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Consolidated Financial Results
for the Six Months Ended June 30, 2017
[IFRS]

August 10, 2017

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

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Scheduled date for filing of quarterly securities report: August 10, 2017

Scheduled date of commencing dividend payments: -

Supplementary briefing material on quarterly financial results: Yes

Quarterly financial results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Six Months Ended June 30, 2017 (from January 1, 2017 to June 30, 2017)

(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	
	Amount	% change	Amount	% change	Amount	% change	Amount	% change	Amount	% change	Amount	% change
Six months ended June 30, 2017	121,856	27.4%	56,040	228.1%	46,947	499.4%	39,114	—%	39,354	—%	43,367	—%
Six months ended June 30, 2016	95,620	1.0%	17,082	(49.1)%	7,832	(79.5)%	1,498	(95.3)%	1,292	(95.9)%	(36,823)	—%

	Basic earnings per share		Diluted earnings per share	
	Amount	Yen	Amount	Yen
Six months ended June 30, 2017	90.11	Yen	88.59	Yen
Six months ended June 30, 2016	2.97	Yen	2.91	Yen

(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, 2017	482,977	425,628	421,004	87.2%
As of December 31, 2016	441,832	377,694	372,924	84.4%

2. Dividends

(Yen)

	Annual Dividends				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total
FY 2016	—	5.00	—	0.00	5.00
FY 2017	—	0.00			
FY 2017 (Forecast)			—	0.00	0.00

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

3. Consolidated Financial Results Forecast for the Nine Months Ending September 30, 2017 (from January 1, 2017 to September 30, 2017)

(% 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	%	Yen	%	Yen	%	Yen	%	Yen	%	Yen
Nine Months Ending September 30, 2017	173,501	24.0%	73,795	121.1%	65,844	265.7%	54,911	489.4%	55,230	518.7%	126.24
	177,408	26.8%	76,502	129.2%	68,552	280.7%	57,089	512.8%	57,400	543.0%	131.20

(Note) As it is difficult to reasonably estimate financial results for the year ending December 31, 2017 at the moment, only the financial results forecasts for the nine months ending September 30, 2017 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 (changes in specified subsidiaries accompanying 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 (common stock)

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

As of June 30, 2017: 439,141,414 shares

As of December 31, 2016: 434,871,414 shares

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

As of June 30, 2017: 182 shares

As of December 31, 2016: 61 shares

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

Six months ended June 30, 2017: 436,725,434 shares

Six months ended June 30, 2016: 435,163,226 shares

*This quarterly financial report is outside the scope of quarterly review 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 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 and Earnings Presentation Contents)

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

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1. Qualitative Information on Consolidated Financial Results for the Period

(1) Explanation on Operating Results

During the six months ended June 30, 2017, the world economy as a whole generally witnessed a gradual recovery. In the U.S., the economy showed a gradual expansion supported by the recovery of employment conditions and consumer spending in addition to the steady performance in the manufacturing industry. In Europe, the economy continued to recover overall backed by expanded exports partly due to a higher economic growth rate in Germany and Spain although the U.K. and France showed a slowdown in the economic recovery. As for the emerging economies, while the Chinese economy turned upward as a result of the government's economic stimulus packages, the Indian economy slowed down affected by the ban of its largest denomination bank notes, and the Brazilian economy remained in negative growth despite signs of bottoming out. The Japanese economy continued to show a gradual recovery thanks to the improvement of capital investment and a better employment and income situation.

Under these circumstances, Nexon Group is primarily engaged in PC online and mobile businesses. In order to provide users with an enjoyable game experience, Nexon Group has endeavored to develop high-quality games, obtain more contents, deliver new titles, and update existing titles. Specifically, Nexon Group has worked on various initiatives such as enhancement of game development capabilities within the group, business alliance with other companies including co-development, provision of high-quality games through investments in leading game developers, enhancement of development capabilities in mobile business and further reinforcement of the business foundation to enable attractive content updates for the existing titles.

For the three months ended June 30, 2017, revenue grew significantly year-over-year due to continuing strong performance in China and favorable effect of foreign exchange rates, with the Japanese yen depreciating year-over-year against main foreign currencies in our business. In China, revenue increased significantly due mainly to well-received content updates for the 9th anniversary of *Dungeon&Fighter*, our main PC online game and sales of avatars and items related to its new characters. In Korea, revenue grew year-over-year because major titles such as *Dungeon&Fighter* and *MapleStory* showed a steady growth and increased year over year and *Dynasty Warriors Unleashed* released at the end of Q1 2017 got off to a strong start which made up for a decrease in revenue from *Sudden Attack* and a mobile title *HIT* which showed very strong performance in Q2 2016.

In terms of expenses, cost of sales increased year-over-year due to increases in royalty fee associated with strong performance of *Dynasty Warriors Unleashed* and personnel cost resulting from an increase in headcount of employees engaging in operation of existing game titles in Korea. Selling, general and administrative expenses increased year-over-year due to increased marketing costs and platform fees for the release of *Dynasty Warriors Unleashed*. Finance costs decreased and finance income increased year-over-year due to foreign exchange gain in foreign currency-denominated cash deposits and account receivables.

As a result, for the six months ended June 30, 2017, Nexon Group recorded revenues of ¥121,856 million (up 27.4% year-over-year), operating income of ¥56,040 million (up 228.1% year-over-year), income before income taxes of ¥46,947 million (up 499.4% year-over-year) and net income attributable to owners of the parent company of ¥39,354 million (up 2,947.1% year-over-year).

Performance results by reportable segments for the six months ended June 30, 2017 are as follows:

(a) Japan

Revenues for the six months ended June 30, 2017 amounted to ¥6,599 million (down 14.9% year-over-year), and segment loss amounted to ¥1,851 million (segment loss of ¥1,303 million for the six months ended June 30, 2016). PC revenue increased while mobile revenue decreased.

(b) Korea

Revenues for the six months ended June 30, 2017 amounted to ¥109,006 million (up 35.5% year-over-year), and segment profit amounted to ¥64,125 million (up 48.0% year-over-year). Major titles such as *Dungeon&Fighter*, and *MapleStory* showed a steady growth and increased year-over-year. *Dynasty Warriors Unleashed* released in Q1 2017 contributed to sales increase. However, sales of *Sudden Attack* and *HIT* decreased significantly. Revenue in Korea includes royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our subsidiary) attributable to license agreements in China. For the six months ended June 30, 2017, revenue showed an extremely strong growth driven by well-received content updates for the 9th anniversary of *Dungeon&Fighter*, our main PC online game and item sales related to its new characters.

(c) China

Revenues for the six months ended June 30, 2017 amounted to ¥1,970 million (down 12.8% year-over-year), and segment profit amounted to ¥1,233 million (down 21.5% year-over-year).

(d) North America

Revenues for the six months ended June 30, 2017 amounted to ¥3,930 million (down 11.1% year-over-year), and segment loss amounted to ¥2,859 million (segment loss of ¥2,036 million for the six months ended June 30, 2016).

(e) Other

Revenues for the six months ended June 30, 2017 amounted to ¥351 million (down 53.8% year-over-year), and segment loss amounted to ¥86 million (segment loss of ¥134 million for the six months ended June 30, 2016).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of June 30, 2017 amounted to ¥482,977 million, an increase of ¥41,145 million from December 31, 2016. Major components include an increase of ¥24,105 million in cash and cash equivalent and an increase of ¥10,154 million in other deposits.

(Liabilities)

Total liabilities as of June 30, 2017 amounted to ¥57,349 million, a decrease of ¥6,789 million from December 31, 2016. Major components include a decrease of ¥2,140 million in trade and other payables, a decrease of ¥1,820 million in income taxes payable and a decrease of ¥1,078 million in provisions.

(Equity)

Equity as of June 30, 2017 amounted to ¥425,628 million, an increase of ¥47,934 million from December 31, 2016. Major components include a decrease of ¥38,789 million in capital surplus due to compensation of deficit and an increase of ¥79,400 million in retained earnings due to compensation of deficit and recording net income for the quarter.

As a result, ratio of equity attributable to owners of the parent company was 87.2% (84.4% as of December 31, 2016).

(b) Cash flows

Cash and cash equivalents (“Cash”) as of June 30, 2017 was ¥176,788 million, an increase of ¥24,105 million from December 31, 2016. The increase includes effects of exchange rate changes on cash and cash equivalents of (¥1,171) million.

Cash flows from each activity for the six months ended June 30, 2017 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥42,369 million, compared to ¥26,520 million in the six months ended June 30, 2016. Major inflows include income before income taxes of ¥46,947 million and foreign exchange loss of ¥7,882 million, and major outflows include payment of income taxes of ¥9,323 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥20,181 million, compared to ¥48,015 million in the six months ended June 30, 2016. Major outflows include an increase of ¥12,775 million in other deposits, payments for purchases of investment securities of ¥3,800 million and payments for purchases of affiliates of ¥1,748 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥3,088 million, compared to net cash used of ¥1,904 million in the six months ended June 30, 2016. Major inflows include proceeds from exercise of stock options of ¥4,131 million, and major outflows include repayment of long-term borrowings of ¥850 million.

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

With regard to consolidated financial results forecast, 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 game and the mobile game market 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 shareholders and investors, Nexon Group decided to disclose consolidated financial results forecast for the following quarter with a range. "Consolidated Financial Results Forecast for the Nine Months Ending September 30, 2017" is the sum of the actual consolidated financial results for the six months ended June 30, 2017 and the financial results forecast for the three months ending September 30, 2017.

For the nine months ending September 30, 2017, Nexon Group expects consolidated revenue in the range of ¥173,501 ~ 177,408 million (an increase of 24.0% ~ 26.8% year-over-year), operating income in the range of ¥73,795 ~ 76,502 million (an increase of 121.1% ~ 129.2% year-over-year), income before income taxes in the range of ¥65,844 ~ 68,552 million (an increase of 265.7% ~ 280.7% year-over-year), net income in the range of ¥54,911 ~ 57,089 million (an increase of 489.4% ~ 512.8% year-over-year), net income attributable to owners of the parent in the range of ¥55,230 ~ 57,400 million (an increase of 518.7% ~ 543.0% year-over-year), and basic earnings per share in the range of ¥126.24 ~ 131.20. Nexon Group operates a global business in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q3 2017 are assumed to be 1 U.S. dollar = ¥112.43, 100 South Korean Won = ¥9.93 and 1 Chinese Yuan = ¥16.62. 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 ¥453 million on revenue and approximately ¥173 million on operating income for the three months ending September 30, 2017.

As for the revenues based on customer location, for the three months ending September 30, 2017, our expectations are as follows.

In Korea, we expect positive revenue contributions due to the impact of contents updates of existing titles and launch of the new mobile title *Dark Avenger 3*. Meantime we expect negative impact from *Sudden Attack* and *HIT*, however, year-over-year, we expect revenue increase to be larger than decrease resulting in growth in Korea.

In China, we launched the Summer Update for our main PC title *Dungeon&Fighter* in July 2017. The update was off to a great start and the National Day Update is scheduled for September. Therefore, we expect revenue to increase year-over-year for the three months ending September 30, 2017.

In Japan, we expect positive revenue contributions from mobile games *HIT* and *HIDE AND FIRE*. We expect revenue decrease from gloops' browser games, but revenue increase is larger than decrease resulting Japan to grow year-over-year.

In North America, Europe and Others, we expect revenue to increase due to contribution of mobile games including *Dynasty Warriors Unleashed*. Furthermore, in North America territory, we expect revenue to increase due to contribution of the launch of the new title *LawBreakers*.

As for costs for the three months ending September 30, 2017, we expect personnel cost to increase year-over-year due to an increase in headcount in Korea, and variable costs including royalty cost related to third-party licensed IPs, PG fee and platform fee to increase due to revenue increase from third-party licensed games. Furthermore, we expect marketing costs to increase year-over-year significantly due to scheduled releases of multiple titles and marketing campaigns for our existing titles. As a result, we expect costs to increase year-over-year for the three months ending September 30, 2017.

The financial results forecast is based on our judgment using available information at this time and include various uncertain factors. Accordingly, any change in the business condition may cause actual results to differ from the forecast.

(Reference)

Consolidated financial results forecast for the three months ending September 30, 2017 (from July 1, 2017 to September 30, 2017)

(% 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
3 rd Quarter	51,645	16.7%	17,755	9.0%	18,897	85.7%	15,797	102.1%	15,875	107.9%	36.14
	55,551	25.5%	20,462	25.6%	21,604	112.3%	17,974	129.9%	18,045	136.3%	41.08

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, 2016 unless otherwise noted, except for the new standards applied as listed below. Nexon Group calculated income taxes for the six months ended June 30, 2017, based on the estimated average annual effective tax rate.

Nexon Group has applied the following standards from Q1 2017 (from January 1, 2017 to March 31, 2017), but the application of these standards did not have material impacts on Q2 2017.

Standards	Title	Overview of New or Revised Standard
IFRS 12	Disclosure of Interests in Other Entities	Clarified that disclosure requirements under IFRS 12 apply to interests classified as held for sale or discontinued operations in accordance with IFRS 5 (subject to limited exceptions)
IAS 7	Statement of Cash Flows	Amended disclosure of changes in liabilities arising from financing activities
IAS 12	Income taxes	Clarified accounting treatment for deferred tax assets related to debt instruments measured at fair value

3. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed Consolidated Statement of Financial Position

	(Millions of yen)	
	As of December 31, 2016	As of June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	152,683	176,788
Trade and other receivables	27,037	31,712
Other deposits	173,226	183,380
Other financial assets	2,895	3,519
Other current assets	10,256	13,094
Total current assets	<u>366,097</u>	<u>408,493</u>
Non-current assets		
Property, plant and equipment	20,394	20,097
Goodwill	17,523	14,948
Intangible assets	7,127	4,476
Investments accounted for using equity method	6,662	7,645
Other financial assets	18,236	21,051
Other non-current assets	551	515
Deferred tax assets	5,242	5,752
Total non-current assets	<u>75,735</u>	<u>74,484</u>
Total assets	<u>441,832</u>	<u>482,977</u>

	(Millions of yen)	
	As of December 31, 2016	As of June 30, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	9,472	7,332
Deferred income	9,313	9,965
Borrowings	1,683	1,668
Income taxes payable	5,511	3,691
Other financial liabilities	1,523	530
Provisions	2,396	1,314
Other current liabilities	5,106	4,876
Total current liabilities	35,004	29,376
Non-current liabilities		
Deferred income	8,392	8,222
Borrowings	835	—
Other financial liabilities	644	333
Provisions	327	331
Other non-current liabilities	1,741	2,283
Deferred tax liabilities	17,195	16,804
Total non-current liabilities	29,134	27,973
Total liabilities	64,138	57,349
Equity		
Capital stock	3,519	6,301
Capital surplus	86,753	47,964
Treasury stock	(0)	(0)
Other equity interest	56,254	60,941
Retained earnings	226,398	305,798
Total equity attributable to owners of the parent company	372,924	421,004
Non-controlling interests	4,770	4,624
Total equity	377,694	425,628
Total liabilities and equity	441,832	482,977

(2) Condensed Consolidated Income Statement
For the six months ended June 30, 2016 and 2017

(Millions of yen)

	Six months ended June 30,	
	2016 (From January 1, 2016 to June 30, 2016)	2017 (From January 1, 2017 to June 30, 2017)
Revenue	95,620	121,856
Cost of sales	(23,550)	(27,351)
Gross profit	72,070	94,505
Selling, general and administrative expenses	(30,614)	(33,946)
Other income	267	895
Other expenses	(24,641)	(5,414)
Operating income	17,082	56,040
Finance income	1,630	2,377
Finance costs	(10,949)	(11,118)
Equity in profit (loss) of affiliates	69	(352)
Income before income taxes	7,832	46,947
Income taxes expense	(6,334)	(7,833)
Net income	1,498	39,114
Attributable to:		
Owners of the parent company	1,292	39,354
Non-controlling interests	206	(240)
Net income	1,498	39,114
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	2.97	90.11
Diluted earnings per share	2.91	88.59

For the three months ended June 30, 2016 and 2017

(Millions of yen)

	Three months ended June 30,	
	2016 (From April 1, 2016 to June 30, 2016)	2017 (From April 1, 2017 to June 30, 2017)
Revenue	38,123	47,064
Cost of sales	(10,475)	(12,584)
Gross profit	27,648	34,480
Selling, general and administrative expenses	(14,202)	(16,648)
Other income	120	714
Other expenses	(187)	(2,268)
Operating income	13,379	16,278
Finance income	808	6,271
Finance costs	(4,401)	(294)
Equity in profit (loss) of affiliates	53	(340)
Income before income taxes	9,839	21,915
Income taxes expense	(2,262)	(2,613)
Net income	7,577	19,302
Attributable to:		
Owners of the parent company	7,564	19,448
Non-controlling interests	13	(146)
Net income	7,577	19,302
Earnings per share (attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	17.36	44.42
Diluted earnings per share	17.03	43.69

(3) Condensed Consolidated Statement of Comprehensive Income
For the six months ended June 30, 2016 and 2017

(Millions of yen)

	Six months ended June 30,	
	2016 (From January 1, 2016 to June 30, 2016)	2017 (From January 1, 2017 to June 30, 2017)
Net income	1,498	39,114
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(535)	(666)
Re-measurement of defined benefit pension plans	1	(0)
Other comprehensive income under equity method	(2)	–
Income taxes	240	147
Total items that will not be reclassified to net income	(296)	(519)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(38,026)	4,772
Other comprehensive income under equity method	1	0
Total items that may be reclassified subsequently to net income	(38,025)	4,772
Total other comprehensive income	(38,321)	4,253
Total comprehensive income	(36,823)	43,367
Attributable to:		
Owners of the parent company	(36,357)	43,464
Non-controlling interests	(466)	(97)
Total comprehensive income	(36,823)	43,367

For the three months ended June 30, 2016 and 2017

(Millions of yen)

	Three months ended June 30,	
	2016 (From April 1, 2016 to June 30, 2016)	2017 (From April 1, 2017 to June 30, 2017)
Net income	7,577	19,302
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(976)	(606)
Re-measurement of defined benefit pension plans	0	0
Other comprehensive income under equity method	(1)	–
Income taxes	177	154
Total items that will not be reclassified to net income	(800)	(452)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(26,001)	(7,688)
Other comprehensive income under equity method	0	0
Total items that may be reclassified subsequently to net income	(26,001)	(7,688)
Total other comprehensive income	(26,801)	(8,140)
Total comprehensive income	(19,224)	11,162
Attributable to:		
Owners of the parent company	(18,786)	11,348
Non-controlling interests	(438)	(186)
Total comprehensive income	(19,224)	11,162

(4) Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)

(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, 2016	56,441	34,597	—	73,308	210,101	374,447	5,234	379,681
Net income for the period	—	—	—	—	1,292	1,292	206	1,498
Other comprehensive income	—	—	—	(37,649)	—	(37,649)	(672)	(38,321)
Total comprehensive income	—	—	—	(37,649)	1,292	(36,357)	(466)	(36,823)
Reclassification from capital stock to capital surplus	(55,227)	55,227	—	—	—	—	—	—
Issue of shares	1,299	1,299	—	—	—	2,598	—	2,598
Stock issue cost	—	(10)	—	—	—	(10)	—	(10)
Dividends	—	—	—	—	(2,171)	(2,171)	—	(2,171)
Share-based compensation	—	—	—	(89)	—	(89)	—	(89)
Purchase of non-controlling interests	—	(115)	—	—	—	(115)	(166)	(281)
Purchase of treasury stock	—	—	(0)	—	—	(0)	—	(0)
Reclassification from other equity interest to retained earnings	—	—	—	(576)	576	—	—	—
Others	—	—	—	—	9	9	—	9
Total transactions with the owners	(53,928)	56,401	(0)	(665)	(1,586)	222	(166)	56
Balance at June 30, 2016	2,513	90,998	(0)	34,994	209,807	338,312	4,602	342,914

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

(Millions of yen)

	Equity attributable to owners of the parent company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Treasury stock	Other equity interest	Retained earnings	Total		
Balance at January 1, 2017	3,519	86,753	(0)	56,254	226,398	372,924	4,770	377,694
Net income for the period	—	—	—	—	39,354	39,354	(240)	39,114
Other comprehensive income	—	—	—	4,110	—	4,110	143	4,253
Total comprehensive income	—	—	—	4,110	39,354	43,464	(97)	43,367
Reclassification from capital surplus to retained earnings	—	(41,476)	—	—	41,476	—	—	—
Issue of shares	2,782	2,782	—	—	—	5,564	—	5,564
Stock issue cost	—	(18)	—	—	—	(18)	—	(18)
Share-based compensation	—	—	—	(457)	—	(457)	—	(457)
Purchase of non-controlling interests	—	(74)	—	—	—	(74)	(98)	(172)
Changes arising from sale of consolidated subsidiaries	—	(3)	—	—	(396)	(399)	49	(350)
Purchase of treasury stock	—	—	(0)	—	—	(0)	—	(0)
Reclassification from other equity interest to retained earnings	—	—	—	1,034	(1,034)	—	—	—
Total transactions with the owners	2,782	(38,789)	(0)	577	40,046	4,616	(49)	4,567
Balance at June 30, 2017	6,301	47,964	(0)	60,941	305,798	421,004	4,624	425,628

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended June 30,	
	2016 (From January 1, 2016 to June 30, 2016)	2017 (From January 1, 2017 to June 30, 2017)
Cash flows from operating activities		
Income before income taxes	7,832	46,947
Depreciation and amortization	2,980	3,035
Share-based compensation expenses	765	956
Interest and dividend income	(1,608)	(2,348)
Interest expense	14	6
Impairment loss	24,492	4,874
Equity in (profit) loss of affiliates	(69)	352
Exchange loss	9,646	7,882
(Increase) decrease in trade and other receivables	(11,912)	(4,554)
(Increase) decrease in other current assets	(1,940)	(4,912)
(Decrease) increase in trade and other payables	(3,835)	(1,877)
(Decrease) increase in deferred income	6,260	461
Other	(483)	(1,221)
Subtotal	32,142	49,601
Interest and dividends received	1,900	2,099
Interest paid	(9)	(8)
Income taxes paid	(7,513)	(9,323)
Net cash provided by operating activities	26,520	42,369
Cash flows from investing activities		
Decrease (increase) in other deposits	(29,192)	(12,775)
Purchases of property, plant and equipment	(997)	(1,002)
Proceeds from sales of property, plant and equipment	12	23
Purchases of intangible assets	(633)	(386)
Payments associated with increase in long-term prepaid expenses	(1,107)	(2)
Purchases of investment securities	(1,478)	(3,800)
Proceeds from sale and redemption of investment securities	366	159
Purchases of affiliates	(3,645)	(1,748)
Purchases of subsidiaries	(5,581)	—
Extension of long-term loans receivable	(5,002)	(22)
Other	(758)	(628)
Net cash used in investing activities	(48,015)	(20,181)
Cash flows from financing activities		
Net decrease in short-term borrowings	(250)	—
Repayment of long-term borrowings	(833)	(850)
Proceeds from exercise of stock options	1,732	4,131
Purchases of treasury stock	(0)	(0)
Purchases of treasury stock of subsidiaries	(281)	(124)
Cash dividends paid	(2,173)	(1)
Other	(99)	(68)
Net cash (used in) provided by financing activities	(1,904)	3,088
Net (decrease) increase in cash and cash equivalents	(23,399)	25,276
Cash and cash equivalents at the beginning of the period	194,225	152,683
Effects of exchange rate changes on cash and cash equivalents	(22,758)	(1,171)
Cash and cash equivalents at the end of the period	148,068	176,788

(6) Notes on Going Concern Assumption
Not applicable

(7) Notes on Significant Changes in the Amount of Equity Attributable to Owners of the Parent Company

Pursuant to the resolution at the meeting of the board of directors held on February 23, 2017, the Company transferred other capital surplus of ¥41,476 million to retained earnings brought forward in order to compensate its deficit and also to secure mobility and flexibility in execution of its capital policy in the future, in accordance with Article 452 and Article 459, Paragraph 1, Item 3 of the Companies Act and Article 38, Paragraph 1 of the Articles of Incorporation of the Company.

There is no significant change in total equity attributable to owners of the parent company of Nexon Group.

(8) Segment information

(a) Outline of reportable segments

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

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

(b) Revenues, 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, 2016 (From January 1, 2016 to June 30, 2016)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers	7,759	80,421	2,259	4,422	759	95,620	—	95,620
Intersegment revenue	98	1,101	—	539	22	1,760	(1,760)	—
Total	7,857	81,522	2,259	4,961	781	97,380	(1,760)	95,620
Segment profit or loss (Note 1)	(1,303)	43,338	1,572	(2,036)	(134)	41,437	19	41,456
Other income (expense), net								(24,374)
Operating income								17,082
Finance income (costs), net (Note 4)								(9,319)
Equity in profit of affiliates								69
Income before income taxes								7,832

- (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 ¥19 million represent elimination of intersegment transactions.
4. A major component of finance costs is foreign exchange loss of ¥10,631 million.

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

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers	6,599	109,006	1,970	3,930	351	121,856	—	121,856
Intersegment revenue	152	982	—	348	236	1,718	(1,718)	—
Total	6,751	109,988	1,970	4,278	587	123,574	(1,718)	121,856
Segment profit or loss (Note 1)	(1,851)	64,125	1,233	(2,859)	(86)	60,562	(3)	60,559
Other income (expense), net								(4,519)
Operating income								56,040
Finance income (costs), net (Note 4)								(8,741)
Equity in loss of affiliates								(352)
Income before income taxes								46,947

- (Notes) 1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.
2. Price for intersegment transactions is based on the general market price.
3. Adjustments in segment profit or loss of (¥3) million represent elimination of intersegment transactions.
4. A major component of finance costs is foreign exchange loss of ¥10,824 million.

(For the three months ended June 30)

For the three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers	3,575	31,190	929	2,075	354	38,123	—	38,123
Intersegment revenue	37	505	—	232	22	796	(796)	—
Total	3,612	31,695	929	2,307	376	38,919	(796)	38,123
Segment profit or loss (Note 1)	(1,038)	15,171	558	(1,218)	(31)	13,442	4	13,446
Other income (expense), net								(67)
Operating income								13,379
Finance income (costs), net (Note 4)								(3,593)
Equity in profit of affiliates								53
Income before income taxes								9,839

- (Notes)
1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.
 2. Price for intersegment transactions is based on the general market price.
 3. Adjustments in segment profit or loss of ¥4 million represent elimination of intersegment transactions.
 4. A major component of finance costs is foreign exchange loss of ¥4,164 million.

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

(Millions of yen)

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

- (Notes)
1. Segment profit or loss is calculated by deducting cost of sales and selling, general and administrative expenses from revenue.
 2. Price for intersegment transactions is based on the general market price.
 3. Adjustments in segment profit or loss of ¥2 million represent elimination of intersegment transactions.
 4. A major component of finance income is foreign exchange gain of ¥5,092 million.

(c) Information on each region

Revenue from external customers are as follows:

(For the six months ended June 30)

	(Millions of yen)	
	Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)	Six months ended June 30, 2017 (From January 1, 2016 to June 30, 2017)
Japan	8,452	9,818
Korea	37,509	36,080
China	41,454	64,754
North America	3,869	3,963
Other	4,336	7,241
Total	<u>95,620</u>	<u>121,856</u>

- (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)

	(Millions of yen)	
	Three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)	Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)
Japan	3,891	4,412
Korea	14,954	15,801
China	15,625	20,803
North America	1,706	1,886
Other	1,947	4,162
Total	<u>38,123</u>	<u>47,064</u>

- (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

(d) Revenue by major business

Revenue by business is as follows:

(For the six months ended June 30)

	Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)	(Millions of yen) Six months ended June 30, 2017 (From January 1, 2017 to June 30, 2017)
PC online	73,687	97,674
Mobile	21,651	23,203
Other	282	979
Total	95,620	121,856

(For the three months ended June 30)

	Three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)	(Millions of yen) Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)
PC online	28,800	35,096
Mobile	9,208	11,524
Other	115	444
Total	38,123	47,064

(9) Subsequent Event
Not applicable