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Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [IFRS]

February 8, 2018

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

URL: <http://www.nexon.co.jp/>

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Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2018

Scheduled date of filing annual securities reports: March 28, 2018

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, 2017

(From January 1, 2017 to December 31, 2017)

(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 2017	234,929	28.3%	90,504	122.6%	69,995	48.5%	56,517	175.4%	56,750	181.9%	91,917	—
FY 2016	183,128	(3.8)%	40,661	(34.7)%	47,123	(30.7)%	20,521	(63.1)%	20,133	(63.5)%	2,905	(92.9)%

	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 2017	129.35	126.93	13.5	14.2	38.5
FY 2016	46.26	45.40	5.4	10.9	22.2

(Reference): Equity in profit (loss) of affiliates FY2017: ¥(605) million, FY2016: ¥101 million

(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, 2017	545,956	470,218	465,207	85.2	1,056.85
As of December 31, 2016	441,832	377,694	372,924	84.4	857.55

(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 2017	80,718	(81,891)	(3,019)	153,242
FY 2016	73,293	(97,084)	(9,275)	152,683

2. Dividends

	Annual Dividends					Total amount of cash dividends (annual)	Dividends payout ratio (consolidated)	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 2016	—	5.00	—	0.00	5.00	2,182	10.8	0.6
FY 2017	—	0.00	—	0.00	0.00	—	—	—
FY 2018 (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 FY2018 is yet to be determined.

3. Consolidated Financial Results Forecast for the First Quarter of Fiscal Year Ending December 31, 2018

(From January 1, 2018 to March 31, 2018)

(% 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
First Quarter	81,917	9.5%	45,132	13.5%	46,514	85.8%	40,320	103.5%	40,397	102.9%	Yen
	~	~	~	~	~	~	~	~	~	~	91.74
	89,799	20.1%	52,302	31.5%	53,685	114.5%	46,283	133.6%	46,332	132.7%	105.22

(Note) For the forecasts of consolidated financial results for the fiscal year ending December 31, 2018, it is difficult to reasonably estimate financial results for the first six months ending June 30, 2018 and the fiscal year ending December 31, 2018 at the moment, and accordingly, only the financial results forecast for the first three months of the fiscal year ending December 31, 2018 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): Yes

Newly added: 1 (JoongAng Pangyo Development Co., Ltd)
Excluded: None

- (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, 2017: 440,184,332 shares

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

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

As of December 31, 2017: — shares

As of December 31, 2016: 61 shares

- 3) Average number of shares during the period:

For the fiscal year ended December 31, 2017: 438,748,272 shares

For the fiscal year ended December 31, 2016: 435,248,842 shares

(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2017

(From January 1, 2017 to December 31, 2017)

(1) Non-consolidated Operating Results

(% changes from the previous fiscal year)

(Millions of yen)

	Revenue		Operating income		Ordinary income		Net income	
FY 2017	5,927	13.8%	(4,452)	—	(1,372)	—	(11,191)	—
FY 2016	5,208	(10.4)%	(4,662)	—	(5,852)	—	(44,372)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY 2017	(25.51)	—
FY 2016	(101.95)	—

(2) Non-consolidated Financial Position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2017	48,440	46,187	85.1%	93.64 yen
As of December 31, 2016	59,070	56,281	85.9%	116.69 yen

(Reference): Equity at December 31, 2017: ¥ 41,220 million, Equity at December 31, 2016: ¥50,746 million

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

*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.

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1. Overview of Operating Results and Financial Position

(1) Overview of Operating Results

During the fiscal year ended December 31, 2017, the world economy as a whole generally witnessed a gradual recovery, mainly led by developed countries. In the U.S., the economy remained solid, with continued improvement in the corporate sector and robust consumer spending supported by a stable employment environment. In Europe, the economic climate continued to show improvements including a gradual increase in exports, better employment environment and consumer spending picking up. In China, while production, exports and consumption showed a modest slowdown, the overall economy stayed stable due to some improvement in investments. The Japanese economy maintained its gradual recovery trend, with corporate earnings remaining strong driven by the recovering business climate of the global economy.

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

For the three months ended December 31, 2017, revenues 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, revenues increased significantly due mainly to strong item sales that have continued from the National Day content update (September) of our flagship PC online game *Dungeon&Fighter*, which we conducted in Q3 2017 and was well-received by users. In Korea, revenues also grew year-over-year due to the strong performances of *AxE* and *Dark Avenger 3* launched in Q3 2017 and *OVERHIT* which newly launched in Q4 2017 being well-received by users.

In terms of expenses, cost of sales increased year-over-year as a result of greater HR costs primarily due to an increase in employee headcount in Korea. Selling, general and administrative expenses increased year-over-year mainly due to increased marketing costs for the launching of new titles, as well as platform fees for mobile titles increasing relative to revenues. In addition, finance income decreased and finance costs increased year-over-year as the fluctuations in foreign exchange rates during the three months ended December 31, 2017 resulted in foreign exchange losses in our foreign currency-denominated cash deposits and accounts receivable. Income taxes significantly decreased year-over-year due to our additional recording of deferred tax liabilities on undistributed profits of overseas subsidiaries for the fiscal year ended December 31, 2016.

As a result, for the consolidated fiscal year ended December 31, 2017, Nexon Group recorded revenues of ¥234,929 million (up 28.3% year-over-year), operating income of ¥90,504 million (up 122.6% year-over-year), income before income taxes of ¥69,995 million (up 48.5% year-over-year) and net income attributable to owners of the parent company of ¥56,750 million (up 181.9% year-over-year).

Performance results by reportable segments are as follows:

(a) Japan

Revenues for the consolidated fiscal year ended December 31, 2017 amounted to ¥12,106 million (down 21.5% year-over-year) and segment loss amounted to ¥4,009 million (segment loss of ¥3,791 million for the fiscal year ended December 31, 2016). PC and mobile revenues both decreased in Japan.

(b) Korea

Revenues for the consolidated fiscal year ended December 31, 2017 amounted to ¥208,786 million (up 36.3% year-over-year) and segment profit amounted to ¥112,602 million (up 51.0% year-over-year). PC online game revenues were solid due to well-received major content updates and strong item sales for *EA SPORTS™ FIFA Online 3* (“*FIFA Online 3*”), *Dungeon&Fighter* and *MapleStory*. Mobile game revenues increased year-over-year due to solid performances of *Dark Avenger 3*, *AxE* and *OVERHIT*, which are games that newly launched during the fiscal year ended December 31, 2017. Revenues in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our subsidiary) attributable to license agreements in China. For the consolidated fiscal year ended December 31, 2017, revenues showed an extremely strong growth mainly driven by strong item sales due to well-received major updates of our flagship PC online game *Dungeon&Fighter* in China, including the Lunar Year update (January), 9th Anniversary update (June) and National Day update (September).

(c) China

Revenues for the consolidated fiscal year ended December 31, 2017 amounted to ¥3,197 million (down 29.4% year-over-year), and segment profit amounted to ¥1,690 million (down 45.4% year-over-year). Revenues and profits decreased in China due to a decrease in consulting income related to existing PC online games.

(d) North America

Revenues for the consolidated fiscal year ended December 31, 2017 amounted to ¥10,050 million (up 14.5% year-over-year) and segment loss amounted to ¥6,868 million (segment loss of ¥4,839 million for the fiscal year ended December 31, 2016).

(e) Other

Revenues for the consolidated fiscal year ended December 31, 2017 amounted to ¥790 million (down 36.5% year-over-year) and segment loss amounted to ¥272 million (segment loss of ¥262 million for the fiscal year ended December 31, 2016).

(2) Overview of Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of December 31, 2017 amounted to ¥545,956 million, an increase of ¥104,124 million from December 31, 2016. Major components of the increase in assets include an increase of ¥60,866 million in other deposits due to placement of term deposits, an increase of 8,218 million in trade and other receivables, as well as an increase of ¥6,909 million in property, plant and equipment.

(Liabilities)

Total liabilities as of December 31, 2017 amounted to ¥75,738 million, an increase of ¥11,600 million from December 31, 2016. Major components of the increase in liabilities include an increase of ¥3,670 million in deferred tax liabilities, an increase of ¥3,521 million in other liabilities, and an increase of ¥2,187 million in income taxes payable.

(Equity)

Equity as of December 31, 2017 totaled ¥470,218 million, an increase of ¥92,524 million from December 31, 2016. Major components of changes in equity include an increase of 97,365 million in retained earnings due to offsetting a loss and recording net income etc, an increase of ¥34,779 million in other equity interest due to changes in exchange differences on translating foreign operation etc and a decrease of 45,732 million in capital surplus due to offsetting a loss etc.

(b) Cash flows

Cash and cash equivalents (“Cash”) as of December 31, 2017 was ¥153,242 million, an increase of ¥559 million from December 31, 2016. The increase includes ¥4,751 million in effects of exchange rate changes on cash and cash equivalents.

Cash flows from each activity for the fiscal year ended December 31, 2017 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥80,718 million, compared to ¥73,293 million for the fiscal year ended December 31, 2016. Major components of the increase include income before income taxes of ¥69,995 million, foreign exchange loss of ¥19,207 million, impairment loss of ¥12,738 million, and depreciation and amortization of ¥5,819 million. Major cash outflows include payment of income taxes of ¥15,202 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥81,891 million, compared to net cash used of ¥97,084 million for the fiscal year ended December 31, 2016. Major cash outflows include an increase in other deposits of ¥55,212 million, purchases of subsidiaries (Pixcelberry studios etc) of ¥15,669 million, and purchases of investment securities of 3,811 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥3,019 million, compared to ¥9,275 million for the fiscal year ended December 31, 2016. Major cash outflows include purchases of treasury stock of ¥10,009 million and repayment of long-term loans payable of ¥4,238 million. Major cash inflows include proceeds from exercise of stock options of 8,881 million and an increase in short-term borrowings of 2,555 million.

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

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Ratio of equity attributable to owners of the parent company (%)	84.4	85.2
Ratio of equity attributable to owners of the parent company at fair value (%)	166.7	264.5
Interest-bearing liabilities to cash flow ratio (years)	0.0	0.0
Interest coverage ratio (times)	4,193.3	1,238.0

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.

(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 regard 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 shareholders and investors, Nexon Group decided to disclose the range of our consolidated business outlook for the following quarter.

For the three months ending March 31, 2018, Nexon Group expects consolidated revenues in the range of ¥81,917~89,799 million (an increase of 9.5%~20.1% year-over-year), operating income in the range of ¥45,132~52,302 million (an increase of 13.5%~31.5% year-over-year), income before income taxes in the range of ¥46,514~53,685 million (an increase of 85.8%~114.5% year-over-year), net income in the range of ¥40,320~46,283 million (an increase of 103.5%~133.6% year-over-year), net income attributable to owners of the parent company in the range of ¥40,397~46,332 million (an increase of 102.9%~132.7% year-over-year), and basic earnings per share in the range of ¥91.74~105.22. 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 = ¥110.86, 100 South Korean Won = ¥10.40 and 1 Chinese Yuan = ¥17.26. 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 ¥746 million on revenue and approximately ¥463 million on operating income for the three months ending March 31, 2018.

Q1 2018 outlook by major region is expected to be as follows.

In Korea, we expect solid performances from mobile games including *AxE* and *OVERHIT*, which launched in FY2017, and *Yulhyulgangho M* and *Durango: Wild Lands*, which launched in January 2018. In contrast, we expect revenues from major PC online games including *FIFA Online 3* and *Dungeon&Fighter* to decrease year-over-year. Due to these factors, we expect revenues in Korea to be flattish year-over-year.

In China, we expect a typically strong seasonality due to the impact of the Lunar New Year. We conducted a large-scale content update of our key PC online game *Dungeon&Fighter* on February 1, 2018 in time for the Lunar New Year and the game is off to an extremely strong start. Since we expect this strong trend to continue throughout the first quarter, revenues are expected to significantly increase year-over-year.

In North America, we expect revenues to significantly increase year-over-year due to the impact of our newly acquiring Pixelberry Studios in FY2017.

On the cost side, we expect HR costs to increase mainly due to headcount increases in Korea and Pixelberry Studios which became our subsidiary. We also expect marketing costs to increase due to launching of new titles including Pixelberry Studios' key title *Choices: Stories You Play* and *Durango: Wild Lands*.

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, 2017. As for the fiscal year ending December 31, 2018, 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, 2017, Nexon Group consists of NEXON Co., Ltd. (“Nexon”), Nexon’s 26 consolidated subsidiaries and 14 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 Co., Ltd.; gloops, Inc.
Korea:	NEXON Korea Corporation; Rushmo Co.,Ltd.; NEOPLE INC.;
	Nexon Networks Corporation; NDOORS 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
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; gloops Vietnam Co.,Ltd.; 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*. 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-café 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*, the deals with Electronic Arts Inc. related to *FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M* and the deal with NAT Games Co., Ltd. related to *OVERHIT* 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.

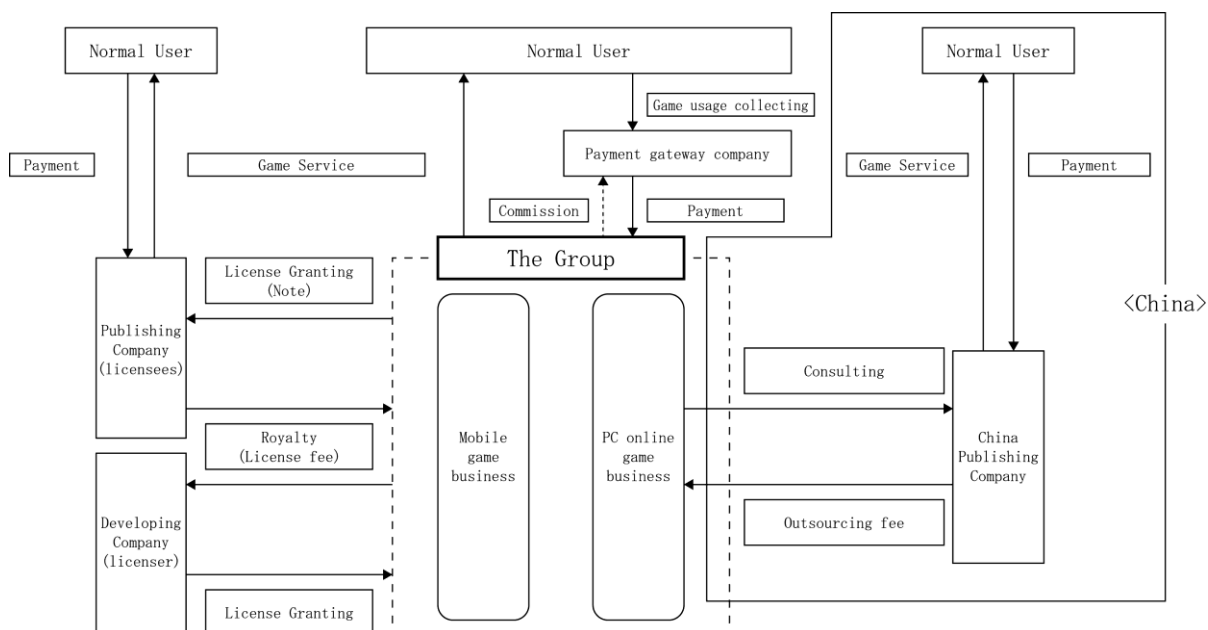
(b) Premium model of upfront payment to download a game

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.

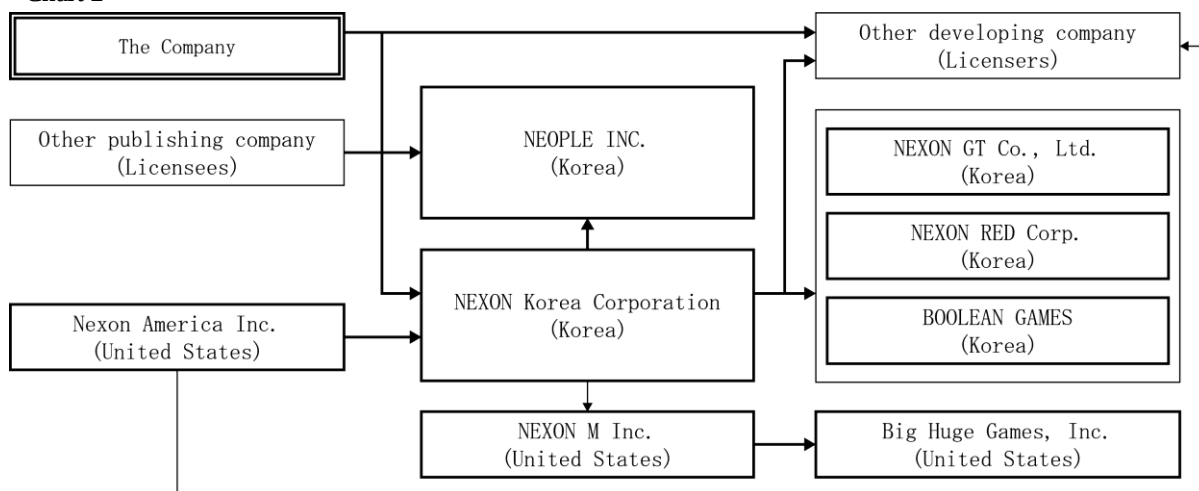
<Chart 1>



(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, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	152,683	153,242
Trade and other receivables	27,037	35,255
Other deposits	173,226	234,092
Other financial assets	2,895	6,538
Other current assets	10,256	13,492
Total current assets	366,097	442,619
Non-current assets		
Property, plant and equipment	20,394	27,303
Goodwill	17,523	21,682
Intangible assets	7,127	12,784
Investments accounted for using equity method	6,662	9,138
Other financial assets	18,236	20,754
Other non-current assets	551	1,344
Deferred tax assets	5,242	10,332
Total non-current assets	75,735	103,337
Total assets	441,832	545,956

		(Millions of yen)
	As of December 31, 2016	As of December 31, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	9,472	8,587
Deferred income	9,313	10,975
Borrowings	1,683	3,490
Income taxes payable	5,511	7,698
Other financial liabilities	1,523	173
Provisions	2,396	4,556
Other current liabilities	5,106	6,068
Total current liabilities	35,004	41,547
Non-current liabilities		
Deferred income	8,392	8,241
Borrowings	835	—
Other financial liabilities	644	506
Provisions	327	279
Other non-current liabilities	1,741	4,300
Deferred tax liabilities	17,195	20,865
Total non-current liabilities	29,134	34,191
Total liabilities	64,138	75,738
Equity		
Capital stock	3,519	9,390
Capital surplus	86,753	41,021
Treasury Stock	(0)	—
Other equity interest	56,254	91,033
Retained earnings	226,398	323,763
Total equity attributable to owners of the parent company	372,924	465,207
Non-controlling interests	4,770	5,011
Total equity	377,694	470,218
Total liabilities and equity	441,832	545,956

(2) Consolidated Income Statement

	(Millions of yen)	
	Fiscal Year ended December 31, 2016	Fiscal Year ended December 31, 2017
Revenue	183,128	234,929
Cost of sales	(48,131)	(56,656)
Gross profit	134,997	178,273
Selling, general and administrative expenses	(66,210)	(75,088)
Other income	1,021	1,385
Other expenses	(29,147)	(14,066)
Operating income	40,661	90,504
Finance income	6,583	6,308
Finance costs	(222)	(26,212)
Equity in profit (loss) of affiliates	101	(605)
Income before income taxes	47,123	69,995
Income taxes expense	(26,602)	(13,478)
Net income	20,521	56,517
Attributable to:		
Owners of the parent company	20,133	56,750
Non-controlling interests	388	(233)
Net income	20,521	56,517
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	46.26	129.35
Diluted earnings per share	45.40	126.93

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal Year ended December 31, 2016	Fiscal Year ended December 31, 2017
Net income	20,521	56,517
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	(1,831)	(1,215)
Re-measurement of defined benefit pension plans	(8)	(4)
Income taxes	301	(8)
Total items that will not be reclassified to net income	(1,538)	(1,227)
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(16,078)	36,626
Other comprehensive income under equity method	(0)	1
Total items that may be reclassified subsequently to net income	(16,078)	36,627
Total other comprehensive income	(17,616)	35,400
Total comprehensive income	2,905	91,917
Attributable to:		
Owners of the parent company	2,868	91,628
Non-controlling interests	37	289
Total comprehensive income	2,905	91,917

(4) Consolidated Statement of Changes in Equity

Fiscal Year ended December 31, 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	—	—	—	—	20,133	20,133	388	20,521
Other comprehensive income	—	—	—	(17,265)	—	(17,265)	(351)	(17,616)
Total comprehensive income	—	—	—	(17,265)	20,133	2,868	37	2,905
Reclassification from capital stock to capital surplus	(55,227)	55,227	—	—	—	—	—	—
Issue of shares	2,305	2,305	—	—	—	4,610	—	4,610
Stock issue cost	—	(18)	—	—	—	(18)	—	(18)
Dividends	—	—	—	—	(4,353)	(4,353)	—	(4,353)
Share-based compensation	—	—	—	718	—	718	—	718
Purchase of non-controlling interests	—	(348)	—	—	—	(348)	(501)	(849)
Purchase of treasury stock	—	(10)	(5,000)	—	—	(5,010)	—	(5,010)
Cancellation of treasury stock	—	(5,000)	5,000	—	—	—	—	—
Reclassification from other equity interest to retained earnings	—	—	—	(507)	507	—	—	—
Others	—	—	—	—	10	10	—	10
Total transactions with the owners	(52,922)	52,156	(0)	211	(3,836)	(4,391)	(501)	(4,892)
Balance at December 31, 2016	3,519	86,753	(0)	56,254	226,398	372,924	4,770	377,694

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)
Purchase of non-controlling interests	—	(74)	—	—	—	(74)	(97)	(171)
Changes arising from sale of consolidated subsidiaries	—	(3)	—	—	(396)	(399)	49	(350)
Purchases 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

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal Year ended December 31, 2016	Fiscal Year ended December 31, 2017
Cash flows from operating activities		
Income before income taxes	47,123	69,995
Depreciation and amortization	6,366	5,819
Share-based compensation expenses	2,136	2,253
Interest and dividend income	(3,461)	(5,387)
Interest expense	27	64
Impairment loss	28,785	12,738
Equity in (profit) loss of affiliates	(101)	605
Exchange (gain) loss	(3,190)	19,207
(Increase) decrease in trade and other receivables	4,642	(4,463)
(Increase) decrease in other current assets	(3,937)	(9,791)
(Decrease) increase in trade and other payables	(1,205)	(1,320)
(Decrease) increase in deferred income	6,755	284
Other	1,333	1,287
Subtotal	85,273	91,291
Interest and dividends received	3,326	4,694
Interest paid	(17)	(65)
Income taxes paid	(15,289)	(15,202)
Net cash provided by operating activities	73,293	80,718
Cash flows from investing activities		
Payments for placement of collateral deposits	(241)	(3,594)
Decrease (increase) in other deposits	(76,852)	(55,212)
Purchases of property, plant and equipment	(2,467)	(2,053)
Proceeds from sale of property, plant and equipment	51	65
Purchases of intangible assets	(1,215)	(795)
Payments associated with increase in long-term prepaid expenses	(2,250)	(43)
Purchases of investment securities	(2,742)	(3,811)
Proceeds from sale and redemption of investment securities	405	645
Purchases of affiliates	(4,530)	(2,156)
Purchases of subsidiaries	(7,301)	(15,669)
Extension of long-term loans receivable	(5,011)	(27)
Proceed from collection of long-term loans receivable	5,004	7
Other	65	752
Net cash used in investing activities	(97,084)	(81,891)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(440)	2,555
Repayment of long-term borrowings	(1,676)	(4,238)
Proceeds from exercise of stock options	3,174	8,881
Purchases of treasury stock	(5,010)	(10,009)
Purchases of treasury stock of subsidiaries	(832)	(124)
Cash dividends paid	(4,358)	(1)
Other	(133)	(83)
Net cash used in financing activities	(9,275)	(3,019)
Net increase (decrease) in cash and cash equivalents	(33,066)	(4,192)
Cash and cash equivalents at the beginning of the year	194,225	152,683
Effects of exchange rate changes on cash and cash equivalents	(8,476)	4,751
Cash and cash equivalents at the end of the year	152,683	153,242

- (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, 2016 unless otherwise noted, except for the new standards applied as listed below.

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 the fiscal year ended December 31, 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

(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.

(2) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

Fiscal year ended December 31, 2016 (From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable Segments						Adjust- ments (Note 3)	Consoli- dated
	Japan	Korea	China	North America	Other	Total		
Revenue								
Revenue from external customers	15,425	153,152	4,528	8,780	1,243	183,128	—	183,128
Intersegment revenue	201	2,111	—	851	190	3,353	(3,353)	—
Total	15,626	155,263	4,528	9,631	1,433	186,481	(3,353)	183,128
Segment profit or loss (Note 1)	(3,791)	74,570	3,095	(4,839)	(262)	68,773	14	68,787
Other income (expense), net	—	—	—	—	—	—	—	(28,126)
Operating income	—	—	—	—	—	—	—	40,661
Finance income (costs), net	—	—	—	—	—	—	—	6,361
Equity in profit of affiliates	—	—	—	—	—	—	—	101
Income before income taxes	—	—	—	—	—	—	—	47,123
(Other items)								
Depreciation and amortization	552	4,813	91	759	151	6,366	—	6,366
Impairment loss	24,117	949	—	3,600	119	28,785	—	28,785
Capital expenditures (including intangible assets)	517	2,330	78	780	60	3,765	—	3,765

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

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

3. Adjustments in segment profit or loss of ¥14 million represent elimination of intersegment transactions.

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

(Millions of yen)

	Reportable Segments						Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other	Total		
Revenue								
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

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

- Price for intersegment transactions is based on the general market price.
- Adjustments in segment profit or loss of ¥42 million represent elimination of intersegment transactions.
- A major component of finance cost is foreign exchange loss of ¥25,694 million.

(3) Revenue from major products and services

Revenue from major products and services are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Item charging	104,493	114,687
Royalty	72,511	115,174
Other	6,124	5,068
Total	183,128	234,929

(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, 2016	As of December 31, 2017
Japan	634	75
Korea	40,047	43,224
China	143	169
North America	4,697	19,519
Other	74	126
Total	45,595	63,113

(Note) 1. Non-current assets are classified into country or region category based on the location.

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

3. Main countries or regions in each category:

(1) North America: USA

(2) Other: Europe and Asian countries

Revenue from external customers is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Japan	16,879	17,113
Korea	74,248	80,504
China	74,198	115,389
North America	8,105	9,324
Other	9,698	12,599
Total	183,128	234,929

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

2. The category of the 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

(5) Information on major customers

One customer contributed more than 10% of Nexon Group's consolidated revenue for the fiscal years ended December 31, 2016 and 2017, and revenue earned from the customer were ¥64,600 million (Korea segment) and ¥105,037 million (Korea segment), respectively.

(6) Revenue by major business

Revenue by major business is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
PC online	138,522	181,636
Mobile	43,332	51,441
Other	1,274	1,852
Total	183,128	234,929

(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, 2016	Fiscal year ended December 31, 2017
Net income attributable to owners of the parent company	20,133	56,750
Adjustments of net income used for the calculation of diluted earnings per share	—	—
Diluted net income attributable to owners of the parent company	20,133	56,750
Number of basic weighted-average common stock	435,248,842 shares	438,748,272 shares
Dilution: Stock option	8,255,662 shares	8,359,029 shares
Number of dilutive weighted-average common stock	443,504,504 shares	447,107,301 shares
Earnings per share (attributable to owners of the parent company)		(Yen)
Basic earnings per share	46.26	129.35
Diluted earnings per share (Note)	45.40	126.93

(Note) 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.

(Significant subsequent event)

Stock split

On February 8, 2018, Nexon's Board of Directors resolved a stock split. Details are as follows.

1) Purpose of the stock split

To increase the liquidity of Nexon's stock and expanding the investor base by reducing the stock price per trading unit.

2) Overview of the stock split

(i) Method of stock split

The record date of the stock split will be Saturday, March 31, 2018 (provided, however, that since this day falls under a non-business day of the shareholder registry administrator, the practical record date will be Friday, March 30, 2018). Each share of common stock owned by shareholders recorded on the final shareholder registry as of the record date will be split into two shares.

(ii) Number of shares to be increased by the stock split

Total number of shares outstanding before stock split: 440,372,332 shares

Number of shares to be increased by this stock split: 440,372,332 shares

Total number of shares outstanding after stock split: 880,744,664 shares

Total number of authorized shares after stock split: 1,400,000,000 shares

(Note) The total number of shares outstanding before stock split, the number of shares to be increased by this stock split and the total number of shares outstanding after stock split above are each calculated based on the total number of shares outstanding as of January 31, 2018. Although Nexon has issued subscription rights to shares, no increase in the total number of shares outstanding due to any exercise of such subscription rights to shares on or after February 1, 2018 has been included above. Therefore, the total number of shares outstanding may increase during the period from February 1, 2018 to the record date of the stock split as a result of an exercise of subscription rights to shares.

3) Stock split schedule

(i) Date of announcement of the record date: Thursday, March 15, 2018

(ii) Record date: Saturday, March 31, 2018

(iii) Effective date: Sunday, April 1, 2018

4) Impact on per-share information

Per-share information based on the assumption that the stock split has been conducted at the beginning of the previous consolidated accounting year is as follows:

Earnings per share (attributable to the owners of the parent company)	Previous consolidated accounting year (From January 1, 2016 through December 31, 2016)	Current consolidated accounting year (From January 1, 2017 through December 31, 2017)
Basic	23.13 yen	64.67 yen
Diluted	22.70 yen	63.46 yen

(Note) 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.

5) Other

There is no change in the amount of capital due to this stock split.