[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

Consolidated Financial Results for the Three Months Ended March 31, 2018 [IFRS]

May 10, 2018

Company name: NEXON Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 3659
URL: http://www.nexon.co.jp/
Representative: Owen Mahoney, Chief Executive Officer and President
Contact: Shiro Uemura, Representative Director and Chief Financial Officer Phone: +81-3-6629-5318
Scheduled date for filing of quarterly securities report: May 11, 2018
Scheduled date of commencing dividend payments: -
Supplementary briefing material on quarterly financial results: Yes
Quarterly financial results briefing: No

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Three Months Ended March 31, 2018 (from January 1, 2018 to March 31, 2018)

(1) Consolidated Operating Results (cumulative) (% changes year-over-year)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
Three months ended March 31,2018	90,514	21.0%	54,729	37.6%	53,350	113.1%	46,505	134.7%	46,615	134.2%	21,760	(32.4)%
Three months ended March 31,2017	74,792	30.1%	39,762	973.8%	25,032	—	19,812	—	19,906	—	32,205	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2018	52.80	51.86
Three months ended March 31, 2017	22.85	22.46

(Note) Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of Basic earnings per share and Diluted earnings per share has been calculated based on the assumption that such stock split was conducted at the beginning of the previous consolidated accounting year.

(2) Consolidated Financial Position

(Millions of yen)

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company
As of March 31, 2018	569,084	496,949	492,311	86.5%
As of December 31, 2017	545,956	470,218	465,207	85.2%

2. Dividends

(Yen)

	Annual Dividends				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total
FY 2017	—	0.00	—	0.00	0.00
FY 2018	—				
FY 2018 (Forecast)		—	—	—	—

(Note) Revision of most recently announced dividend forecasts: No

Under Nexon's articles of incorporation end of 2nd quarter (June 30) and end of year (December 31) are stipulated as the dates of record for dividends. However, at present the amount of the 2nd quarter and year-end dividends for FY2018 is yet to be determined.

3. Consolidated Financial Results Forecast for the Six Months Ending June 30, 2018 (from January 1, 2018 to June 30, 2018)

(% changes year-over-year)
(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
											Yen
2nd Quarter (cumulative)	135,595 ～ 139,576	11.3% ～ 14.5%	65,204 ～ 68,272	16.4% ～ 21.8%	65,717 ～ 68,785	40.0% ～ 46.5%	57,482 ～ 60,091	47.0% ～ 53.6%	57,831 ～ 60,419	46.9% ～ 53.5%	65.30 ～ 68.22

(Note 1) As it is difficult to reasonably estimate financial results for the year ending December 31, 2018 at the moment, only the financial results forecast for the six months ending June 30, 2018 is disclosed. Also, as it is difficult to estimate specific figures, disclosure is made with a range. For details, please refer to "1. Qualitative Information on Consolidated Financial Results for the Period (3) Explanation on Future Forecast Information including Consolidated Financial Results Forecast" on page 4 of the Appendix.

(Note 2) Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of basic earnings per share has been calculated taking such stock split into account.

*(Notes)

(1) Changes in Significant Subsidiaries during the Period : No

(Changes in specified subsidiaries accompanying changes in scope of consolidation)

(2) Changes in Accounting Policies and Changes in Accounting Estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

(3) Number of Shares Issued (common stock)

1) Total number of shares issued at the end of the period (including treasury stock):

As of March 31, 2018: 887,588,664 shares

As of December 31, 2017: 880,368,664 shares

2) Total number of treasury stock at the end of the period:

As of March 31, 2018: 88 shares

As of December 31, 2017: －shares

3) Average number of shares during the period (cumulative):

Three months ended March 31, 2018: 882,797,142 shares

Three months ended March 31, 2017: 871,126,628 shares

(Note) Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The number of shares issued (common stock) has been calculated based on the assumption that such stock split was conducted at the beginning of the previous consolidated accounting year.

* This quarterly financial report is outside the scope of quarterly review procedures by a certified public accountant or an audit firm.

* Explanation of the Proper Use of Financial Results Forecasts and Other Notes

(Caution Concerning Forward-Looking Statements)

The forward-looking statements including the financial results forecast herein are based on information currently available to the Company and certain assumptions that can be deemed reasonable, and are not intended as the Company's commitment to achieve such forecasts. Actual results may differ significantly from these forecasts due to a wide range of factors. For conditions prerequisite to the financial results forecast and the points to be noted in the use thereof, please refer to "1. Qualitative Information on Consolidated Financial Results for the Period (3) Explanation on Future Forecast Information including Consolidated Financial Results Forecast" on page 4 of the Appendix.

(Method of Obtaining Supplementary Briefing Material on Financial Results)

The supplementary briefing materials on quarterly financial results are available on the Company's website.

Contents of Appendix

1. Qualitative Information on Consolidated Financial Results for the Period

(1) Explanation on Operating Results

During the three months ended March 31, 2018, the global economy remained solid despite some uncertainties including concerns over the United States' protectionist policy management and geopolitical risks. The European economy as a whole also continued to grow at a higher rate, including strong external demand contributing to the solid economic expansion sustained by Germany and France, Spain continuing to experience high growth and the U.K. economy remaining steady. As for emerging economies, China has maintained its solid growth, and while the economy in India temporarily stagnated mainly due to the impact of demonetization of high-value banknotes, it is starting to show a gradual economic recovery. The gradual recovery in Brazil is also becoming more sustained. The Japanese economy continued to slowly recover mainly as exports gradually recovered and consumer spending further improved while employment and income situation remained solid.

Under these circumstances, Nexon Group has operated its PC online and mobile businesses, endeavoring to provide users with an enjoyable game experience by developing high-quality games, acquiring more contents, servicing new titles, and updating existing titles. Specifically, Nexon Group has worked on various initiatives including the enhancement of game development capabilities within Nexon Group, business alliances with other companies including joint development, servicing high-quality new game titles by such means as investing in leading game developers, enhancement of Nexon Group's development capabilities in mobile business and further reinforcement of the business platform to enable attractive content updates of existing game titles.

For the three months ended March 31, 2018, revenues grew significantly due to extremely strong performance in China and favorable effect of foreign exchange rate, with the Japanese yen depreciating year-over-year against Korean Won in our business. In China, revenues increased significantly due mainly to well-received content updates and item sales for *Dungeon&Fighter*, our key PC online game, in time for the Lunar New Year. In Korea, while performance remained solid, driven by *Yulhyulgangho M* and *Durango*: *Wild Lands* ("*Durango*"), which launched in Q1 2018, and *OVERHIT* and *AxE,* which launched in 2017, revenues decreased year-over-year due to the impact of the upcoming service transition period of the major title *EA SPORTS™ FIFA Online 3* ("*FIFA Online 3*") to EA *SPORTS™ FIFA Online 4* ("*FIFA Online 4*") and comparison with extremely strong performance in the quarter for Q1 2017 driven by favorable effect of major updates of *Dungen&Fighter* conducted in 2016. In North America, revenues increased year-over-year due to contribution from *CHOICES: STORIES YOU PLAY* ("*CHOICES*") serviced by Pixelberry Studios, which became our consolidated subsidiary in Q4 2017.

In terms of expenses, cost of sales was flat year-over-year as a result of an increase in cloud service costs due to enhanced lineup of mobile games offset by a decrease in royalty costs related to *FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M* ("*FIFA Online 3 M*"). Selling, general and administrative expenses increased year-over-year mainly due to marketing costs for *Durango* and *Moonlight Blade*, which newly launched in Korea, and *CHOICES* in North America. Other expenses decreased significantly year-over-year as impairment loss on our subsidiary's goodwill was recorded in Q1 2017. Although we incurred a foreign exchange loss in foreign currency-denominated cash deposits and accounts receivable, our finance costs decreased because the amount was significantly less than the amount incurred in the same period last year.

As a result, for the three months ended March 31, 2018, Nexon Group recorded revenues of ¥90,514 million (up 21.0% year-over-year), operating income of ¥54,729 million (up 37.6% year-over-year), income before income taxes of ¥53,350 million (up 113.1% year-over-year) and net income attributable to owners of the parent company of ¥46,615 million (up 134.2% year-over-year).

Business results by reportable segments for the three months ended March 31, 2018 are as follows:

(a) Japan

Revenues for the three months ended March 31, 2018 amounted to ¥2,469 million (down 30.1% year-over-year), and segment loss amounted to ¥1,756 million (segment loss of ¥903 million for the three months ended March 31, 2017). In Japan, PC revenues and mobile revenues both decreased.

(b) Korea

Revenues for the three months ended March 31, 2018 amounted to ¥81,826 million (up 21.0% year-over-year), and segment profit amounted to ¥57,739 million (up 31.2% year-over-year). Revenues in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China. For the three months ended March 31, 2018, revenues showed an extremely strong growth mainly driven by well-received content updates in time for the Lunar New Year and item sales of *Dungeon&Fighter*, our key PC title in China.

(c) China

Revenues for the three months ended March 31, 2018 amounted to ¥646 million (down 50.5% year-over-year), and segment profit amounted to ¥353 million (down 62.2% year-over-year).

(d) North America

Revenues for the three months ended March 31, 2018 amounted to ¥5,440 million (up 155.6% year-over-year), and segment loss amounted to ¥1,460 million (segment loss of ¥1,272 million for the three months ended March 31, 2017).

(e) Other

Revenues for the three months ended March 31, 2018 amounted to ¥133 million (down 36.5% year-over-year), and segment loss amounted to ¥177 million (segment loss of ¥31 million for the three months ended March 31, 2017).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of March 31, 2018 amounted to ¥569,084 million, an increase of ¥23,128 million from December 31, 2017. Major components include an increase of ¥34,609 million in trade and other receivables and a decrease of ¥12,105 million in cash and cash equivalents.

(Liabilities)

Total liabilities as of March 31, 2018 amounted to ¥72,135 million, a decrease of ¥3,603 million from December 31, 2017. Major components include an increase of ¥4,288 million in income taxes payable, a decrease of ¥3,180 million in provisions, a decrease of ¥1,744 million in trade and other payables and a decrease of ¥1,223 million in deferred tax liabilities.

(Equity)

Equity as of March 31, 2018 amounted to ¥496,949 million, an increase of ¥26,731 million from December 31, 2017. Major components of changes in equity include an increase of 57,741 million in retained earnings due to offsetting a loss and recording net income, a decrease of 8,763 million in capital surplus due to offsetting a loss and a decrease of ¥24,309 million in other equity interest due to changes in exchange differences on translating foreign operations.

As a result, ratio of equity attributable to owners of the parent company was 86.5% (85.2% as of December 31, 2017).

(b) Cash flows

Cash and cash equivalents (“Cash”) as of March 31, 2018 was ¥141,137 million, a decrease of ¥12,105 million from December 31, 2017. The decrease includes effects of exchange rate changes on cash of ¥7,425 million.

Cash flows from each activity for the three months ended March 31, 2018 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥15,614 million, compared to ¥6,410 million in the three months ended March 31, 2017. Major components of the increase include income before income taxes of ¥53,350 million and major components of the decrease include an increase in trade and other receivables of ¥37,005 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥23,017 million, compared to ¥6,702 million in the three months ended March 31, 2017. Major outflows include an increase of ¥21,724 million in other deposits.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥2,723 million, compared to ¥297 million in the three months ended March 31, 2017. Major inflows include proceeds from exercise of stock options of ¥3,566 million, and major outflows include repayment of long-term borrowings of ¥835 million.

(3) Explanation on Future Forecast Information including Consolidated Financial Results Forecast

The business environment surrounding Nexon Group has been changing greatly in expectation of further development of the high-speed Internet environment for PC and mobile around the world. In our consolidated business outlook, we disclose our expectations for the following quarter as a range to provide more accurate information to our shareholders and investors, since it is difficult to derive full-year consolidated forecasts due to uncertainties in projecting the speed of growth of PC online game and mobile game markets in which Nexon Group's main businesses operate, and because our revenues are largely dependent on such uncertain factors as users' preferences and whether or not we have any hit titles. "Consolidated Business Outlook for the Six Months Ending June 30, 2018" is the sum of our actual consolidated financial results for the three months ended March 31, 2018 and our consolidated business outlook for the three months ending June 30, 2018.

For the six months ending June 30, 2018, Nexon Group expects consolidated revenues in the range of ¥135,595 ~ 139,576 million (an increase of 11.3% ~ 14.5% year-over-year), operating income in the range of ¥65,204 ~ 68,272 million (an increase of 16.4% ~ 21.8% year-over-year), income before income taxes in the range of ¥65,717 ~ 68,785 million (an increase of 40.0% ~ 46.5% year-over-year), net income in the range of ¥57,482 ~ 60,091 million (an increase of 47.0% ~ 53.6% year-over-year), net income attributable to owners of the parent company in the range of ¥57,831 ~ 60,419 million (an increase of 46.9% ~ 53.5% year-over-year), and basic earnings per share in the range of ¥65.30 ~ 68.22. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q2 2018 are assumed to be 1 U.S dollar = ¥107.44, 100 South Korean Won = ¥10.08 and 1 Chinese Yuan = ¥17.06. In general, the exchange rates of the South Korean Won and the Chinese Yuan to Japanese yen are assumed to be linked to the exchange rate of U.S. dollar to Japanese yen. We expect that every one Japanese yen move against the U.S. dollar will have an impact of approximately ¥415 million on revenues and approximately ¥137 million on operating income for the three months ending June 30, 2018.

In Korea and China, the second quarter is in general a seasonably weaker period in wake of the strong performance in the first quarter due to Lunar New Year.

As for revenues based on customer location for the three months ending June 30, 2018, in Korea, while PC online game *FIFA Online 4* is scheduled for launch, we expect a significant revenue decrease year-over-year due to service transfers from *FIFA Online 3* and *FIFA Online 3 M*. For mobile games, we expect a year-over-year revenue increase due to contributions from *OVERHIT*, *AxE* and the new mobile game *KAISER*, which is scheduled to launch in Q2 2018. As a result, in Korea, we expect revenues to decrease year-over-year.

In China, we launched a large-scale content update for our key PC title *Dungeon&Fighter* on April 26, 2018 in time for the Labor Day holidays. We are also scheduled to introduce the 10th Anniversary update in June and we expect revenues to slightly increase year-over-year.

In Japan, mobile games such as *HIT* and *HIDE AND FIRE* are expected to decrease in revenues year-over-year. While we expect the launch of *OVERHIT* to be a positive driver of revenue, it is eclipsed by negative drivers of revenue resulting in a revenue decrease.

In North America, we expect revenues to increase year-over-year due to contributions from *CHOICES* by Pixelberry Studios, which became our consolidated subsidiary in Q4 2017.

As for costs for Q2 2018, we expect personnel cost to increase due to increases in headcount and stock option expenses, and marketing costs to increase due to the launch of multiple new titles. As a result, we expect costs to increase year-over-year for the three months ending June 30, 2018.

Our business outlook is forecasted based on information currently available to us and includes various uncertain factors. Therefore, any change in our business condition may cause our actual results to differ from the outlook.

(Reference)

Consolidated financial results forecast for the three months ending June 30, 2018 (from April 1, 2018 to June 30, 2018)

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
											Yen
2nd Quarter	45,081 ～ 49,062	(4.2)% ～ 4.2%	10,475 ～ 13,543	(35.6)% ～ (16.8)%	12,367 ～ 15,435	(43.6)% ～ (29.6)%	10,977 ～ 13,586	(43.1)% ～ (29.6)%	11,216 ～ 13,804	(42.3)% ～ (29.0)%	12.62 ～ 15.53

(Note) Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of basic earnings per share above has been calculated taking such stock split into account.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

Not applicable

(2) Changes in Accounting Policies and Changes in Accounting Estimates

(Changes in accounting policies required by IFRS)

The accounting policies used to prepare these condensed consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017 unless otherwise noted, except for the new standards applied as listed below. Nexon Group calculated income taxes for the three months ended March 31, 2018, based on the estimated average annual effective tax rate.

Nexon Group has applied the following standards from Q1 2018, which did not have material impacts on Q1 2018.

Standards	Title	Overview of New or Revised Standard
IFRS 2	Share-based Payment	Clarified the accounting treatment of measurement of cash-settled share-based payment or similar transactions
IFRS 9 (2014 version)	Financial Instruments	Revisions concerning classification and measurement of financial assets, impairment, hedge accounting and other matters
IFRS 15	Revenue from Contracts with Customers	Revised the accounting treatment related to recognition of revenues
IAS 28	Investments in Associates and Joint Ventures	Mainly clarified that the election to measure at fair value through profit or loss conducted when an investor in an associate or a joint venture is a venture capital organization, or other qualifying entity, is available on an investment-by-investment basis
IAS 40	Investment Property	Clarified requirements regarding transfers of property to, or from, investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Newly established regarding treatment of foreign exchange rates to be used for transactions that include receipt or payment of advance consideration in a foreign currency

Due to the application of the standards above from Q1 2018, changes in accounting policies are as follows.

IFRS 15 Revenue from Contracts with Customers (issued May 2014) and Clarifications to IFRS 15 (issued April 2016) (collectively, “IFRS 15”)

Nexon Group is engaged in PC online business, mobile business, consulting business related to PC online game service, and internet advertisement business. Therefore, we measure our revenues at the amount of the fair price of compensation for services provided under ordinary commercial transactions, with sales-related tax deducted.

Due to the application of IFRS 15, Nexon Group recognizes revenues based on the following 5-step approach.

Step 1: Identification of contracts with customers

Step 2: Identification of performance obligations under a contract

Step 3: Determination of the transaction price

Step 4: Allocation of the transaction price to performance obligations

Step 5: Recognition of revenue by the company due to fulfillment of performance obligations

When a transaction related to provision of service cannot be estimated with reliability, we recognize revenue only for such part for which the cost is deemed recoverable.

Furthermore, Nexon Group does not recognize as assets any incremental cost for the acquisition of contracts with customers or any part that is deemed recoverable due to it.

Revenue recognition standards and standards related to the representation of gross and net revenue amounts for each major revenue category are as follows:

(A) Revenue recognition standards for each major revenue category

Major revenues of Nexon Group are: (a) revenues from sales of items or similar in PC online and mobile businesses (revenues from in-game microtransactions); (b) royalty revenues from licenses granted for PC online games developed and commercialized by Nexon Group; and (c) revenues from consulting business related to PC online game service and in-game advertisement business.

(a) Revenues from sales of items or similar in PC online and mobile businesses (revenues from in-game microtransactions)

The PC online business involves the service of PC online games developed by Nexon Group or other companies. While Nexon Group's PC online games are basically offered for free, users pay to purchase the items they need or to use specific services. For PC online games, the lifetimes of game items acquired in exchange for game points are estimated and revenues are recognized over such estimated lifetimes.

The mobile business involves the service, via terminal devices such as smartphones and tablets, of mobile games developed by Nexon Group or other companies. While mobile games are basically offered for free, users pay to purchase the items they need or to use specific services. For mobile games, the lifetimes of game items acquired in exchange for game points are estimated and revenues are recognized over such estimated lifetimes.

(b) Royalty revenues from licenses granted for PC online games developed and commercialized by Nexon Group

As the copyright holder of PC online games developed and commercialized by Nexon Group, Nexon Group enters into licensing agreements with non-Nexon Group publishers and grants them publishing rights for those games.

For royalty revenues generated by granting publishing rights to third parties, we recognize that performance obligations are fulfilled over the contract period of the relevant royalty agreement when it is highly likely that economic benefits related to the transaction would flow into the company and when the revenue amount can be measured with reliability.

(c) Revenues from consulting business related to PC online game service and in-game advertisement business.

As for consulting business, our subsidiary provides publishers in China with consulting services for setting up and maintaining billing systems and membership systems, business strategy, game operation and marketing.

As for in-game advertisement business, advertisements are directly exposed to users through in-game usage of functional items equipped with an advertisement function and revenues are recognized over the advertisement period.

(B) Revenue recognition due to fulfillment of performance obligations

With regards to the fulfillment of performance obligations, we recognize revenues when a company has fulfilled, or as a company fulfills, such performance obligations through transfer of service to customers.

We recognize that performance obligations are fulfilled over a certain period of time in the PC online business, mobile business, consulting business related to PC online game service, and internet advertisement business, respectively. In terms of reportable segments, revenues from the consulting business related to PC online games are included in PC online, and revenues from the internet advertisement business are included in Other.

(a) Performance obligations fulfilled at a point in time

Nexon Group is also engaged in sales of promotional goods related to our business, and revenues for these are recognized at the time of delivery to customers.

(b) Performance obligations fulfilled over a certain period of time

In the case where any of the following requirements applies, control over a service is transferred over a certain period of time. Therefore, performance obligations are fulfilled and revenues are recognized over a certain period of time.

(i) The customer simultaneously receives and consumes the benefit provided through the company's performance as the company carries it out.

(ii) The company's performance generates or increases the value of an asset (e.g. work in progress) and the customer gains control over it as such asset is generated or increases in value.

(iii) The company's performance has an enforceable right to receive payment for any performance that does not generate any asset that the company could otherwise divert and for which the company has completed to date.

For in-game microtransactions, the service periods of items sold are estimated and recognized for each game. The period for fulfillment of performance obligations is the same as the estimated service period, which is calculated by classifying an item sold into 3 types (i.e. consumable, periodic, permanent) in accordance with its specification.

In addition, for permanent items for which our performance obligations continue on a permanent basis, we have adopted a method of calculating the users' service usage period by weighted average.

For royalty revenues, we recognize such revenues by deeming the contract term of copyrights or similar owned by Nexon Group as the period of performance obligation fulfillment.

(C) Representation of revenue gross versus net

In some cases, Nexon Group functions as a broker or an agent in ordinary commercial transactions. When reporting revenues for such transactions, we determine whether to represent revenues as a gross amount of compensation received from customers, or to represent revenues as a net amount by deducting fees and other payments made to third parties from the gross amount of compensation received from customers. However, there is no impact on our net profit or loss, regardless of the method of representation, i.e. gross or net.

Determination of whether to represent our revenues as a gross or net amount is based on whether the nature of our performance obligations for the relevant transaction, as to whether we are obligated to provide particular goods or services ourselves (i.e. we are the "Principal") or obligated to make arrangements for such goods or services to be provided by another party (i.e. we are the "Agent"). For transactions in which Nexon Group is the "Principal," falls under a "main party to a contract" or an "agent or similar" for the relevant transaction. When Nexon Group falls under a main party to the contract, we represent our revenues as a gross amount at the time of fulfillment of performance obligations or as such obligations get fulfilled. , and whenFor transactions in which Nexon Group falls under an agent or similar,is the "Agent," we represent revenues as a net amount, at the time of fulfillment of performance obligations or as they get fulfilled, for such amount of compensation or fees to which we expect to become entitled to in exchange for our making arrangements to have particular goods or services be provided by another party. To determine whether we fall under a main party to the contract or an agent or similarare the Principal or Agent, we evaluate such matters as the terms and conditions of the transaction, individually, with regards to any exposure to material risks and benefits associated with the sale of goods and provision of service.

Furthermore, we fall under "Principal" whenever we are in control of particular goods or services before such goods or services are transferred to customers.

We take into account the following benchmarks as criteria for representing revenues from a transaction as a gross amount as a result of Nexon Group falling under a main party to the contract for such transaction.

(a) We have primary responsibility to provide a service to a customer or to carry out an order.
(b) We have discretionary power regarding direct or indirect determination of price.
(c) We have taken on a customer's credit risk associated with receivables that arise against such customer.

IFRS 9 Financial Instruments (issued July 2014):

When recognizing impairment loss of financial assets, we recognize expected credit loss considering whether or not there is any significant increase in credit risk from the time of initial recognition with regards to financial assets or a financial asset group to be measured at amortized cost on the last day of each reporting period. At the end of the reporting period, if credit risk has not increased significantly after initial recognition, we recognize expected credit loss resulting from default events that are possible within 12 months after the reporting date (12-month expected credit loss). On the other hand, at the end of the reporting period, if credit risk has increased significantly after initial recognition, we recognize expected credit loss resulting from all possible default events over the life of the financial instruments (lifetime expected credit loss). However, with regards to operating receivables, for the sake of convenience, we recognize expected credit loss for the entire period based on credit loss in the past and qualitative factors that have been currently ascertained.

3. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	153,242	141,137
Trade and other receivables	35,255	69,864
Other deposits	234,092	242,680
Other financial assets	6,538	6,298
Other current assets	13,492	10,780
Total current assets	442,619	470,759
Non-current assets		
Property, plant and equipment	27,303	25,683
Goodwill	21,682	20,661
Intangible assets	12,784	12,834
Investments accounted for using equity method	9,138	8,817
Other financial assets	20,754	19,341
Other non-current assets	1,344	1,256
Deferred tax assets	10,332	9,733
Total non-current assets	103,337	98,325
Total assets	545,956	569,084

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	8,587	6,843
Deferred income	10,975	10,362
Borrowings	3,490	2,498
Income taxes payable	7,698	11,986
Other financial liabilities	173	166
Provisions	4,556	1,383
Other current liabilities	6,068	6,626
Total current liabilities	41,547	39,864
Non-current liabilities		
Deferred income	8,241	7,710
Borrowings	—	35
Other financial liabilities	506	478
Provisions	279	272
Other non-current liabilities	4,300	4,134
Deferred tax liabilities	20,865	19,642
Total non-current liabilities	34,191	32,271
Total liabilities	75,738	72,135
Equity		
Capital stock	9,390	11,825
Capital surplus	41,021	32,258
Treasury stock	—	(0)
Other equity interest	91,033	66,724
Retained earnings	323,763	381,504
Total equity attributable to owners of the parent company	465,207	492,311
Non-controlling interests	5,011	4,638
Total equity	470,218	496,949
Total liabilities and equity	545,956	569,084

(2) Condensed Consolidated Income Statement

(Millions of yen)

	Three months ended March 31	
	2017 (From January 1, 2017 to March 31, 2017)	2018 (From January 1, 2018 to March 31, 2018)
Revenue	74,792	90,514
Cost of sales	(14,767)	(14,337)
Gross profit	60,025	76,177
Selling, general and administrative expenses	(17,298)	(21,474)
Other income	181	359
Other expenses	(3,146)	(333)
Operating income	39,762	54,729
Finance income	1,202	1,869
Finance costs	(15,920)	(3,225)
Equity in loss of affiliates	(12)	(23)
Income before income taxes	25,032	53,350
Income taxes expense	(5,220)	(6,845)
Net income	19,812	46,505
Attributable to:		
Owners of the parent company	19,906	46,615
Non-controlling interests	(94)	(110)
Net income	19,812	46,505
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	22.85	52.80
Diluted earnings per share	22.46	51.86

(3) Condensed Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2017 and 2018

(Millions of yen)

	Three months ended March 31	
	2017 (From January 1, 2017 to March 31, 2017)	2018 (From January 1, 2018 to March 31, 2018)
Net income	19,812	46,505
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(60)	127
Re-measurement of defined benefit pension plans	(0)	1
Income taxes	(7)	8
Total items that will not be reclassified to net income	(67)	136
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	12,460	(24,880)
Other comprehensive income under equity method	0	(1)
Total items that may be reclassified subsequently to net income	12,460	(24,881)
Total other comprehensive income	12,393	(24,745)
Total comprehensive income	32,205	21,760
Attributable to:		
Owners of the parent company	32,116	22,133
Non-controlling interests	89	(373)
Total comprehensive income	32,205	21,760

(4) Condensed Consolidated Statement of Changes in Equity

For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2017	3,519	86,753	(0)	56,254	226,398	372,924	4,770	377,694
Net income for the period	—	—	—	—	19,906	19,906	(94)	19,812
Other comprehensive income	—	—	—	12,210	—	12,210	183	12,393
Total comprehensive income	—	—	—	12,210	19,906	32,116	89	32,205
Reclassification from capital surplus to retained earnings	—	(41,476)	—	—	41,476	—	—	—
Issue of shares	1,012	1,012	—	—	—	2,024	—	2,024
Stock issue cost	—	(5)	—	—	—	(5)	—	(5)
Share-based compensation	—	—	—	(126)	—	(126)	—	(126)
Purchase of non-controlling interests	—	(75)	—	—	—	(75)	(98)	(173)
Purchase of treasury stock	—	—	(0)	—	—	(0)	—	(0)
Reclassification from other equity interest to retained earnings	—	—	—	960	(960)	—	—	—
Total transactions with the owners	1,012	(40,544)	(0)	834	40,516	1,818	(98)	1,720
Balance at March 31, 2017	4,531	46,209	(0)	69,298	286,820	406,858	4,761	411,619

For the three months ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2018	9,390	41,021	—	91,033	323,763	465,207	5,011	470,218
Net income for the period	—	—	—	—	46,615	46,615	(110)	46,505
Other comprehensive income	—	—	—	(24,482)	—	(24,482)	(263)	(24,745)
Total comprehensive income	—	—	—	(24,482)	46,615	22,133	(373)	21,760
Reclassification from capital surplus to retained earnings	—	(11,191)	—	—	11,191	—	—	—
Issue of shares	2,435	2,435	—	—	—	4,870	—	4,870
Stock issue cost	—	(7)	—	—	—	(7)	—	(7)
Share-based compensation	—	—	—	108	—	108	—	108
Purchases of treasury stock	—	—	(0)	—	—	(0)	—	(0)
Reclassification from other equity interest to retained earnings	—	—	—	65	(65)	—	—	—
Total transactions with the owners	2,435	(8,763)	(0)	173	11,126	4,971	—	4,971
Balance at March 31, 2018	11,825	32,258	(0)	66,724	381,504	492,311	4,638	496,949

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31	
	2017 (From January 1, 2017 to March 31, 2017)	2018 (From January 1, 2018 to March 31, 2018)
Cash flows from operating activities		
Income before income taxes	25,032	53,350
Depreciation and amortization	1,631	1,252
Share-based compensation expenses	578	1,404
Interest and dividend income	(1,061)	(1,857)
Interest expense	4	17
Impairment loss	2,689	319
Equity in loss of affiliates	12	23
Exchange loss	12,703	2,071
(Increase) decrease in trade and other receivables	(30,208)	(37,005)
(Increase) decrease in other current assets	(3,616)	374
(Decrease) increase in trade and other payables	356	(1,531)
(Decrease) increase in deferred income	1,180	(1)
(Decrease) increase in provisions	(1,506)	(2,972)
Other	671	1,681
Subtotal	8,465	17,125
Interest and dividends received	719	1,534
Interest paid	(3)	(17)
Income taxes paid	(2,771)	(3,028)
Net cash provided by operating activities	6,410	15,614
Cash flows from investing activities		
Decrease (increase) in other deposits	(1,606)	(21,724)
Purchases of property, plant and equipment	(468)	(390)
Proceeds from sales of property, plant and equipment	21	27
Purchases of intangible assets	(158)	(153)
Payments associated with increase in long-term prepaid expenses	(2)	(10)
Purchases of investment securities	(2,617)	(389)
Proceeds from sale and redemption of investment securities	117	222
Purchases of affiliates	(1,403)	(369)
Purchases of subsidiaries	—	(314)
Other	(586)	83
Net cash used in investing activities	(6,702)	(23,017)
Cash flows from financing activities		
Repayment of long-term borrowings	(833)	(835)
Proceeds from exercise of stock options	1,314	3,566
Purchases of treasury stock	(0)	(0)
Purchase of treasury stock of subsidiaries	(124)	—
Cash dividends paid	(0)	(0)
Other	(60)	(8)
Net cash provided by financing activities	297	2,723
Net (decrease) increase in cash and cash equivalents	5	(4,680)
Cash and cash equivalents at the beginning of the period	152,683	153,242
Effects of exchange rate changes on cash and cash equivalents	(1,566)	(7,425)
Cash and cash equivalents at the end of the period	151,122	141,137

(6) Notes on Going Concern Assumption

Not applicable

(7) Notes on Significant Changes in the Amount of Equity Attributable to Owners of the Parent Company

Pursuant to the resolution at the meeting of the board of directors held on February 23, 2018, the Company transferred other capital surplus of ¥11,191 million to retained earnings brought forward in order to compensate its deficit in accordance with Article 452 and Article 459, Paragraph 1, Item 3 of the Companies Act and Article 38, Paragraph 1 of the Articles of Incorporation of the Company.

There is no significant change in total equity attributable to owners of the parent company of Nexon Group.

(8) Segment Information

(a) Outline of reportable segments

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

Nexon Group is engaged in production, development and distribution of PC online games and mobile games, and the Company and its domestic consolidated subsidiaries (in Japan) and its local consolidated subsidiaries (overseas) develop overall strategies and operate business activities for their respective products and services in each region as independent units. Accordingly, Nexon Group is comprised of geographical business segments based on production, development, and distribution of PC online games and mobile games. Nexon Group has formed its reportable segments by consolidating business segments based on the geographic location since subsidiaries in the same region, due to their business characteristics, receive similar impact of the foreign exchange fluctuation risk on their operating results and the ratio of the impact to operating results is high. There are five reportable segments: “Japan”, “Korea”, “China”, “North America” and “Other” which includes Europe and Asian countries.

Furthermore, Nexon Group has applied IFRS 15 from the three months ended March 31, 2018. Due to this, Nexon Group has divided the revenues generated from contracts with customers into PC online, mobile and other revenues based on such contracts with customers. Accordingly, we have also reclassified the segment information for the three months ended March 31, 2017.

(b) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	1,167	58,799	1,305	1,097	211	62,579	―	62,579
Mobile	2,362	8,285	―	1,031	―	11,678	―	11,678
Other	3	532	―	―	―	535	―	535
Total revenue from external customers	3,532	67,616	1,305	2,128	211	74,792	―	74,792
Intersegment revenue	62	541	―	182	104	889	(889)	―
Total	3,594	68,157	1,305	2,310	315	75,681	(889)	74,792
Segment profit or loss (Note 1)	(903)	44,005	933	(1,272)	(31)	42,732	(5)	42,727
Other income (expense), net								(2,965)
Operating income								39,762
Finance income (costs), net (Note 4)								(14,718)
Equity in loss of affiliates								(12)
Income before income taxes								25,032

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

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

3. Adjustments in segment profit or loss of ¥(5) million represent elimination of intersegment transactions.

4. A major component of finance cost is foreign exchange loss of ¥15,916 million.

For the three months ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	968	73,983	646	946	133	75,676	—	75,676
Mobile	1,494	8,452	—	4,494	—	14,440	—	14,440
Other	7	391	—	—	—	398	—	398
Total revenue from external customers	2,469	81,826	646	5,440	133	90,514	—	90,514
Intersegment revenue	116	455	—	153	107	831	(831)	—
Total	2,585	82,281	646	5,593	240	91,345	(831)	90,514
Segment profit or loss (Note 1)	(1,756)	57,739	353	(1,460)	(177)	54,699	4	54,703
Other income (expense), net								26
Operating income								54,729
Finance income (costs), net								(1,356)
Equity in loss of affiliates								(23)
Income before income taxes								53,350

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

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

3. Adjustments in segment profit or loss of ¥ 4 million represent elimination of intersegment transactions.

4. For PC online and mobile, performance obligations are fulfilled and revenues are recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

(c) Information on each region

Revenue from external customers are as follows:

For the three months ended March 31, 2017 (From January 1, 2017 to March 31, 2017)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	1,164	4,240	2	5,406
Korea	14,989	4,779	511	20,279
China	43,835	112	4	43,951
North America	980	1,096	1	2,077
Other	1,611	1,451	17	3,079
Total	62,579	11,678	535	74,792

(Notes) 1. Revenue is classified into country or region category based on the customers' location.
2. The category of country or region is based on geographic proximity.
3. Main countries or regions in each category:
(1) North America: USA and Canada
(2) Other: Europe, Central and South America and Asian countries

For the three months ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	968	1,952	5	2,925
Korea	12,107	7,116	373	19,596
China	60,636	66	2	60,704
North America	858	3,214	2	4,074
Other	1,107	2,092	16	3,215
Total	75,676	14,440	398	90,514

(Notes) 1. Revenue is classified into country or region category based on the customers' location.
2. The category of country or region is based on geographic proximity.
3. Main countries or regions in each category:
(1) North America: USA and Canada
(2) Other: Europe, Central and South America and Asian countries

(9) Subsequent Events

Not applicable