred and recognized over the period of expected use of the item. In order to estimate the period of expected use, the Group analyzes certain factors including the behaviour patterns of users by considering the nature of items and games. In addition, the Group continuously reviews the possibility of changes in the estimates. The revenue from the sale of the items is recognized over the period during which the items are expected to be used based on the result of past performance and this can be changed depending on the changes in future market conditions and users.

(c) Income taxes

The Group's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 26).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent

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on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(d) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

4. Financial Risk Management

4.1 Financial Risk Management Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures.

Management reviews and approves principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

4.1.1 Market Risk

(a) Foreign exchange rate risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the Japanese yen, Chinese yuan and US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign entities.

The Group's financial assets and liabilities exposed to foreign currency risk as at December 31, 2016 and 2015, are as follows:

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Korean won)

	2016		2015	
	Foreign currency financial assets	Foreign currency financial liabilities	Foreign currency financial assets	Foreign currency financial liabilities
USD	₩ 2,083,044,987	₩ 33,009,414	₩ 1,631,130,970	₩ 26,814,746
JPY	198,399,412	139,343,927	96,505,269	139,546,727
CNY	234,643,845	665	216,067,114	-
Others	34,656,947	27,720,836	15,314,628	21,050,330

The table below summarizes the impact of weakened/strengthened Korean won on the Group's equity and post-tax profit for the period. The analysis is based on the assumption that Korean won has weakened/strengthened by 10% with all other variables held constant.

(in thousands of
Korean won)

	Impact on post-tax profit		Impact on equity		
	2016	2015	2016	2015	
USD	Strengthened	₩ 155,392,696	₩ 133,709,993	₩ 155,392,696	₩ 121,607,170
	Weakened	(155,392,696)	(133,709,993)	(155,392,696)	(121,607,170)
JPY	Strengthened	4,476,406	(3,168,386)	4,476,406	(3,262,542)
	Weakened	(4,476,406)	3,168,386	(4,476,406)	3,262,542
CNY	Strengthened	17,785,953	16,494,105	17,785,953	16,377,887
	Weakened	(17,785,953)	(16,494,105)	(17,785,953)	(16,377,887)
Other	Strengthened	525,757	(434,766)	525,757	(434,766)
	Weakened	(525,757)	434,766	(525,757)	434,766

(b) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss.

As at December 31, 2016 and 2015, the impact of increases/decreases of the share price by 10% with all other variables held constant on the Group's post-tax profit for the periods and equity is as follows:

(in thousands of
Korean won)

	Impact on post-tax profit		Impact on equity		
	2016	2015	2016	2015	
Listed equity securities	Increase	₩ 9,699,150	₩ 9,638,165	₩ 12,394,079	₩ 11,871,835
	Decrease	(9,699,150)	(9,638,165)	(12,394,079)	(11,871,835)

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(c) Interest rate risk

Interest rate risk is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises on floating rate borrowings.

The table below summarizes the impact of increases/decreases of interest rate on the Group's equity and post-tax profit for the period. The analysis is based on the assumption that the interest rate has increased/decreased by 0.1% (10 basis points) with all other variables held constant.

<i>(in thousands of Korean won)</i>	Impact on post-tax profit				Impact on equity			
	2016		2015		2016		2015	
Increase	₩	(88,070)	₩	(108,855)	₩	(88,070)	₩	(108,855)
Decrease		88,070		108,855		88,070		108,855

4.1.2 Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions only parties of few risk are accepted and the Group has transactions with major customers with sound financial positions. Management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk equals to the book amount.

4.1.3 Liquidity Risk

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and, if applicable external regulatory or legal requirements – for example, currency restrictions.

The Group invests surplus cash in money market deposits, time deposits, and marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity.

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Details of the Group's liquidity risk analysis as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016			
		Less than 1 year		Between 1 and 5 years
Trade payables	₩	56,566,770	₩	-
Borrowings and finance lease liabilities		272,169,227		9,228,602
Other financial liabilities		122,819,892		15,883,724
Derivative liabilities		2,768,387		219,413
Other financial liabilities(contingent consideration) and others ¹		60,580,750		50,823,660
	₩	<u>514,905,026</u>	₩	<u>76,155,399</u>

¹ The contingent consideration and others include the maximum exposure amount of the payable based on contract.

<i>(in thousands of Korean won)</i>	2015			
		Less than 1 year		Between 1 and 5 years
Trade payables	₩	52,720,618	₩	-
Borrowings and finance lease liabilities		177,703,058		145,992,728
Other financial liabilities		120,480,101		10,820,087
Derivative liabilities		10,181,354		3,584,912
Other financial liabilities(contingent consideration) ¹		1,158,055		90,600,000
Payment guarantee ¹		1,300,000		-
	₩	<u>363,543,186</u>	₩	<u>250,997,727</u>

¹ The contingent consideration and others include the maximum exposure amount of the payable based on contract.

Above analysis is based on the earliest maturity with undiscounted cash flows of financial liabilities and includes cash flows of principal and interest payments.

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5. Fair Value

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value through profit or loss	₩127,957,129	₩127,957,129	₩128,907,776	₩128,907,776
Available-for-sale financial assets ¹	154,801,054	154,801,054	37,561,522	37,561,522
Other financial assets ²	2,503,324	2,503,324	1,883,482	1,883,482
Financial liabilities				
Other financial liabilities ²	2,987,800	2,987,800	13,766,266	13,766,266

¹ Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably, and excluded from the fair value disclosures.

² Short-term trade receivables and payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

5.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Available-for-sale financial assets				
Unlisted equity securities	₩	40,245,582	₩	169,988,249
Beneficiary certificates		53,131,213		47,295,749
Others		22,571,734		1,238,851
	₩	<u>115,948,529</u>	₩	<u>218,522,849</u>

Financial instruments have been measured at cost since their fair value cannot be reliably measured due to the lack of basic information required for future cash flow projection.

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5.3 Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 127,957,129	₩ -	₩ -	₩ 127,957,129
Available-for-sale financial assets	35,553,148	5,455,959	113,791,947	154,801,054
Derivative assets	-	2,503,324	-	2,503,324
Derivative liabilities	-	2,987,800	-	2,987,800

(in thousands of Korean won)

	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ 127,152,576	₩ -	₩ 1,755,200	₩ 128,907,776
Available-for-sale financial assets	37,087,907	473,615	-	37,561,522
Derivative assets	-	1,883,482	-	1,883,482
Derivative liabilities	-	13,766,266	-	13,766,266

5.4 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. In 2016, the Group reclassified ₩7,859 million of available-for-sale financial assets from financial instruments measured at cost to level 1, as it was listed on the KOSDAQ.

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Details of changes in Level 3 of the fair value hierarchy are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
Beginning balance	₩ 1,755,200	₩ -	₩ 2,562,869	
Amount recognized in profit or loss	17,176	-	280,808	
Amount recognized in other comprehensive income	-	(9,075,255)	-	
Purchases	-	661,874	12,217,302	
Sales	(1,772,376)	-	(13,305,779)	
Transferred into level 3	-	122,205,328	-	
Ending balance	₩ -	₩ 113,791,947	₩ 1,755,200	

5.5 Valuation Techniques and the Inputs

The Group used present value technique in levels 2 and 3 fair value measurements and the fair value can be changed according to range of input factors such as perpetual earning growth rate, pre-tax operation margin and others.

6. Financial Instruments by Category

6.1 Carrying Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	₩ -	₩ 1,764,950,301	₩ -	₩ 1,764,950,301
Financial assets at fair value through profit or loss	127,957,129	-	-	127,957,129
Trade receivables	-	296,077,869	-	296,077,869
Other current financial assets	411,742	1,821,366,002	-	1,821,777,744
Other non-current financial assets	2,091,582	79,760,467	-	81,852,049
Available-for-sale financial assets	-	-	270,749,583	270,749,583
	₩ 130,460,453	₩ 3,962,154,639	₩ 270,749,583	₩ 4,363,364,675

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<i>(in thousands of Korean won)</i>	2016			
	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Other financial liabilities ¹	Total
Trade payables	₩ -	₩ 56,566,770	₩ -	₩ 56,566,770
Borrowings(current)	-	268,063,266	276,807	268,340,073
Other current financial liabilities	2,768,387	134,982,553	-	137,750,940
Other non-current financial liabilities	219,413	21,981,291	-	22,200,704
Borrowings(non-current)	-	8,626,051	559,420	9,185,471
	<u>₩ 2,987,800</u>	<u>₩ 490,219,931</u>	<u>₩ 836,227</u>	<u>₩ 494,043,958</u>

¹ Other financial liabilities include finance lease liabilities not applicable to categories of financial liabilities.

<i>(in thousands of Korean won)</i>	2015			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	₩ -	₩ 1,967,108,517	₩ -	₩ 1,967,108,517
Financial assets at fair value through profit or loss	128,907,776	-	-	128,907,776
Trade receivables	-	337,854,694	-	337,854,694
Other current financial assets	1,877,931	965,976,339	-	967,854,270
Other non-current financial assets	5,551	76,999,921	-	77,005,472
Available-for-sale financial assets	-	-	256,084,371	256,084,371
	<u>₩ 130,791,258</u>	<u>₩ 3,347,939,471</u>	<u>₩ 256,084,371</u>	<u>₩ 3,734,815,100</u>

<i>(in thousands of Korean won)</i>	2015			
	Financial liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Other financial liabilities ¹	Total
Trade payables	₩ -	₩ 52,720,618	₩ -	₩ 52,720,618
Borrowings(current)	-	175,606,215	1,302,611	176,908,826
Other current financial liabilities	10,181,354	121,566,156	-	131,747,510
Other non-current financial liabilities	3,584,912	18,221,112	-	21,806,024
Borrowings(non-current)	-	141,533,392	241,421	141,774,813
	<u>₩ 13,766,266</u>	<u>₩ 509,647,493</u>	<u>₩ 1,544,032</u>	<u>₩ 524,957,791</u>

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¹ Other financial liabilities include finance lease liabilities not applicable to categories of financial liabilities.

6.2 Net gains or Losses by Category of Financial Instruments

Net gains or net losses on each category of financial instruments for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Financial assets at fair value through profit or loss		
Gain on disposal	₩ 9,641,296	₩ 16,080,922
Gain on valuation	6,738,147	9,455,977
Loss on disposal	(4,427,119)	(7,497,266)
Loss on valuation	(9,965,250)	(9,968,192)
Dividend income	2,156,159	1,614,083
Available-for-sale financial assets		
Gain on disposal	7,965,644	102,828,125
Loss on disposal	(892,170)	(907,666)
Impairment loss	(21,982,268)	(1,780,522)
Gain(loss) on valuation	(13,568,457)	12,331,060
Dividend income	423,006	18,561,229
Loans and receivables		
Interest income	39,239,502	35,769,398
Exchange differences	36,251,103	29,597,759
Impairment loss	(736,911)	(369,259)
Other impairment loss	(1,870,434)	(1,656,144)
Financial liabilities at fair value through profit or loss		
Gain on derivatives valuation	11,835,343	114,184
Loss on derivatives transactions	(5,292,065)	(4,404,921)
Loss on derivatives valuation	-	(4,179,967)
Other financial liabilities at amortized cost		
Interest expenses	(6,016,084)	(9,707,347)
Exchange differences	1,030,529	(14,734,355)
Valuation of contingent consideration	880,267	8,710,136

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7. Credit Quality of Financial Assets

7.1 Financial Deposits

Financial deposits of the Group's financial assets consist of deposits in financial institutions who have a certain level of credit ratings with no default risk. Detail of financial deposits as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Cash in bank and short-term deposits	₩ 1,764,907,055	₩ 1,967,108,516
Short-term financial instruments	1,797,866,435	946,890,021
Long-term financial instruments	4,550,500	4,390,500
	<u>₩ 3,567,323,990</u>	<u>₩ 2,918,389,037</u>

8. Trade Receivables

Trade receivables and provisions for impairment of trade receivables as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Trade receivables	₩ 301,703,339	₩ 343,398,102
Less: provisions for impairment	(5,625,471)	(5,543,408)
Trade receivables - net	<u>₩ 296,077,868</u>	<u>₩ 337,854,694</u>

The aging analysis of the trade receivables as at December 31, 2016 and 2015, is as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Receivables not past due	₩ 280,099,716	₩ 321,485,692
	280,099,716	321,485,692
Past due but not impaired ¹		
Up to 3 months	15,120,163	16,301,894
3 to 6 months	149,029	21,266
6 to 12 months	173,191	45,662
Over 12 months	535,769	180
	<u>15,978,152</u>	<u>16,369,002</u>
	<u>₩ 296,077,868</u>	<u>₩ 337,854,694</u>

Trade receivables past due but not impaired relate to a number of independent customers who have no recent history of default. Provisions for impaired receivables amount to ₩ 5,625 million as at December 31, 2016 (2015: ₩ 5,543 million).

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Movements on the provision for impairment of trade receivables for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Beginning balance	₩	5,543,408	₩	5,653,020
Impairment loss		736,911		369,259
Write-off		(946,424)		(401,876)
Exchange differences		31,729		(76,995)
Changes in scope of consolidation		259,847		-
Ending balance	₩	<u>5,625,471</u>	₩	<u>5,543,408</u>

9. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Cash on hand	₩	43,246	₩	26,835
Bank deposits and short-term deposits		<u>1,764,907,055</u>		<u>1,967,081,682</u>
	₩	<u>1,764,950,301</u>	₩	<u>1,967,108,517</u>

10. Other Financial Assets

Details of other financial assets as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Short-term financial instruments	₩	1,797,866,435	₩	946,890,021
Short-term loans		3,197,836		1,530,745
Non-trade receivables		6,790,874		6,029,631
Accrued income		13,510,858		11,525,941
Derivative assets		2,503,324		1,883,482
Long-term financial instruments		4,550,500		4,390,500
Long-term loans		1,916,914		2,284,118
Leasehold deposits		<u>73,293,052</u>		<u>70,325,304</u>
	₩	<u>1,903,629,793</u>	₩	<u>1,044,859,742</u>
Less: Non-current	₩	(81,852,049)	₩	(77,005,472)
Current		1,821,777,744		967,854,270

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11. Derivative Financial Instruments

Details of derivative financial instruments as at December 31, 2016 and 2015, are as follows:

*(in thousands of
Korean won)*

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Currency forward ¹	₩ 2,503,324	₩ 1,710,970	₩ 1,883,482	₩ 12,361,785
Interest rate swaps ²	-	1,276,830	-	1,404,481
	<u>₩ 2,503,324</u>	<u>₩ 2,987,800</u>	<u>₩ 1,883,482</u>	<u>₩ 13,766,266</u>

¹ In order to manage foreign exchange risk, the Group has entered into currency forward contracts to sell or purchase foreign currencies with maturities between one to three years.

² In addition, the Group has entered into interest rate swap contracts to receive floating-rate interest and pay fixed rate interest with DNB BANK ASA in relation to borrowings in the past, and the relevant derivatives will mature in 2021.

12. Other Assets

Details of other assets as at December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016	2015
Advance payments	₩ 10,116,941	₩ 2,690,844
Prepaid expenses	86,014,964	64,110,183
Prepaid value added tax	1,343,121	2,161,594
Other assets	770,589	2,626,153
	<u>₩ 98,245,615</u>	<u>₩ 71,588,774</u>
Less: Non-current	₩ (1,051,029)	₩ (26,024,088)
Current	97,194,586	45,564,686

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13. Financial Assets at Fair Value through Profit or Loss

Details of financial assets at fair value through profit or loss as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Listed securities	₩	127,957,129	₩	127,152,576
Equity linked securities		-		1,755,200
	₩	<u>127,957,129</u>	₩	<u>128,907,776</u>

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other income and expenses' in the consolidated statement of comprehensive income (Note 34).

Details of listed securities as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Meritz Financial Group Inc.	₩	16,530,764	₩	13,906,061
KT Corporation		11,348,400		10,904,500
KSS shipping agent		10,042,109		9,766,848
JB Financial Group Co.,Ltd		8,840,776		14,303,080
SK Gas Co.,Ltd.		6,517,088		3,010,374
Hyundai Home Shopping Network Corporation		5,731,881		5,905,169
VIPSHOP HOLDINGS LTD		5,617,032		2,585,571
Fila Korea Ltd.		4,153,649		2,262,768
Korea Electric Power Corporation		3,591,000		3,271,200
HALLA HOLDINGS CORPORATION		3,531,889		-
Kwangju Bank Co.,Ltd.		3,394,267		4,741,931
Others		48,658,274		56,495,074
	₩	<u>127,957,129</u>	₩	<u>127,152,576</u>

14. Inventories

Details of inventories as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Merchandise	₩	760,111	₩	471,986
Finished goods		24,225,261		21,239,449
Valuation allowance		(1,508,200)		(660,795)
	₩	<u>23,477,172</u>	₩	<u>21,050,640</u>

¹ The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩ 86,294 million (2015: ₩ 85,434 million) in the consolidated statements of comprehensive income.

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15. Non-current Assets Held-for-sale

There are no non-current assets held-for-sale as at December 31, 2016 and 2015.

16. Available-for-sale Financial Assets

Details of available-for-sale financial assets as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Equity securities				
Shares	₩	182,307,440	₩	193,778,928
Beneficiary certificates		60,981,978		52,973,011
Debt securities		27,460,165		9,332,432
	₩	<u>270,749,583</u>	₩	<u>256,084,371</u>

Changes in available-for-sale financial assets for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Beginning balance	₩	256,084,371	₩	723,139,287
Exchange differences		4,071,654		13,271,325
Changes in scope of consolidation		(4,483,433)		(5,612,380)
Additions		55,661,408		150,684,422
Disposals		(5,243,188)		(537,742,575)
Transfer		1,905,664		(2,334,298)
Net losses reclassified from equity		(1,696,168)		(95,871,948)
Net gains (losses) reclassified to equity		(13,568,457)		12,331,060
Impairment loss		(21,982,268)		(1,780,522)
	₩	<u>270,749,583</u>	₩	<u>256,084,371</u>
Less: Non-current	₩	(270,749,583)	₩	(256,084,371)
Current		-		-

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17. Property and Equipment

Details of property and equipment as at December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016			2015		
	Cost	Accumulated depreciation ¹	Book amount	Cost	Accumulated depreciation ¹	Book amount
Land	₩ 59,693,520	₩ -	₩ 59,693,520	₩ 59,631,383	₩ -	₩ 59,631,383
Buildings	155,896,158	(13,585,971)	142,310,187	156,361,283	(9,442,806)	146,918,477
Tools and equipment	172,895,614	(135,500,205)	37,395,409	154,609,144	(116,955,124)	37,654,020
Facilities	22,429,315	(16,063,429)	6,365,886	18,934,593	(13,425,207)	5,509,386
Others	1,841,845	(574,263)	1,267,582	777,883	(495,182)	282,701
Construction in progress	2,638,586	-	2,638,586	94,730	-	94,730
	<u>₩415,395,038</u>	<u>₩ (165,723,868)</u>	<u>₩249,671,170</u>	<u>₩390,409,016</u>	<u>₩ (140,318,319)</u>	<u>₩250,090,697</u>

¹ Accumulated impairment losses are included.

Changes in property and equipment for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016						
	Land	Buildings	Tools and equipment	Facilities	Others	Construction in progress	Total
Opening net book amount	₩59,631,383	₩146,918,477	₩37,654,020	₩ 5,509,386	₩ 282,700	₩ 94,731	₩250,090,697
Exchange differences	(1,856)	149,647	633,567	177,432	(1,231)	-	957,559
Changes in scope of consolidation	-	-	1,165,206	566,798	9,516	-	1,741,520
Acquisition and others ¹	63,993	10,756	27,764,882	4,774,932	1,098,346	2,813,611	36,526,520
Disposal	-	(723,675)	(625,045)	(648,963)	(7,029)	-	(2,004,712)
Depreciation	-	(4,045,018)	(26,046,287)	(3,523,710)	(114,720)	-	(33,729,735)
Impairment loss	-	-	(3,126,294)	(447,587)	-	-	(3,573,881)
Transfers	-	-	(24,640)	(42,402)	-	(269,756)	(336,798)
Closing net book amount	<u>₩59,693,520</u>	<u>₩142,310,187</u>	<u>₩37,395,409</u>	<u>₩ 6,365,886</u>	<u>₩1,267,582</u>	<u>₩ 2,638,586</u>	<u>₩249,671,170</u>

¹ Provisions for restoration and others are included.

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Korean won)

	2015						Total
	Land	Buildings	Tools and equipment	Facilities	Others	Construction in progress	
Opening net book amount	₩51,493,239	₩146,662,598	₩45,769,072	₩ 7,302,149	₩ 269,191	₩12,454,960	₩263,951,209
Exchange differences	(13,618)	83,683	(180,320)	91,419	(2,254)	-	(21,090)
Changes in scope of consolidation	(2,994,698)	(685,969)	21,290	198,285	-	-	(3,461,092)
Acquisition	(314,935)	4,383,428	19,337,358	1,893,547	94,617	94,730	25,488,745
Disposal	-	-	(710,817)	(879,196)	-	-	(1,590,013)
Depreciation	-	(4,201,424)	(26,763,883)	(3,096,818)	(78,853)	-	(34,140,978)
Impairment loss	-	-	-	-	-	-	-
Transfers	11,461,395	676,161	181,320	-	-	(12,454,960)	(136,084)
Closing net book amount	<u>₩59,631,383</u>	<u>₩146,918,477</u>	<u>₩37,654,020</u>	<u>₩ 5,509,386</u>	<u>₩ 282,701</u>	<u>₩ 94,730</u>	<u>₩250,090,697</u>

Details of finance lease as at December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Facilities	₩ 10,518,851	₩ (5,887,613)	₩ 4,631,238	₩ 21,067,454	₩ (20,677,611)	₩ 389,843
Others	-	-	-	253,102	(219,705)	33,397
	<u>₩ 10,518,851</u>	<u>₩ (5,887,613)</u>	<u>₩ 4,631,238</u>	<u>₩ 21,320,556</u>	<u>₩ (20,897,316)</u>	<u>₩ 423,240</u>

The total of future minimum lease payments as at December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016	2015
Total minimum lease payments		
Within 1 year	₩ 280,644	₩ 1,304,589
Within 2 year	175,416	137,541
Within 3 year	389,107	105,957
	<u>₩ 845,167</u>	<u>₩ 1,548,087</u>
Unearned finance income	<u>₩ 8,940</u>	<u>₩ 4,055</u>
Net minimum lease payments		
Within 1 year	₩ 276,807	₩ 1,302,611
Within 2 year	172,790	136,515
Within 3 year	386,630	104,906
	<u>₩ 836,227</u>	<u>₩ 1,544,032</u>

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18. Intangible Assets

Details of intangible assets as at December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016			2015		
	Cost	Accumulated amortization ¹	Book amount	Cost	Accumulated amortization ¹	Book amount
Goodwill	₩ 788,393,628	₩(434,735,768)	₩353,657,860	₩688,997,080	₩(163,348,247)	₩525,648,833
Software	86,593,279	(75,707,256)	10,886,023	86,060,653	(64,576,234)	21,484,419
Intellectual property	500,597,818	(98,805,615)	401,792,203	435,095,066	(60,198,901)	374,896,165
Others	13,760,178	(3,225,987)	10,534,191	12,108,189	(2,690,514)	9,417,675
	<u>₩1,389,344,903</u>	<u>₩(612,474,626)</u>	<u>₩776,870,277</u>	<u>₩1,222,260,988</u>	<u>₩(290,813,896)</u>	<u>₩931,447,092</u>

¹ Accumulated impairment losses are included.

Changes in intangible assets for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016				
	Goodwill	Software	Intellectual property	Others	Total
Opening net book amount	₩ 525,648,833	₩ 21,484,419	₩ 374,896,165	₩ 9,417,675	₩ 931,447,092
Exchange differences	32,787,547	656,928	16,280,549	116,094	49,841,118
Changes in scope of consolidation	59,781,659	126,858	43,595,611	20,250	103,524,378
Acquisition	-	6,042,500	(1,661,290)	1,880,750	6,261,960
Disposal	-	(67,934)	-	(411,963)	(479,897)
Amortization	-	(8,659,325)	(36,062,379)	(485,826)	(45,207,530)
Impairment loss	(264,560,179)	(8,698,036)	(48,317,664)	(8,089)	(321,583,968)
Transfers	-	613	53,061,211	5,300	53,067,124
Closing net book amount	<u>₩ 353,657,860</u>	<u>₩ 10,886,023</u>	<u>₩ 401,792,203</u>	<u>₩ 10,534,191</u>	<u>₩ 776,870,277</u>

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(in thousands of
Korean won)

	2015				
	Goodwill	Software	Intellectual property	Others	Total
Opening net book amount	₩ 520,579,063	₩ 17,149,485	₩ 495,190,882	₩ 11,665,130	₩1,044,584,560
Exchange differences	(3,648,222)	543,140	(34,149,787)	(1,387,863)	(38,642,732)
Changes in scope of consolidation	16,425,948	12,005	7,951,382	(550,000)	23,839,335
Acquisition	-	19,068,188	5,074,663	699,163	24,842,014
Disposal	-	(489,392)	(1,066,947)	(497,606)	(2,053,945)
Amortization	-	(11,008,499)	(89,600,371)	(511,149)	(101,120,019)
Impairment loss	(7,707,956)	(3,833,783)	(38,588,222)	-	(50,129,961)
Transfers	-	43,275	30,084,565	-	30,127,840
Closing net book amount	<u>₩ 525,648,833</u>	<u>₩ 21,484,419</u>	<u>₩ 374,896,165</u>	<u>₩ 9,417,675</u>	<u>₩ 931,447,092</u>

Impairment Tests for Goodwill

The following is a summary of goodwill allocated by the main source of income of the Group (cash-generating unit):

<i>(In thousands of Korean won)</i>	2016	2015
FPS	₩ 59,222,693	₩ 46,666,456
MMORPG	15,495,973	20,110,955
Action RPG	15,602,777	15,602,777
Mobile Game	5,622,023	221,309,078
Strategy Game	173,506,287	-
Baby products	36,739,061	178,497,679
Others	47,469,046	43,461,888

The recoverable amount of all CGUs has been determined based on value-in-use calculations. Key assumptions used in the value-in-use calculations are as follows:

<i>(in thousands of Korean won)</i>	FPS	MMORPG	Action RPG	Mobile Game	Strategy Game	Baby products
Operating profit to sales ratio	28% ~ 45%	6% ~ 19%	87% ~ 90%	0% ~ 65%	0% ~ 48%	14%~17%
Perpetual growth rate	1%	1%	1%	0%	1%	2%
Pre-tax discount rate	19.26%	16.91%	14.20%	10.10% ~ 14.29%	21.30%	10.62%

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19. Investment Property

Details of investment property as at December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016			2015		
	Cost	Accumulated depreciation	Book amount	Cost	Accumulated depreciation	Book amount
Land	₩ 14,170,494	₩ -	₩ 14,170,494	₩ 6,889,305	₩ -	₩ 6,889,305
Buildings	20,719,678	(3,200,245)	17,519,433	19,174,512	(2,360,167)	16,814,345
	<u>₩ 34,890,172</u>	<u>₩ (3,200,245)</u>	<u>₩ 31,689,927</u>	<u>₩ 26,063,817</u>	<u>₩ (2,360,167)</u>	<u>₩ 23,703,650</u>

Changes in investment property for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of
Korean won)

	2016			2015		
	Land	Buildings	Total	Land	Buildings	Total
Opening net book amount	₩ 6,889,305	₩ 16,814,345	₩23,703,650	₩ 29,269,653	₩24,599,001	₩ 53,868,654
Exchange differences	(25,729)	(88,749)	(114,478)	(188,747)	(722,495)	(911,242)
Changes in scope of consolidation	-	-	-	(22,211,273)	(6,622,071)	(28,833,344)
Acquisition	7,306,918	1,652,684	8,959,602	-	77,578	77,578
Depreciation	-	(858,847)	(858,847)	-	(662,383)	(662,383)
Transfers	-	-	-	19,672	144,715	164,387
Closing net book amount	<u>₩14,170,494</u>	<u>₩ 17,519,433</u>	<u>₩31,689,927</u>	<u>₩ 6,889,305</u>	<u>₩ 16,814,345</u>	<u>₩23,703,650</u>

Fair value of investment property as at December 31, 2016 is ₩ 32,708 million (2015: ₩ 19,369 million). During the year, rental income from investment property is ₩ 2,417 million (2015: ₩ 1,634 million), and direct operating expenses for the investment property are ₩ 1,417 million (2015: ₩ 1,097 million).

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20. Investments in Associates

Details of associates of the Group as at December 31, 2016 and 2015, are as follows:

	Location	Percentage of ownership		Fiscal year
		2016	2015	
Xeogen, Inc.	Korea	31.67%	31.67%	December 31, 2016
Humanworks Corp.	Korea	35.00%	35.00%	December 31, 2016
INTIVSOFT Co., Ltd. ¹	Korea	-	40.25%	December 31, 2016
NFUN	Korea	40.00%	40.00%	December 31, 2016
Ubifun Corp.	Korea	35.00%	35.00%	December 31, 2016
NSC CO.,LTD. ²	Korea	-	26.52%	December 31, 2016
NAT GAMES CO., LTD.	Korea	22.40%	-	December 31, 2016
Meerkat Games Co., Ltd. ³	Korea	18.03%	-	December 31, 2016
PURSAR Creative Co., Ltd.	Korea	20.00%	-	December 31, 2016
Loud Communications Co., Ltd.	Korea	27.32%	-	December 31, 2016
5ants Games	Spain	31.75%	31.75%	December 31, 2016
Six Wave, Inc.	Hong Kong	25.13%	25.13%	December 31, 2016
313 Art Project Inc	Korea	29.68%	29.68%	December 31, 2016
Jisik Corporation	Korea	25.00%	25.00%	December 31, 2016
IDIS Holdings Co., Ltd ⁴	Korea	27.71%	27.71%	December 31, 2016
Innovative Fund LLC ⁵	USA	-	48.39%	December 31, 2016
C program	Korea	22.22%	22.22%	December 31, 2016
GASEUNG DEVELOPMENT CO., LTD.	Korea	50.00%	-	December 31, 2016
SKY Growth LIMITED PARTNERSHIP	Korea	49.99%	-	December 31, 2016

¹ Excluded from associates due to disposal of shares during the year ended December 31, 2016.

² Reclassified from associates to subsidiaries due to additional acquisition of shares during the year ended December 31, 2016.

³ Classified to associates due to options to acquire additional shares although the Group owns less than 20%.

⁴ The Group holds IDIS Holdings Co., Ltd. for finance strategy purposes. It has no significant transactions. Most of associates are engaged in games or IT business and the Group holds them for business strategy purposes.

⁵ Reclassified to subsidiaries due to merger into FutureFood LLC during the year ended December 31, 2016.

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Changes in investments in associates for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016						
	Beginning balance	Acquisition / disposal / transfer	Share of profit or loss of associates	Share of other comprehensive income of associates	Share of retained earnings of associates	Changes in interest / dividend	Ending balance
Xeogen, Inc.	₩ 385,146	₩ -	₩ (215,344)	₩ -	₩ -	₩ -	₩ 169,802
Humanworks Corp.	1,400,384	-	39,488	-	-	-	1,439,872
Six Wave, Inc.	16,443,065	-	1,875,888	570,467	-	-	18,889,420
NSC CO.,LTD.	1,499,940	(1,499,940)	-	-	-	-	-
313 Art Project Inc	770,239	-	(770,239)	-	-	-	-
IDIS Holdings Co., Ltd	37,502,673	-	464,108	(110,122)	-	(385,172)	37,471,487
Innovative Fund LLC	3,084,272	(3,084,272)	-	-	-	-	-
C Program	1,448,646	-	(598,344)	(1,420)	-	-	848,882
NAT GAMES CO., LTD.	-	39,195,100	1,108,327	-	11,670	-	40,315,097
Meerkat Games Co., Ltd.	-	1,398,470	-	-	-	-	1,398,470
PURSAR Creative Co., Ltd.	-	3,000,001	-	-	-	-	3,000,001
Loud Communications Co., Ltd.	-	5,000,263	-	-	-	-	5,000,263
GASEUNG DEVELOPMEN T CO., LTD.	-	2,000,000	(66,877)	-	-	-	1,933,123
SKY Growth LIMITED PARTNERSHIP	-	10,100,000	1,280,608	(2,053)	-	-	11,378,555
	<u>₩62,534,365</u>	<u>₩56,109,622</u>	<u>₩ 3,117,615</u>	<u>₩ 456,872</u>	<u>₩ 11,670</u>	<u>₩ (385,172)</u>	<u>₩121,844,972</u>

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Korean won)

	2015					
	Beginning balance	Acquisition / disposal / transfer	Share of profit or loss of associates	Share of other comprehensive income of associates	Changes in interest / dividend	Ending balance
Xeogen, Inc.	₩ 368,979	₩ -	₩ 16,167	₩ -	₩ -	₩ 385,146
Humanworks Corp.	1,549,206	-	(148,822)	-	-	1,400,384
INTIVSOFT Co., Ltd.	176,958	-	(176,958)	-	-	-
NSC CO.,LTD.	-	1,499,940	-	-	-	1,499,940
Six Wave, Inc.	14,559,532	(11,272)	990,738	904,067	-	16,443,065
313 Art Project Inc	770,239	-	-	-	-	770,239
IDIS Holdings Co., Ltd	33,471,490	-	4,281,152	6,812	(256,781)	37,502,673
Innovative Fund LLC	3,084,272	-	-	-	-	3,084,272
C Program	-	2,000,000	(551,354)	-	-	1,448,646
	<u>₩ 53,980,676</u>	<u>₩ 3,488,668</u>	<u>₩ 4,410,923</u>	<u>₩ 910,879</u>	<u>₩ (256,781)</u>	<u>₩ 62,534,365</u>

Summary of condensed financial information of major associates and dividends received from associates as at and for the periods ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016		
	Six Wave, Inc.	IDIS Holdings Co., Ltd	NAT GAMES CO., LTD.
Current assets	₩ 21,071,390	₩ 382,166,126	₩ 17,062,656
Non-current assets	13,339,283	172,065,404	2,912,704
Current liabilities	5,562,363	55,040,549	3,044,162
Non-current liabilities	-	22,850,882	1,798,553
Sales	61,286,078	441,398,463	25,630,753
Profit for the period	7,463,835	20,862,922	9,653,902
Total comprehensive income	7,446,343	20,218,779	9,619,240
Dividends paid	-	(385,172)	-

(In thousands of Korean won)

	2015	
	Six Wave, Inc.	IDIS Holdings Co., Ltd
Current assets	₩ 14,798,115	₩ 339,963,689
Non-current assets	11,178,866	204,045,673
Current liabilities	5,483,146	47,406,282
Non-current liabilities	-	27,072,221
Sales	43,720,219	400,014,263
Profit for the period	3,941,972	37,683,286
Total comprehensive income	3,900,312	38,086,955
Dividends paid	-	(256,781)

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Details of adjustments from financial information of major associates to the book amount of investments in associates for the periods ended December 31, 2016 and 2015, are as follows:

(In thousands of Korean won)

	2016		
	Six Wave, Inc.	IDIS Holdings Co., Ltd	NAT GAMES CO., LTD.
Net assets ¹	₩ 28,848,311	₩ 181,624,561	₩ 13,911,719
Net assets of equity shares	25.13%	27.71%	22.40%
Interests in net assets	7,250,460	50,323,546	3,115,742
Investment difference ²	11,638,960	(12,852,058)	37,199,355
Book amount	18,889,420	37,471,488	40,315,097

¹ Net assets are the amounts after deducting non-controlling interest.

² Investment difference arose when the fair value of net assets is less than book amount upon the acquisition of significant influence.

(In thousands of Korean won)

	2015	
	Six Wave, Inc.	IDIS Holdings Co., Ltd
Net assets ¹	₩ 20,493,835	₩ 181,737,115
Net assets of equity shares	25.13%	27.71%
Interests in net assets	5,150,726	50,354,732
Investment difference ²	11,292,338	(12,852,058)
Book amount	16,443,064	37,502,674

¹ Net assets are the amounts after deducting non-controlling interest.

² Investment difference arose when the fair value of net assets is less than book amount upon the acquisition of significant influence.

Fair value of marketable investments in associates as at December 31, 2016 and 2015, is as follows:

(in thousands of Korean won)

	2016		2015	
	Fair value	Book amount	Fair value	Book amount
IDIS Holdings Co., Ltd	₩ 38,773,991	₩ 37,471,488	₩ 42,240,540	₩ 37,502,674

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21. Other Financial Liabilities

Details of other financial liabilities as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>		2016	2015
Non-trade payables	₩	57,764,785	69,284,211
Accrued expenses		63,240,771	49,123,688
Leasehold deposits received		17,698,060	12,842,798
Contingent consideration and others		18,260,227	8,487,081
Derivative liabilities		2,987,800	13,766,266
Others		-	49,490
	₩	<u>159,951,643</u>	<u>153,553,534</u>
Less: Non-current	₩	(22,200,704)	(21,806,024)
Current		137,750,939	131,747,510

22. Borrowings

Details of borrowings as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	Annual interest rate		2016		2015
Short-term borrowings					
Sumitomo Bank Ltd. ¹	1.38%	₩	131,481,310	₩	130,274,216
Current portion of long-term liabilities and long-term borrowings					
KEB & Other banks	EURIBOR 3M + 1.9%		116,187,654		143,607,822
Sumitomo Bank Ltd.,	0.50%		25,836,830		40,338,644
Others	4.60%		175,000		-
Bonds					
Private convertible bonds	3.00%		3,008,523		2,918,926
Finance lease liabilities					
NIH and others	1.03%		836,227		1,544,032
		₩	<u>277,525,544</u>	₩	<u>318,683,640</u>
Less: Non-current		₩	(9,185,471)	₩	(141,774,814)
Current			268,340,073		176,908,826

¹ Certain shares of subsidiaries are provided as collateral in relation to borrowings from Sumitomo Bank Ltd (Note 37).

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Details of convertible bonds issued by the Group are as follows:

Details	
Issuance date	October 23, 2013
Maturity date	October 24, 2017
Par value	USD 2,500,000
Conversion ratio	100% of par value
Conversion price	USD 0.13 per share
Conversion period	April 23, 2014 ~ October 24, 2017

23. Other Liabilities

Details of other liabilities as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Withholdings	₩	3,186,867	₩	2,681,178
Advances		131,690		1,039,607
Unearned revenues		182,896,359		111,893,061
Value added tax withheld		11,460,389		11,909,953
Government grants		330,514		605,059
Others		11,346,319		9,502,174
	₩	<u>209,352,138</u>	₩	<u>137,631,032</u>
Less: Non-current	₩	(86,691,668)	₩	(19,213,367)
Current		122,660,470		118,417,665

24. Provisions

Changes in provisions for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Beginning balance	₩	3,406,514	₩	4,293,517
Additional provisions		2,160,561		567,830
Used during year		(316,081)		(1,571,183)
Exchange differences		110,823		95,470
Changes in scope of consolidation		279,961		20,880
Ending balance	₩	<u>5,641,778</u>	₩	<u>3,406,514</u>
Less: Non-current	₩	(5,336,027)	₩	(3,168,128)
Current		305,751		238,386

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25. Post-employment Benefit

25.1 Defined Benefit Plan

The majority of the plans are final salary based pension plans, which provide benefit to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are unfunded plans.

Details of net defined benefit liabilities recognized in the consolidated statements of financial position as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Present value of funded defined benefit obligations	₩	1,152,488	₩	1,235,484
Present value of unfunded defined benefit obligations		1,773,782		1,290,580
Total		<u>2,926,270</u>		<u>2,526,064</u>
Fair value of plan assets		<u>(354,921)</u>		<u>(372,078)</u>
Net defined benefit liabilities	₩	<u>2,571,349</u>	₩	<u>2,153,986</u>

Movements in the defined benefit obligations for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Beginning balance	₩	2,153,986	₩	2,016,155
Current service cost		534,128		494,009
Interest expense		44,971		43,434
Exchange differences		36,184		(182,964)
Remeasurements:				
Actuarial gains and losses arising from changes in financial assumptions		114,621		50,280
Benefit payments		(312,541)		(379,361)
Changes in scope of consolidation		-		112,433
Ending balance	₩	<u>2,571,349</u>	₩	<u>2,153,986</u>

The significant actuarial assumptions as at December 31, 2016 and 2015, are as follows:

<i>(in percentage, %)</i>	2016		2015	
Discount rate		3.55%		3.51%
Salary growth rate		4.07%		3.80%

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25. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩19,141 million (2015: ₩16,307 million).

26. Tax Expense and Deferred Tax

Income tax expense for the periods ended December 31, 2016 and 2015, consists of:

<i>(In thousands of Korean won)</i>	2016	2015
Current tax:		
Current tax on profits for the year	₩ 200,776,447	₩ 166,830,438
Deferred tax:		
Origination and reversal of temporary differences	122,037,632	(10,268,682)
Tax effect charged directly to equity	2,270,565	30,858,050
Income tax expense	<u>₩ 325,084,644</u>	<u>₩ 187,419,806</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Profit before income tax	₩ 500,729,461	₩ 732,971,591
Tax calculated at domestic tax rates applicable to profits in the respective countries	₩ 204,376,404	₩ 138,918,554
Tax effects of:		
Income not subject to tax	(2,114,654)	(2,129,352)
Expenses not deductible for tax purposes	48,491,605	72,834,087
Unrecognized deferred tax	158,375,611	71,931,296
Foreign tax paid not deducted amount without tax credit	77,985,243	69,928,718
Effect from change in tax rate	8,541,895	(6,365,077)
Additional payment of income tax	(2,391,764)	(9,851,363)
Tax credit and tax exemption	(173,519,854)	(177,442,797)
Others	5,340,158	29,595,740
Total	<u>₩ 325,084,644</u>	<u>₩ 187,419,806</u>

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Changes in deferred tax assets and liabilities for the periods ended December 31, 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in thousands of
Korean won)

	2016					
	Beginning balance	Profit or loss	Exchange difference	Other comprehensive income	Business combination	Ending balance
Property and equipment	₩ 3,435,608	₩ (474,635)	₩ (175,166)	₩ -	₩ (26,723)	₩ 2,759,084
Investments in associates and subsidiaries	(33,627,662)	(151,799,319)	-	-	-	(185,426,981)
Provision for impairment	1,780,663	(109,415)	80,305	-	55,514	1,807,067
Impairment loss on available-for-sale financial assets	763,330	3,421,925	527,179	-	-	4,712,434
Gain(loss) on valuation of available-for-sale financial assets	(1,193,624)	964,591	(531,881)	2,270,565	-	1,509,651
Intangible assets	(79,857,737)	9,931,531	(3,434,892)	-	(13,887,630)	(87,248,728)
Accrued expenses	2,797,398	(369,038)	71,264	-	36,208	2,535,832
Bonuses	5,064,804	1,336,623	52,559	-	2,931	6,456,917
Unearned revenues	15,076,156	10,009,712	(7,867)	-	(11,897)	25,066,104
Repairs expenses	157,949	(50,259)	-	-	-	107,690
Service fees	2,942,493	1,012,389	-	-	-	3,954,882
Derivatives	2,970,697	(3,078,559)	107,862	-	-	-
Tax loss carryforwards	3,297,313	629,916	34,172	-	1,614,678	5,576,079
Tax credit	450,327	(317,318)	-	-	-	133,009
Others	1,008,292	(1,084,008)	2,148,534	-	1,536,068	3,608,886
	<u>₩(74,933,993)</u>	<u>₩(129,975,864)</u>	<u>₩ (1,127,931)</u>	<u>₩ 2,270,565</u>	<u>₩(10,680,851)</u>	<u>₩(214,448,074)</u>

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Korean won)

	2015					
	Beginning balance	Profit or loss	Exchange difference	Other comprehensive income	Business combination	Ending balance
Property and equipment	₩(92,723,411)	₩ 91,574,754	₩ 4,586,330	₩ -	₩ (2,065)	₩ 3,435,608
Investments in associates and subsidiaries	(8,103,070)	(25,534,249)	9,657	-	-	(33,627,662)
Provision for impairment	2,396,569	(621,563)	5,657	-	-	1,780,663
Impairment loss on available-for-sale financial assets	3,364,888	(2,621,215)	19,657	-	-	763,330
Gain(loss) on valuation of available-for-sale financial assets	(32,984,208)	1,759,264	(826,730)	30,858,050	-	(1,193,624)
Intangible assets	(7,961,101)	(76,125,641)	4,229,005	-	-	(79,857,737)
Accrued expenses	3,252,878	(316,720)	(138,760)	-	-	2,797,398
Bonuses	5,191,074	(121,166)	(3,971)	-	(1,133)	5,064,804
Unearned revenues	17,324,238	(2,357,024)	108,942	-	-	15,076,156
Repairs expenses	208,208	(50,259)	-	-	-	157,949
Share-based payment	3,740,853	(3,829,491)	88,638	-	-	-
Service fees	1,407,375	1,535,118	-	-	-	2,942,493
Derivatives	2,392,102	847,661	(269,066)	-	-	2,970,697
Tax loss carryforwards	4,754,567	(1,425,984)	(31,270)	-	-	3,297,313
Tax credit	1,736,210	(1,285,883)	-	-	-	450,327
Others	7,037,699	(2,016,970)	(3,976,274)	-	(36,163)	1,008,292
	<u>₩(88,965,129)</u>	<u>₩ (20,589,368)</u>	<u>₩ 3,801,815</u>	<u>₩ 30,858,050</u>	<u>₩ (39,361)</u>	<u>₩ (74,933,993)</u>

Taxable temporary differences of ₩ 3,238,503 million and deductible temporary differences of ₩ 1,273,926 million from interests in subsidiaries and associates and tax losses in subsidiaries were not recognized as the possibility of realization from disposal of its shares in predictable period seems unlikely. Deferred tax assets from tax credit carried forward (₩ 81,290 million) was not recognized due to uncertainty of its realization.

27. Share Capital and Reserves

The Parent Company's total number of authorized shares is 20,000,000 shares and the total number of ordinary shares issued is 2,908,500 shares with the par value of ₩ 500 per share. According to the Articles of Incorporation, The Parent Company is allowed to grant share options to its employees within 10% of the total number of shares issued with the approval of shareholders. No share options were granted as at December 31, 2016.

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28. Other Components of Equity

Other components of equity as at December 31, 2016 and 2015, consist of:

<i>(In thousands of Korean won)</i>	2016		2015	
Share of capital surpluses of associates	₩	911,949,056	₩	839,019,047
Other capital surpluses		20,086,009		20,087,750
Loss from reduction of ordinary shares		-		(199,551,573)
Share of other comprehensive income of associates		146,157		(69,809)
Gain on valuation of available-for-sale financial assets		111,587		10,003,778
Loss on foreign currency translation		(305,780,121)		(368,022,233)
Loss on valuation of derivatives		(37,121)		(37,121)
	₩	<u>626,475,567</u>	₩	<u>301,429,839</u>

29. Retained Earnings

Retained earnings as at December 31, 2016 and 2015, consist of:

<i>(In thousands of Korean won)</i>	2016		2015	
Legal reserves ¹	₩	11,561,830	₩	11,561,830
Discretionary reserves		45,445,312		45,445,312
Retained earnings before appropriation		<u>2,144,339,678</u>		<u>2,280,532,997</u>
	₩	<u>2,201,346,820</u>	₩	<u>2,337,540,139</u>

¹ The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed.

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30. Share-based Payments

Share options of subsidiary are granted to directors and selected employees of subsidiaries. Shares issued through share option are registered ordinary shares of subsidiary and grant method is new shares issuance of ordinary shares.

Changes in the number of share options outstanding and their related weighted average exercise prices as at December 31, 2016 and 2015, are as follows:

	Options (unit: share)		Average exercise price per share option (in Japanese Yen)	
	2016	2015	2016	2015
Beginning balance	21,150,000	32,406,000	913	825
Granted	5,358,000	50,000	1,862	1
Expired	(597,000)	(1,131,000)	1,166	1,119
Exercised	(3,923,000)	(10,175,000)	813	605
Ending balance	<u>21,988,000</u>	<u>21,150,000</u>	<u>1,155</u>	<u>913</u>

As at December 31, 2016, 13,174,000 options are exercisable.

Expiry dates, exercise prices of share options, and number of options outstanding as at December 31, 2016 and 2015, are as follows:

(unit: share)	Maturity	Exercise price per share (in Japanese Yen)	2016	2015
5.1 st	2018.09.05	1,367	6,404,000	7,436,000
5.2 nd	2018.09.19	1,367	-	-
6 th	2043.05.06	1	150,000	150,000
7 th	2020.03.02	853	6,518,000	9,038,000
8 th	2021.03.24	0.001	2,023,000	2,704,000
9.1 st	2021.05.08	809	1,534,000	1,683,000
9.2 nd	2020.07.21	947	5,000	20,000
9.3 rd	2020.10.20	865	32,000	69,000
10 th	2045.08.02	1	50,000	50,000
11 th	2022.01.24	1,840	80,000	-
12.1 st	2022.05.19	1,863	5,177,000	-
12.2 nd	2022.05.19	1,650	15,000	-
			<u>21,988,000</u>	<u>21,150,000</u>

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Compensation costs of share options granted for the periods ended December 31, 2016 and 2015, are calculated by applying a fair value approach using a black-Scholes model. The related assumptions and variables to calculate the compensation costs are as follows:

	Grant date	Annual risk-free interest rate	Expected exercise period	Price volatility	Expected dividend yield	Compensation expenses per share
6 th	2013.05.07	1.29%	18 years	46.70%	0.90%	944 JPY
7 th	2014.03.03	0.13%	4 years	44.59%	1.17%	267 JPY
8 th	2014.03.25	0.10%	2.3 years	47.62%	1.23%	794 / 790 JPY
9.1 st	2014.05.09	0.10%	4.7 years	44.20%	1.24%	268 JPY
9.2 nd	2014.07.22	0.10%	3.5 years	46.30%	1.06%	296 JPY
9.3 rd	2014.10.21	0.10%	4 years	44.35%	1.16%	270 JPY
10 th	2015.08.03	0.80%	15.4 years	78.90%	0.59%	1,558 JPY
11 th	2016.01.25	0.00%	3.5 years	46.67%	0.54%	625 JPY
12.1 st	2016.05.20	-0.20%	3.5 years	47.53%	0.54%	633 JPY
12.2 nd	2016.07.25	-0.30%	3.6 years	47.09%	0.61%	551 JPY

Share-based payments recognized as expenses for the periods ended December 31, 2016 and 2015, amount to ₩ 22,767 million and ₩ 17,788 million, respectively. All expenses are related to equity-settled share-based payments.

31. Operating Profit

Details of operating profit for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Sales - Internet	₩	1,112,656,777	₩	1,026,373,763
Sales - Royalty		768,138,456		712,320,568
Sales - Finished goods		200,787,265		183,690,054
Others		75,696,635		54,254,150
	₩	<u>2,157,279,133</u>	₩	<u>1,976,638,535</u>

Details of external customers, who contribute more than 10% of the Group revenue for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Company A	₩	684,016,933	₩	593,577,315
Company B		87,013,634		102,194,187

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32. Selling and Administrative Expenses

Selling and administrative expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Salaries	₩	141,288,220	₩	124,345,272
Post-employment benefits		6,562,303		6,242,146
Share-based payment		22,318,998		17,523,910
Employee benefits		29,940,329		27,011,970
Rental		12,539,847		10,361,109
Depreciation and amortization		36,003,200		36,101,741
Taxes and dues		12,836,524		11,212,525
Travel		10,925,281		10,569,267
Entertainment		1,558,824		1,656,489
Communication		2,019,767		2,008,474
Development		79,642,724		67,931,993
Advertising		167,275,454		151,291,639
Repairs		8,108,827		6,969,649
Service fee		218,118,019		201,527,268
Outsourcing		6,925,577		7,643,984
Impairment loss on receivables		736,911		369,259
Freight		140,795		124,408
Recruiting		3,835,179		4,419,759
Others		31,761,309		24,765,898
	₩	<u>792,538,088</u>	₩	<u>712,076,760</u>

33. Breakdown of Expenses by Nature

Breakdown of expenses by nature for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Changes in finished goods and merchandise	₩	86,293,521	₩	85,433,926
Salaries		335,766,063		283,578,806
Post-employment benefits		19,724,951		16,844,935
Share-based payment		22,767,380		17,787,852
Employee benefits		85,022,716		73,564,543
Outsourcing		39,111,655		36,105,519
Publishing		193,615,875		209,577,422
Depreciation and amortization		78,937,265		135,260,997
Rental		21,307,828		17,819,588
Communication		46,061,374		32,984,276
Taxes and dues		12,836,609		11,276,383
Travel		10,925,281		10,569,267

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Entertainment	1,558,824	1,656,489
Advertising	167,275,454	151,291,639
Repairs	13,491,679	12,572,410
Service fee	218,118,019	201,527,268
Impairment loss on receivables	736,911	369,259
Freight	140,795	124,408
Recruiting	3,835,179	4,419,759
Miscellaneous expenses	31,761,308	24,765,898
Others	16,726,898	11,551,684
	<u>₩ 1,406,015,585</u>	<u>₩ 1,339,082,328</u>

34. Other Income and Expenses

Details of other income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Dividend income	₩ 2,579,165	₩ 20,175,312
Rental income	2,483,314	2,058,320
Gain on disposal of financial assets at fair value through profit or loss	9,641,296	16,080,922
Gain on valuation of financial assets at fair value through profit or loss	6,738,147	9,455,977
Gain on disposal of available-for-sale financial assets	7,965,644	102,828,125
Gain on disposal of investments in associates	1,495,934	-
Gain on disposal of property and equipment	439,767	157,199
Gain on disposal of intangible assets	96,369	41,322
Miscellaneous gains	10,811,729	16,190,448
	<u>₩ 42,251,365</u>	<u>₩ 166,987,625</u>

Details of other expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016	2015
Loss on disposal of financial assets at fair value through profit or loss	₩ 4,427,119	₩ 7,497,266
Loss on valuation of financial assets at fair value through profit or loss	9,965,250	9,968,192
Loss on disposal of available-for-sale financial assets	892,170	907,666
Impairment loss on available-for-sale financial assets	21,982,268	1,780,522
Loss on disposal of investments in associates	-	11,272
Loss on disposal of subsidiaries	-	7,272,331
Other impairment loss	1,870,434	1,656,144
Other depreciation	858,847	662,383
Loss on disposal of property and equipment	1,064,783	1,356,083
Impairment loss on property and equipment	3,573,881	-

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Loss on disposal of intangible assets	59,020	1,393,290
Impairment loss on intangible assets	321,583,968	50,129,961
Donation	2,266,377	8,124,173
Service fees	286,956	14,440,280
Miscellaneous losses	4,120,321	3,238,353
	<u>₩ 372,951,394</u>	<u>₩ 108,437,916</u>

35. Finance Income and Costs

Details of finance income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Interest income	₩	39,239,502	₩	35,769,398
Exchange differences		114,211,185		57,704,963
Gain on valuation of derivative		11,835,343		114,184
	₩	<u>165,286,030</u>	₩	<u>93,588,545</u>

Details of finance costs for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Interest expenses	₩	6,016,084	₩	9,707,347
Exchange differences		76,929,553		42,841,559
Loss on valuation of derivative		-		4,179,967
Loss on derivative transactions		5,292,065		4,404,921
	₩	<u>88,237,702</u>	₩	<u>61,133,794</u>

36. Cash Generated from Operations

Details of cash generated from operations for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Profit before income tax	₩	175,644,816	₩	545,551,786
Adjustments for:				
Tax expense		325,084,645		187,419,806
Impairment loss on receivables		736,911		369,259
Other impairment loss		1,870,434		1,656,144
Depreciation		33,729,735		34,140,978
Impairment loss on property and equipment		3,573,881		-
Gain on disposal of property and equipment		(439,767)		(157,199)
Loss on disposal of property and equipment		1,064,783		1,356,083
Amortization		45,207,530		101,120,019
Impairment loss on intangible assets		321,583,968		50,129,961

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<i>(In thousands of Korean won)</i>	2016	2015
Gain on disposal of intangible assets	(96,369)	(41,322)
Loss on disposal of intangible assets	59,020	1,393,290
Other depreciation	858,847	662,383
Loss on disposal of financial assets at fair value through profit or loss	4,427,119	7,497,266
Loss on valuation of financial assets at fair value through profit or loss	9,965,250	9,968,192
Gain on disposal of financial assets at fair value through profit or loss	(9,641,296)	(16,080,922)
Gain on valuation of financial assets at fair value through profit or loss	(6,738,147)	(9,455,977)
Gain on disposal of available-for-sale financial assets	(7,965,644)	(102,828,125)
Loss on disposal of available-for-sale financial assets	892,170	907,666
Impairment loss on available-for-sale financial assets	21,982,268	1,780,522
Share of profit of associates	(3,117,615)	(4,410,923)
Gain on disposal of investments in associates	(1,495,934)	-
Loss on disposal of investments in associates	-	11,272
Loss on disposal of subsidiaries	-	7,272,331
Post-employment benefits	579,099	537,443
Share-based payment	22,767,380	17,787,852
Dividend income	(2,579,165)	(20,175,312)
Interest income	(39,239,502)	(35,769,398)
Interest expenses	6,016,084	9,707,347
Gain on valuation of derivative	(11,835,343)	(114,184)
Loss on valuation of derivative	-	4,179,967
Miscellaneous gains	(1,910,741)	(8,727,043)
Miscellaneous losses	1,030,474	16,906
Contingent consideration (salaries)	5,256,255	-
	<u>721,626,330</u>	<u>240,154,282</u>
Decrease(increase) in trade receivables	51,269,530	(22,139,354)
Increase in inventories	(1,034,918)	(432,425)
Decrease(increase) in other receivables	(1,077,884)	2,803,997
Decrease(increase) in other assets	(66,613,838)	8,333,422
Increase in trade payables	1,594,638	5,347,572
Increase(decrease) in other payables	1,607,301	(2,791,943)
Decrease in other current liabilities	(4,791,790)	(9,965,300)
Increase(decrease) in other non-current liabilities	63,873,187	(3,342,080)
Increase(decrease) in provisions	1,641,433	(1,571,183)
Severance payments	(312,541)	(379,361)
	<u>46,155,118</u>	<u>(24,136,655)</u>
	<u>₩ 943,426,264</u>	<u>₩ 761,569,413</u>

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Significant transactions not affecting cash flows for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Transfer of available-for-sale financial assets	₩	1,905,664	₩	86,040,828
Transfer of construction in progress		269,756		12,454,960
Transfer to current portion of borrowings		139,860,457		146,500,987
Recovery of loss on capital reduction		(199,551,573)		-

37. Contingencies and Commitments

Commitments

The Group provided ₩ 6,140 million of time deposits as collateral in relation to borrowing of employees amounting to ₩ 4,875 million as at December 31, 2016. The Group provided ₩ 4,023 million of time deposits as collateral in relation to government subsidies as at December 31, 2016. In addition, certain shares of subsidiaries are provided as collateral in relation to borrowings from Sumitomo Bank Ltd. as at December 31, 2016.

The Group has entered into a contract of online game contents service with many companies and receives a certain portion of sales in exchange for providing contents as at December 31, 2016.

The Group supplies online games developed by other companies along with its in house developed games to the users through the internet site of the Group. The related revenue is allocated to the Group and game development companies based on a certain ratio.

Contingent Liability

The Group receives payment guarantees amounting to ₩ 3,657 million and ₩ 4,195 million from Jeju Bank and Seoul Guarantee Insurance Co., Ltd. respectively in relation to the government subsidies.

Contingent Consideration

Contingent consideration granted in relation to business combination as at December 31, 2016, is as follows:

<i>(in thousands of Korean won and in USD)</i>	THINGSOFT Inc.	Boolean Games	Well Games Co., Ltd.	NSC CO.,LTD.
Conditions for occurrence	Sales attainable standard	Sales attainable standard	Sales attainable standard	Sales attainable standard
Contingent consideration	₩ 0 ~ 47,000,000	₩ 0 ~ 44,600,000	₩ 0 ~ 1,000,000	₩ 0 ~ 8,700,000

Changes in contingent consideration for the periods ended December 31, 2016 and 2015, are as

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follows:

<i>(In thousands of Korean won)</i>	2016		2015	
Beginning balance	₩	8,487,081	₩	20,417,703
New transactions ¹		12,767,283		3,694,026
Paid		(350,010)		(6,926,796)
Transfer		(2,000,000)		-
Profit or loss		(880,267)		(8,710,136)
Exchange differences		236,140		12,284
Ending balance	₩	<u>18,260,227</u>	₩	<u>8,487,081</u>
Less: Non-current	₩	(6,097,566)	₩	(7,401,026)
Current		12,162,661		1,086,055

¹ It includes contingent liability of ₩5,492 million, which does not constitute an acquisition cost but is subject to pay when the condition of performance and continuing employment are satisfied. The maximum amount of the contingent liability is 12,375,000 USD.

38. Related Party Transactions

As at December 31, 2016, the controlling shareholder is Mr. Kim Jeong-Ju.

Details of associates and other related parties that have sales and other transactions with the Group or outstanding balances are as follows:

	Entity name
Associates	313 Art Project Inc, IDIS Holdings Co., Ltd, Ubifun Corp., Xeogen, Inc., INTIVSOFT Co., Ltd., NAT GAMES CO., LTD., Loud Communications Co., Ltd., PURSAR Creative Co., Ltd., Meerkat Games Co., Ltd.
Other related parties	NXProperties Corporation, Wisekids Co., Ltd.

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Sales and purchases with related parties for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Sales	Purchases	Sales	Purchases
Associates				
313 Art Project Inc	₩ -	₩ 300,000	₩ 243,000	₩ -
IDIS Holdings Co., Ltd	385,172	-	256,781	-
Ubifun Corp.	394	-	42,733	840,727
Xeogen, Inc.	-	22,081	-	443,386
INTIVSOFT Co., Ltd.	-	-	9,363	-
NAT GAMES CO., LTD.	10,000	-	-	-
NSC CO.,LTD. ¹	8,696	-	-	-
Loud Communications Co., Ltd.	-	274,328	-	-
Other related parties				
NXProperties Corporation	24,000	158,040	24,000	-
Wisekids Co., Ltd.	991	8,695	43,585	102,719
	<u>₩ 429,253</u>	<u>₩ 763,144</u>	<u>₩ 619,462</u>	<u>₩ 1,386,832</u>

¹ The transactions with NSC CO.,LTD. took place before becoming subsidiary, and loans related to these transactions are offset with consolidation adjustment for the period ended December 31, 2016.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Receivables	Payables	Receivables	Payables
Associates				
313 Art Project Inc	₩ 1,000,000	₩ -	₩ -	₩ -
Xeogen, Inc.	-	-	-	44,102
INTIVSOFT Co., Ltd.	-	-	100,000	-
Loud Communications Co., Ltd.	-	297,911	-	-
PURSAR Creative Co., Ltd.	200,000	-	-	-
Meerkat Games Co., Ltd.	340,000	-	-	-
Other related parties				
NXProperties Corporation	356,600	45,629	6,600	-
Wisekids Co., Ltd.	73	-	-	96,200
	<u>₩ 1,896,673</u>	<u>₩ 343,540</u>	<u>₩ 106,600</u>	<u>₩ 140,302</u>

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Investments to related parties as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>		2016
Associates		
Meerkat Games Co., Ltd.	₩	1,398,470
PURSAR Creative Co., Ltd.		3,000,000
Loud Communications Co., Ltd.		4,300,272
SKY Growth LIMITED PARTNERSHIP		10,100,000
GASEUNG DEVELOPMENT CO., LTD.		2,000,000
 <i>(in thousands of Korean won)</i>		 2015
Associates		
NSC CO.,LTD.	₩	749,970
C program		2,000,000

Fund transactions with related parties for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
	Loans	Borrowings	Loans	Borrowings
Associates				
INTIVSOFT Co., Ltd.	₩	-	99,999	-
313 Art Project Inc		1,000,000	-	-

There are no payment guarantees by the Group as at December 31, 2016.

There are no commitments made with related parties as at December 31, 2016.

Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the periods ended December 31, 2016 and 2015, consists of:

<i>(In thousands of Korean won)</i>	2016		2015	
Salaries and other short-term employee benefits	₩	2,550,853	₩	2,348,481
Post-employment benefits		110,057		107,228
		<u>₩ 2,660,910</u>		<u>₩ 2,455,709</u>

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39. Business Combinations

Details of the Group's business combinations as at December 31, 2016 and 2015, are as follows.

NEXON US holding Inc. and Blast Acquisition Sub Inc., respectively, were established on February 2, 2016. The Group acquired 100% of shares of Big Huge Games Inc. on March 22, 2016, and did business combination with Blast Acquisition Sub Inc.

(In thousands of Korean won)

	<u>2016</u>	
	Big Huge Games Inc.	
Consideration		
Cash	₩	51,315,599
Total consideration	₩	<u>51,315,599</u>
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	630,080
Trade and other receivables		3,245,505
Property, plant and equipment		471,689
Developed technology and others		18,692,004
Other intangible assets		43,562
Deferred tax assets		15,126
Other assets		60,251
Trade and other payables		(194,953)
Deferred tax liabilities		(8,258,489)
Other liabilities		<u>(142,769)</u>
Net identifiable assets acquired		14,562,006
Goodwill		<u>36,753,593</u>
	₩	<u>51,315,599</u>

The Group is liable for contingent payment up to the maximum amount of ₩14,982million (nominal value before discount) to certain sellers when the continuing employment condition is satisfied.

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On July 1, 2017, as deemed acquisition date, the Group acquired 100% of shares of N Media Platform Co., Ltd. in June, 2016.

(In thousands of Korean won)

	2016	
	N Media Platform Co., Ltd.	
Consideration		
Cash	₩	14,300,000
Total consideration	₩	14,300,000
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	2,593,983
Financial deposits		290,000
Trade and other receivables		2,881,903
Inventories		382,671
Available-for-sale financial assets		15,344
Property, plant and equipment		1,253,966
Customer relationship (including in intangible assets)		2,934,608
Other intangible assets		120,029
Deferred tax assets		1,624,924
Other assets		555,352
Trade and other payables		(819,679)
Borrowings		(2,010,000)
Defined benefit liabilities		(44,242)
Deferred tax liabilities		(645,614)
Other liabilities		(2,547,991)
Net identifiable assets acquired		6,585,254
Goodwill		7,714,746
	₩	14,300,000

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On April 30, 2016, as deemed acquisition date, the Group acquired 100% of shares of Well Games Co., Ltd. in May, 2016.

(In thousands of Korean won)

	2016	
	Well Games Co., Ltd.	
Consideration		
Cash	₩	20,100,000
Contingent consideration		2,773,195
Total consideration	₩	<u>22,873,195</u>
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	1,425,635
Financial deposits		1,001,000
Trade and other receivables		907,235
Property, plant and equipment		15,049
Developed technology and others		11,984,001
Other intangible assets		5,444
Deferred tax assets		34,580
Other assets		3,295
Trade and other payables		(296,469)
Unearned revenues		(145,924)
Deferred tax liabilities		(2,636,480)
Other liabilities		(570,380)
Net identifiable assets acquired		<u>11,726,986</u>
Goodwill		<u>11,146,209</u>
	₩	<u>22,873,195</u>

The Group is liable for contingent payment up to the maximum amount of ₩1,000million to certain sellers when operating profit exceeds a certain level.

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On September 30, 2016, as deemed acquisition date, the Group acquired 100% of shares of NSC CO.,LTD. in September, 2016.

(In thousands of Korean won)

	<u>2016</u>	
	NSC CO.,LTD.	
Consideration		
Cash	₩	7,106,434
Contingent consideration		4,737,833
Fair value of preferred shares held before business combination		<u>2,995,874</u>
Total consideration	₩	<u>14,840,141</u>
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	332,137
Financial deposits		6,000
Trade and other receivables		285,841
Property, plant and equipment		13,206
Developed technology and others		10,843,520
Other intangible assets		92
Deferred tax assets		1,570,678
Other assets		3,383
Trade and other payables		(305,562)
Borrowings		(780,422)
Unearned revenues		(333,310)
Deferred tax liabilities		(2,385,574)
Other liabilities		<u>(31,871)</u>
Net identifiable assets acquired		9,218,118
Goodwill		<u>5,622,023</u>
	₩	<u>14,840,141</u>

The Group is liable for contingent payment up to the maximum amount of ₩8,700million (nominal value before discount) to the sellers when total sales generated by the game developed by the sellers exceeds a certain level.

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On September 30, 2016, as deemed acquisition date, the Group acquired 49% of shares of i Digital Connect Co., Ltd. in October, 2016. Although the Group owns less than 50% of voting rights, the entity was classified as subsidiaries since the Group has controls for financial and operating policies.

(In thousands of Korean won)

	2016	
	i Digital Connect Co., Ltd.	
Consideration		
Cash	₩	472,794
Total consideration	₩	472,794
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	164,911
Trade and other receivables		167,989
Property, plant and equipment		13,914
Other assets		245,565
Trade and other payables		(123,666)
Other liabilities		(39,855)
Net identifiable assets acquired		428,858
Non-controlling interest		(218,718)
		210,140
Goodwill		262,654
	₩	691,512

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The Group acquired shares of Boolean Games on April 2, 2015.

(In thousands of Korean won)

	2015	
	Boolean Games	
Consideration		
Cash	₩	25,000,000
Contingent consideration		3,694,026
Total consideration	₩	<u>28,694,026</u>
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	5,533,794
Property, plant and equipment		219,573
Intangible assets		7,963,387
Trade and other receivables		1,566,743
Other assets		23,406
Trade and other payables		(151,595)
Unearned revenues		(400,000)
Defined benefit obligations		(112,433)
Deferred tax liabilities		(1,749,304)
Other liabilities		<u>(625,493)</u>
Net identifiable assets acquired		12,268,078
Goodwill		<u>16,425,948</u>
	₩	<u>28,694,026</u>

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40. Information For Non-controlling Interests

40.1 Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in thousands of Korean won)</i>	2016						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Other comprehensive income allocated to non-controlling interests	Changes in shares of subsidiaries	Others	Accumulated non-controlling interests at the end of the year
NEXON Co., Ltd. and its subsidiaries	44.53%	₩ 1,611,530,304	₩ 91,065,718	₩ 28,774,458	₩ 62,841,046	₩ 3,295,140	₩ 1,797,506,666

<i>(in thousands of Korean won)</i>	2015						
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Other comprehensive income allocated to non-controlling interests	Changes in shares of subsidiaries	Others	Accumulated non-controlling interests at the end of the year
NEXON Co., Ltd. and its subsidiaries	42.13%	₩ 1,234,706,699	₩ 231,176,983	₩ 4,617,064	₩ 139,012,685	₩ 2,016,874	₩ 1,611,530,305

40.2 Summarized Financial Information on Subsidiaries

The summarized financial information for each subsidiary with non-controlling interests that are material to the Group before inter-company eliminations is as follows:

Assets, liabilities and equity of subsidiaries as at December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	NEXON Co., Ltd. and its subsidiaries	
	2016	2015
Current assets	₩ 3,781,992,265	₩ 3,210,731,184
Non-current assets	782,863,529	907,875,327
Current liabilities	361,610,209	357,052,786
Non-current liabilities	307,820,442	91,405,639
Equity	3,895,425,143	3,670,148,086
Equity attributable to owners of the Parent Company	3,780,371,868	3,555,781,331
Equity attributable to non-controlling interests	115,053,275	114,366,755

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Sales, profit (loss) from continuing and discontinued operations, and comprehensive income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	NEXON Co., Ltd. and its subsidiaries	
	2016	2015
Sales	₩ 1,954,835,352	₩ 1,791,254,208
Profit for the period	209,461,814	593,474,004
Other comprehensive income	68,278,948	12,359,134
Total comprehensive income	277,740,762	605,833,138
Profit attributable to owners of the Parent Company	273,283,196	601,574,402
Profit attributable to non-controlling interests	4,457,566	4,258,736

Summarized cash flows activities for the periods ended December 31, 2016 and 2015, are as follows:

<i>(In thousands of Korean won)</i>	NEXON Co., Ltd. and its subsidiaries	
	2016	2015
Cash flows from operating activities	₩ 781,093,250	₩ 560,815,142
Cash flows from investing activities	(1,034,643,334)	525,946,000
Cash flows from financing activities	(98,844,607)	(332,273,089)
Effects of exchange rate changes on cash and cash equivalents	49,219,114	53,485,218
Net increase (decrease) in cash and cash equivalents	(303,175,577)	807,973,271
Cash and cash equivalents at beginning of the year	1,880,189,441	1,072,216,170
Cash and cash equivalents at end of the year	<u>₩ 1,577,013,864</u>	<u>₩ 1,880,189,441</u>

40.3 Transactions with Non-controlling Interests

Effects of transactions with non-controlling interests on the equity attributable to owners of the Parent Company for the periods ended December 31, 2016 and 2015:

<i>(In thousands of Korean won)</i>	2016	2015
Share options exercised by employee	₩ 9,645,544	₩ (5,994,282)
Acquisition of additional interests in a subsidiary and disposal of interests in a subsidiary without loss of control	61,953,358	84,811,809
Net effect on equity	<u>₩ 71,598,902</u>	<u>₩ 78,817,527</u>