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Consolidated Financial Results
for the Three Months Ended March 31, 2019
[IFRS]

May 10, 2019

Company name: NEXON Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 3659
URL: http://www.nexon.co.jp/
Representative: Owen Mahoney, Chief Executive Officer and President
Contact: Shiro Uemura, Representative Director and Chief Financial Officer Phone: +81-3-6629-5318
Scheduled date for filing of quarterly securities report: May 10, 2019
Scheduled date of commencing dividend payments: -
Supplementary briefing material on quarterly financial results: Yes
Quarterly financial results briefing: No

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Three Months Ended March 31, 2019 (from January 1, 2019 to March 31, 2019)

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

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
Three months ended March 31,2019	93,077	2.8%	52,601	(3.9)%	61,812	15.9%	52,807	13.6%	53,400	14.6%	45,797	110.4%
Three months ended March 31,2018	90,514	21.0%	54,729	37.6%	53,350	113.1%	46,505	134.7%	46,615	134.2%	21,760	(32.4)%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2019	59.67	59.18
Three months ended March 31, 2018	52.80	51.86

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

(2) Consolidated Financial Position

(Millions of yen)

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company
As of March 31, 2019	704,816	610,219	600,772	85.2%
As of December 31, 2018	649,998	565,477	555,268	85.4%

2. Dividends

(Yen)

	Annual Dividends				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total
FY 2018	—	0.00	—	0.00	0.00
FY 2019	—				
FY 2019 (Forecast)		—	—	—	—

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

Under Nexon's articles of incorporation end of 2nd quarter (June 30) and end of year (December 31) are stipulated as the dates of record for dividends. However, at present the amount of the 2nd quarter and year-end dividends for FY2019 is yet to be determined.

3. Consolidated Financial Results Forecast for the Six Months Ending June 30, 2019 (from January 1, 2019 to June 30, 2019)

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

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
											Yen
2nd Quarter (cumulative)	145,135 ～ 149,771	4.9% ～ 8.3%	65,245 ～ 68,926	(7.8)% ～ (2.6)%	78,227 ～ 81,908	(10.1)% ～ (5.8)%	66,741 ～ 69,904	(15.0)% ～ (11.0)%	68,036 ～ 71,177	(13.7)% ～ (9.7)%	75.99 ～ 79.50

(Note) As it is difficult to reasonably estimate financial results for the year ending December 31, 2019 at the moment, only the financial results forecast for the six months ending June 30, 2019 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 March 31, 2019: 895,728,664 shares

As of December 31, 2018: 894,278,664 shares

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

As of March 31, 2019: 290 shares

As of December 31, 2018: 290 shares

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

Three months ended March 31, 2019: 894,983,374 shares

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

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

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

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

(Caution Concerning Forward-Looking Statements)

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

(Method of Obtaining Supplementary Briefing Material on Financial Results)

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

Contents of Appendix

1. Qualitative Information on Consolidated Financial Results for the Period

(1) Explanation on Operating Results

During the three months ended March 31, 2019, the Japanese economy stayed on a gradual recovery trend mainly due to improvements in the employment situation and corporate revenues, increases in capital investment, and economic recovery overseas. However, the future outlook has become uncertain primarily due to concerns over the slowdown of the global economy triggered by protectionist trade policies taken by the U.S.

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

For the three months ended March 31, 2019, revenue grew year over year driven by the Korea business, despite the unfavorable effect of the foreign exchange rate, with the Japanese yen appreciating year over year against Korean Won in our business.

In China, revenue remained solid due to well-received content updates and item sales for *Dungeon&Fighter*, our key PC online game, in time for the Lunar New Year. Revenue decreased year over year due to unfavorable foreign exchange rates, but when the effect of the foreign exchange rate is taken out of the equation, we can see that it has marked record-high quarterly revenue since the start of its service in China and that the revenue was roughly flat even in comparison with the high bar set in Q1 2018. In Korea, PC online revenue increased year over year, mainly driven by *MapleStory*'s growth due to the contents update and Lunar New Year promotions being well-received by users, and by the growth of *EA SPORTS™ FIFA ONLINE 4 ("FIFA ONLINE 4")* in comparison with Q1 2018, when it was negatively affected by its service transition. Meanwhile, mobile revenue decreased year over year primarily due to positive contributions from *EA SPORTS™ FIFA ONLINE 4M ("FIFA ONLINE 4M")* and multiple new titles including *Spiritwish* and *Lyn: The Lightbringer*, which launched in Q1 2019, being more than offset by revenue decreases mainly from *OVERHIT* and *AxE*. As for the overall business in Korea, revenue increased year over year because the increase in PC online revenue was greater than the decrease in mobile revenue. In Japan, revenue increased year over year driven by positive contributions from *FAITH (i.e. AxE)*, *Dynasty Warriors: Unleashed*, *OVERHIT*, and *DarkAvenger X* launched in Q1 2019. In North America, revenue increased year over year driven by positive contributions from *MapleStory M*, *Darkness Rises* and *AxE* launched in Q1 2019, which more than offset the year-over-year decreases in revenue from *Choices: Stories You Play* and *Dominations*. In other regions, revenue increased year over year driven by positive contributions from *MapleStory M*, *Darkness Rises*, *Moonlight Blade*, and *AxE* launched in Q1 2019.

In terms of expenses, cost of sales increased year over year as a result of greater HR costs due to an increased headcount and greater royalty costs for titles including *FIFA ONLINE 4* and *FIFA ONLINE 4 M*. Selling, general and administrative expenses increased year over year mainly due to increases in research and development costs for NAT GAMES Co., Ltd., which newly became our consolidated subsidiary in Q2 2018, and in platform costs for mobile titles. Other expenses also increased year over year due to recording an impairment loss, primarily on prepaid royalties, in the three months ended March 31, 2019.

Although we incurred a foreign exchange loss in foreign currency-denominated cash deposits and accounts receivable in Q1 2018, our finance costs decreased and finance income increased due to a foreign exchange gain in Q1 2019 primarily from foreign currency-denominated cash deposits.

As a result, for the three months ended March 31, 2019, Nexon Group recorded revenues of ¥93,077 million (up 2.8% year-over-year), operating income of ¥52,601 million (down 3.9% year-over-year), income before income taxes of ¥61,812 million (up 15.9% year-over-year) and net income attributable to owners of the parent company of ¥53,400 million (up 14.6% year-over-year).

Business results by reportable segments for the three months ended March 31, 2019 are as follows:

(a) Japan

Revenues for the three months ended March 31, 2019 amounted to ¥2,469 million (down 0.0% year-over-year), and segment loss amounted to ¥958 million (segment loss of ¥1,756 million for the three months ended March 31, 2018).

(b) Korea

Revenues for the three months ended March 31, 2019 amounted to ¥84,572 million (up 3.4% year-over-year), and segment profit amounted to ¥56,865 million (down 1.5% 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

Revenues for the three months ended March 31, 2019 amounted to ¥870 million (up 34.6% year-over-year), and segment profit amounted to ¥596 million (up 69.0% year-over-year).

(d) North America

Revenues for the three months ended March 31, 2019 amounted to ¥4,716 million (down 13.3% year-over-year), and segment loss amounted to ¥1,385 million (segment loss of ¥1,460 million for the three months ended March 31, 2018).

(e) Other

Revenues for the three months ended March 31, 2019 amounted to ¥450 million (up 237.6% year-over-year), and segment profit amounted to ¥2 million (segment loss of ¥177 million for the three months ended March 31, 2018).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of March 31, 2019 amounted to ¥704,816 million, an increase of ¥54,818 million from December 31, 2018. Major components include an increase of ¥14,879 million in cash and cash equivalents, and an increase of ¥39,540 million in trade and other receivables.

(Liabilities)

Total liabilities as of March 31, 2019 amounted to ¥94,597 million, an increase of ¥10,076 million from December 31, 2018. Major components include an increase of ¥6,146 million in lease liabilities due to IFRS 16 application, an increase of ¥4,674 million in income taxes payable, and a decrease of ¥725 million in other liabilities.

(Equity)

Equity as of March 31, 2019 amounted to ¥610,219 million, an increase of ¥44,742 million from December 31, 2018. Major components of changes in equity include an increase of ¥50,834 million in retained earnings due to offsetting a loss and recording net income, a decrease of ¥6,362 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 85.2% (85.4% as of December 31, 2018).

(b) Cash flows

Cash and cash equivalents (“Cash”) as of March 31, 2019 was ¥220,171 million, an increase of ¥14,879 million from December 31, 2018. The increase includes ¥(99) million in effects of exchange rate changes on cash.

Cash flows from each activity for the three months ended March 31, 2019 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥15,241 million, compared to ¥15,614 million for the three months ended March 31, 2018. Major components of the increase include income before income taxes of ¥61,812 million. Major components of the decrease include an increase in trade and other receivables of ¥39,807 million, foreign exchange gains of ¥5,458 million, and payment of income taxes of ¥3,973 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥994 million, compared to ¥23,017 million for the three months ended March 31, 2018. Major cash outflows include an increase of ¥671 million in other deposits, and purchases of property, plant and equipment of ¥314 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥731 million, compared to ¥2,723 million for the three months ended March 31, 2018. Major cash inflows include proceeds from exercise of stock options of ¥1,090 million. Major cash outflows include repayment of lease liabilities of ¥359 million.

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

The business environment surrounding Nexon Group has been changing greatly in expectation of further development of the high-speed Internet environment for PC and mobile around the world. In our consolidated business outlook, we disclose our expectations for the following quarter as a range to provide more accurate information to our shareholders and investors, since it is difficult to derive full-year consolidated forecasts due to uncertainties in projecting the speed of growth of PC online game and mobile game markets in which Nexon Group's main businesses operate, and because our revenues are largely dependent on such uncertain factors as users' preferences and whether or not we have any hit titles. "Consolidated Business Outlook for the Six Months Ending June 30, 2019" is the sum of our actual consolidated financial results for the three months ended March 31, 2019 and our consolidated business outlook for the three months ending June 30, 2019.

For the six months ending June 30, 2019, Nexon Group expects consolidated revenues in the range of ¥145,135 ~ 149,771 million (an increase of 4.9% ~ 8.3% year-over-year), operating income in the range of ¥65,245 ~ 68,926 million (a decrease of 7.8% ~ 2.6% year-over-year), income before income taxes in the range of ¥78,227 ~ 81,908 million (a decrease of 10.1% ~ 5.8% year-over-year), net income in the range of ¥66,741 ~ 69,904 million (a decrease of 15.0% ~ 11.0% year-over-year), net income attributable to owners of the parent company in the range of ¥68,036 ~ 71,177 million (a decrease of 13.7% ~ 9.7% year-over-year), and basic earnings per share in the range of ¥75.99 ~ 79.50. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q2 2019 are assumed to be 1 U.S dollar = ¥111.73, 100 South Korean Won = ¥9.81 and 1 Chinese Yuan = ¥16.63. 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 ¥494 million on revenues and approximately ¥142 million on operating income for the three months ending June 30, 2019.

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

As for revenue by customer location for the three months ending June 30, 2019, in Korea, we expect a revenue increase from *FIFA ONLINE 4* and *FIFA ONLINE 4M* in comparison with Q2 2018, when revenue was negatively affected due to the franchise's service transition. We expect overall revenue in Korea to increase year over year, primarily driven by contributions from *TRAHA*, which is scheduled for launch in Q2 2019, and *Lyn: The Lightbringer* launched in Q1 2019.

In China, we launched a large-scale content update for our key PC title *Dungeon&Fighter* on April 23, 2019 in time for the Labor Day holidays, and we are scheduled to introduce its 11th Anniversary update in June. However, we expect a decrease or a slight increase in revenue compared to the high base set in Q2 2018.

In Japan, we expect revenue to increase year over year, driven by contributions from mobile games such as *FAITH* (i.e. *AxE*), *Dynasty Warriors:Unleashed, DarkAvenger X,* and *MapleStory M* launched in Q2 2019.

In North America, we expect a year-over-year revenue increase, primarily driven by contributions from *MapleStory M* and *AxE*.

In Europe and other regions, we expect a year-over-year revenue increase, driven by contributions from the PC online title *Moonlight Blade*, as well as from mobile games such as *MapleStory M, AxE* and *OVERHIT*.

As for costs for Q2 2019, we expect greater HR costs due to an increased headcount, in addition to greater variable costs, including royalty costs in relation to an increase in contributions from publishing titles such as *FIFA ONLINE 4*.

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

(Reference)

Consolidated financial results forecast for the three months ending June 30, 2019 (from April 1, 2019 to June 30, 2019)

(% changes from the previous fiscal year)
(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
											Yen
2nd Quarter	52,059 ～ 56,695	8.9% ～ 18.6%	12,644 ～ 16,326	(21.0)% ～ 2.0%	16,415 ～ 20,096	(51.2)% ～ (40.2)%	13,933 ～ 17,096	(56.5)% ～ (46.6)%	14,637 ～ 17,777	(54.6)% ～ (44.9)%	16.34 ～ 19.84

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, 2018 unless otherwise noted, except for the new standards applied as listed below. Nexon Group calculated income taxes for the three months ended March 31, 2019, based on the estimated average annual effective tax rate.

Nexon Group has applied the following standards from Q1 2019, which did not have material impacts on these condensed quarterly consolidated financial statements 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 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, or lease payments during the option period if Nexon Group is reasonably certain to exercise the extension 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 condensed quarterly 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) Amount of liabilities recorded for cancellable operating leases	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.

3. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	205,292	220,171
Trade and other receivables	31,344	70,884
Other deposits	276,550	277,100
Other financial assets	9,600	9,954
Other current assets	11,874	10,784
Total current assets	534,660	588,893
Non-current assets		
Property, plant and equipment	25,166	24,605
Goodwill	26,529	26,257
Intangible assets	26,021	25,567
Right-of-use assets	—	2,363
Investments accounted for using equity method	10,480	9,830
Other financial assets	14,032	14,395
Other non-current assets	194	190
Deferred tax assets	12,916	12,716
Total non-current assets	115,338	115,923
Total assets	649,998	704,816

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,447	7,394
Deferred income	11,145	11,088
Borrowings	4,324	4,263
Income taxes payable	9,352	14,026
Lease liabilities	—	1,501
Other financial liabilities	357	264
Provisions	2,960	3,644
Other current liabilities	6,924	6,902
Total current liabilities	42,509	49,082
Non-current liabilities		
Deferred income	17,636	17,317
Lease liabilities	—	4,645
Other financial liabilities	109	41
Provisions	233	225
Other non-current liabilities	5,587	4,884
Deferred tax liabilities	18,447	18,403
Total non-current liabilities	42,012	45,515
Total liabilities	84,521	94,597
Equity		
Capital stock	14,402	15,132
Capital surplus	34,814	35,116
Treasury stock	(1)	(1)
Other equity interest	64,068	57,706
Retained earnings	441,985	492,819
Total equity attributable to owners of the parent company	555,268	600,772
Non-controlling interests	10,209	9,447
Total equity	565,477	610,219
Total liabilities and equity	649,998	704,816

(2) Condensed Consolidated Income Statement

(Millions of yen)

	Three months ended March 31	
	2018 (From January 1, 2018 to March 31, 2018)	2019 (From January 1, 2019 to March 31, 2019)
Revenue	90,514	93,077
Cost of sales	(14,337)	(15,900)
Gross profit	76,177	77,177
Selling, general and administrative expenses	(21,474)	(22,055)
Other income	359	429
Other expenses	(333)	(2,950)
Operating income	54,729	52,601
Finance income	1,869	9,810
Finance costs	(3,225)	(265)
Equity in loss of affiliates	(23)	(334)
Income before income taxes	53,350	61,812
Income taxes expense	(6,845)	(9,005)
Net income	46,505	52,807
Attributable to:		
Owners of the parent company	46,615	53,400
Non-controlling interests	(110)	(593)
Net income	46,505	52,807
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	52.80	59.67
Diluted earnings per share	51.86	59.18

(3) Condensed Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2018 and 2019

(Millions of yen)

	Three months ended March 31	
	2018 (From January 1, 2018 to March 31, 2018)	2019 (From January 1, 2019 to March 31, 2019)
Net income	46,505	52,807
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	127	130
Re-measurement of defined benefit pension plans	1	(49)
Income taxes	8	(73)
Total items that will not be reclassified to net income	136	8
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(24,880)	(7,019)
Other comprehensive income under equity method	(1)	1
Total items that may be reclassified subsequently to net income	(24,881)	(7,018)
Total other comprehensive income	(24,745)	(7,010)
Total comprehensive income	21,760	45,797
Attributable to:		
Owners of the parent company	22,133	46,559
Non-controlling interests	(373)	(762)
Total comprehensive income	21,760	45,797

(4) Condensed Consolidated Statement of Changes in Equity

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

(Millions of yen)

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

For the three months ended March 31, 2019 (From January 1, 2019 to March 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 December 31, 2018	14,402	34,814	(1)	64,068	441,985	555,268	10,209	565,477
Adjustment of applying IFRS16	—	—	—	—	(2,965)	(2,965)	—	(2,965)
Restated total equity at 1 January 2019	14,402	34,814	(1)	64,068	439,020	552,303	10,209	562,512
Net income for the period	—	—	—	—	53,400	53,400	(593)	52,807
Other comprehensive income	—	—	—	(6,841)	—	(6,841)	(169)	(7,010)
Total comprehensive income	—	—	—	(6,841)	53,400	46,559	(762)	45,797
Reclassification from capital surplus to retained earnings	—	(423)	—	—	423	—	—	—
Issue of shares	730	730	—	—	—	1,460	—	1,460
Stock issue cost	—	(5)	—	—	—	(5)	—	(5)
Share-based compensation	—	—	—	455	—	455	—	455
Reclassification from other equity interest to retained earnings	—	—	—	24	(24)	—	—	—
Total transactions with the owners	730	302	—	479	399	1,910	—	1,910
Balance at March 31, 2019	15,132	35,116	(1)	57,706	492,819	600,772	9,447	610,219

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31	
	2018 (From January 1, 2018 to March 31, 2018)	2019 (From January 1, 2019 to March 31, 2019)
Cash flows from operating activities		
Income before income taxes	53,350	61,812
Depreciation and amortization	1,252	1,753
Share-based compensation expenses	1,404	808
Interest and dividend income	(1,857)	(3,286)
Interest expense	17	62
Impairment loss	319	2,890
Equity in loss of affiliates	23	334
Exchange (gain) loss	2,071	(5,458)
(Increase) decrease in trade and other receivables	(37,005)	(39,807)
(Increase) decrease in other current assets	374	(2,666)
(Decrease) increase in trade and other payables	(1,531)	(80)
(Decrease) increase in deferred income	(1)	8
(Decrease) increase in provisions	(2,972)	707
Other	1,681	(806)
Subtotal	17,125	16,271
Interest and dividends received	1,534	2,996
Interest paid	(17)	(53)
Income taxes paid	(3,028)	(3,973)
Net cash provided by operating activities	15,614	15,241
Cash flows from investing activities		
Decrease (increase) in other deposits	(21,724)	(671)
Purchases of property, plant and equipment	(390)	(314)
Proceeds from sales of property, plant and equipment	27	4
Purchases of intangible assets	(153)	(175)
Payments associated with increase in long-term prepaid expenses	(10)	(5)
Purchases of investment securities	(389)	—
Proceeds from sale and redemption of investment securities	222	279
Purchases of affiliates	(369)	—
Purchases of subsidiaries	(314)	—
Other	83	(112)
Net cash used in investing activities	(23,017)	(994)
Cash flows from financing activities		
Repayment of long-term borrowings	(835)	—
Proceeds from exercise of stock options	3,566	1,090
Purchases of treasury stock	(0)	—
Cash dividends paid	(0)	(0)
Repayment of lease liability	(8)	(359)
Net cash provided by financing activities	2,723	731
Net (decrease) increase in cash and cash equivalents	(4,680)	14,978
Cash and cash equivalents at the beginning of the period	153,242	205,292
Effects of exchange rate changes on cash and cash equivalents	(7,425)	(99)
Cash and cash equivalents at the end of the period	141,137	220,171

(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

Not applicable.

(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, 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.

(b) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

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

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	968	72,983	646	946	133	75,676	－	75,676
Mobile	1,494	8,452	－	4,494	－	14,440	－	14,440
Other	7	391	－	－	－	398	－	398
Total revenue from external customers	2,469	81,826	646	5,440	133	90,514	－	90,514
Intersegment revenue	116	455	－	153	107	831	(831)	－
Total	2,585	82,281	646	5,593	240	91,345	(831)	90,514
Segment profit or loss (Note 1)	(1,756)	57,739	353	(1,460)	(177)	54,699	4	54,703
Other income (expense), net								26
Operating income								54,729
Finance income (costs), net								(1,356)
Equity in loss of affiliates								(23)
Income before income taxes								53,350

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

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

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

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

For the three months ended March 31, 2019 (From January 1, 2019 to March 31, 2019)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	1,001	73,864	870	945	450	77,130	—	77,130
Mobile	1,452	10,244	—	3,742	—	15,438	—	15,438
Other	16	464	—	29	—	509	—	509
Total revenue from external customers	2,469	84,572	870	4,716	450	93,077	—	93,077
Intersegment revenue	265	509	—	335	61	1,170	(1,170)	—
Total	2,734	85,081	870	5,051	511	94,247	(1,170)	93,077
Segment profit or loss (Note 1)	(958)	56,865	596	(1,385)	2	55,120	2	55,122
Other income (expense), net								(2,521)
Operating income								52,601
Finance income (costs), net (Note 4)								9,545
Equity in loss of affiliates								(334)
Income before income taxes								61,812

(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. Amajor component of finance income is foreign exchange gain of ¥6,335 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 three months ended March 31, 2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

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

(Notes) 1. Revenue is classified into country or region category based on the customers' location.

2. The category of country or region is based on geographic proximity.

3. Main countries or regions in each category:

(1) North America: USA and Canada

(2) Other: Europe, Central and South America and Asian countries

For the three months ended March 31, 2019 (From January 1, 2019 to March 31, 2019)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	1,013	2,818	2	3,833
Korea	16,365	5,559	433	22,357
China	57,477	44	29	57,550
North America	713	3,426	27	4,166
Other	1,562	3,591	18	5,171
Total	77,130	15,438	509	93,077

(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.