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Consolidated Financial Results
for the Fiscal Year Ended December 31, 2018
[IFRS]

February 12, 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 of Ordinary General Meeting of Shareholders: March 26, 2019
Scheduled date of filing annual securities reports: March 27, 2019
Scheduled date of dividend payment commencement: -
Supplementary briefing material on financial results: Yes
Financial results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2018
(From January 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results (% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
FY 2018	253,721	8.0%	98,360	8.7%	117,444	67.8%	102,977	82.2%	107,672	89.7%	72,012	(21.7)%
FY 2017	234,929	28.3%	90,504	122.6%	69,995	48.5%	56,517	175.4%	56,750	181.9%	91,917	－

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity attributable to owners of the parent company	Ratio of income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY 2018	121.03	119.65	21.1	19.7	38.8
FY 2017	64.67	63.46	13.5	14.2	38.5

(Reference): Equity in profit (loss) of affiliates FY2018: ¥(837) million, FY2017: ¥(605) million

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

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company	Equity attributable to owners of the parent company per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2018	649,998	565,477	555,268	85.4	620.91
As of December 31, 2017	543,231	470,218	465,207	85.6	528.42

(Notes) 1. With the finalization of provisional accounting related to the business combination conducted in November 2017, the consolidated financial statements for the fiscal year ended December 31, 2017 have been revised retrospectively.
2. Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of Equity attributable to owners of the parent company per share has been calculated based on the assumption that such stock split was conducted at the beginning of the previous consolidated fiscal year.

(3) Consolidated Cash Flows

(Millions of yen)

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of year
FY 2018	118,018	(68,183)	8,260	205,292
FY 2017	80,718	(81,891)	(3,019)	153,242

2. Dividends

	Annual Dividends					Total amount of cash dividends (annual)	Dividends payout ratio (consoli-dated)	Ratio of total amount of dividends to equity attributable to owners of the parent company (consolidated)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY 2017	―	0.00	―	0.00	0.00	―	―	―
FY 2018	―	0.00	―	0.00	0.00	―	―	―
FY 2019 (Forecast)	―	―	―	―	―		―	

(Note) 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 First Quarter of Fiscal Year Ending December 31, 2019 (From January 1, 2019 to March 31, 2019)

(% changes from the previous corresponding period)

(Millions of yen)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent company		Basic earnings per share
											Yen
First Quarter	79,678 ~ 87,399	(12.0)% ~ (3.4)%	40,674 ~ 47,437	(25.7)% ~ (13.3)%	43,166 ~ 49,929	(19.1)% ~ (6.4)%	37,148 ~ 42,958	(20.1)% ~ (7.6)%	37,921 ~ 43,677	(18.6)% ~ (6.3)%	42.40 ~ 48.83

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2019, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2019 and the fiscal year ending December 31, 2019 at the moment, and accordingly, only the financial results forecast for the first three months of the fiscal year ending December 31, 2019 is disclosed. Also, as it is difficult to estimate specific figures, disclosure is made with a range. For details, please refer to “1. Overview of Operating Results and Financial Position (3) Qualitative Information on Consolidated Financial Results Forecast” on page 5 of the Appendix.

*(Notes)

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

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes

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

3) Changes in accounting estimates: No

(3) Number of shares issued and outstanding (common stock)

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

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

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

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

As of December 31, 2018: 290 shares

As of December 31, 2017: — shares

3) Average number of shares during the period:

For the fiscal year ended December 31, 2018: 889,668,303 shares

For the fiscal year ended December 31, 2017: 877,496,543 shares

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

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018
(From January 1, 2018 to December 31, 2018)

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

(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2018	7,024	18.5%	(5,933)	—	361	—	(423)	—
FY 2017	5,927	13.8%	(4,452)	—	(1,372)	—	(11,191)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2018	(0.48)	—
FY 2017	(12.75)	—

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

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2018	60,045	57,327	84.6%	56.82 yen
As of December 31, 2017	48,440	46,187	85.1%	46.82 yen

(Reference): Equity at December 31, 2018: ¥ 50,817 million, Equity at December 31, 2017: ¥41,220 million

(Notes) 1. Non-consolidated financial data is based on Japanese GAAP.

2. Nexon has conducted a two-for-one stock split of its common stock as of April 1, 2018. The amount of net assets per share has been calculated based on the assumption that such stock split was conducted at the beginning of the previous business year.

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

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

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

(Regarding the Method of Obtaining Supplementary Briefing Material on Financial Results)
The supplementary briefing materials on financial results are available on the Company's website.

Contents of Appendix

1. Overview of Operating Results and Financial Position

(1) Overview of Operating Results

As for the world economy during the fiscal year ended December 31, 2018, we saw the U.S. government taking a protectionist policy, as well as the elevation of trade and geographical tensions sparked by the introduction of tariffs, so the future outlook remains uncertain. The Japanese economy maintained its gradual recovery trend, with signs of recovery in consumer spending driven by greater capital spending by companies, increase in exports, and better employment and income environments.

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 through such means as the acquisition of promising game developers, enhancement of Nexon Group's development capabilities in mobile business and further reinforcement of our operating base to enable attractive content updates of existing game titles.

For the fiscal year ended December 31, 2018, revenues increased year over year driven by our businesses in China, North America, and Other regions. In China, revenues increased year over year due to major updates of our flagship PC online game *Dungeon&Fighter*, including its Lunar New Year update (January), 10th Anniversary update (June) and National Day update (September), which were well-received by users. In Korea, while we had positive contributions to revenue from our major PC online game *MapleStory* and mobile game *OVERHIT* launched in Q4 2017, they were more than offset by year-over-year decreases in PC and mobile revenues due to the negative impact of the service transition of *EA SPORTS™ FIFA Online 3* ("*FIFA Online 3*") and *EA SPORTS™ FIFA Online 3M* ("*FIFA Online 3M*") to *EA SPORTS™ FIFA ONLINE 4* ("*FIFA ONLINE 4*") and *EA SPORTS™ FIFA ONLINE 4M* ("*FIFA ONLINE 4M*"). As a result, revenues in Korea decreased year over year. In North America and Other regions, revenues increased year over year driven by *Choices: Story You Play* ("*Choices*") serviced by Pixelberry Studios, which became our consolidated subsidiary in Q4 2017, *MapleStory M* launched in Q3 2018, and *Darkness Rises* launched in Q2 2018.

In terms of expenses, while royalty costs decreased in proportion to the decrease in revenues from *FIFA Online 3*, cost of sales slightly increased year over year as a result of larger cloud service costs due to an enhanced game lineup. Selling, general and administrative expenses increased year over year mainly due to increased stock option expenses, as well as increased marketing costs for the promotion of *Choices* and new titles including *FIFA ONLINE 4*, *KAISER* and *MapleStory M*. Other expenses decreased year over year since the amount of impairment losses recorded for intangible assets and goodwill recognized at our consolidated subsidiary NEXON Korea Corporation's acquisition of shares of NAT GAMES Co., Ltd. in Q2 2018 was below the amount of impairment losses recorded in FY2017. In addition, finance income increased and finance costs decreased year over year as the fluctuations in foreign exchange rates during the fiscal year ended December 31, 2018 resulted in foreign exchange gains in our foreign currency-denominated cash deposits and accounts receivable. Income taxes increased year over year due to our strong business performance in the China region.

As a result, for the consolidated fiscal year ended December 31, 2018, Nexon Group recorded revenue of ¥253,721 million (up 8.0% year-over-year), operating income of ¥98,360 million (up 8.7% year-over-year), income before income taxes of ¥117,444 million (up 67.8% year-over-year) and net income attributable to owners of the parent company of ¥107,672 million (up 89.7% year-over-year).

Performance results by reportable segments are as follows:

(a) Japan

Revenues for the consolidated fiscal year ended December 31, 2018 amounted to ¥10,154 million (down 16.1% year-over-year) and segment loss amounted to ¥7,229 million (segment loss of ¥4,009 million for the fiscal year ended December 31, 2017). PC and mobile revenues both decreased in Japan.

(b) Korea

Revenues for the consolidated fiscal year ended December 31, 2018 amounted to ¥220,417 million (up 5.6% year-over-year) and segment profit amounted to ¥120,637 million (up 7.1% year-over-year). Revenues in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our subsidiary) attributable to license agreements in China.

(c) China

Revenues for the consolidated fiscal year ended December 31, 2018 amounted to ¥3,327 million (up 4.1% year-over-year), and segment profit amounted to ¥1,966 million (up 16.3% year-over-year).

(d) North America

Revenues for the consolidated fiscal year ended December 31, 2018 amounted to ¥19,293 million (up 92.0% year-over-year) and segment loss amounted to ¥8,490 million (segment loss of ¥6,868 million for the fiscal year ended December 31, 2017).

(e) Other

Revenues for the consolidated fiscal year ended December 31, 2018 amounted to ¥530 million (down 32.9% year-over-year) and segment loss amounted to ¥525 million (segment loss of ¥272 million for the fiscal year ended December 31, 2017).

(2) Overview of Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2018 amounted to ¥649,998 million, an increase of ¥106,767 million from December 31, 2017. Major components of the increase in assets include an increase of ¥52,050 million in cash and cash equivalents, an increase of 42,458 million in other deposits, as well as an increase of ¥13,237 million in intangible assets.

(Liabilities)

Total liabilities as of December 31, 2018 amounted to ¥84,521 million, an increase of ¥11,508 million from December 31, 2017. Major components of the increase in liabilities include an increase of ¥9,565 million in deferred income, an increase of ¥1,654 million in income taxes payable.

(Equity)

Equity as of December 31, 2018 totaled ¥565,477 million, an increase of ¥95,259 million from December 31, 2017. Major components of changes in equity include an increase of 118,222 million in retained earnings due to offsetting a loss and recording net income etc., a decrease of ¥26,965 million in other equity interest due to changes in exchange differences on translating foreign operation etc. and a decrease of 6,207 million in capital surplus due to offsetting a loss etc.

(b) Cash flows

Cash and cash equivalents (“Cash”) as of December 31, 2018 was ¥205,292 million, an increase of ¥52,050 million from December 31, 2017. The increase includes ¥(6,045) million in effects of exchange rate changes on cash.

Cash flows from each activity for the fiscal year ended December 31, 2018 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥118,018 million, compared to ¥80,718 million for the fiscal year ended December 31, 2017. Major components of the increase include income before income taxes of ¥117,444 million, an increase of ¥10,855 million in deferred income, impairment loss of ¥11,374 million, and depreciation and amortization of ¥6,453 million. Major components of the decrease include payment of income taxes of ¥18,477 million, and foreign exchange gains of 10,345 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥68,183 million, compared to net cash of ¥81,891 million for the fiscal year ended December 31, 2017. Major cash outflows include an increase of ¥47,794 million in other deposits, and purchases of subsidiaries (NAT GAMES Co., Ltd. etc.) of ¥12,787 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥8,260 million, compared to ¥3,019 million used in for the fiscal year ended December 31, 2017. Major cash inflows include proceeds from exercise of stock options of ¥7,323 million and an increase of ¥1,841 million in short-term borrowings. Major cash outflows include repayment of long-term loans payable of ¥870 million.

(Reference) The trends of cash flow index are as follows:

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Ratio of equity attributable to owners of the parent company (%)	85.6	85.4
Ratio of equity attributable to owners of the parent company at fair value (%)	265.8	194.4
Interest-bearing liabilities to cash flow ratio (years)	0.0	0.0
Interest coverage ratio (times)	1,238.0	1,663.9

Ratio of equity attributable to owners of the parent company:

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

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

Market capitalization / total assets (end of year)

Interest-bearing liabilities to cash flow ratio:

Interest-bearing liabilities / cash flows

Interest coverage ratio:

Cash flows / interest paid

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

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

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

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

(Note 5) With the finalization of provisional accounting related to the business combination conducted in November 2017, the consolidated financial statements for the fiscal year ended December 31, 2017 have been revised retrospectively.

(3) Qualitative Information on Consolidated Financial Results Forecast

The business environment surrounding Nexon Group has been changing in expectation of further development of the high-speed Internet environment for PC and mobile around the world. With regards to consolidated business outlook, it is difficult to forecast specific figures for full-year financial results as it is not easy to project the growth of the PC online and the mobile game markets in which Nexon Group's main businesses operate, and Nexon Group's revenue largely depends on such uncertain factors as preference of users and the presence of popular titles. In order to provide more accurate information to our shareholders and investors, we have decided to disclose the range of our consolidated business outlook for the following quarter.

For the three months ending March 31, 2019, Nexon Group expects consolidated revenue in the range of ¥79,678~87,399 million (a decrease of 12.0%~3.4% year over year), operating income in the range of ¥40,674~47,437 million (a decrease of 25.7%~13.3% year over year), income before income taxes in the range of ¥43,166~49,929 million (a decrease of 19.1%~6.4% year over year), net income in the range of ¥37,148~42,958 million (a decrease of 20.1%~7.6% year over year), net income attributable to owners of the parent company in the range of ¥37,921~43,677 million (a decrease of 18.6%~6.3% year over year), and basic earnings per share in the range of ¥42.40~48.83. Nexon Group operates a global business in Japan, South Korea, China, the United States and other countries. Major exchange rates are assumed to be 1 U.S. Dollar = ¥108.98, 100 South Korean Won = ¥9.72 and 1Chinese Yuan = ¥16.04. 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 ¥760 million on revenue and approximately ¥419 million on operating income for the three month sending March 31, 2019.

Q1 2019 outlook by major region is expected to be as follows.

In Korea, we expect positive contributions to revenue from our major existing PC online titles *FIFA ONLINE 4* and *MapleStory*, as well as from the mobile game *Spiritwish* launched in January 2019. In contrast, we expect revenues from mobile games including *OVERHIT*, *AxE* and *DURANGO: Wild Lands* to decrease year over year. In addition to these factors, we expect the exchange rate of the Korean Won to depreciate year over year against the Japanese Yen, having a negative effect on our business results. Therefore, we expect revenue in Korea to decrease year over year.

In China, we conducted a large-scale content update of our key PC online title *Dungeon&Fighter* on January 21, 2019 in time for Lunar New Year. While the update is performing solidly, we expect revenue to decrease year over year due to high comparison with Q1 2018, in which we recorded the highest-ever business results since the launch of our service in China.

In Japan, we expect revenue to increase year over year driven by *FAITH (AxE)*, *Dynasty Warriors: Unleashed*, and the new mobile game *Dark Avenger X*, which is scheduled for launch on February 13, 2018.

In North America, we expect revenue to be roughly flat year over year due to positive contributions expected from *MapleStory M*, *Darkness Rises*, and *AxE*, which is scheduled for launch in February 2019, being offset by expected decreases in *Choices* and *DomiNations*.

In Europe and Others, we expect revenue to increase year over year primarily driven by *MapleStory M*, *Moonlight Blade*, *Darkness Rises* and *AxE*.

On the cost side, we expect HR costs to increase due to headcount increases. We also expect outsourcing and cloud service costs to increase due to the expansion of our mobile business.

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

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

Nexon recognizes that the return of profits to shareholders is an important management issue, but even more than that, we would like to review and execute effective investments for proactive business development for future growth, such as the expansion of our existing business and development of new businesses, M&As or acquisition of game publishing rights, for the purpose of strengthening our management base and enhancing our business going forward. Therefore, our policy is to suspend dividend payouts for the near future and retain the flexibility to continue our growth investments in our global operations. Based on this policy, we have decided not to pay out dividends of surplus for the record date of December 31, 2018. As for the fiscal year ending December 31, 2019, payout of dividends is yet to be determined.

Furthermore, Nexon’s Articles of Incorporation stipulates that dividends of surplus shall be decided by a resolution of the Board of Directors, except when otherwise provided for by laws and regulations.

2. Current Status of the Corporate Group

As of December 31, 2018, Nexon Group consists of NEXON Co., Ltd. ("Nexon"), Nexon's 28 consolidated subsidiaries and 17 affiliated companies, and is engaged in the production, development and service of PC online and mobile games. In Japan, Nexon and gloops, Inc. are responsible for developing the overall strategies for our products and services and operating the business, while overseas, our local consolidated subsidiaries do so in their respective regions as independently managed entities.

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

Japan:	Nexon; gloops, Inc.; PURERO, Inc.
Korea:	NEXON Korea Corporation; BLOCKCHAIN ENTERTAINMENT LAB Co., Ltd.; NEOPLE INC.; Nexon Networks Corporation; NEXON GT Co., Ltd.; NEXON COMMUNICATIONS Co., Ltd.; Nexon Space Co., Ltd.; Thingsoft Inc.; BOOLEAN GAMES; NEXON RED Corp.; N Media Platform Co., LTD.; JoongAng Pangyo Development Co., Ltd; Ngine Studios; NAT GAMES Co., Ltd.; 10 Years Co., Ltd
China:	Lexian Software Development (Shanghai) Co., Ltd.
North America:	Nexon America Inc.; NEXON M Inc.; Rushmo America, Inc.; Nexon US Holding Inc. Big Huge Games, Inc.; Pixelberry Studios; NEXON OC Studio
Other:	NEXON Europe GmbH; NEXON TAIWAN LIMITED; Nexon Thailand Co., Ltd.

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

(1) Lines of business

(a) PC Online business

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

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

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

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

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

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

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

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

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

(b) Mobile business

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

(2) Business models for PC online and mobile games

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

(a) Self-publishing model

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

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

(b) Licensing model

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

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

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

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

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

(c) Licensed publishing model

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

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

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

(3) Monetization models for PC online games

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

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

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

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

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

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

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

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

(c) Advertisement revenue model

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

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

(4) Monetization models for mobile games

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

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

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

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

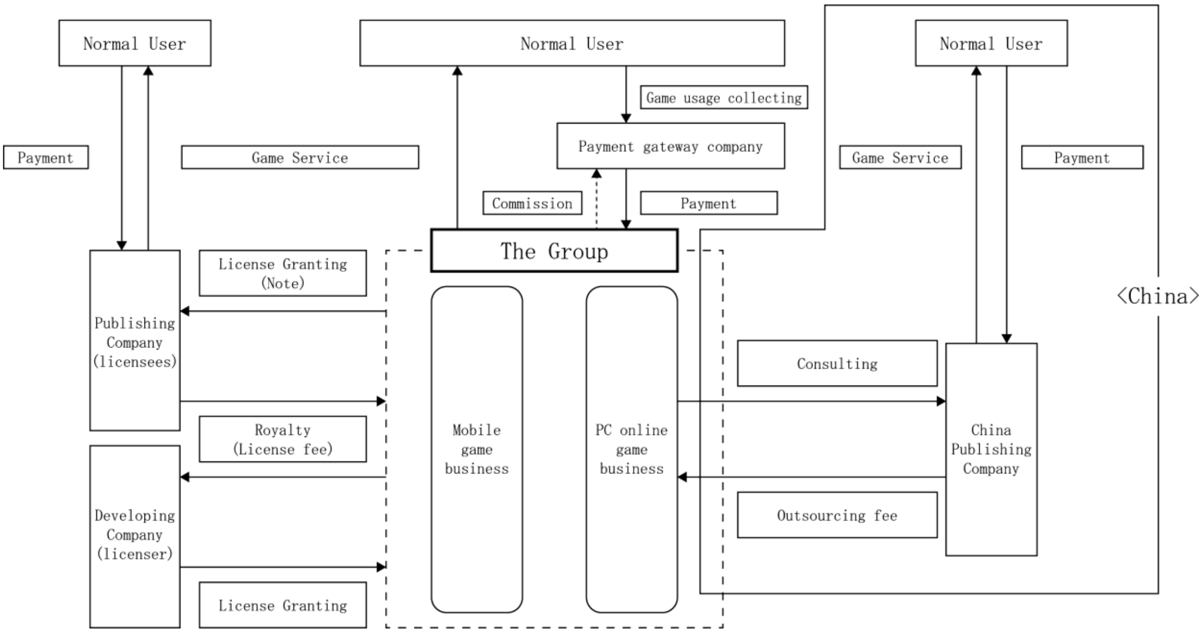
(b) Premium model of upfront payment to download a game

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

[Business system chart]

Chart 1 shows the above described matters.

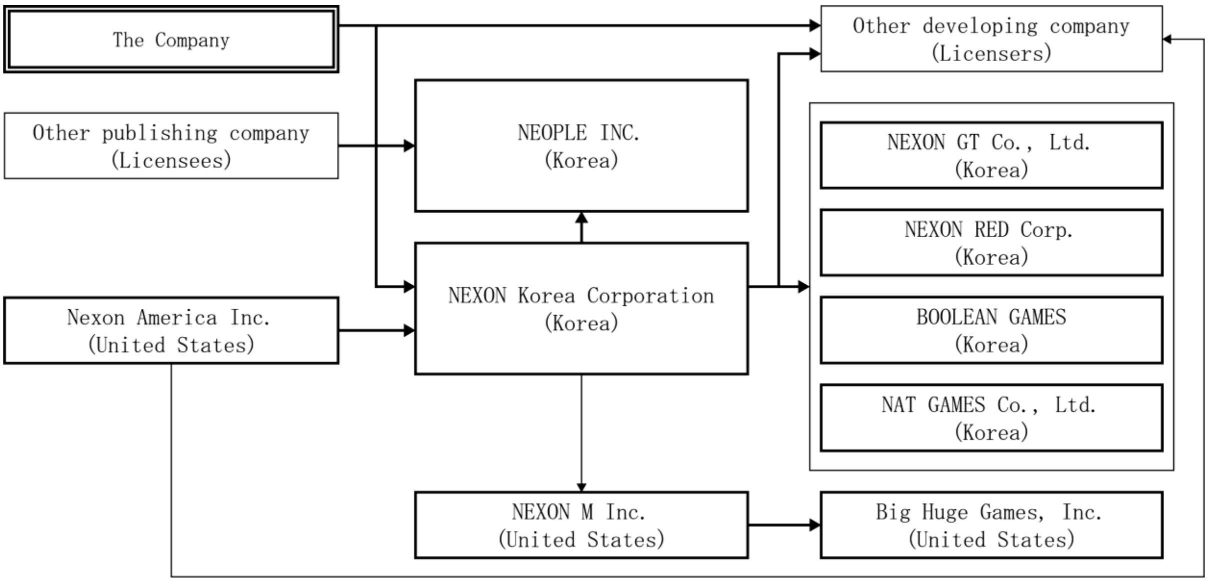
<Chart 1>



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

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

<Chart 2>



3. Basic Concept for Selection of the Accounting Standards

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

4. Consolidated Financial Statements and Major Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	153,242	205,292
Trade and other receivables	35,255	31,344
Other deposits	234,092	276,550
Other financial assets	6,538	9,600
Other current assets	13,492	11,874
Total current assets	442,619	534,660
Non-current assets		
Property, plant and equipment	27,303	25,166
Goodwill	18,957	26,529
Intangible assets	12,784	26,021
Investments accounted for using equity method	9,138	10,480
Other financial assets	20,754	14,032
Other non-current assets	1,344	194
Deferred tax assets	10,332	12,916
Total non-current assets	100,612	115,338
Total assets	543,231	649,998

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	8,587	7,447
Deferred income	10,975	11,145
Borrowings	3,490	4,324
Income taxes payable	7,698	9,352
Other financial liabilities	173	357
Provisions	4,556	2,960
Other current liabilities	6,068	6,924
Total current liabilities	41,547	42,509
Non-current liabilities		
Deferred income	8,241	17,636
Other financial liabilities	506	109
Provisions	279	233
Other non-current liabilities	4,300	5,587
Deferred tax liabilities	18,140	18,447
Total non-current liabilities	31,466	42,012
Total liabilities	73,013	84,521
Equity		
Capital stock	9,390	14,402
Capital surplus	41,021	34,814
Treasury Stock	—	(1)
Other equity interest	91,033	64,068
Retained earnings	323,763	441,985
Total equity attributable to owners of the parent company	465,207	555,268
Non-controlling interests	5,011	10,209
Total equity	470,218	565,477
Total liabilities and equity	543,231	649,998

(2) Consolidated Income Statement

(Millions of yen)

	Fiscal Year ended December 31, 2017	Fiscal Year ended December 31, 2018
Revenue	234,929	253,721
Cost of sales	(56,656)	(57,553)
Gross profit	178,273	196,168
Selling, general and administrative expenses	(75,088)	(89,800)
Other income	1,385	3,863
Other expenses	(14,066)	(11,871)
Operating income	90,504	98,360
Finance income	6,308	21,645
Finance costs	(26,212)	(1,724)
Equity in loss of affiliates	(605)	(837)
Income before income taxes	69,995	117,444
Income taxes expense	(13,478)	(14,467)
Net income	56,517	102,977
Attributable to:		
Owners of the parent company	56,750	107,672
Non-controlling interests	(233)	(4,695)
Net income	56,517	102,977
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	64.67	121.03
Diluted earnings per share	63.46	119.65

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2017	Fiscal Year ended December 31, 2018
Net income	56,517	102,977
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(1,215)	(3,419)
Re-measurement of defined benefit pension plans	(4)	(21)
Income taxes	(8)	1,133
Total items that will not be reclassified to net income	(1,227)	(2,307)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	36,626	(28,657)
Other comprehensive income under equity method	1	(1)
Total items that may be reclassified subsequently to net income	36,627	(28,658)
Total other comprehensive income	35,400	(30,965)
Total comprehensive income	91,917	72,012
Attributable to:		
Owners of the parent company	91,628	77,174
Non-controlling interests	289	(5,162)
Total comprehensive income	91,917	72,012

(4) Consolidated Statement of Changes in Equity

Fiscal Year ended December 31, 2017

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2017	3,519	86,753	(0)	56,254	226,398	372,924	4,770	377,694
Net income	—	—	—	—	56,750	56,750	(233)	56,517
Other comprehensive income	—	—	—	34,878	—	34,878	522	35,400
Total comprehensive income	—	—	—	34,878	56,750	91,628	289	91,917
Reclassification from capital surplus to retained earnings	—	(41,476)	—	—	41,476	—	—	—
Issue of shares	5,871	5,871	—	—	—	11,742	—	11,742
Stock issue cost	—	(41)	—	—	—	(41)	—	(41)
Share-based compensation	—	—	—	(564)	—	(564)	—	(564)
Changes in interests in subsidiaries	—	(74)	—	—	—	(74)	(97)	(171)
Changes arising from sale of consolidated subsidiaries	—	(3)	—	—	(396)	(399)	49	(350)
Purchase of treasury stock	—	(9)	(10,000)	—	—	(10,009)	—	(10,009)
Cancellation of treasury stock	—	(10,000)	10,000	—	—	—	—	—
Reclassification from other equity interest to retained earnings	—	—	—	465	(465)	—	—	—
Total transactions with the owners	5,871	(45,732)	0	(99)	40,615	655	(48)	607
Balance at December 31, 2017	9,390	41,021	—	91,033	323,763	465,207	5,011	470,218

Fiscal Year ended December 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2018	9,390	41,021	—	91,033	323,763	465,207	5,011	470,218
Net income	—	—	—	—	107,672	107,672	(4,695)	102,977
Other comprehensive income	—	—	—	(30,498)	—	(30,498)	(467)	(30,965)
Total comprehensive income	—	—	—	(30,498)	107,672	77,174	(5,162)	72,012
Reclassification from capital surplus to retained earnings	—	(11,191)	—	—	11,191	—	—	—
Issue of shares	5,012	5,012	—	—	—	10,024	—	10,024
Stock issue cost	—	(36)	—	—	—	(36)	—	(36)
Lapse of subscription rights to shares	—	—	—	(360)	360	—	—	—
Share-based compensation	—	—	—	2,892	—	2,892	—	2,892
Non-controlling interests on acquisition of subsidiary	—	—	—	—	—	—	10,330	10,330
Changes in interests in subsidiaries	—	(11)	—	—	—	(11)	30	19
Purchases of treasury stock	—	—	(1)	—	—	(1)	—	(1)
Reclassification from other equity interest to retained earnings	—	—	—	1,001	(1,001)	—	—	—
Other	—	19	—	—	—	19	—	19
Total transactions with the owners	5,012	(6,207)	(1)	3,533	10,550	12,887	10,360	23,247
Balance at December 31, 2018	14,402	34,814	(1)	64,068	441,985	555,268	10,209	565,477

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal Year ended December 31, 2017	Fiscal Year ended December 31, 2018
Cash flows from operating activities		
Income before income taxes	69,995	117,444
Depreciation and amortization	5,819	6,453
Share-based compensation expenses	2,253	5,497
Interest and dividend income	(5,387)	(9,788)
Interest expense	64	71
Impairment loss	12,738	11,374
Equity in loss of affiliates	605	837
Gain on step acquisitions	―	(2,747)
Exchange (gain) loss	19,207	(10,345)
(Increase) decrease in trade and other receivables	(4,463)	2,679
(Increase) decrease in other current assets	(9,791)	(3,648)
(Decrease) increase in trade and other payables	(1,320)	40
(Decrease) increase in deferred income	284	10,855
(Decrease) increase in provisions	1,880	(1,438)
Other	(593)	1,785
Subtotal	91,291	129,069
Interest and dividends received	4,694	7,497
Interest paid	(65)	(71)
Income taxes paid	(15,202)	(18,477)
Net cash provided by operating activities	80,718	118,018
Cash flows from investing activities		
Payments for placement of collateral deposits	(3,594)	(2)
Decrease (increase) in other deposits	(55,212)	(47,794)
Purchases of property, plant and equipment	(2,053)	(1,683)
Proceeds from sale of property, plant and equipment	65	36
Purchases of intangible assets	(795)	(863)
Payments associated with increase in long-term prepaid expenses	(43)	(76)
Purchases of investment securities	(3,811)	(1,737)
Proceeds from sale and redemption of investment securities	645	3,573
Purchases of affiliates	(2,156)	(7,482)
Purchases of subsidiaries	(15,669)	(12,787)
Other	732	632
Net cash used in investing activities	(81,891)	(68,183)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	2,555	1,841
Repayment of long-term borrowings	(4,238)	(870)
Proceeds from exercise of stock options	8,881	7,323
Purchases of treasury stock	(10,009)	(1)
Purchases of treasury stock of subsidiaries	(124)	―
Cash dividends paid	(1)	(0)
Other	(83)	(33)
Net cash provided by (used in) financing activities	(3,019)	8,260
Net increase (decrease) in cash and cash equivalents	(4,192)	58,095
Cash and cash equivalents at the beginning of the year	152,683	153,242
Effects of exchange rate changes on cash and cash equivalents	4,751	(6,045)
Cash and cash equivalents at the end of the year	153,242	205,292

(6) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Changes in accounting policies and changes in accounting estimates)

Changes in accounting policies required by IFRS

The accounting policies used to prepare these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017 unless otherwise noted, except for the new standards applied as listed below.

Nexon Group applied the following standards from Q1 2018 (from January 1, 2018 to March 31, 2018), but the application of these standards did not have material impacts on the fiscal year ended December 31, 2018.

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

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

IFRS15 Revenue from Contracts with Customers (issued May 2014) and Clarifications to IFRS 15 (issued April 2016) (collectively, “IFRS 15”)

Nexon Group is engaged in PC online business, mobile business, consulting business related to PC online game service, and internet advertisement business. Therefore, we measure our revenue at the fair value of the consideration for services provided during the course of ordinary commercial transactions, net of sales-related tax.

Nexon Group recognizes revenue from transactions related to provision of services based on the following 5-step approach regarding contracts with customers:

Step 1: Identify contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognize revenue when (or as) performance obligations are satisfied

Nexon Group has neither incremental cost for the acquisition of contracts with customers, nor any incidental part that is deemed recoverable, which we need to recognize under assets. As for “deferred income” in consolidated statements of financial position, it is equivalent to contract liability under IFRS 15.

Nexon Group identifies different assets or services included in contracts with customers and uses them as transactional units in the identification of our performance obligations. As we identify our performance obligations, we conduct a review as to whether we are the Principal or the Agent (as defined below). Revenue recognition criteria by major revenue category and basis for gross versus net presentation of revenue are as follows:

(A) Revenue recognition criteria by major revenue category

Nexon Group generates revenue primarily from: (i) item sales or similar transactions in PC online business and mobile business (i.e. revenue from in-game microtransactions); (ii) royalty income from the granting of publishing rights for PC online games developed and commercialized by Nexon Group; and (iii) consulting business related to PC online game service and in-game advertisement business.

(a) Revenue from item sales or similar transactions in PC online business and mobile business (i.e. revenue from in-game microtransactions)

In our PC online business, we service PC online games developed by Nexon Group or other companies. While Nexon Group's PC online games are basically free to play, certain fees are charged to purchase necessary items or to use certain services. In PC online games, revenue is recognized over the respective estimated lifetimes of the game items purchased in exchange for game points.

In our mobile business, we service mobile games developed by Nexon Group or other companies via terminal devices such as smartphones and tablets. While our mobile games are basically free to play, certain fees are charged to purchase necessary items or to use certain services. In mobile games, revenue is recognized over the respective estimated lifetimes of the game items purchased in exchange for game points.

In our PC online and mobile businesses, we mostly provide services as the Principal, but we also provide some services as the Agent.

(b) Royalty income from the granting of publishing rights for PC online games developed and commercialized by Nexon Group

As the owner of the copyrights of PC online games developed and commercialized by Nexon Group, Nexon Group enters into licensing agreements with third party publishers to grant them publishing rights for our games.

We deem the performance obligations for royalty income arising from our granting of publishing rights to third parties to be satisfied over the contract term of the relevant royalty agreement when it is highly likely that the economic benefits associated with the agreement would flow to Nexon Group and such income amounts can be measured reliably.

For the granting of publishing rights through licensing agreements, we conduct the transaction as the Principal.

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

In our consulting business, we provide consulting services to publishers in China through our subsidiary for the following matters: billing and/or membership system design and operation, business strategy, game operation, and marketing. Revenue is recognized based on progress for services rendered in accordance with the relevant service agreement. For our consulting business, we provide services as the Principal.

In our in-game advertisement business, users are directly exposed to advertisements through their in-game use of functional items, which are equipped with an advertisement function. Revenue is recognized over the respective advertisement periods. For our in-game advertisement business, we decide whether we are the Principal or the Agent for each contract on a case-by-case basis.

(B) Revenue recognition based on satisfaction of performance obligations

Nexon Group recognizes revenue when, or as, we satisfy our performance obligations by transferring services to customers.

We recognize that performance obligations are satisfied over time in our PC online business, mobile business, consulting business related to PC online game service, and internet advertisement business. In segment information, revenue from our consulting business related to PC online game service is included in PC online, and revenue from our internet advertisement business is included in Other.

(a) Performance obligations satisfied at a point in time

Revenue is recognized at a certain point in time, because transfer of control occurs upon delivery to customers.

(b) Performance obligations satisfied over time

If any one of the following criteria is met, control of a service is transferred over time, and therefore, performance obligations are satisfied and revenue is recognized over time.

(i) The customer simultaneously receives and consumes the benefit provided by Nexon Group's performance as Nexon Group performs.

(ii) Nexon Group's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced.

(iii) Nexon Group's performance does not create an asset with an alternative use to Nexon Group and Nexon Group has an enforceable right to payment for performance completed to date.

We recognize revenue from in-game microtransactions by estimating the service period of, i.e. our performance obligation period for, items sold in each game. The period during which we are to fulfill our performance obligations is deemed to be the same as the estimated service period, which is derived based on the classification of items sold into 3 types (i.e. consumable, periodic, permanent) according to their specifications.

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

For royalty income, revenue is recognized based on the assumption that the contract term of copyrights and other rights owned by Nexon Group is the period during which we are to fulfill our performance obligations.

(C) Gross versus net presentation of revenue

In the ordinary course of business, there are cases where Nexon Group acts as an intermediary or agent. In reporting the revenue arising from these transactions, Nexon Group decides whether to present such revenue as a gross amount of the consideration received from customers or as an amount of consideration net of commissions and other fees payable to third parties. However, this has no impact on our profit or loss, regardless of whether revenue is presented as a gross or net amount.

We decide to present revenue either as a gross or net amount based on whether the nature of our performance obligations for the relevant transaction requires us to provide particular goods or services ourselves (i.e. as the "Principal") or to arrange (i.e. as the "Agent") for another party to provide particular goods or services. For transactions in which Nexon Group acts as the Principal, we recognize revenue on a gross basis when, or as, our performance obligations are satisfied. For transactions in which Nexon Group acts as the Agent, we recognize as revenue the net amount of consideration or commission, which we expect to become entitled to receive in exchange for our making the arrangements for another party to provide particular goods or services, when, or as, performance obligations are satisfied. The determination of whether Nexon Group is the Principal or the Agent is made upon our assessment of the terms and conditions of each transaction with respect to our exposure to any significant risks and rewards associated with such sale of goods or provision of services.

In addition, we are the Principal in the case where we have control over the goods or services before they are transferred to customers.

We take the following criteria into consideration when determining whether to present as a gross amount the revenue arising from a certain transaction in which Nexon Group is the Principal:

(a) We have the primary responsibility to provide a service to customers or to fulfill an order.

(b) We have the discretion to either directly or indirectly determine the price.

(c) We are exposed to credit risk for the amounts receivable from customers.

IFRS 9 Financial Instruments (2014 version):

In recognizing impairment loss of financial assets, we assess whether there has been a significant increase in credit risk since initial recognition for financial assets or a group of similar financial assets measured at amortized cost on the last day of each reporting period and recognize expected credit loss. At the end of the reporting period, if credit risk for financial instruments has not increased significantly since initial recognition, we recognize expected credit losses that result from default events that are possible within 12 months after the reporting date (12-month expected credit losses). On the other hand, at the end of the reporting period, if the credit risk has increased significantly since initial recognition, we recognize expected credit losses that result from all possible default events over the expected life of the financial instruments (lifetime expected credit losses). For trade receivables, however, we recognize lifetime expected credit losses based on historical credit loss rates, etc.

(Segment information)

(1) Outline of reportable segments

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

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

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

(2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Reportable Segments						Adjust-ments (Note 3)	Consoli-dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers								
PC online	3,895	169,773	3,197	3,981	790	181,636	—	181,636
Mobile	8,185	37,187	—	6,069	—	51,441	—	51,441
Other	26	1,826	—	—	—	1,852	—	1,852
Total revenue from external customers	12,106	208,786	3,197	10,050	790	234,929	—	234,929
Intersegment revenue	337	1,948	—	632	552	3,469	(3,469)	—
Total	12,443	210,734	3,197	10,682	1,342	238,398	(3,469)	234,929
Segment profit or loss (Note 1)	(4,009)	112,602	1,690	(6,868)	(272)	103,143	42	103,185
Other income (expense), net	—	—	—	—	—	—	—	(12,681)
Operating income	—	—	—	—	—	—	—	90,504
Finance income (costs), net (Note 4)	—	—	—	—	—	—	—	(19,904)
Equity in loss of affiliates	—	—	—	—	—	—	—	(605)
Income before income taxes	—	—	—	—	—	—	—	69,995
(Other items)								
Depreciation and amortization	74	5,086	75	556	28	5,819	—	5,819
Impairment loss	744	7,094	—	4,897	3	12,738	—	12,738
Capital expenditures (including intangible assets)	253	2,172	80	307	64	2,876	—	2,876

(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 ¥42 million represent elimination of intersegment transactions.

4. A major component of finance cost is foreign exchange loss of ¥25,694 million.

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

(Millions of yen)

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

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

2. Price for intersegment transactions is based on the general market price.
3. Adjustments in segment profit or loss of ¥9 million represent elimination of intersegment transactions.
4. A major component of finance income is foreign exchange gain of ¥11,536 million.
5. For PC online and mobile, performance obligations are satisfied and revenues are recognized over a certain period of time mainly because control over services is transferred over a certain period of time.

(3) Revenue from major products and services

Revenue from major products and services are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Item charging	114,687	116,811
Royalty	115,174	131,956
Other	5,068	4,954
Total	234,929	253,721

(4) Information by region

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

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Japan	75	48
Korea	43,224	62,089
China	169	152
North America	16,794	15,470
Other	126	151
Total	60,388	77,910

(Notes) 1. Non-current assets are classified into country or region category based on the location.
2. Categorization by country or region is based on geographic proximity.
3. Major countries or regions contained in each regional category:
(1) North America: USA
(2) Other: Europe and Asian countries
4. With the finalization of provisional accounting related to the business combination conducted in November 2017, the consolidated financial statements for the fiscal year ended December 31, 2017 have been revised retrospectively.

Revenue from external customers is as follows:

For the fiscal year ended December 31, 2017 (From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Revenue by major business			Total
	PC online	Mobile	Other	
Main regional market				
Japan	3,891	13,211	11	17,113
Korea	54,161	24,575	1,768	80,504
China	115,148	234	7	115,389
North America	3,566	5,748	10	9,324
Other	4,870	7,673	56	12,599
Total	181,636	51,441	1,852	234,929

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

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

(Millions of yen)

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

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

(5) Information on major customers

One customer contributed more than 10% of Nexon Group's consolidated revenue for the fiscal years ended December 31, 2017 and 2018, and revenue earned from the customer were ¥105,037 million (Korea segment) and ¥124,769 million (Korea segment), respectively.

(Per share information)

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

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Net income attributable to owners of the parent company	56,750	107,672
Adjustments of net income used for the calculation of diluted earnings per share	–	–
Diluted net income attributable to owners of the parent company	56,750	107,672
Number of basic weighted-average common stock	877,496,543 shares	889,668,303 shares
Dilution: Stock option	16,718,058 shares	10,230,391 shares
Number of dilutive weighted-average common stock	894,214,601 shares	899,898,694 shares
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	64.67	121.03
Diluted earnings per share (Note 1)	63.46	119.65

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

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

(Significant subsequent event)

Not applicable.