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Consolidated Financial Results
for the Six Months Ended June 30, 2018
[IFRS]

August 9, 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: August 10, 2018
Scheduled date of commencing dividend payments: -
Supplementary briefing material on quarterly financial results: Yes
Quarterly financial results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Six Months Ended June 30, 2018 (from January 1, 2018 to June 30, 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	
Six months ended June 30,2018	138,308	13.5%	70,741	26.2%	86,979	85.3%	78,521	100.7%	78,863	100.4%	47,044	8.5%
Six months ended June 30,2017	121,856	27.4%	56,040	228.1%	46,947	499.4%	39,114	—	39,354	—	43,367	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2018	88.99	88.36
Six months ended June 30, 2017	45.06	44.30

(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 have 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 June 30, 2018	601,451	536,346	521,923	86.8%
As of December 31, 2017	543,231	470,218	465,207	85.6%

(Note) With the finalization of provisional accounting related to the business combination conducted in November 2017, the consolidated financial statements for the fiscal year ended December 31, 2017 have been revised retrospectively.

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	—	0.00			
FY 2018 (Forecast)			—	—	—

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

Nexon has decided not to pay dividends of surplus (interim dividends) to shareholders as of the record date of June 30, 2018 at the board of directors held on August 9, 2018.

Furthermore, the amount of year-end dividends for FY2018 is yet to be determined.

3. Consolidated Financial Results Forecast for the Nine Months Ending September 30, 2018 (from January 1, 2018 to September 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
3rd Quarter (cumulative)	199,237 ～ 204,186	9.3% ～ 12.0%	91,729 ～ 95,954	16.5% ～ 21.9%	110,219 ～ 114,444	54.0% ～ 59.9%	98,292 ～ 101,844	67.3% ～ 73.3%	99,390 ～ 102,879	68.6% ～ 74.5%	111.93 ～ 115.86

(Note) 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 nine months ending September 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.

*(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 June 30, 2018: 891,886,664 shares

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

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

As of June 30, 2018: 288 shares

As of December 31, 2017: －shares

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

Six months ended June 30, 2018: 886,200,814 shares

Six months ended June 30, 2017: 873,450,868 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

As for the world economy during the six months ended June 30, 2018, in the U.S., production and capital investments held strong, employment conditions improved and consumer spending stayed robust due to healthy corporate business conditions. In Europe, while the economy continued to expand and consumer spending and investments increased, economic growth rates dropped in Germany and France due to weak exports and were also flat in Italy and Spain. As for the emerging economies, the Chinese economy maintained its steady growth and the Indian economy saw a recovery in its growth rate once the effects mainly from the ban of its largest denomination bank notes tapered off. The Brazilian economy showed a gradual recovery, but concerns regarding a future slowdown also deepened. The Japanese economy stayed on a gradual recovery trend thanks to the improvement of capital investment and a better employment and income situation backed by a strong world economy.

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 June 30, 2018, revenues remained solid due to continuing strong performance in China and favorable effect of foreign exchange rates, with the Japanese Yen depreciating year-over-year against main foreign currencies in our business. In China, revenues increased due mainly to the Labor Day Update and the 10th Anniversary Update of *Dungeon&Fighter*, our key PC online game, being well-received by users. In Korea, while there were strong performance of our major PC online title *MapleStory* and contributions from the mobile games *OVERHIT* and *AxE*, which launched in FY2017, and the mobile game *KAISER*, which launched during the three months ended June 30, 2018, revenues slightly decreased year-over-year due to the impact of the service transition from *EA SPORTS™ FIFA Online 3* (“*FIFA Online 3*”) to *EA SPORTS™ FIFA ONLINE 4* (“*FIFA ONLINE 4*”). In the U.S., revenues increased year-over-year driven by *Choices: Stories You Play* (“*Choices*”) serviced by Pixelberry Studios, which became our consolidated subsidiary in Q4 2017.

In terms of expenses, while royalty costs decreased in proportion to the decrease in revenues from *FIFA Online 3*, *Dynasty Warriors:Unleashed* and *HIT*, cost of sales increased year-over-year as a result of larger cloud service costs due to an enhanced mobile game lineup and greater HR costs associated with the increased headcount of operations staff for existing game titles in Korea. Selling, general and administrative expenses increased year-over-year primarily due to increases in marketing costs for new titles in Korea, including *FIFA ONLINE 4* and *KAISER*, and *Choices* in North America, as well as greater HR costs. Other income increased year-over-year as a result of our recognition of a gain on step acquisitions associated with turning NAT GAMES Co., Ltd. into a consolidated subsidiary, while other expenses decreased year-over-year due to the decrease in the amount of the impairment loss recorded. Finance income increased year-over-year due to foreign exchange gain in foreign currency-denominated cash deposits and accounts receivables.

As a result, for the six months ended June 30, 2018, Nexon Group recorded revenues of ¥138,308 million (up 13.5% year-over-year), operating income of ¥70,741 million (up 26.2% year-over-year), income before income taxes of ¥86,979 million (up 85.3% year-over-year) and net income attributable to owners of the parent company of ¥78,863 million (up 100.4% year-over-year).

Business results by reportable segments for the six months ended June 30, 2018 are as follows:

(a) Japan

Revenues for the six months ended June 30, 2018 amounted to ¥4,581 million (down 30.6% year-over-year), and segment loss amounted to ¥3,774 million (segment loss of ¥1,851 million for the six months ended June 30, 2017). In Japan, both PC online and mobile game revenues decreased.

(b) Korea

Revenues for the six months ended June 30, 2018 amounted to ¥122,683 million (up 12.5% year-over-year), and segment profit amounted to ¥75,701 million (up 18.1% year-over-year). Revenues in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our subsidiary) attributable to license agreements in China. For the six months ended June 30, 2018, revenues showed a strong growth driven primarily by the well-received Lunar New Year, Labor Day and 10th Anniversary updates of our key PC online game *Dungeon&Fighter*.

(c) China

Revenues for the six months ended June 30, 2018 amounted to ¥1,243 million (down 36.9% year-over-year), and segment profit amounted to ¥595 million (down 51.8% year-over-year).

(d) North America

Revenues for the six months ended June 30, 2018 amounted to ¥9,627 million (up 144.9% year-over-year), and segment loss amounted to ¥3,411 million (segment loss of ¥2,859 million for the six months ended June 30, 2017).

(e) Other

Revenues for the six months ended June 30, 2018 amounted to ¥174 million (down 50.5% year-over-year), and segment loss amounted to ¥312 million (segment loss of ¥86 million for the six months ended June 30, 2017).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of June 30, 2018 amounted to ¥601,451 million, an increase of ¥58,220 million from December 31, 2017. Major components of the increase in assets include an increase of ¥29,395 million in other deposits and an increase of ¥22,140 million in intangible assets.

(Liabilities)

Total liabilities as of June 30, 2018 amounted to ¥65,105 million, a decrease of ¥7,908 million from December 31, 2017. Major components of the decrease in liabilities include a decrease of ¥3,074 million in provisions and a decrease of ¥2,602 million in trade and other payables.

(Equity)

Equity as of June 30, 2018 amounted to ¥536,346 million, an increase of ¥66,128 million from December 31, 2017. Major components of changes in equity include a decrease of 7,173 million in capital surplus due to offsetting a loss, an increase of ¥90,145 million in retained earnings due to offsetting a loss and recording net income, and a decrease of ¥30,280 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 86.8% (85.6% as of December 31, 2017).

(b) Cash flows

Cash and cash equivalents (“Cash”) as of June 30, 2018 was ¥169,378 million, an increase of ¥16,136 million from December 31, 2017. The increase includes effects of exchange rate changes on cash of ¥(4,910) million.

Cash flows from each activity for the six months ended June 30, 2018 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥66,902 million, compared to ¥42,369 million in the six months ended June 30, 2017. Major components of the increase include income before income taxes of ¥86,979 million and a decrease of ¥7,309 million in trade and other receivables, major components of the decrease include a foreign exchange gain of ¥12,487 and major cash outflows include payment of income taxes of ¥11,402 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥50,733 million, compared to ¥20,181 million in the six months ended June 30, 2017. Major cash outflows include an increase of ¥35,892 million in other deposits and purchases of subsidiaries (NAT GAMES Co., Ltd. etc) of ¥12,632 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥4,877 million, compared to ¥3,088 million in the six months ended June 30, 2017. Major cash inflows include proceeds from exercise of stock options of ¥5,732 million, and major cash outflows include repayment of long-term borrowings of ¥837 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 Financial Results Forecast for the Nine Months Ending September 30, 2018" is the sum of our actual consolidated financial results for the six months ended June 30, 2018 and our consolidated business outlook for the three months ending September 30, 2018. Please refer to the table below for our consolidated financial results forecast for the three months ending September 30, 2018.

For the nine months ending September 30, 2018, Nexon Group expects consolidated revenues in the range of ¥199,237 ~ 204,186 million (an increase of 9.3% ~ 12.0% year-over-year), operating income in the range of ¥91,729 ~ 95,954 million (an increase of 16.5% ~ 21.9% year-over-year), income before income taxes in the range of ¥110,219 ~ 114,444 million (an increase of 54.0% ~ 59.9% year-over-year), net income in the range of ¥98,292 ~ 101,844 million (an increase of 67.3% ~ 73.3% year-over-year), net income attributable to owners of the parent company in the range of ¥99,390 ~ 102,879 million (an increase of 68.6% ~ 74.5% year-over-year), and basic earnings per share in the range of ¥111.93 ~ 115.86. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q3 2018 are assumed to be 1 U.S Dollar = ¥111.38, 100 South Korean Won = ¥9.94 and 1 Chinese Yuan = ¥16.61. 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 ¥563 million on revenues and approximately ¥230 million on operating income for the three months ending September 30, 2018.

As for revenues based on customer location for the three months ending September 30, 2018, our expectations are as follows.

In Korea, while we expect revenue increases from *MapleStory* and *Dungeon&Fighter*, as well as positive revenue contributions from *OVERHIT*, which launched in Q4 2017, and *KAISER*, which launched in Q2 2018, we expect revenues to decrease year-over-year because *FIFA ONLINE 4* and *EA SPORTS™ FIFA ONLINE 4*M are still at the beginning of their services and because the comparison is being made with Q3 2017 when we had strong performances from *AxE* and *Dark Avenger 3*.

In China, we launched the Summer Update for our key PC title *Dungeon&Fighter* in July 2018. The National Day Update is also scheduled for September 2018. Given the present situation and other factors, we expect revenues to be roughly flat year-over-year.

In Japan, while we expect positive revenue contributions from mobile games such as *OVERHIT* and *GIGANT SHOCK*, we expect revenue decreases from gloops, Inc.'s mobile browser games, *HIT*, and *HIDE AND FIRE*. Positive drivers of revenue are expected to be eclipsed by negative drivers of revenue resulting in a revenue decrease year-over-year.

In North America, Europe and Other regions, in addition to the contribution from *Choices* by Pixelberry Studios, which became our consolidated subsidiary in Q4 2017, we expect positive revenue contributions from *MapleStory M*, which is to be newly launched in Q3 2018, and *Darkness Rises*, which launched in Q2 2018.

As for costs for Q3 2018, we expect a decrease from the recognition of royalty costs for *OVERHIT* and *HIT* being no longer required due to turning NAT GAMES Co., Ltd. into a consolidated subsidiary. Meanwhile, we expect HR costs to increase mainly due to increases in headcount and stock option expenses, and marketing costs to increase due to the launch of multiple new titles and marketing for existing titles. As a result, we expect costs to increase year-over-year for the three months ending September 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 September 30, 2018 (from July 1, 2018 to September 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
3rd Quarter	60,929 ～ 65,878	0.9% ～ 9.1%	20,988 ～ 25,213	(7.6)% ～ 11.1%	23,240 ～ 27,465	(5.6)% ～ 11.5%	19,772 ～ 23,324	0.6% ～ 18.7%	20,527 ～ 24,017	4.7% ～ 22.5%	Yen 23.01 ～ 26.93

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 six months ended June 30, 2018, based on the estimated average annual effective tax rate.

Nexon Group applied the following standards from Q1 2018, which did not have material impacts on Q2 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. Revenues are measured at an amount with sales-related tax deducted from the fair value of compensation for service provided under ordinary commercial transactions.

For transactions related to provision of service, revenues are recognized 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 has neither incremental cost for the acquisition of contracts with customers nor any part that is deemed recoverable due to it to recognize as assets.

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 and revenues are recognized based on the progress of the service provision.

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

Revenue is recognized at a certain point in time because control is transferred at the time of delivery to customers.

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

In a 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 Nexon Group's performance as the company carries it out.

(ii) Nexon Group'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) Nexon Group'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 (the performance obligation 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 whether the method of representation is gross or net.

Determination of whether to represent our revenues as a gross or net amount is based on 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," we represent our revenues as a gross amount at the time of fulfillment of performance obligations or as such obligations get fulfilled. For transactions in which Nexon Group 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 are 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 the "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 being the "Principal" 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 (2014 version):

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 with regards to financial instruments 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 the 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, we simply recognize expected credit loss for the overall period based on past credit loss and currently ascertained qualitative factors.

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 June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	153,242	169,378
Trade and other receivables	35,255	26,475
Other deposits	234,092	263,487
Other financial assets	6,538	6,371
Other current assets	13,492	10,709
Total current assets	442,619	476,420
Non-current assets		
Property, plant and equipment	27,303	25,429
Goodwill	18,957	28,742
Intangible assets	12,784	34,924
Investments accounted for using equity method	9,138	4,669
Other financial assets	20,754	19,987
Other non-current assets	1,344	1,358
Deferred tax assets	10,332	9,922
Total non-current assets	100,612	125,031
Total assets	543,231	601,451

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	8,587	5,985
Deferred income	10,975	10,490
Borrowings	3,490	2,502
Income taxes payable	7,698	6,041
Other financial liabilities	173	35
Provisions	4,556	1,474
Other current liabilities	6,068	5,173
Total current liabilities	41,547	31,700
Non-current liabilities		
Deferred income	8,241	7,168
Other financial liabilities	506	436
Provisions	279	287
Other non-current liabilities	4,300	4,826
Deferred tax liabilities	18,140	20,688
Total non-current liabilities	31,466	33,405
Total liabilities	73,013	65,105
Equity		
Capital stock	9,390	13,415
Capital surplus	41,021	33,848
Treasury stock	—	(1)
Other equity interest	91,033	60,753
Retained earnings	323,763	413,908
Total equity attributable to owners of the parent company	465,207	521,923
Non-controlling interests	5,011	14,423
Total equity	470,218	536,346
Total liabilities and equity	543,231	601,451

(2) Condensed Consolidated Income Statement

For the six months ended June 30, 2017 and 2018

(Millions of yen)

	Six months ended June 30	
	2017 (From January 1, 2017 to June 30, 2017)	2018 (From January 1, 2018 to June 30, 2018)
Revenue	121,856	138,308
Cost of sales	(27,351)	(27,472)
Gross profit	94,505	110,836
Selling, general and administrative expenses	(33,946)	(42,036)
Other income	895	3,365
Other expenses	(5,414)	(1,424)
Operating income	56,040	70,741
Finance income	2,377	17,658
Finance costs	(11,118)	(1,210)
Equity in loss of affiliates	(352)	(210)
Income before income taxes	46,947	86,979
Income taxes expense	(7,833)	(8,458)
Net income	39,114	78,521
Attributable to:		
Owners of the parent company	39,354	78,863
Non-controlling interests	(240)	(342)
Net income	39,114	78,521
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	45.06	88.99
Diluted earnings per share	44.30	88.36

For the three months ended June 30, 2017 and 2018

(Millions of yen)

	Three months ended June 30	
	2017 (From April 1, 2017 to June 30, 2017)	2018 (From April 1, 2018 to June 30, 2018)
Revenue	47,064	47,794
Cost of sales	(12,584)	(13,135)
Gross profit	34,480	34,659
Selling, general and administrative expenses	(16,648)	(20,562)
Other income	714	3,006
Other expenses	(2,268)	(1,091)
Operating income	16,278	16,012
Finance income	6,271	18,026
Finance costs	(294)	(222)
Equity in loss of affiliates	(340)	(187)
Income before income taxes	21,915	33,629
Income taxes expense	(2,613)	(1,613)
Net income	19,302	32,016
Attributable to:		
Owners of the parent company	19,448	32,248
Non-controlling interests	(146)	(232)
Net income	19,302	32,016
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	22.21	36.24
Diluted earnings per share	21.84	36.06

(3) Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2017 and 2018

(Millions of yen)

	Six months ended June 30	
	2017 (From January 1, 2017 to June 30, 2017)	2018 (From January 1, 2018 to June 30, 2018)
Net income	39,114	78,521
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(666)	(374)
Re-measurement of defined benefit pension plans	(0)	1
Income taxes	147	127
Total items that will not be reclassified to net income	(519)	(246)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	4,772	(31,231)
Other comprehensive income under equity method	0	(0)
Total items that may be reclassified subsequently to net income	4,772	(31,231)
Total other comprehensive income	4,253	(31,477)
Total comprehensive income	43,367	47,044
Attributable to:		
Owners of the parent company	43,464	47,962
Non-controlling interests	(97)	(918)
Total comprehensive income	43,367	47,044

For the three months ended June 30, 2017 and 2018

(Millions of yen)

	Three months ended June 30	
	2017 (From April 1, 2017 to June 30, 2017)	2018 (From April 1, 2018 to June 30, 2018)
Net income	19,302	32,016
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(606)	(501)
Re-measurement of defined benefit pension plans	0	0
Income taxes	154	119
Total items that will not be reclassified to net income	(452)	(382)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(7,688)	(6,351)
Other comprehensive income under equity method	0	0
Total items that may be reclassified subsequently to net income	(7,688)	(6,351)
Total other comprehensive income	(8,140)	(6,733)
Total comprehensive income	11,162	25,283
Attributable to:		
Owners of the parent company	11,348	25,828
Non-controlling interests	(186)	(545)
Total comprehensive income	11,162	25,283

(4) Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 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	—	—	—	—	39,354	39,354	(240)	39,114
Other comprehensive income	—	—	—	4,110	—	4,110	143	4,253
Total comprehensive income	—	—	—	4,110	39,354	43,464	(97)	43,367
Reclassification from capital surplus to retained earnings	—	(41,476)	—	—	41,476	—	—	—
Issue of shares	2,782	2,782	—	—	—	5,564	—	5,564
Stock issue cost	—	(18)	—	—	—	(18)	—	(18)
Share-based compensation	—	—	—	(457)	—	(457)	—	(457)
Purchase of non-controlling interests	—	(74)	—	—	—	(74)	(98)	(172)
Changes arising from sale of consolidated subsidiaries	—	(3)	—	—	(396)	(399)	49	(350)
Purchase of treasury stock	—	—	(0)	—	—	(0)	—	(0)
Reclassification from other equity interest to retained earnings	—	—	—	1,034	(1,034)	—	—	—
Total transactions with the owners	2,782	(38,789)	(0)	577	40,046	4,616	(49)	4,567
Balance at June 30, 2017	6,301	47,964	(0)	60,941	305,798	421,004	4,624	425,628

For the six months ended June 30, 2018 (From January 1, 2018 to June 30, 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	―	―	―	―	78,863	78,863	(342)	78,521
Other comprehensive income	―	―	―	(30,901)	―	(30,901)	(576)	(31,477)
Total comprehensive income	―	―	―	(30,901)	78,863	47,962	(918)	47,044
Reclassification from capital surplus to retained earnings	―	(11,191)	―	―	11,191	―	―	―
Issue of shares	4,025	4,025	―	―	―	8,050	―	8,050
Stock issue cost	―	(26)	―	―	―	(26)	―	(26)
Share-based compensation	―	―	―	712	―	712	―	712
Non-controlling interests on acquisition of subsidiary	―	―	―	―	―	―	10,330	10,330
Purchase of treasury stock	―	―	(1)	―	―	(1)	―	(1)
Reclassification from other equity interest to retained earnings	―	―	―	(91)	91	―	―	―
Other	―	19	―	―	―	19	―	19
Total transactions with the owners	4,025	(7,173)	(1)	621	11,282	8,754	10,330	19,084
Balance at June 30, 2018	13,415	33,848	(1)	60,753	413,908	521,923	14,423	536,346

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30	
	2017 (From January 1, 2017 to June 30, 2017)	2018 (From January 1, 2018 to June 30, 2018)
Cash flows from operating activities		
Income before income taxes	46,947	86,979
Depreciation and amortization	3,035	2,719
Share-based compensation expenses	956	2,917
Interest and dividend income	(2,348)	(4,226)
Interest expense	6	34
Impairment loss	4,874	1,124
Equity in loss of affiliates	352	210
Gain on step acquisitions	—	(2,747)
Exchange (gain) loss	7,882	(12,487)
(Increase) decrease in trade and other receivables	(4,554)	7,309
(Increase) decrease in other current assets	(4,912)	(2,143)
(Decrease) increase in trade and other payables	(1,877)	(2,016)
(Decrease) increase in deferred income	461	(335)
(Decrease) increase in provisions	(1,108)	(2,871)
Other	(113)	392
Subtotal	49,601	74,859
Interest and dividends received	2,099	3,479
Interest paid	(8)	(34)
Income taxes paid	(9,323)	(11,402)
Net cash provided by operating activities	42,369	66,902
Cash flows from investing activities		
Decrease (increase) in other deposits	(12,775)	(35,892)
Purchases of property, plant and equipment	(1,002)	(1,048)
Proceeds from sales of property, plant and equipment	23	25
Purchases of intangible assets	(386)	(313)
Payments associated with increase in long-term prepaid expenses	(2)	(39)
Purchases of investment securities	(3,800)	(1,680)
Proceeds from sale and redemption of investment securities	159	1,647
Purchases of affiliates	(1,748)	(642)
Purchases of subsidiaries	—	(12,632)
Other	(650)	(159)
Net cash used in investing activities	(20,181)	(50,733)
Cash flows from financing activities		
Repayment of long-term borrowings	(850)	(837)
Proceeds from exercise of stock options	4,131	5,732
Purchases of treasury stock	(0)	(1)
Purchase of treasury stock of subsidiaries	(124)	—
Cash dividends paid	(1)	(0)
Other	(68)	(17)
Net cash provided by financing activities	3,088	4,877
Net (decrease) increase in cash and cash equivalents	25,276	21,046
Cash and cash equivalents at the beginning of the period	152,683	153,242
Effects of exchange rate changes on cash and cash equivalents	(1,171)	(4,910)
Cash and cash equivalents at the end of the period	176,788	169,378

(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 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 those segment information for the six months ended June 30, 2017 and the three months ended June 30, 2017 respectively.

(b) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

(For the six months ended June 30)

For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	2,087	91,346	1,970	1,920	351	97,674	－	97,674
Mobile	4,505	16,688	－	2,010	－	23,203	－	23,203
Other	7	972	－	－	－	979	－	979
Total revenue from external customers	6,599	109,006	1,970	3,930	351	121,856	－	121,856
Intersegment revenue	152	982	－	348	236	1,718	(1,718)	－
Total	6,751	109,988	1,970	4,278	587	123,574	(1,718)	121,856
Segment profit or loss (Note 1)	(1,851)	64,125	1,233	(2,859)	(86)	60,562	(3)	60,559
Other income (expense), net								(4,519)
Operating income								56,040
Finance income (costs), net (Note 4)								(8,741)
Equity in loss of affiliates								(352)
Income before income taxes								46,947

(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 ¥(3) million represent elimination of intersegment transactions.

4. A major component of finance cost is foreign exchange loss of ¥10,824 million.

For the six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	1,812	107,544	1,243	1,576	174	112,349	—	112,349
Mobile	2,757	14,389	—	8,051	—	25,197	—	25,197
Other	12	750	—	0	—	762	—	762
Total revenue from external customers	4,581	122,683	1,243	9,627	174	138,308	—	138,308
Intersegment revenue	411	833	—	356	172	1,772	(1,772)	—
Total	4,992	123,516	1,243	9,983	346	140,080	(1,772)	138,308
Segment profit or loss (Note 1)	(3,774)	75,701	595	(3,411)	(312)	68,799	1	68,800
Other income (expense), net								1,941
Operating income								70,741
Finance income (costs), net (Note 4)								16,448
Equity in loss of affiliates								(210)
Income before income taxes								86,979

(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 ¥ 1 million represent elimination of intersegment transactions.

4. A major component of finance income is foreign exchange gain of ¥13,240 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.

(For the three months ended June 30)

For the three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	920	32,548	665	823	140	35,096	−	35,096
Mobile	2,143	8,402	−	979	−	11,524	−	11,524
Other	4	440	−	−	−	444	−	444
Total revenue from external customers	3,067	41,390	665	1,802	140	47,064	−	47,064
Intersegment revenue	90	441	−	166	132	829	(829)	−
Total	3,157	41,831	665	1,968	272	47,893	(829)	47,064
Segment profit or loss (Note 1)	(948)	20,120	300	(1,587)	(55)	17,830	2	17,832
Other income (expense), net								(1,554)
Operating income								16,278
Finance income (costs), net (Note 4)								5,977
Equity in loss of affiliates								(340)
Income before income taxes								21,915

(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 ¥2 million represent elimination of intersegment transactions.

4. A major component of finance income is foreign exchange gain of ¥5,092 million.

For the three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	844	34,561	597	630	41	36,673	―	36,673
Mobile	1,263	5,937	―	3,557	―	10,757	―	10,757
Other	5	359	―	0	―	364	―	364
Total revenue from external customers	2,112	40,857	597	4,187	41	47,794	―	47,794
Intersegment revenue	295	378	―	203	65	941	(941)	―
Total	2,407	41,235	597	4,390	106	48,735	(941)	47,794
Segment profit or loss (Note 1)	(2,018)	17,962	242	(1,951)	(135)	14,100	(3)	14,097
Other income (expense), net								1,915
Operating income								16,012
Finance income (costs), net (Note 4)								17,804
Equity in loss of affiliates								(187)
Income before income taxes								33,629

(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 ¥(3) million represent elimination of intersegment transactions.

4. A major component of finance income is foreign exchange gain of ¥15,477 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.

(c) Information on each region

Revenue from external customers are as follows:

(For the six months ended June 30)

For the six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	2,084	7,729	5	9,818
Korea	26,710	8,435	935	36,080
China	64,593	156	5	64,754
North America	1,703	2,256	4	3,963
Other	2,584	4,627	30	7,241
Total	97,674	23,203	979	121,856

(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 six months ended June 30, 2018 (From January 1, 2018 to June 30, 2018)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	1,829	4,365	12	6,206
Korea	23,548	10,801	706	35,055
China	83,765	120	2	83,887
North America	1,426	5,869	3	7,298
Other	1,781	4,042	39	5,862
Total	112,349	25,197	762	138,308

(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 June 30)

For the three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	920	3,488	4	4,412
Korea	11,721	3,656	424	15,801
China	20,759	44	―	20,803
North America	723	1,160	3	1,886
Other	973	3,176	13	4,162
Total	35,096	11,524	444	47,064

(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 June 30, 2018 (From April 1, 2018 to June 30, 2018)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	861	2,413	7	3,281
Korea	11,441	3,685	333	15,459
China	23,129	54	―	23,183
North America	568	2,655	1	3,224
Other	674	1,950	23	2,647
Total	36,673	10,757	364	47,794

(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