Consolidated Financial Results
for the Six Months Ended June 30, 2019
[IFRS]

August 8, 2019

Company name: NEXON Co., Ltd.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 3659
URL: http://www.nexon.co.jp/
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Scheduled date for filing of quarterly securities report: August 9, 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 Six Months Ended June 30, 2019 (from January 1, 2019 to June 30, 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	
Six months ended June 30, 2019	146,942	6.2%	65,588	(7.3)%	83,895	(3.5)%	71,302	(9.2)%	72,545	(8.0)%	37,770	(19.7)%
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%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2019	81.01	80.37
Six months ended June 30, 2018	88.99	88.36

(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 June 30, 2019	683,988	603,379	595,033	87.0%
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	―	0.00			
FY 2019 (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, 2019 at the board of directors held on August 8, 2019. Furthermore, the amount of year-end dividends for FY2019 is yet to be determined.

3. Consolidated Financial Results Forecast for the Nine Months Ending September 30, 2019 (from January 1, 2019 to September 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
3rd Quarter (cumulative)	198,538 ～ 202,910	(4.4)% ～ (2.3)%	86,174 ～ 89,994	(8.8)% ～ (4.7)%	107,644 ～ 111,464	(3.5)% ～ (0.1)%	92,249 ～ 95,440	(6.0)% ～ (2.8)%	94,369 ～ 97,528	(6.7)% ～ (3.6)%	105.35 ～ 108.88

(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 nine months ending September 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 June 30, 2019: 896,382,664 shares
As of December 31, 2018: 894,278,664 shares
2) Total number of treasury stock at the end of the period:
As of June 30, 2019: 290 shares
As of December 31, 2018: 290 shares
3) Average number of shares during the period (cumulative):
Six months ended June 30, 2019: 895,477,517 shares
Six months ended June 30, 2018: 886,200,814 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

Nexon Group discloses our financial outlook for the upcoming quarter as a range so as to provide our shareholders and investors with more accurate information, while the explanation on operating results in our quarterly consolidated financial results focuses on analyses and comparisons with the same quarter in the previous accounting year.

During the three months ended June 30, 2019, the Japanese economy stayed on a gradual recovery trend mainly due to increases in capital investment and improvements in the employment and income environment. However, the future outlook remains unclear primarily due to uncertainties in the overseas economy, including the U.S.-China trade friction and concerns over the future of the Chinese economy.

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

For the three months ended June 30, 2019, revenue grew year-over-year driven by the growth of our businesses in Korea, Japan, North America and other regions, despite the unfavorable effect of the foreign exchange rates, with the Japanese yen appreciating year-over-year against the major foreign currencies in our business.

In China, we introduced the Labor Day and 11th Anniversary updates to *Dungeon&Fighter*, our key PC online game. Revenue decreased year-over-year due to an unfavorable foreign exchange rate, but when the effect of the foreign exchange rate is taken out of the equation, the decrease was slight even in comparison with the high base set in Q2 2018. In Korea, PC online revenue increased year-over-year, driven by the significant growth of *EA SPORTS™ FIFA ONLINE 4* ("*FIFA ONLINE 4*") in comparison with Q2 2018, when it was negatively affected by its service transition, in addition to our key PC online game *MapleStory*'s growth. Mobile revenue also increased year-over-year driven by positive contributions from *EA SPORTS™ FIFA ONLINE 4M* ("*FIFA ONLINE 4M*") and titles including *TRAHA* launched in Q2 2019 and *Lyn: The Lightbringer* launched in Q1 2019, which more than offset the year-over-year decreases in revenue mainly from *OVERHIT* and *AxE*. In Japan, revenue increased year-over-year, with the year-over-year decreases in revenue from *OVERHIT* and mobile browser games being more than offset by positive contributions from *MapleStory M* and *MapleStory 2*, which were launched in Q2 2019, as well as from *Dynasty Warriors: Unleashed*, *FAITH* (i.e. *AxE*), and *DarkAvenger X*, which were launched in and after Q3 2018. In North America, revenue increased year-over-year driven by positive contributions from *OVERHIT* launched in Q2 2019, in addition to *Darkness Rises*, *MapleStory M* and *AxE*, which were launched in and after Q2 2018. These positive contributions more than offset the year-over-year decrease in revenue from *Choices: Stories You Play ("Choices")*. In other regions, revenue increased year-over-year driven by positive contributions from *MapleStory M*, *Moonlight Blade* in Taiwan, and *AxE*, which were launched in and after Q3 2018, as well as *OVERHIT* launched in Q2 2019.

In terms of expenses, cost of sales increased year-over-year primarily as a result of greater royalty costs for titles including *FIFA ONLINE 4* and *FIFA ONLINE 4 M* and greater cloud service costs due to enhanced mobile game lineup. 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 due to the growth of our mobile business. Other revenue decreased year-over-year due to comparisons with Q2 2018, when we recognized a gain on step acquisitions in connection with our consolidation of NAT GAMES Co., Ltd. Other expenses increased year-over-year due to recording impairment losses, primarily on rights-of-use assets and prepaid royalties, in the three months ended June 30, 2019.

While we incurred a foreign exchange gain primarily on foreign currency-denominated cash deposits, the amount was lower than that of the foreign exchange gain recorded in Q2 2018, so our finance income decreased year-over-year.

As a result, for the six months ended June 30, 2019, Nexon Group recorded revenue of ¥146,942 million (up 6.2% year-over-year), operating income of ¥65,588 million (down 7.3% year-over-year), income before income taxes of ¥83,895 million (down 3.5% year-over-year) and net income attributable to owners of the parent company of ¥72,545 million (down 8.0% year-over-year).

Business results by reportable segments for the six months ended June 30, 2019 are as follows:

(a) Japan

Revenue for the six months ended June 30, 2019 amounted to ¥4,353 million (down 5.0% year-over-year), and segment loss amounted to ¥2,123 million (segment loss of ¥3,774 million for the six months ended June 30, 2018).

(b) Korea

Revenue for the six months ended June 30, 2019 amounted to ¥131,651 million (up 7.3% year-over-year), and segment profit amounted to ¥75,903 million (up 0.3% year-over-year). Revenue in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China.

(c) China

Revenue for the six months ended June 30, 2019 amounted to ¥1,539 million (up 23.7% year-over-year), and segment profit amounted to ¥920 million (up 54.7% year-over-year).

(d) North America

Revenue for the six months ended June 30, 2019 amounted to ¥8,578 million (down 10.9% year-over-year), and segment loss amounted to ¥2,998 million (segment loss of ¥3,411 million for the six months ended June 30, 2018).

(e) Other

Revenue for the six months ended June 30, 2019 amounted to ¥821 million (up 372.9% year-over-year), and segment profit amounted to ¥38 million (segment loss of ¥312 million for the six months ended June 30, 2018).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of June 30, 2019 amounted to ¥683,988 million, an increase of ¥33,990 million from December 31, 2018. Major components include an increase of ¥39,086 million in other deposits, and a decrease of ¥5,562 million in other assets.

(Liabilities)

Total liabilities as of June 30, 2019 amounted to ¥80,609 million, a decrease of ¥3,912 million from December 31, 2018. Major components include an increase of ¥6,485 million in lease liabilities due to IFRS 16 application, a decrease of ¥2,388 million in deferred revenue, a decrease of ¥2,293 million in income taxes payable, a decrease of ¥1,856 million in other liabilities, a decrease of ¥1,482 million in allowances, and a decrease of ¥893 million in deferred tax liabilities.

(Equity)

Equity as of June 30, 2019 amounted to ¥603,379 million, an increase of ¥37,902 million from December 31, 2018. Major components of changes in equity include an increase of ¥69,938 million in retained earnings mainly due to recording net income, and a decrease of ¥31,843 million in other equity interest mainly due to changes in exchange differences on translating foreign operations.

As a result, ratio of equity attributable to owners of the parent company was 87.0% (85.4% as of December 31, 2018).

(b) Cash flows

Cash and cash equivalents (collectively, “cash”) as of June 30, 2019 was ¥210,749 million, an increase of ¥5,457 million from December 31, 2018. The increase includes ¥(7,649) million in effects of exchange rate changes on cash.

Cash flows from each activity for the six months ended June 30, 2019 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥60,514 million, compared to ¥66,902 million for the six months ended June 30, 2018. Major components of the increase include income before income taxes of ¥83,895 million. Major components of the decrease include a payment of income taxes of ¥14,582 million and a foreign exchange gain of ¥10,203 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥48,209 million, compared to ¥50,733 million for the six months ended June 30, 2018. Major cash outflows include an increase of ¥49,240 million in other deposits. Major cash inflows include proceeds from sales and redemption of securities of ¥2,395 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥801 million, compared to ¥4,877 million for the six months ended June 30, 2018. Major cash inflows include proceeds from exercise of stock options of ¥1,564 million. Major cash outflows include repayment of lease liabilities of ¥763 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 revenue is 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, 2019" is the sum of our actual consolidated financial results for the six months ended June 30, 2019 and our consolidated business outlook for the three months ending September 30, 2019. Please refer to the table below for our consolidated financial results forecast for the three months ending September 30, 2019.

For the nine months ending September 30, 2019, Nexon Group expects consolidated revenue in the range of ¥198,538 ~ 202,910 million (a decrease of 4.4% ~ 2.3% year-over-year), operating income in the range of ¥86,174 ~ 89,994 million (a decrease of 8.8% ~ 4.7% year-over-year), income before income taxes in the range of ¥107,644 ~ 111,464 million (a decrease of 3.5% ~ 0.1% year-over-year), net income in the range of ¥92,249 ~ 95,440 million (a decrease of 6.0% ~ 2.8% year-over-year), net income attributable to owners of the parent company in the range of ¥94,369 ~ 97,528 million (a decrease of 6.7% ~ 3.6% year-over-year), and basic earnings per share in the range of ¥105.35 ~ 108.88. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q3 2019 are assumed to be 1 U.S Dollar = ¥108.28, 100 South Korean Won = ¥9.22 and 1 Chinese Yuan = ¥15.74. 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. Based on this assumption, we expect that every one Japanese Yen move against the U.S. Dollar will have an impact of approximately ¥469 million on consolidated revenue and approximately ¥188 million on operating income for the three months ending September 30, 2019.

As for revenue based on customer location for the three months ending September 30, 2019, our expectations are as follows.

In Korea, we expect revenue to decrease year-over-year. We expect that revenue increases from *FIFA ONLINE 4* and *FIFA ONLINE 4M* in comparison with Q3 2018, when revenue was negatively affected due to the franchise's service transition, and positive revenue contributions from *TRAHA* and *Lyn: The Lightbringer*, to be more than offset by *MapleStory*'s revenue decrease due to comparisons with Q3 2018 when it had marked record-breaking quarterly revenue from the positive impact of its largest-ever update since launch, and by decreases in *KAISER*, *OVERHIT* and *AxE*.

In China, while we expect positive contributions from the strong performance of *KartRider Rush Plus* after the introduction of a large-scale update on July 2nd, we also expect our key PC title *Dungeon&Fighter*'s revenue to decrease. In 2018, *Dungeon&Fighter* began the third quarter on an extremely strong note due to the positive impact of its 10th Anniversary update in June, followed by a strong performance of its National Day update. In 2019, however, the 11th Anniversary update in June, which is important for user traffic and other indexes, did not result in the expected effect and the same could be said for the Summer update introduced in July. From this, we expect paying users and average revenue per paying user (ARPPU) to decrease year-over-year, and we also expect a decrease in revenue from the National Day update, thereby resulting in a year-over year revenue decrease. We plan to recover the game's user indexes by taking measures for improvement that leverage our expertise in online game operations. In the online game business, user indexes including revenue fluctuate depending on the details, nature and effectiveness of the content updates which are introduced based on a long-term operation plan. While we expect *Dungeon&Fighter*'srevenue to decrease year-over-year for Q3 2019, we will continue to operate the title with stable long-term operation as our basic policy.

In Japan, we expect revenue to decrease year-over-year. Positive contributions primarily from *MapleStory M* and *MapleStory 2*, which launched in Q2 2019, and *FAITH* (i.e. *AxE*) are expected to be more than offset by revenue decreases in *OVERHIT*, *Dynasty Warriors: Unleashed* and mobile browser games.

In North America, we expect revenue to decrease year-over-year due to deceleration of *Choices*, in addition to *MapleStory M* and *Darkness Rises* facing comparisons with Q3 2018, which was a quarter just after their launch.

In Europe and Others, we expect revenue to decrease year-over-year due to positive contributions from *OVERHIT*, *Moonlight Blade* and *AxE* being more than offset by decreases in revenue from *Choices* and from *MapleStory M* and *Darkness Rises*,which are facing comparisons with Q3 2018, a quarter just after their launch, the same as in North America.

In Q3 2019, we expect costs to decrease year-over-year. Marketing costs are expected to decrease due to comparisons with Q3 2018 when marketing costs were incurred for new titles including the global services of *MapleStory M* and *Darkness Rises*. We also expect variable costs to decrease. While some costs including royalty costs are expected to increase due to increases in revenue from publishing titles such as *FIFA ONLINE 4*, *FIFA ONLINE 4M* and *TRAHA*, we expect these to be more than offset by reduced payment gateway fees due to a decrease in mobile revenue. Additional factors include our not incurring in Q3 2019 the impairment loss on the goodwill and intangible assets of NAT GAMES Co., Ltd. which we recorded in Q3 2018.

Meanwhile, we expect to recognize, under other revenue, a gain on step acquisition of Embark Studios AB, which will become a consolidated subsidiary of Nexon Group from Q3 2019.

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, 2019 (from July 1, 2019 to September 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
3rd Quarter	51,597 ～ 55,968	(25.6)% ～ (19.3)%	20,586 ～ 24,406	(13.2)% ～ 2.9%	23,748 ～ 27,569	(3.5)% ～ 12.0%	20,946 ～ 24,138	6.7% ～ 23.0%	21,825 ～ 24,983	(2.2)% ～ 12.0%	24.35 ～ 27.87

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 six months ended June 30, 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 June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	205,292	210,749
Trade and other receivables	31,344	32,828
Other deposits	276,550	315,636
Other financial assets	9,600	7,440
Other current assets	11,874	6,355
Total current assets	534,660	573,008
Non-current assets		
Property, plant and equipment	25,166	23,294
Goodwill	26,529	25,137
Intangible assets	26,021	24,170
Right-of-use assets	—	1,381
Investments accounted for using equity method	10,480	9,054
Other financial assets	14,032	15,583
Other non-current assets	194	151
Deferred tax assets	12,916	12,210
Total non-current assets	115,338	110,980
Total assets	649,998	683,988

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,447	6,630
Deferred income	11,145	10,217
Borrowings	4,324	4,059
Income taxes payable	9,352	7,059
Lease liabilities	—	1,416
Other financial liabilities	357	2
Provisions	2,960	1,494
Other current liabilities	6,924	7,035
Total current liabilities	42,509	37,912
Non-current liabilities		
Deferred income	17,636	16,176
Lease liabilities	—	5,069
Other financial liabilities	109	61
Provisions	233	217
Other non-current liabilities	5,587	3,620
Deferred tax liabilities	18,447	17,554
Total non-current liabilities	42,012	42,697
Total liabilities	84,521	80,609
Equity		
Capital stock	14,402	15,452
Capital surplus	34,814	35,434
Treasury stock	(1)	(1)
Other equity interest	64,068	32,225
Retained earnings	441,985	511,923
Total equity attributable to owners of the parent company	555,268	595,033
Non-controlling interests	10,209	8,346
Total equity	565,477	603,379
Total liabilities and equity	649,998	683,988

(2) Condensed Consolidated Income Statement

For the six months ended June 30, 2018 and 2019 (Millions of yen)

	Six months ended June 30	
	2018 (From January 1, 2018 to June 30, 2018)	2019 (From January 1, 2019 to June 30, 2019)
Revenue	138,308	146,942
Cost of sales	(27,472)	(30,955)
Gross profit	110,836	115,987
Selling, general and administrative expenses	(42,036)	(44,233)
Other income	3,365	610
Other expenses	(1,424)	(6,776)
Operating income	70,741	65,588
Finance income	17,658	19,466
Finance costs	(1,210)	(724)
Equity in loss of affiliates	(210)	(435)
Income before income taxes	86,979	83,895
Income taxes expense	(8,458)	(12,593)
Net income	78,521	71,302
Attributable to:		
Owners of the parent company	78,863	72,545
Non-controlling interests	(342)	(1,243)
Net income	78,521	71,302
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	88.99	81.01
Diluted earnings per share	88.36	80.37

For the three months ended June 30, 2018 and 2019

(Millions of yen)

	Three months ended June 30	
	2018 (From April 1, 2018 to June 30, 2018)	2019 (From April 1, 2019 to June 30, 2019)
Revenue	47,794	53,865
Cost of sales	(13,135)	(15,055)
Gross profit	34,659	38,810
Selling, general and administrative expenses	(20,562)	(22,178)
Other income	3,006	181
Other expenses	(1,091)	(3,826)
Operating income	16,012	12,987
Finance income	18,026	9,663
Finance costs	(222)	(466)
Equity in loss of affiliates	(187)	(101)
Income before income taxes	33,629	22,083
Income taxes expense	(1,613)	(3,588)
Net income	32,016	18,495
Attributable to:		
Owners of the parent company	32,248	19,145
Non-controlling interests	(232)	(650)
Net income	32,016	18,495
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	36.24	21.37
Diluted earnings per share	36.06	21.21

(3) Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2018 and 2019

(Millions of yen)

	Six months ended June 30	
	2018 (From January 1, 2018 to June 30, 2018)	2019 (From January 1, 2019 to June 30, 2019)
Net income	78,521	71,302
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(374)	(349)
Re-measurement of defined benefit pension plans	1	(58)
Income taxes	127	33
Total items that will not be reclassified to net income	(246)	(374)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(31,231)	(33,157)
Other comprehensive income under equity method	(0)	(1)
Total items that may be reclassified subsequently to net income	(31,231)	(33,158)
Total other comprehensive income	(31,477)	(33,532)
Total comprehensive income	47,044	37,770
Attributable to:		
Owners of the parent company	47,962	39,633
Non-controlling interests	(918)	(1,863)
Total comprehensive income	47,044	37,770

For the three months ended June 30, 2018 and 2019

(Millions of yen)

	Three months ended June 30	
	2018 (From April 1, 2018 to June 30, 2018)	2019 (From April 1, 2019 to June 30, 2019)
Net income	32,016	18,495
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(501)	(479)
Re-measurement of defined benefit pension plans	0	(9)
Income taxes	119	106
Total items that will not be reclassified to net income	(382)	(382)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(6,351)	(26,138)
Other comprehensive income under equity method	0	(2)
Total items that may be reclassified subsequently to net income	(6,351)	(26,140)
Total other comprehensive income	(6,733)	(26,522)
Total comprehensive income	25,283	(8,027)
Attributable to:		
Owners of the parent company	25,828	(6,926)
Non-controlling interests	(545)	(1,101)
Total comprehensive income	25,283	(8,027)

(4) Condensed Consolidated Statement of Changes in Equity

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

For the six months ended June 30, 2019 (From January 1, 2019 to June 30, 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 January 1, 2019	14,402	34,814	(1)	64,068	439,020	552,303	10,209	562,512
Net income for the period	—	—	—	—	72,545	72,545	(1,243)	71,302
Other comprehensive income	—	—	—	(32,912)	—	(32,912)	(620)	(33,532)
Total comprehensive income	—	—	—	(32,912)	72,545	39,633	(1,863)	37,770
Reclassification from capital surplus to retained earnings	—	(423)	—	—	423	—	—	—
Issue of shares	1,050	1,050	—	—	—	2,100	—	2,100
Stock issue cost	—	(7)	—	—	—	(7)	—	(7)
Share-based compensation	—	—	—	1,004	—	1,004	—	1,004
Reclassification from other equity interest to retained earnings	—	—	—	65	(65)	—	—	—
Total transactions with the owners	1,050	620	—	1,069	358	3,097	—	3,097
Balance at June 30, 2019	15,452	35,434	(1)	32,225	511,923	595,033	8,346	603,379

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30	
	2018 (From January 1, 2018 to June 30, 2018)	2019 (From January 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Income before income taxes	86,979	83,895
Depreciation and amortization	2,719	3,451
Share-based compensation expenses	2,917	1,526
Interest and dividend income	(4,226)	(6,855)
Interest expense	34	122
Impairment loss	1,124	6,538
Equity in loss of affiliates	210	435
Gain on step acquisitions	(2,747)	—
Exchange (gain) loss	(12,487)	(10,203)
(Increase) decrease in trade and other receivables	7,309	(4,628)
(Increase) decrease in other current assets	(2,143)	(1,857)
(Decrease) increase in trade and other payables	(2,016)	(562)
(Decrease) increase in deferred income	(335)	(710)
(Decrease) increase in provisions	(2,871)	(1,308)
Other	392	(1,257)
Subtotal	74,859	68,587
Interest and dividends received	3,479	6,621
Interest paid	(34)	(112)
Income taxes paid	(11,402)	(14,582)
Net cash provided by operating activities	66,902	60,514
Cash flows from investing activities		
Decrease (increase) in other deposits	(35,892)	(49,240)
Purchases of property, plant and equipment	(1,048)	(731)
Proceeds from sales of property, plant and equipment	25	12
Purchases of intangible assets	(313)	(290)
Payments associated with increase in long-term prepaid expenses	(39)	(29)
Purchases of investment securities	(1,680)	—
Proceeds from sale and redemption of investment securities	1,647	2,395
Purchases of affiliates	(642)	—
Purchases of subsidiaries	(12,632)	—
Other	(159)	(326)
Net cash used in investing activities	(50,733)	(48,209)
Cash flows from financing activities		
Repayment of long-term borrowings	(837)	—
Proceeds from exercise of stock options	5,732	1,564
Purchases of treasury stock	(1)	—
Cash dividends paid	(0)	(0)
Repayment of lease liability	(17)	(763)
Net cash provided by financing activities	4,877	801
Net (decrease) increase in cash and cash equivalents	21,046	13,106
Cash and cash equivalents at the beginning of the period	153,242	205,292
Effects of exchange rate changes on cash and cash equivalents	(4,910)	(7,649)
Cash and cash equivalents at the end of the period	169,378	210,749

(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 six months ended June 30)

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 six months ended June 30, 2019 (From January 1, 2019 to June 30, 2019)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	1,853	108,419	1,539	1,932	819	114,562	—	114,562
Mobile	2,463	22,126	—	6,589	—	31,178	—	31,178
Other	37	1,106	—	57	2	1,202	—	1,202
Total revenue from external customers	4,353	131,651	1,539	8,578	821	146,942	—	146,942
Intersegment revenue	512	1,050	—	639	142	2,343	(2,343)	—
Total	4,865	132,701	1,539	9,217	963	149,285	(2,343)	146,942
Segment profit or loss (Note 1)	(2,123)	75,903	920	(2,998)	38	71,740	14	71,754
Other income (expense), net (Note 4)								(6,166)
Operating income								65,588
Finance income (costs), net (Note 6)								18,742
Equity in loss of affiliates								(435)
Income before income taxes								83,895

(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 ¥14 million represent elimination of intersegment transactions.

4. Amajor component of other expense is impairment of prepaid royalty of ¥5,199 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.

6. Amajor component of finance income is foreign exchange gain of ¥12,236 million.

(For the three months ended June 30)

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.

For the three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	852	34,555	669	987	369	37,432	—	37,432
Mobile	1,011	11,882	—	2,847	—	15,740	—	15,740
Other	21	642	—	28	2	693	—	693
Total revenue from external customers	1,884	47,079	669	3,862	371	53,865	—	53,865
Intersegment revenue	247	541	—	304	81	1,173	(1,173)	—
Total	2,131	47,620	669	4,166	452	55,038	(1,173)	53,865
Segment profit or loss (Note 1)	(1,165)	19,038	324	(1,613)	36	16,620	12	16,632
Other income (expense), net (Note 4)								(3,645)
Operating income								12,987
Finance income (costs), net (Note 6)								9,197
Equity in loss of affiliates								(101)
Income before income taxes								22,083

(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 ¥ 12 million represent elimination of intersegment transactions.

4. Amajor component of other expense is impairment of prepaid royalty of ¥2,445 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.

6. A major component of finance income is foreign exchange gain of ¥5,901 million.

(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, 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 six months ended June 30, 2019 (From January 1, 2019 to June 30, 2019)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	1,871	6,560	10	8,441
Korea	29,808	11,102	834	41,744
China	78,681	90	61	78,832
North America	1,494	6,537	135	8,166
Other	2,708	6,889	162	9,759
Total	114,562	31,178	1,202	146,942

(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, 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

For the three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	858	3,742	8	4,608
Korea	13,443	5,543	401	19,387
China	21,204	46	32	21,282
North America	781	3,111	108	4,000
Other	1,146	3,298	144	4,588
Total	37,432	15,740	693	53,865

(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

1. Business combination through acquisition

On July 1, 2019, Nexon Group additionally acquired 32.8% (214,132,771 shares) of the total outstanding shares of Embark Studios AB (“Embark Studios”), an equity-method affiliate of Nexon Group. As a result, Nexon Group’s ratio of voting rights in Embark Studios, combined with the 33.3% already owned as at the acquisition date, came to 66.1% and Embark Studios came under our control, becoming a consolidated subsidiary of Nexon Group.

About 82% of the shares acquired through this transaction have been acquired from Patrick Söderlund, who is a member of Nexon’s Board of Directors. Therefore, this is a related party transaction.

(1) Overview of the business combination

A. Name and line of business of the acquired company

Name of acquired company:	Embark Studios AB
Line of business:	Game development business

B. Major reason for the business combination

The acquisition of additional shares was decided for the purpose of maximizing synergy with Embark Studios and to further strengthen our collaborations and relationships.

C. Date of the business combination

July 1, 2019

D. Legal form of the business combination

Acquisition of shares

E. Ratio of equity acquired

Ratio of equity owned immediately prior to the day of the business combination:	33.3%
Ratio of equity additionally acquired on the day of the business combination:	32.8%
Ratio of equity after the acquisition:	66.1%

F. Major grounds for determining the acquiring company

Nexon’s additional acquisition of shares with ¥10,387 million in cash as consideration.

(2) Consideration for the acquisition of the acquired company

Currently under examination.

(3) Amount of impact on consolidated statement of income

Currently under examination.

(4) Amount of goodwill accrued, cause of accrual, and total amount of goodwill expected to be deductible for tax purposes

Not definite at present.

(5) Assets accepted and liabilities assumed on the date of the business combination, and their main components

Not definite at present.

2. Issuance of new shares and stock acquisition rights to be issued by third-party allotment

On August 5, 2019, Nexon's Board of Directors approved the issuance, by third-party allotment, of new shares (the "New Shares") and stock acquisition rights (the "Stock Acquisition Rights") which shall be issued to the shareholders of Embark Studios; Nexon's common shares which shall be issued to the employees of Embark Studios who currently hold qualified employee stock options (i.e. the right to acquire Embark Studios' shares; the "Stock Options") upon their acquisition of Embark Studios' common shares due to their exercising the Stock Options going forward (the "Employee Shares"), for the purpose of acquiring additional shares of Embark Studios, a consolidated subsidiary of Nexon Group.

An overview of the issuance of the New Shares, the Employee Shares and the Stock Acquisition Rights is as described below.

This matter shall be subject to the following conditions: (1) that approval is given, at the extraordinary general meeting of shareholders scheduled for September 25, 2019, for each of the proposals on (i) the issuance of the New Shares, (ii) the issuance of Year 2 put option stock acquisition rights, Year 3 put option stock acquisition rights, Year 4 put option stock acquisition rights and Year 5 put option stock acquisition rights (collectively, the "Put Share Options"), (iii) the issuance of Year 2 call option stock acquisition rights, Year 3 call option stock acquisition rights, Year 4 call option stock acquisition rights and Year 5 call option stock acquisition rights (collectively, the "Call Share Options"), and (iv) the issuance of the Employee Shares; (2) that the securities registration statement based on the New Shares, the Employee Shares and the Stock Acquisition Rights under the Financial Instruments and Exchange Act takes effect; and (3) that Nexon enters into a Share Exchange Agreement with the scheduled allottees listed in the securities registration statement once these conditions are met, and that the premises stipulated in the Share Exchange Agreement are satisfied.

(1) Overview of the issuance of the New Shares and the Employee Shares

	New Shares	Employee Shares
(1) Payment due date	September 25, 2019 to September 30, 2019	March 1, 2022 to December 20, 2022
(2) Number of new shares issued	1,399,896 shares	Maximum of 511,852 shares
(3) Total issue price	¥2,170 million (Note 1)	¥794 million (Note 2)
(4) Offering or allotment method (scheduled allottees)	Allotment shall be made to six (6) shareholders ("Shareholder(s)") of Embark Studios, excluding Nexon and our subsidiaries, by third-party allotment, in proportion to their respective shareholding ratios.	Allotment shall be made to fifty-four (54) employees of Embark Studios who hold the Stock Options, by third-party allotment, in proportion to their respective shareholding ratios of Embark Studios' shares to be acquired upon the exercise of their stock options.

(Note) 1. The property to be contributed in-kind as consideration for the New Shares shall be 45,003,500 shares of common stock of Embark Studios held by the scheduled allottees.
While the value of Embark Studios' common shares to be contributed in-kind has been estimated as above, the total issue price is subject to change due to any change in the foreign exchange rate applied.

2. The property to be contributed in-kind as consideration for the Employee Shares shall be 16,456,207 shares of common stock of Embark Studios, which would be acquired by the scheduled allottees as a result of their exercise of the Stock Options held.
While the value of Embark Studios' common shares to be contributed in-kind has been estimated as above, the total issue price is subject to change due to expiration of the Stock Options or any change in the foreign exchange rate applied.

(2) Overview of issuance of the Stock Acquisition Rights

	Type	Put Share Options	Call Share Options
(1) Allotment date		September 30, 2019	Same as left
(2) Number of stock acquisition rights issued	Year 2 stock acquisition rights	59,384,380	Same as left
	Year 3 stock acquisition rights	50,420,701	Same as left
	Year 4 stock acquisition rights	36,112,123	Same as left
	Year 5 stock acquisition rights	30,552,585	Same as left
(3) Issue price		¥0	Same as left
(4) Total issue price		Same as above	Same as left
(5) Number of dilutive shares due to the issuance	Year 2 stock acquisition rights	Maximum of 2,031,955 shares	Maximum of 1,847,233 shares
	Year 3 stock acquisition rights	Maximum of 2,031,958 shares	Same as above
	Year 4 stock acquisition rights	Same as above	Same as above
	Year 5 stock acquisition rights	Maximum of 2,031,959 shares	Maximum of 1,847,235 shares
(6) Total issue price of shares when shares are issued upon exercise of stock acquisition rights		The consideration for the issuance of the Stock Acquisition Rights is free; the property to be contributed upon exercise of the Stock Acquisition Rights shall be contributed in-kind with Embark Studios' common shares, without cash payment.	The consideration for the issuance of the Stock Acquisition Rights is free; the property to be contributed upon exercise of the Stock Acquisition Rights shall be the purchase money claim that the scheduled allottees would come to hold against Nexon due to our exercise of the right to purchase Embark Studios' common shares from the scheduled allottees, based on the Call Right Agreement that Nexon will enter into with each of the scheduled allottees.
(7) Other		(i) Conditions for exercise The agreement that Nexon shall enter into with the scheduled allottees will stipulate that the Put Share Options shall vest and become exercisable only to the extent to which the performance and continued employment requirements are met. (Note) (ii) Acquisition clause The agreement that Nexon shall enter into with the scheduled allottees will stipulate that Nexon can acquire, free of charge, those Put Share Options which did not vest, became unexercisable, or were waived. (iii) Restriction on assignment Any assignment of the Put Share Options shall require an approval of the Board of Directors.	(i) Acquisition clause The agreement that Nexon shall enter into with the scheduled allottees will stipulate that Nexon can acquire, free of charge, those Call Share Options which did not vest, became unexercisable, or were waived. (ii) Restriction on assignment Any assignment of the Call Share Options shall require an approval of the Board of Directors.

(Note) We intend to include a continued service requirement for the exercise of the Put Share Options so that, in cases where a Shareholder ceases to be a board member or an employee of Embark Studios by the last day of the respective period (excluding, however, certain cases such as when the cause of the termination of employment is recognized as being attributable to Embark Studios), or when there are certain other grounds, the shareholder shall not be allowed to exercise any Put Share Options corresponding to that period.

(3) Use of funds

There is no applicable matter since there is no cash payment for either the issuance of the New Shares and Employee Shares, which shall be performed by way of contribution in-kind, with consideration in the form of Embark Studios' common shares; or the issuance of the Stock Acquisition Rights, which requires no monetary payment and for which the property to be paid in upon exercise of the Stock Acquisition Rights shall be contributed in-kind, with consideration in the form of Embark Studios' common shares or their purchase money claim. Furthermore, with the acquisition of Embark Studios' shares by means of issuance of the New Shares, Nexon Group's stake in the company is expected to come to approximately 73% and will reach 100% when all of the Stock Acquisition Rights are exercised. We intend to maintain our voting rights ratio at 100% even when the employees holding the Stock Options exercise those options, by immediately acquiring any shares issued thereupon. Our acquisition of Embark Studios' shares would enable cohesive operation of business between Embark Studios and Nexon Group, and we plan to increase our focus on business activities in the Western market.