Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 [IFRS]

February 13, 2020

Company name: NEXON Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 3659
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Scheduled date of Ordinary General Meeting of Shareholders: March 25, 2020
Scheduled date of filing annual securities reports: March 26, 2020
Scheduled date of dividend payment commencement: March 26, 2020
Supplementary briefing material on financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2019
(From January 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results (% 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		Total comprehensive income	
FY 2019	248,542	(2.0)%	94,525	(3.9)%	121,968	3.9%	113,236	10.0%	115,664	7.4%	86,865	20.6%
FY 2018	253,721	8.0%	98,360	8.7%	117,444	67.8%	102,977	82.2%	107,672	89.7%	72,012	(21.7)%

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the parent company	Ratio of income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY 2019	129.34	128.03	19.7	17.8	38.0
FY 2018	121.03	119.65	21.1	19.7	38.8

(Reference): Equity in profit (loss) of affiliates FY2019: ¥(325) million, FY2018: ¥(837) million

(Note) NEXON Co., Ltd. ("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 fiscal year.

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company	Equity attributable to owners of the parent company per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	719,088	631,131	619,985	86.2	702.59
As of December 31, 2018	649,998	565,477	555,268	85.4	620.91

(3) Consolidated Cash Flows

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of year
FY 2019	105,073	(28,625)	(27,742)	253,636
FY 2018	118,018	(68,183)	8,260	205,292

2. Dividends

	Annual Dividends					Total amount of cash dividends (annual)	Dividends payout ratio (consoli-dated)	Ratio of total amount of dividends to equity attributable to owners of the parent company (consolidated)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2018	―	0.00	―	0.00	0.00	―	―	―
FY 2019	―	0.00	―	2.50	2.50	2,206	1.9	0.4
FY 2020 (Forecast)	―	2.50	―	2.50	5.00		―	

(Note) We have made a revision to our most recently announced dividend forecast for FY2019 year-end dividends. Please refer to "Notice of Change in Dividend Policy and Revision of Dividend Forecast" released today for details. As for FY2020 interim and year-end dividends, please refer to "1. Overview of Operating Results and Financial Position, (4) Basic Policy on the Distribution of Profits and Dividends for the Current and Next Fiscal Year" on page 6 of the Appendix for details.

3. Consolidated Financial Results Forecast for the First Quarter of Fiscal Year Ending December 31, 2020 (From January 1, 2020 to March 31, 2020)

(% changes from the previous corresponding period)

(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
First Quarter	74,038 ~ 80,689	(20.5)% ~ (13.3)%	35,982 ~ 42,098	(31.6)% ~ (20.0)%	38,660 ~ 44,776	(37.5)% ~ (27.6)%	31,480 ~ 36,434	(40.4)% ~ (31.0)%	31,731 ~ 36,638	(40.6)% ~ (31.4)%	36.00 ~ 41.57

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2020, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2020 and the fiscal year ending December 31, 2020 at the moment, and accordingly, only the financial results forecast for the first three months of the fiscal year ending December 31, 2020 is disclosed. Also, as it is difficult to estimate specific figures, disclosure is made with a range. For details, please refer to "1. Overview of Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast" on page 5 of the Appendix.

*(Notes)

(1) Changes in significant subsidiaries during the current year (changes in specified subsidiaries that result in changes in scope of consolidation): No

(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 and outstanding (common stock)

1) Total number of shares issued at the end of the period (including treasury stock):
   As of December 31, 2019: 901,530,560 shares
   As of December 31, 2018: 894,278,664 shares
2) Total number of treasury stock at the end of the period:
   As of December 31, 2019: 19,109,021 shares
   As of December 31, 2018: 290 shares
3) Average number of shares during the period:
   For the fiscal year ended December 31, 2019: 894,277,145 shares
   For the fiscal year ended December 31, 2018: 889,668,303 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 fiscal year.

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2019
(From January 1, 2019 to December 31, 2019)

(1) Non-consolidated Operating Results (% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2019	6,016	(14.4)%	(5,143)	—	23,359	—	22,397	—
FY 2018	7,024	18.5%	(5,933)	—	361	—	(423)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2019	25.04	24.87
FY 2018	(0.48)	—

(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 business year.

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2019	63,004	60,604	84.3%	60.18 yen
As of December 31, 2018	60,045	57,327	84.6%	56.82 yen

(Reference): Equity at December 31, 2019: ¥ 53,105 million, Equity at December 31, 2018: ¥50,817 million

(Notes) Non-consolidated financial data is based on Japanese GAAP.

*This financial report is outside the scope of audit procedures.

*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 the information available to the Company and certain assumptions that can be deemed reasonable at time of publication of this document, and are not intended as the Company's commitment to achieve such forecasts. Actual results may differ significantly from these forecasts due to various factors. For conditions prerequisite to the financial results forecast and the points to be noted in the use thereof, please refer to "1. Overview of Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast" on page 5 of the Appendix.

(Regarding the Method of Obtaining Supplementary Briefing Material on Financial Results)

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

Contents of Appendix

1. Overview of Operating Results and Financial Position

(1) Overview of Operating Results

As for the world economy during the fiscal year ended December 31, 2019, we saw rising concerns for the slowdown of the world economy primarily due to the impact of prolonged U.S.-China trade friction, as well as the uncertainty in the overseas situation, so the future outlook remains unclear. The Japanese economy stayed solid due to continued improvement of the employment environment and a trend of an increase in capital investment. However, the recovery of consumer sentiment was weak due to the impact of natural disasters and the consumption tax hike, with consumer spending still lacking in strength.

Under these circumstances, Nexon Group has operated our 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 partnerships with other companies including joint development, servicing high-quality new game titles by such means as the acquisition of promising game developers, enhancement of Nexon Group's development capabilities in mobile business, and further reinforcement of our operating base to enable engaging content updates of existing game titles.

For the fiscal year ended December 31, 2019, revenue decreased year-over-year due to the strong performance of our business in Korea being more than offset primarily by the year-over-year decrease in revenue from China, as well as the negative impact of foreign exchange rates due to the Japanese Yen appreciating against the major currencies in our business.

In China, revenue decreased year-over-year due to the positive contribution from the mobile title *KartRider Rush Plus* for which we conducted a large-scale update in Q3 2019 being more than offset by the decrease in revenue from our major PC online title *Dungeon&Fighter*. While *Dungeon&Fighter*'s Lunar New Year update (January) and Labor Day update (April) were well-received by users, its Anniversary update (June) and Summer update (July) were not. Its user metrics have declined since June, resulting in decreased revenue from *Dungeon&Fighter* in the second half of FY2019.

In Korea, we had a strong performance from our major PC online title *MapleStory*. *EA SPORTS™ FIFA ONLINE 4* ("*FIFA ONLINE 4*") and *EA SPORTS™ FIFA ONLINE 4M* ("*FIFA ONLINE 4M*") also grew significantly compared to FY2018 when they experienced a negative impact from the service transition. In addition, *V4*, which launched in Q4 2019, contributed to the increase in revenue. As a result, PC and mobile revenues in Korea increased year-over-year.

In Japan, revenue was roughly flat year-over-year due to the positive contribution from *MapleStory M*, which launched in Q2 2019, being offset by a decrease in revenue from browser-based mobile games and multiple mobile titles launched in FY2018.

In North America, revenue decreased year-over-year due to a decline in revenue from *Choices: Story You Play* ("*Choices*").

In Europe and Other regions, revenue increased year-over-year primarily driven by *AxE*, *Moonlight Blade*, and *OVERHIT*, which launched in FY2019. These more than offset the revenue decreases primarily from *Choices* and *Dominations*.

In terms of expenses, cost of sales increased year-over-year primarily as a result of royalty costs increasing in proportion to an increase in revenue from *FIFA ONLINE 4* and *FIFA ONLINE 4M*. Selling, general and administrative expenses decreased year-over-year mainly due to decreases in stock option and marketing costs. Other expenses increased year-over-year primarily due to the amount of impairment losses recorded for goodwill and intangible assets at the acquisition of our consolidated subsidiary Pixelberry Studios' shares.

In addition, finance income increased year-over-year as the fluctuations in foreign exchange rates during FY2019 resulted in foreign exchange gains in our foreign currency-denominated cash deposits. Income taxes decreased year-over-year due to the recording of deferred tax assets for foreign tax credit carryforwards at our consolidated subsidiary NEOPLE INC.

As a result, for the fiscal year ended December 31, 2019, Nexon Group recorded revenue of ¥248,542 million (down 2.0% year-over-year), operating income of ¥94,525 million (down 3.9% year-over-year), income before income taxes of ¥121,968 million (up 3.9% year-over-year) and net income attributable to owners of the parent company of ¥115,664 million (up 7.4% year-over-year).

Performance results by reportable segments are as follows:

(a) Japan

Revenue for the fiscal year ended December 31, 2019 amounted to ¥7,649 million (down 24.7% year-over-year) and segment loss amounted to ¥3,490 million (segment loss of ¥7,229 million for the fiscal year ended December 31, 2018). PC and mobile revenues both decreased in Japan.

(b) Korea

Revenue for the fiscal year ended December 31, 2019 amounted to ¥220,433 million (up 0.0% year-over-year) and segment profit amounted to ¥112,265 million (down 6.9% year-over-year). Revenue in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China.

(c) China

Revenue for the fiscal year ended December 31, 2019 amounted to ¥2,821 million (down 15.2% year-over-year), and segment profit amounted to ¥1,557 million (down 20.8% year-over-year).

(d) North America

Revenue for the fiscal year ended December 31, 2019 amounted to ¥15,956 million (down 17.3% year-over-year) and segment loss amounted to ¥5,527 million (segment loss of ¥8,490 million for the fiscal year ended December 31, 2018).

(e) Other

Revenue for the fiscal year ended December 31, 2019 amounted to ¥1,683 million (up 217.7% year-over-year) and segment loss amounted to ¥957 million (segment loss of ¥525 million for the fiscal year ended December 31, 2018).

(2) Overview of Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2019 amounted to ¥719,088 million, an increase of ¥69,090 million from December 31, 2018. Major components include an increase of ¥48,344 million in cash and cash equivalents, an increase of ¥33,224 million in other financial assets (non-current), and a decrease of ¥19,219 million in other deposits.

(Liabilities)

Total liabilities as of December 31, 2019 amounted to ¥87,957 million, an increase of ¥3,436 million from December 31, 2018. Major components include an increase of ¥8,507 million in lease liabilities (non-current), a decrease of ¥2,101 million in borrowings, and a decrease of ¥1,949 million in income taxes payable.

(Equity)

Equity as of December 31, 2019 totaled ¥631,131 million, an increase of ¥65,654 million from December 31, 2018. Major components of changes in equity include an increase of ¥113,053 million in retained earnings primarily due to the recording of net income, a decrease of ¥27,218 million due to purchase of treasury stock, and a decrease of ¥25,557 million in other equity interest primarily due to changes in exchange differences on translating foreign operations.

(b) Cash flows

Cash and cash equivalents (collectively, “cash”) as of December 31, 2019 were ¥253,636 million, an increase of ¥48,344 million from December 31, 2018. The increase includes ¥(362) million in effects of exchange rate changes on cash.

Cash flows from each activity for the fiscal year ended December 31, 2019 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥105,073 million, compared to ¥118,018 million for the fiscal year ended December 31, 2018. Major components of the increase include income before income taxes of ¥121,968 million, impairment loss of ¥18,006 million, and depreciation and amortization of ¥7,694 million. Major components of the decrease include income taxes paid of ¥20,540 million, exchange gain of ¥14,065 million, and gain on step acquisitions of ¥7,480 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥28,625 million, compared to net cash of ¥68,183 million for the fiscal year ended December 31, 2018. Major cash outflows include purchases of investment securities of ¥31,519 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥27,742 million, compared to ¥8,260 million provided by financing activities for the fiscal year ended December 31, 2018. Major cash outflows include purchases of treasury stock of ¥27,225 million.

(Reference) The changes in cash flow indicators are as follows:

	FY2018	FY2019
Ratio of equity attributable to owners of the parent company (%)	85.4	86.2
Ratio of equity attributable to owners of the parent company at fair value (%)	194.4	177.9
Interest-bearing liabilities to cash flow ratio (years)	0.0	0.1
Interest coverage ratio (times)	1,663.9	264.8

Ratio of equity attributable to owners of the parent company:

Equity attributable to owners of the parent company (end of year) / total assets (end of year)

Ratio of equity attributable to owners of the parent company at fair value:

Market capitalization / total assets (end of year)

Interest-bearing liabilities to cash flow ratio:

Interest-bearing liabilities / cash flows

Interest coverage ratio:

Cash flows / interest paid

(Note 1) All ratios are calculated based on the financial data on a consolidated basis.

(Note 2) Market capitalization is calculated based on the number of shares issued and outstanding, excluding treasury stock.

(Note 3) Cash flows are derived from operating cash flows.

(Note 4) Interest-bearing liabilities cover all liabilities recorded in the consolidated statement of financial position that are subject to interest payment.

(3) Qualitative Information on 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 upcoming 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 revenue is largely dependent on such uncertain factors as users' preferences and whether or not we have any hit titles.

For the three months ending March 31, 2020, Nexon Group expects consolidated revenue in the range of ¥74,038~80,689 million (down 20.5%~13.3% year-over-year), operating income in the range of ¥35,982~42,098 million (down 31.6%~20.0% year-over-year), income before income taxes in the range of ¥38,660~44,776 million (down 37.5%~27.6% year-over-year), net income in the range of ¥31,480~36,434 million (down 40.4%~31.0% year-over-year), net income attributable to owners of the parent company in the range of ¥31,731~36,638 million (down 40.6%~31.4% year-over-year), and basic earnings per share in the range of ¥36.00~41.57. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q1 2020 are expected to be 1 U.S. Dollar = ¥109.89, 100 Korean Won = ¥9.39 and 1 Chinese Yuan = ¥15.80. In general, the exchange rates of the 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 ¥701 million on revenue and approximately ¥371 million on operating income for the three months ending March 31, 2020.

As for revenue based on customer location for the three months ending March 31, 2020, our expectations are as follows.

In Korea, we expect PC revenue to increase year-over-year driven by the continued strength of our major PC online titles *MapleStory* and *FIFA ONLINE 4*. As for mobile revenue, we expect a year-over-year revenue increase driven by positive contributions from *V4* and the new mobile title *Counterside* launched on February 4, 2020, in addition to the year-over-year growth expected from *MapleStory M* and *FIFA ONLINE 4M*.

In China, we expect revenue to decrease year-over-year due to contributions expected from *KartRider Mobile* being more than offset by a decrease in revenue from our major PC online title *Dungeon&Fighter*. In order to improve *Dungeon&Fighter*'s user metrics, which have declined since June 2019, we have formulated, and begun to sequentially implement, plans to improve its in-game situation through content updates over multiple quarters. A major update launching in March 2020, which includes a level cap increase and other contents, will address the primary feedbacks received from our users. We do not expect any big change in the in-game situation to occur before the introduction of this update. On January 14, 2020, we introduced the annual Lunar New Year update. However, we expect its revenue to decrease in comparison with Q1 2019, when it had strong Lunar New Year item sales.

In Japan, while we expect contributions from *MapleStory M*, we expect a decrease in revenue from our browser-based mobile games due to the sale of gloops, Inc. In addition, due to a decline in revenues from *FAITH*, *Dynasty Warriors: Unleashed* and *OVERHIT*, which started their services in 2018, we expect revenue to decrease year-over-year.

In North America, we expect revenue to decrease year-over-year due to a decrease in revenue from *Choices*, *Darkness Rises* and *AxE*.

In Europe and Other regions, we expect revenue to decrease year-over-year due to positive contributions expected from *World of Dragon Nest*, which launched on January 8, 2020 in Southeast Asia, being more than offset primarily by declines in *AxE*, *Choices*, and *Darkness Rises*.

On the cost side, we expect increased HR costs due to standard pay raises and increased royalty costs in relation to greater contributions from publishing titles to be more than offset by year-over-year decreases in marketing costs and impairment loss. As a result, we expect costs to decrease year-over-year.

Our business outlook is based on information currently available to us, which includes various uncertainties. Therefore, actual performance may vary from our outlook due to changes in the business condition.

(4) Basic Policy on the Distribution of Profits and Dividends for the Current and Next Fiscal Year

Nexon recognizes that one important issue for us is the construction of an organizational framework that enables us to review and execute effective investments for the proactive development of our business in anticipation of future growth, such as the expansion of our existing business and development of new businesses, M&As or acquisition of game publishing rights, for the purpose of strengthening our management base and enhancing our business going forward. We also recognize that the return of profits to shareholders is an important management issue.

Since the fiscal year ended December 31, 2016, we had made it our policy to suspend dividend payouts and retain the flexibility to continue our growth investments in our global operations. The investments based on this policy have achieved some success. Therefore, with regards to the year-end dividends of surplus for the record date of December 31, 2019, we are scheduled to resume dividends of 2.5 yen per share, which is at the same level as that before the two-for-one stock split conducted in the fiscal year ended December 31, 2018. We are also scheduled to pay out interim and year-end dividends of 2.5 yen per share for the fiscal year ending December 31, 2020.

At Nexon, dividends of surplus are decided by a resolution of the Board of Directors. Furthermore, Nexon's Articles of Incorporation stipulates that "The decisions of the Company with regards to dividends of surplus and other matters as stipulated under each provision of Article 459 (1) of the Companies Act shall not require a resolution of the General Meeting of Shareholders but shall be decided by a resolution of the Board of Directors, except when otherwise provided for by laws and regulations," and that "The record date for the Company's year-end dividends shall be December 31 of each year" and "The record date for the Company's interim dividends shall be June 30 of each year."

2. Current Status of the Corporate Group

As of December 31, 2019, Nexon Group consists of NEXON Co., Ltd. ("Nexon"), Nexon's 27 consolidated subsidiaries and 13 affiliated companies, and is engaged in the production, development and service of PC online and mobile games. In Japan, Nexon and gloops, Inc. are responsible for developing the overall strategies for our products and services and operating the business, while overseas, our local consolidated subsidiaries do so in their respective regions as independently managed entities.

Accordingly, Nexon Group consists of geographical segments based on production, development and service of PC online and mobile games. The reportable segments include "Japan," "Korea," "China," "North America," and "Other." Europe and Asian countries are included in "Other."

Japan:	Nexon; gloops, Inc.
Korea:	NEXON Korea Corporation; BLOCKCHAIN ENTERTAINMENT LAB Co., Ltd.; NEOPLE INC.; Nexon Networks Corporation; NEXON GT Co., Ltd.; NEXON COMMUNICATIONS Co., Ltd.; Nexon Space Co., Ltd.; Thingsoft Inc.; BOOLEAN GAMES; NEXON RED Corp.; N Media Platform Co., LTD.; JoongAng Pangyo Development Co., Ltd; Ngine Studios; NAT GAMES Co., Ltd.; TDF Co., Ltd.
China:	Lexian Software Development (Shanghai) Co., Ltd.
North America:	Nexon America Inc.; NEXON M Inc.; Nexon US Holding Inc.; Big Huge Games, Inc.; Pixelberry Studios; NEXON OC Studio
Other:	NEXON TAIWAN LIMITED; Nexon Thailand Co., Ltd.; Embark Studios AB; NEXON NETWORKS VINA COMPANY LIMITED

Nexon Group classifies its lines of business into (a) PC online business and (b) Mobile business.

(1) Lines of business

(a) PC online business

The PC online business mostly involves the production, development and service of PC online games. Additional services we offer include consulting related to PC online game service, in-game advertising, and merchandising incidental to the PC online business.

PC online games are played simultaneously by multiple players connected to the game server via Internet on a real-time basis.

Major PC online game titles serviced by Nexon Group include *MapleStory*, *Dungeon&Fighter* and *FIFA ONLINE 4*. When we launch a new title, we flexibly adapt to market differences by conducting a test service of the game, taking into account the characteristics and preferences of users in the respective areas of the world and the genre of the game to be serviced.

PC online games developed within Nexon Group, by NEXON Korea Corporation, NEOPLE INC. or other group companies, are directly serviced by themselves or, in regions that have large markets, through other members of Nexon Group such as Nexon, Nexon America Inc., or Nexon Thailand Co., Ltd.. We have endeavored to maximize business synergy effects by establishing a closely coordinated structure within Nexon Group for the production, development and service of PC online games. In addition, with regards to PC online games developed by non-Nexon Group developers and for which we have acquired publishing rights, we try to maximize revenue by publishing those games through Nexon Group so that they reach a large audience and we also build rapport with such developers as we service their games. In regions where Nexon Group does not directly service games, we go through local publishers to service in-house developed PC online games. Through such business initiatives as above, we are making the utmost effort to service fun and creative games to users all over the world.

As for the consulting business, Lexian Software Development (Shanghai) Co., Ltd. provides Chinese publishers with consulting services for setting up and maintaining billing systems (please see the Note below) and membership systems, business strategy development, game operation and marketing.

In Korea, Nexon Networks Corporation provides services related to customer support and net-café operation when offering PC online games. N Media Platform Co., LTD. provides net-cafés with advertisement platform and operation management services.

The in-game advertisement business capitalizes on the strengths of ad placements within PC online games, i.e. ongoing updates of game contents and advertisement information, and leverages such features as that enabling direct exposure to players through in-game usage of functional items equipped with an advertisement function, or that enabling simultaneous exposure of different advertisements to their respective target users through dedicated servers that comprehensively manage all advertisements.

The merchandising business engages in the production and sales of goods that feature popular characters from games owned by Nexon Group.

(Note) Billing system: An electronic billing confirmation service related to the usage of internet or email services provided by enterprises.

(b) Mobile business

The mobile business involves the development and service of mobile games playable on smartphones and tablet devices. Nexon Group develops and services mobile games in Japan and overseas. In Japan, while mobile game development and service are mostly conducted by gloops, Inc., Nexon also services some mobile games. In Korea, mobile game development and service are conducted primarily through NEXON Korea Corporation, NEOPLE INC. and NEXON RED Corp.. In the U.S., mobile game development and service are conducted primarily through Big Huge Games, Inc. and Pixelberry Studios.

(2) Business models for PC online and mobile games

Nexon's PC online game business models can be categorized into the following three types:

(a) Self-publishing model

Self-publishing model is a model where a game developed by a Nexon Group entity such as NEXON Korea Corporation or NEOPLE INC. is directly serviced (including the setup of a network environment, marketing and user support) by themselves or by Nexon or another Nexon Group entity including Nexon America Inc. and Nexon Thailand Co., Ltd.

Once a game is launched, service fees are collected from users according to the pre-determined monetization method. In many cases, we pay fees to payment gateway providers to have them collect service fees from users on our behalf.

(b) Licensing model

Licensing model is a model where Nexon Group, as a copyright holder of commercialized games, enters into licensing agreements with outside publishers and grants them the right to publish our games.

A publisher who enters into a licensing agreement with us and acquires the publishing rights for a game will be responsible for setting up the network environment, marketing and user support necessary to service the game. The respective Nexon Group entity holding the copyright will provide support for such activities to enable the publisher to generate greater revenue.

Nexon Group entities engaged in the development of PC online games, including NEXON Korea Corporation and NEOPLE INC., have licensed publishing rights to non-Nexon Group publishers in China, for instance.

Under the licensing agreements where publishing rights are granted by Nexon Group, in principle, license is granted to a single publisher per country per game title. In other words, Nexon Group grants local exclusive publishing rights to a publisher. The respective Nexon Group entity holding the game copyright will provide game content updates and technical support on an ongoing basis to the publisher and in return receive contract money at the time of entering into the agreement, and once the game launches, receive a predetermined rate as royalty in accordance with the service fees that the publisher collects from users.

The conditions for royalty and other payments are determined individually for each agreement, taking into account the real local situation of the country in which the publisher is located.

(c) Licensed publishing model

Licensed publishing model is a model where Nexon Group enters into a licensing agreement with a non- Nexon Group developer of PC online games to acquire exclusive publishing rights to a game within a specified region. Nexon Group will set up the network environment for such service, conduct marketing and user support, as well as service the licensed game.

In this case, we will collect service fees from users and pay a certain amount out of it as royalty to the outside PC online game developer.

Nexon Group's deal with Valve Corporation related to *Counter-Strike Online* and our deals with Electronic Arts Inc. related to *FIFA ONLINE 4* and *FIFA ONLINE 4 M* fall into this category.

(3) Monetization models for PC online games

Currently, there are three types of monetization methods for PC online games as follows. Nexon Group mainly uses the method under (a) for monetization.

(a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new PC online game. This allows new users to casually start playing a game, but on the other hand, it means that revenue generated by a game could be impacted by how appealing the in-game items offered for purchase are. In recent years, with heightening market awareness of free-to-play games, there are more and more PC online games in the market as a whole which have adopted this model to acquire new users.

Nexon Group was early to adopt the microtransaction model to PC online games because we wish for more users to enjoy the services of games we offer.

(b) Pay-as-you-go according to the period of use (subscription model)

Pay-as-you-go (subscription) is a model where users are charged with a fixed service fee based on the number of months, days or hours of use as fee for playing a game.

Although this method can generate a constant level of revenue by securing a certain number of users, it is likely that, compared to free-to-play games, new users would find making fixed monthly payments burdensome when starting a game.

(c) Advertisement revenue model

Advertisement revenue model is a model where a game is free to play and revenue is generated through advertisements which are displayed on screen before, after or during the game.

Since advertisements under this model are primarily sponsored by businesses, it is typically used in combination with method (a) or (b) above, and the popularity of the game itself (i.e. user traffic) will have a direct impact on revenue.

(4) Monetization models for mobile games

Currently, there are two types of monetization methods for mobile games as follows. Nexon Group mainly uses the method under (a) for monetization.

(a) Microtransaction model of paying to purchase in-game items

Microtransaction is a model where a game is basically offered for free, but users pay to purchase the items (e.g. costumes, weapons) they need or to use specific services.

The basic game is free to play, which lowers the mental hurdle for a user to start playing a new mobile game. This allows new users to casually start playing a game, but on the other hand, it means that revenue generated by a game could be impacted by how appealing the in-game items offered for purchase are. Microtransaction model is the mainstream in the mobile game market.

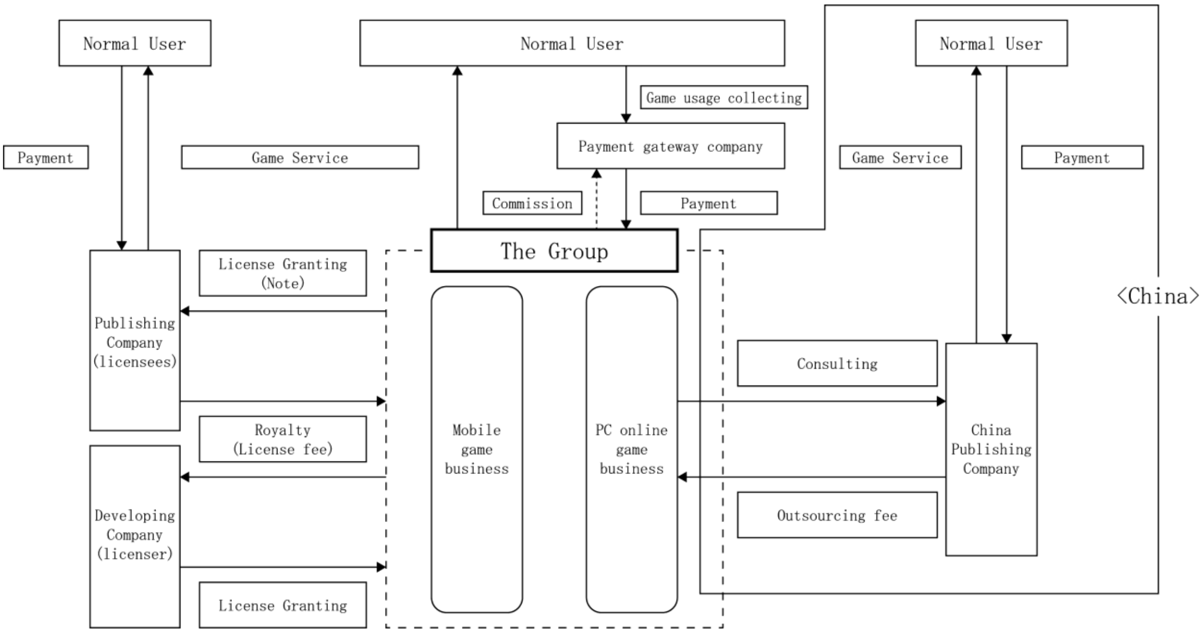
(b) Premium model of upfront payment to download a game

Compared to the microtransaction model where games are basically free to play, the number of users may be limited for mobile games that demand an upfront payment to download (i.e. premium model) since new users would likely find it burdensome to spend a certain amount to begin a game.

[Business system chart]

Chart 1 shows the above described matters.

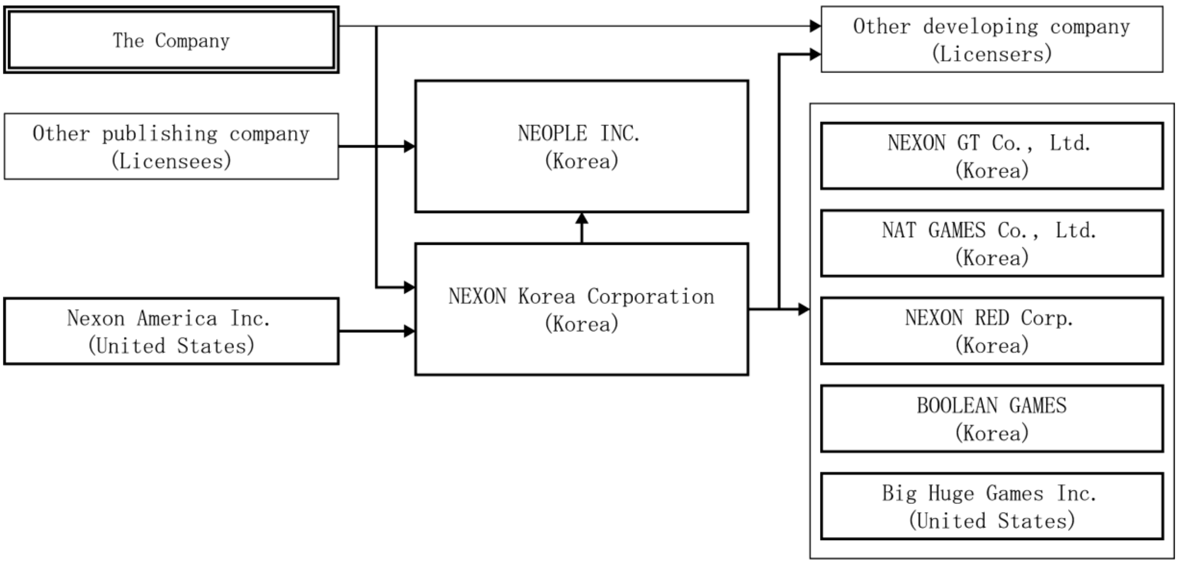
<Chart 1>



(Note) In general, only one license is granted for a game in each country, providing the local company with an exclusive right for distribution.

The royalty income flow within Nexon Group is shown in Chart 2, covering the Company and its major subsidiaries. The thicker lines represent major flows.

<Chart 2>



3. Basic Concept for Selection of the Accounting Standards

Nexon Group has applied International Accounting Standards since the fiscal year ended December 31, 2013, with the aim to enhance the global comparability and convenience of financial information in the capital market.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	205,292	253,636
Trade and other receivables	31,344	28,643
Other deposits	276,550	257,331
Other financial assets	9,600	8,418
Other current assets	11,874	5,468
Total current assets	534,660	553,496
Non-current assets		
Property, plant and equipment	25,166	23,481
Goodwill	26,529	42,480
Intangible assets	26,021	21,519
Right-of-use assets	—	6,612
Investments accounted for using equity method	10,480	2,515
Other financial assets	14,032	47,256
Other non-current assets	194	243
Deferred tax assets	12,916	21,486
Total non-current assets	115,338	165,592
Total assets	649,998	719,088

	As of December 31, 2018	As of December 31, 2019
		(Millions of yen)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,447	7,753
Deferred income	11,145	10,250
Borrowings	4,324	2,223
Income taxes payable	9,352	7,403
Lease liabilities	—	2,129
Other financial liabilities	357	—
Provisions	2,960	4,099
Other current liabilities	6,924	7,311
Total current liabilities	42,509	41,168
Non-current liabilities		
Deferred income	17,636	15,950
Lease liabilities	—	8,507
Other financial liabilities	109	826
Provisions	233	260
Other non-current liabilities	5,587	4,472
Deferred tax liabilities	18,447	16,774
Total non-current liabilities	42,012	46,789
Total liabilities	84,521	87,957
Equity		
Capital stock	14,402	17,967
Capital surplus	34,814	35,688
Treasury Stock	(1)	(27,219)
Other equity interest	64,068	38,511
Retained earnings	441,985	555,038
Total equity attributable to owners of the parent company	555,268	619,985
Non-controlling interests	10,209	11,146
Total equity	565,477	631,131
Total liabilities and equity	649,998	719,088

(2) Consolidated Income Statement

(Millions of yen)

	Fiscal Year ended December 31, 2018	Fiscal Year ended December 31, 2019
Revenue	253,721	248,542
Cost of sales	(57,553)	(59,586)
Gross profit	196,168	188,956
Selling, general and administrative expenses	(89,800)	(85,117)
Other income	3,863	9,059
Other expenses	(11,871)	(18,373)
Operating income	98,360	94,525
Finance income	21,645	30,040
Finance costs	(1,724)	(2,272)
Equity in loss of affiliates	(837)	(325)
Income before income taxes	117,444	121,968
Income taxes expense	(14,467)	(8,732)
Net income	102,977	113,236
Attributable to:		
Owners of the parent company	107,672	115,664
Non-controlling interests	(4,695)	(2,428)
Net income	102,977	113,236
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	121.03	129.34
Diluted earnings per share	119.65	128.03

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2018	Fiscal Year ended December 31, 2019
Net income	102,977	113,236
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(3,419)	(2,151)
Re-measurement of defined benefit pension plans	(21)	(91)
Income taxes	1,133	474
Total items that will not be reclassified to net income	(2,307)	(1,768)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(28,657)	(24,602)
Other comprehensive income under equity method	(1)	(1)
Total items that may be reclassified subsequently to net income	(28,658)	(24,603)
Total other comprehensive income	(30,965)	(26,371)
Total comprehensive income	72,012	86,865
Attributable to:		
Owners of the parent company	77,174	89,686
Non-controlling interests	(5,162)	(2,821)
Total comprehensive income	72,012	86,865

(4) Consolidated Statement of Changes in Equity

Fiscal Year ended December 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	—	—	—	—	107,672	107,672	(4,695)	102,977
Other comprehensive income	—	—	—	(30,498)	—	(30,498)	(467)	(30,965)
Total comprehensive income	—	—	—	(30,498)	107,672	77,174	(5,162)	72,012
Reclassification from capital surplus to retained earnings	—	(11,191)	—	—	11,191	—	—	—
Issue of shares	5,012	5,012	—	—	—	10,024	—	10,024
Stock issue cost	—	(36)	—	—	—	(36)	—	(36)
Lapse of subscription rights to shares	—	—	—	(360)	360	—	—	—
Share-based compensation	—	—	—	2,892	—	2,892	—	2,892
Non-controlling interests on acquisition of subsidiary	—	—	—	—	—	—	10,330	10,330
Changes in interests in subsidiaries	—	(11)	—	—	—	(11)	30	19
Purchase of treasury stock	—	—	(1)	—	—	(1)	—	(1)
Reclassification from other equity interest to retained earnings	—	—	—	1,001	(1,001)	—	—	—
Other	—	19	—	—	—	19	—	19
Total transactions with the owners	5,012	(6,207)	(1)	3,533	10,550	12,887	10,360	23,247
Balance at December 31, 2018	14,402	34,814	(1)	64,068	441,985	555,268	10,209	565,477

Fiscal Year ended December 31, 2019

(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, 2019	14,402	34,814	(1)	64,068	441,985	555,268	10,209	565,477
Adjustment on adoption of IFRS16 (net of tax)	—	—	—	—	(2,965)	(2,965)	—	(2,965)
Restated balance	14,402	34,814	(1)	64,068	439,020	552,303	10,209	562,512
Net income	—	—	—	—	115,664	115,664	(2,428)	113,236
Other comprehensive income	—	—	—	(25,978)	—	(25,978)	(393)	(26,371)
Total comprehensive income	—	—	—	(25,978)	115,664	89,686	(2,821)	86,865
Reclassification from capital surplus to retained earnings	—	(423)	—	—	423	—	—	—
Issue of shares	3,565	3,565	—	—	—	7,130	—	7,130
Stock issue cost	—	(26)	—	—	—	(26)	—	(26)
Share-based compensation	—	—	—	352	—	352	—	352
Non-controlling interests on acquisition of subsidiary	—	—	—	—	—	—	1,516	1,516
Changes in interests in subsidiaries	—	(2,235)	—	—	—	(2,235)	2,242	7
Purchases of treasury stock	—	(7)	(27,218)	—	—	(27,225)	—	(27,225)
Reclassification from other equity interest to retained earnings	—	—	—	69	(69)	—	—	—
Total transactions with the owners	3,565	874	(27,218)	421	354	(22,004)	3,758	(18,246)
Balance at December 31, 2019	17,967	35,688	(27,219)	38,511	555,038	619,985	11,146	631,131

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal Year ended December 31, 2018	Fiscal Year ended December 31, 2019
Cash flows from operating activities		
Income before income taxes	117,444	121,968
Depreciation and amortization	6,453	7,694
Share-based compensation expenses	5,497	2,133
Interest and dividend income	(9,788)	(13,376)
Interest expense	71	401
Impairment loss	11,374	18,006
Equity in loss of affiliates	837	325
Gain on step acquisitions	(2,747)	(7,480)
Exchange (gain) loss	(10,345)	(14,065)
(Increase) decrease in trade and other receivables	2,679	(301)
(Increase) decrease in other current assets	(3,648)	(850)
(Decrease) increase in trade and other payables	40	448
(Decrease) increase in deferred income	10,855	(2,612)
(Decrease) increase in provisions	(1,438)	1,268
Other	1,785	459
Subtotal	129,069	114,018
Interest and dividends received	7,497	11,992
Interest paid	(71)	(397)
Income taxes paid	(18,477)	(20,540)
Net cash provided by operating activities	118,018	105,073
Cash flows from investing activities		
Decrease (increase) in other deposits	(47,794)	9,958
Purchases of property, plant and equipment	(1,683)	(1,425)
Proceeds from sale of property, plant and equipment	36	149
Purchases of intangible assets	(863)	(690)
Payments associated with increase in long-term prepaid expenses	(76)	(185)
Purchases of investment securities	(1,737)	(31,519)
Proceeds from sale and redemption of investment securities	3,573	2,395
Purchases of affiliates	(7,482)	—
Purchases of subsidiaries	(12,787)	(6,864)
Proceeds from sale of subsidiaries	—	284
Other	630	(728)
Net cash used in investing activities	(68,183)	(28,625)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,841	(1,852)
Repayment of long-term borrowings	(870)	—
Proceeds from exercise of stock options	7,323	3,127
Purchases of treasury stock	(1)	(27,225)
Cash dividends paid	(0)	(0)
Repayment of lease liability	(33)	(1,790)
Other	—	(2)
Net cash provided by (used in) financing activities	8,260	(27,742)
Net increase (decrease) in cash and cash equivalents	58,095	48,706
Cash and cash equivalents at the beginning of the year	153,242	205,292
Effects of exchange rate changes on cash and cash equivalents	(6,045)	(362)
Cash and cash equivalents at the end of the year	205,292	253,636

(6) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies and changes in accounting estimates)

(Changes in accounting policies required by IFRS)

The accounting policies used to prepare these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2018 unless otherwise noted, except for the new standards applied as listed below.

Nexon Group applied the following standards from Q1 2019, but the application of these standards did not have material impacts on the fiscal year ended December 31, 2019 except for IFRS 16.

Standards	Title	Overview of New or Revised Standard
IFRS 3	Business Combinations	Clarified that previously held interests are remeasured when an acquirer obtains control of a business that is a joint operation
IFRS 9	Financial Instruments	Provided that prepayable financial assets with negative compensation may be measured at "amortized cost" or "fair value through other comprehensive income" under certain circumstances
IFRS 11	Joint Arrangements	Clarified that previously held interests in joint operation are not remeasured when an acquirer obtains joint control of a business
IFRS 16	Leases	Amended the accounting treatment for lease contracts
IAS 12	Income Taxes	Clarified all tax consequences of dividends are accounted for in the same way
IAS 19	Employee Benefits	Clarified the calculation method of current service cost and net interest for the remainder of the reporting period on amendment of a defined benefit plan
IAS 28	Investments in Associates and Joint Ventures	Clarified the IFRS 9 is applied to long-term interests in associates, etc. to which the equity method is not applied
IAS 23	Borrowing Costs	Clarified that borrowing originally made to develop a qualifying asset is treated as part of general borrowings when activities necessary to prepare that asset for its intended use or sale are completed
IFRIC 23	Uncertainty over Income Tax Treatments	Complementary to IAS 12 "Income Taxes" and clarified how to reflect uncertainty in accounting for income taxes

Changes in Nexon Group's accounting policies due to the application of the standards above from Q1 2019 are as follows.

IFRS 16 Leases

At Nexon Group, we assess whether the contract is, or contains, a lease at inception of a contract. We deem that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We review the following matters in our assessment of whether or not a contract conveys the right to control the use of an identified asset:

・whether the use of an identified asset is included in the contract;
・whether Nexon Group has the right to receive almost all the economic benefits from the use of the asset over the entire period of usage; and
・whether Nexon Group has the right to give instructions on the use of the asset.

When Nexon Group enters into or reviews a contract that contains lease components, we allocate the consideration in the contract to each component on the basis of the relative stand-alone prices of lease and non-lease components.

However, with regards to leases of a building or similar assets for which Nexon Group is the lessee, we have elected not to separate non-lease components from lease components, and instead account for lease and non-lease components as a single lease component.

Nexon Group determines the lease term as the non-cancellable period during which the lessee has the right to use the underlying asset, together with both:
・periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
・periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(Lease as a lessee)

Nexon Group recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is derived by adjusting the amount of the initial measurement of the lease liability by any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred in dismantling and removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

After initial recognition, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined in the same way as property, plant and equipment. In addition, the carrying amount of the right-of-use asset is reduced due to impairment losses, which is adjusted at remeasurement of the relevant lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee’s incremental borrowing rate is used. The lessee’s incremental borrowing rate is determined primarily by using the risk free rate, such as that of government bonds, adjusted for credit risks, or the most recent borrowing rate from a financial institution.

The total lease payments included in the measurement of the lease liability comprise the following payments:
・fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
・variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
・amounts expected to be payable by the lessee under residual value guarantees;
・the exercise price of a purchase option if Nexon Group is reasonably certain to exercise that option; and
・payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. The lease liability will be remeasured if there is any change in future lease payments due to a change in an index or a rate, if there is any change in the amounts expected to be payable under residual value guarantees, or if there is any change in the certainty to exercise the purchase option, the extension option, or the option to terminate the lease.

At reassessment of the lease liability, corresponding adjustment is made to the carrying amount of the right-of-use asset, or if the carrying amount of the right-of-use asset is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss.

In the consolidated statement of financial position, Nexon Group presents right-of-use assets that do not satisfy the definition of investment property under “right-of-use assets,” and lease liabilities under “lease liabilities (current)” and “lease liabilities (non-current).”

(Short-term and low-value leases)

Nexon Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that has a lease term of 12 months or less and leases for which the underlying asset is of low-value.

Nexon Group recognizes lease payments for these leases as expenses over the lease term on a straight-line basis.

(Lease as a lessor)

In cases where Nexon Group is the lessor, we classify each of our leases as either a finance lease or an operating lease at the inception date of the lease. To classify each lease, we make an overall assessment as to whether or not it transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. If it does, a lease is classified as a finance lease. If not, it is classified as an operating lease.

As a part of this assessment, we review certain indexes including whether or not the lease term is for the major part of the economic life of the underlying asset.

・In cases where Nexon Group is an intermediate lessor, the head lease and the sublease are accounted for separately.
・The classification of a sublease is determined upon referring, not to the underlying asset, but to the right-of-use asset that arise from the head lease.
・If the head lease is a short-term lease to be accounted for by applying the provision for exemption as above, the sublease is classified as an operating lease.
・If a contract contains lease and non-lease components, Nexon Group applies IFRS 16 and allocates the consideration in the contract to each component proportionately.

Nexon Group recognizes lease payments from operating leases as income on a straight-line basis over the lease term and presents them by including them in “other revenue.”

For lease payments from finance leases, at the commencement date, we recognize assets held under a finance lease in our statement of financial position and present them as a receivable under “trade and other receivables” and “other financial assets (non-current)” at an amount equal to the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term which are not received at the commencement date:

・fixed lease payments (including in-substance fixed lease payments), less any lease incentives payable;
・variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
・any residual value guarantees provided to the lessor by the lessee;
・the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
・payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Nexon Group recognizes lease payments from finance leases as “finance income” over the lease term based on a pattern that reflects the rate of return from Nexon Group’s net investment in the lease over a certain period.

(Impact of IFRS 16 application)

The adjustments made by Nexon Group due to the application of IFRS 16 are as follows. The impact of this change in accounting policy on our net income per share is immaterial.

In accordance with transitional reliefs for IFRS 16, Nexon Group has recognized the cumulative effect of initial application at the date of initial application (January 1, 2019) instead of retrospective application with full restatement for each previous reporting periods.

As a practical expedient, Nexon Group has not conducted any reassessment, as at the date of initial application, as to whether a contract is, or contains, a lease. Therefore, we have applied IFRS16 to all contracts entered into before January 1, 2019 and identified as a lease based on IAS 17 *Leases* ("IAS17") and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

Due to the transition to IFRS 16, we have additionally recognized ¥2,499 million in right-of-use assets and ¥6,254 million in lease liabilities. The difference of ¥3,755 million has been recognized as retained earnings of ¥2,965 million and lease receivables of ¥790 million at the date of initial application. The weighted average of the lessee's incremental borrowing rate applied to lease liabilities recognized at the date of initial application of IFRS 16 is 2.1%.

For non-cancellable operating lease agreements disclosed as of December 31, 2018 applying IAS 17, the following adjustments were made between the amount discounted at the incremental borrowing rate as of the date of initial application and the amount of lease liabilities recognized in the consolidated statement of financial position at the date of initial application:

(Unit: Millions of yen)

For non-cancellable operating lease agreements disclosed as of December 31, 2018 applying IAS 17, the amount discounted at the incremental borrowing rate at the date of initial application (January 1, 2019)	2,966
(a) Finance leases payable recognized as of December 31, 2018	103
(b) Adjustments as a result of a different treatment of extension and termination options	4,299
(c) Amount of adjustment for contracts prior to the commencement of the lease	(1,008)
(d) Leases of low-value assets recognized as expenses on a straight-line basis	(3)
Amount of lease liabilities recognized in the consolidated statement of financial position at the date of initial application (January 1, 2019)	6,357

We have exercised the following practical expedients at the application of IFRS 16 to leases previously classified as operating leases under IAS 17:

・application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
・recognition exemption of short-term leases and leases for which the underlying asset is of low value;
・exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
・use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

For leases classified as finance leases under IAS 17, the carrying amounts of the right-of-use assets and lease liabilities at the date of initial application are deemed to be the carrying amounts of the lease assets and liabilities measured under IAS 17 on the immediately preceding day.

(Segment information)

(1) 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, IFRS 15 is applied by Nexon Group. We have therefore presented the revenue arising from our contracts with customers by breaking it down into PC online, mobile and other revenues based on such contracts with customers.

(2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Reportable Segments						Adjust-ments (Note 3)	Consoli-dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,593	186,465	3,327	3,215	526	197,126	―	197,126
Mobile	6,561	32,320	―	15,969	―	54,850	―	54,850
Other	0	1,632	―	109	4	1,745	―	1,745
Total revenue from external customers	10,154	220,417	3,327	19,293	530	253,721	―	253,721
Intersegment revenue	1,113	2,358	―	1,186	289	4,946	(4,946)	―
Total	11,267	222,775	3,327	20,479	819	258,667	(4,946)	253,721
Segment profit or loss (Note 1)	(7,229)	120,637	1,966	(8,490)	(525)	106,359	9	106,368
Other income (expense), net	―	―	―	―	―	―	―	(8,008)
Operating income	―	―	―	―	―	―	―	98,360
Finance income (costs), net (Note 4)	―	―	―	―	―	―	―	19,921
Equity in loss of affiliates	―	―	―	―	―	―	―	(837)
Income before income taxes	―	―	―	―	―	―	―	117,444
(Other items)								
Depreciation and amortization	35	5,227	73	1,084	34	6,453	―	6,453
Impairment loss	147	10,847	―	352	28	11,374	―	11,374
Capital expenditures (including intangible assets)	78	1,839	69	187	128	2,301	―	2,301

(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 ¥9 million represent elimination of intersegment transactions.
4. A major component of finance income is foreign exchange gain of ¥11,536 million.
5. 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.

Fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable Segments						Adjust-ments (Note 3)	Consoli-dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,496	173,797	2,821	3,920	1,680	185,714	—	185,714
Mobile	4,084	44,530	—	11,962	1	60,577	—	60,577
Other	69	2,106	—	74	2	2,251	—	2,251
Total revenue from external customers	7,649	220,433	2,821	15,956	1,683	248,542	—	248,542
Intersegment revenue	1,058	2,153	—	952	318	4,481	(4,481)	—
Total	8,707	222,586	2,821	16,908	2,001	253,023	(4,481)	248,542
Segment profit or loss (Note 1)	(3,490)	112,265	1,557	(5,527)	(957)	103,848	(9)	103,839
Other income (expense), net (Note 4)	—	—	—	—	—	—	—	(9,314)
Operating income	—	—	—	—	—	—	—	94,525
Finance income (costs), net (Note 5)	—	—	—	—	—	—	—	27,768
Equity in loss of affiliates	—	—	—	—	—	—	—	(325)
Income before income taxes	—	—	—	—	—	—	—	121,968
(Other items)								
Depreciation and amortization	17	6,194	89	1,164	230	7,694	—	7,694
Impairment loss	84	3,421	—	14,501	—	18,006	—	18,006
Capital expenditures (including intangible assets)	79	1,652	51	265	113	2,160	—	2,160

(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 ¥(9) million represent elimination of intersegment transactions.

4. A major component of other expense is impairment loss on prepaid royalties of ¥6,050 million.

5. A major component of finance income is foreign exchange gain of ¥16,232 million.

6. 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.

(3) Revenue from major products and services

Revenue from major products and services are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Item charging	116,811	131,967
Royalty	131,956	111,577
Other	4,954	4,998
Total	253,721	248,542

(4) Information by region

Carrying amounts of non-current assets (excluding financial assets and deferred tax assets) are as follows:

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
Japan	48	107
Korea	62,089	54,701
China	152	120
North America	15,470	5,733
Other	151	27,062
Total	77,910	87,723

(Notes) 1. Non-current assets are classified into country or region category based on the location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions contained in each regional category:
(1) North America: USA
(2) Other: Europe and Asian countries

Revenue from external customers is as follows:

For the fiscal year ended December 31, 2018 (From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	3,632	10,408	28	14,068
Korea	54,043	18,212	1,535	73,790
China	132,730	230	6	132,966
North America	2,849	13,528	121	16,498
Other	3,872	12,472	55	16,399
Total	197,126	54,850	1,745	253,721

(Notes) 1. Revenue is broken down by country or region based on customer location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions contained in each regional category:
(1) North America: USA and Canada
(2) Other: Europe, Central and South America and Asian countries

For the fiscal year ended December 31, 2019 (From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	3,516	10,312	26	13,854
Korea	64,018	24,118	1,658	89,794
China	109,850	2,319	78	112,247
North America	3,025	11,381	281	14,687
Other	5,305	12,447	208	17,960
Total	185,714	60,577	2,251	248,542

(Notes) 1. Revenue is broken down by country or region based on customer location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions contained in each regional category:
(1) North America: USA and Canada
(2) Other: Europe, Central and South America and Asian countries

(5) Information on major customers

One customer contributed more than 10% of Nexon Group's consolidated revenue for the fiscal years ended December 31, 2018 and 2019, and revenue earned from the customer were ¥124,769 million (Korea segment) and ¥102,443 million (Korea segment), respectively.

(Per share information)

Basic and diluted earnings per share attributable to owners of the parent company are calculated based on the following information.

(Millions of yen)

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Net income attributable to owners of the parent company	107,672	115,664
Adjustments of net income used for the calculation of diluted earnings per share		
Adjustments due to dilutive shares of consolidated subsidiaries	–	(293)
Diluted net income attributable to owners of the parent company	107,672	115,371
Number of basic weighted-average common stock	889,668,303 shares	894,277,145 shares
Dilution: Stock option	10,230,391 shares	6,825,815 shares
Number of dilutive weighted-average common stock	899,898,694 shares	901,102,960 shares
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	121.03	129.34
Diluted earnings per share (Note 1)	119.65	128.03

(Notes) 1. Some of the subscription rights to shares issued by Nexon do not have any dilutive effect and thus are not included in the calculation of diluted earnings per share.

2. Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of Equity attributable to owners of the parent company per share has been calculated based on the assumption that such stock split was conducted at the beginning of the previous consolidated fiscal year.

(Significant subsequent event)

(Cancellation of treasury shares)

We have approved the cancellation of treasury shares based on the provision of Article 178 of the Companies Act at the Board of Directors meeting held on February 13, 2020.

1. Reason for the cancellation of shares

   To improve capital efficiency and to return profits to our shareholders

2. Details of the matters pertaining to the cancellation

   (1) Cancellation method: Reduction of the amount of other capital surplus

   (2) Class of shares to be cancelled: Common shares of Nexon

   (3) Number of shares to be cancelled: 20,971,021 shares (2.3% of the total number of shares outstanding before cancellation)

   (4) Scheduled date of cancellation: February 28, 2020