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Consolidated Financial Results
for the Three Months Ended March 31, 2020
[IFRS]

May 13, 2020

Company name: NEXON Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Stock code: 3659

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Scheduled date of commencing dividend payments: -

Supplementary briefing material on quarterly financial results: Yes

Quarterly financial results briefing: No

(Amounts are rounded to nearest million yen)

1. Consolidated Financial Results for the Three Months Ended March 31, 2020 (from January 1, 2020 to March 31, 2020)

(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	
	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%	Yen	%
Three months ended March 31, 2020	82,762	(11.1)%	41,543	(21.0)%	61,989	0.3%	49,754	(5.8)%	49,911	(6.5)%	14,879	(67.5)%
Three months ended March 31, 2019	93,077	2.8%	52,601	(3.9)%	61,812	15.9%	52,807	13.6%	53,400	14.6%	45,797	110.4%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2020	56.57	56.11
Three months ended March 31, 2019	59.67	59.18

(2) Consolidated Financial Position

(Millions of yen)

	Total assets	Total equity	Total equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company
As of March 31, 2020	738,128	642,918	632,538	85.7%
As of December 31, 2019	719,088	631,131	619,985	86.2%

2. Dividends

(Yen)

	Annual Dividends				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of Year	Total
FY 2019	—	0.00	—	2.50	2.50
FY 2020	—				
FY 2020 (Forecast)		2.50	—	2.50	5.00

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

3. Consolidated Financial Results Forecast for the Six Months Ending June 30, 2020 (from January 1, 2020 to June 30, 2020)

(% 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
2nd Quarter (cumulative)	141,806	(3.5)%	63,454	(3.3)%	87,013	3.7%	69,728	(2.2)%	70,202	(3.2)%	Yen
	~	~	~	~	~	~	~	~	~	~	79.54
	146,770	(0.1)%	67,755	3.3%	91,313	8.8%	73,197	2.7%	73,619	1.5%	83.42

(Note) As it is difficult to reasonably estimate financial results for the year ending December 31, 2020 at the moment, only the financial results forecast for the six months ending June 30, 2020 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 : Yes

(Changes in specified subsidiaries accompanying changes in scope of consolidation)

New	3	entities	(Names)	VIP Global Super Growth Hedge Fund;	Excluded	—	entities	(Names)	—
				Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust;					
				Samsung Digital Innovation Equity Fund Private Investment Trust 1					

(Note) Refer to Appendix p.6, “2. Matters Related to Summary Information (Notes), (1) Changes in Significant Subsidiaries during the Period” for details.

(2) Changes in Accounting Policies and Changes in Accounting Estimates

1) Changes in accounting policies required by IFRS: Yes

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

3) Changes in accounting estimates: No

(3) Number of Shares Issued (common stock)

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

As of March 31, 2020: 882,905,539 shares

As of December 31, 2019: 901,530,560 shares

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

As of March 31, 2020: 44 shares

As of December 31, 2019: 19,109,021 shares

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

Three months ended March 31, 2020: 882,223,517 shares

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

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

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

(Caution Concerning Forward-Looking Statements)

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

(Method of Obtaining Supplementary Briefing Material on Financial Results)

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

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1. Qualitative Information on Consolidated Financial Results for the Period

(1) Explanation on Operating Results

During the three months ended March 31, 2020, the Japanese economy was confronted with harsh conditions due to a sharp decline in consumption activities as a result of the impact of the COVID-19 pandemic, postponement of capital investments associated with decreases in corporate revenues, significant economic downturn expected resulting from greater caution, and other factors. As for the future outlook, the harsh conditions are expected to continue in the environment surrounding Japan as the end of the COVID-19 pandemic is still uncertain and there are concerns over the significant slowdown 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, we have established the following as Nexon's four pillars: (i) focusing on massive multiplayer online games, (ii) enabling our service to be played across multiple platforms including PC, console and mobile, (iii) leveraging Nexon's IPs, and (iv) investing in new IPs that we think are really special. We have also worked on initiatives for the growth of our global business.

For the three months ended March 31, 2020, revenue decreased year-over-year despite contributions from our Korea business, primarily due to a decrease in revenue from China, as well as the negative impact of the foreign exchange rates due to the Japanese yen appreciating year-over-year against major currencies in our business.

In China, as we had anticipated, revenue from *Dungeon&Fighter*, our key PC online game, declined compared to Q1 2019 when it had strong Lunar New Year package sales. Due to the spread of COVID-19, PC cafés in China have suspended their operations in a number of regions since late January. While a large majority of China *Dungeon&Fighter* players access the game from their PCs in their homes, and smaller number play in PC cafés, this had negatively impacted the number of active users during the latter half of the quarter. As a result, active users remained at a lower level compared to our expectations. On March 19, 2020, we launched a new key update. The primary focus of the update was to increase the engagement of the existing players, as well as to regain the churned users, however, the closure of PC cafés negatively affected the momentum. Meanwhile, the update received great reviews from the existing players with better user engagement after the introduction of the update. Based on our analysis on our players, including their participation in the in-game events related to the key update prior to its introduction, we believe that there are players who have not been able to return to the game after introduction of the March update due to the closure of PC cafés. We expect the number of active users, as well as other KPIs, will continue to recover as PC cafés re-open and their businesses return to their usual cadence.

In Korea, PC online revenue increased year-over-year driven by the strong performances of our major PC online titles *MapleStory* and *EA SPORTS™ FIFA ONLINE 4* ("*FIFA ONLINE 4*"), the growth of *Dungeon&Fighter* due to the successful key update, as well as the growth of *Sudden Attack* due to the successful introduction of the new season pass and characters and the successful Lunar New Year promotions. Mobile revenue increased year-over-year driven by contributions from *V4*, which launched in Q4 2019, as well as strong performances of *MapleStory M* and *EA SPORTS™ FIFA ONLINE 4 M* ("*FIFA ONLINE 4 M*").

In Japan, while we benefitted from *MapleStory M*, this was more than offset by decreases in *FAITH (AxE)*, *Dynasty Warriors: Unleashed* and *OVERHIT*, as well as disposition of gloops. Consequently, revenue decreased year-over-year.

In North America and Europe, revenue decreased year-over-year due to decreases in *Choices: Stories You Play*, *Darkness Rises* and *AxE*.

In Rest of World, while *MapleStory*'s revenue increased year-over-year, and we benefitted from *World of Dragon Nest* and *V4*, which launched in Q1, these were more than offset by deceleration of *Moonlight Blade* and *AxE*, as well as the negative impact of the foreign exchange rates, resulting in Q1 Others revenue to decrease slightly year-over-year.

In terms of expenses, cost of sales decreased year-over-year as a result of decreases in HR and AWS costs, as well as the favorable impact of the foreign exchange rates due to the appreciating Japanese yen, despite greater royalty costs for titles including *FIFA ONLINE 4* and *FIFA ONLINE 4 M*. Selling, general and administrative expenses decreased year-over-year due to decreases in marketing and stock option costs. Other expenses increased year-over-year primarily due to recording an impairment loss on subsidiaries' goodwill and IP of *Choices: Stories You Play*.

Although we recorded a foreign exchange gain in foreign currency-denominated cash deposits and accounts

receivable in Q1 2019, our finance income increased due to a foreign exchange gain that exceeded that in Q1 2019, primarily from foreign currency-denominated cash deposits.

As a result, for the three months ended March 31, 2020, Nexon Group recorded revenues of ¥82,762 million (down 11.1% year-over-year), operating income of ¥41,543 million (down 21.0% year-over-year), income before income taxes of ¥61,989 million (up 0.3% year-over-year) and net income attributable to owners of the parent company of ¥49,911 million (down 6.5% year-over-year).

Business results by reportable segments for the three months ended March 31, 2020 are as follows:

(a) Japan

Revenues for the three months ended March 31, 2020 amounted to ¥895 million (down 63.7% year-over-year), and segment loss amounted to ¥655 million (segment loss of ¥958 million for the three months ended March 31, 2019).

(b) Korea

Revenues for the three months ended March 31, 2020 amounted to ¥76,336 million (down 9.7% year-over-year), and segment profit amounted to ¥47,724 million (down 16.1% year-over-year). Revenue in Korea include royalty income of NEOPLE INC. (a subsidiary of NEXON Korea Corporation, our consolidated subsidiary) attributable to license agreements in China.

(c) China

Revenues for the three months ended March 31, 2020 amounted to ¥903 million (up 3.8% year-over-year), and segment profit amounted to ¥653 million (up 9.7% year-over-year).

(d) North America

Revenues for the three months ended March 31, 2020 amounted to ¥3,714 million (down 21.3% year-over-year), and segment loss amounted to ¥461 million (segment loss of ¥1,385 million for the three months ended March 31, 2019).

(e) Rest of World

Revenues for the three months ended March 31, 2020 amounted to ¥914 million (up 102.8% year-over-year), and segment loss amounted to ¥461 million (segment profit of ¥2 million for the three months ended March 31, 2019).

(2) Explanation on Financial Position

(a) Assets, liabilities and equity

(Assets)

Total assets as of March 31, 2020 amounted to ¥738,128 million, an increase of ¥19,040 million from December 31, 2019. Major components include an increase of ¥23,222 million in trade and other receivables, an increase of ¥21,508 million in cash and cash equivalents, a decrease of ¥14,852 million in other deposits, a decrease of ¥5,786 million in goodwill and a decrease of ¥4,922 million in intangible assets.

(Liabilities)

Total liabilities as of March 31, 2020 amounted to ¥95,210 million, an increase of ¥7,253 million from December 31, 2019. Major components include an increase of ¥8,844 million in income taxes payable and a decrease of ¥1,607 million in lease liabilities (non-current).

(Equity)

Equity as of March 31, 2020 totaled ¥642,918 million, an increase of ¥11,787 million from December 31, 2019. Major components of changes in equity include an increase of ¥49,754 million in retained earnings due to the recording of net income, a decrease of ¥34,456 million in other equity interest primarily due to changes in exchange differences on translating foreign operations, a decrease of ¥2,206 million in retained earnings due to dividends of surplus, and a decrease of ¥2,783 million due to purchase of treasury stock.

As a result, ratio of equity attributable to owners of the parent company was 85.7% (86.2% as of December 31, 2019).

(b) Cash flows

Cash and cash equivalents (collectively, “Cash”) as of March 31, 2020 was ¥275,144 million, an increase of ¥21,508 million from December 31, 2019. The increase includes ¥(4,897) million in effects of exchange rate changes on cash.

Cash flows from each activity for the three months ended March 31, 2020 and their significant components are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥29,548 million, compared to ¥15,241 million for the three months ended March 31, 2019. Major components of the increase include income before income taxes of ¥61,989 million and impairment loss of ¥6,063 million. Major components of the decrease include an increase in trade and other receivables of ¥25,347 million and an exchange gain of ¥17,077 million.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥1,034 million, compared to ¥994 million used in investing activities for the three months ended March 31, 2019. Major cash inflows include a decrease in other deposits of ¥10,189 million. Major cash outflows include purchases of investment securities of ¥9,879 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥4,177 million, compared to ¥731 million provided by financing activities for the three months ended March 31, 2019. Major cash outflows include purchases of treasury stock of ¥2,783 million and cash dividends paid of ¥2,203 million.

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

The harsh conditions in the business environment surrounding Nexon Group are expected to continue going forward as there are concerns of an economic downturn due to the sharp decline in consumption attributable to the COVID-19 pandemic while the end of the pandemic is still nowhere in sight. However, we do not expect any event that could have material impact on our business to occur going forward.

In our consolidated business outlook, we disclose our expectations for the following quarter as a range to provide more accurate information to our shareholders and investors, since it is difficult to derive full-year consolidated forecasts due to uncertainties in projecting the speed of growth of PC online game and mobile game markets in which Nexon Group’s main businesses operate, and because our revenues are largely dependent on such uncertain factors as users’ preferences and whether or not we have any hit titles. “Consolidated Financial Results Forecast for the Six Months Ending June 30, 2020” is the sum of our actual consolidated financial results for the three months ended March 31, 2020 and our consolidated business outlook for the three months ending June 30, 2020. Please refer to the table below for our consolidated financial results forecast for the three months ending June 30, 2020.

For the six months ending June 30, 2020, Nexon Group expects consolidated revenue in the range of ¥141,806 ~ 146,770 million (a decrease of 3.5% ~ 0.1% year-over-year), operating income in the range of ¥63,454 ~ 67,755 million (a decrease of 3.3% ~ an increase of 3.3% year-over-year), income before income taxes in the range of ¥87,013 ~ 91,313 million (an increase of 3.7% ~ 8.8% year-over-year), net income in the range of ¥69,728 ~ 73,197 million (a decrease of 2.2% ~ an increase of 2.7% year-over-year), net income attributable to owners of the parent company in the range of ¥70,202 ~ 73,619 million (a decrease of 3.2% ~ an increase of 1.5% year-over-year), and basic earnings per share in the range of ¥79.54 ~ 83.42. Nexon Group operates its businesses around the world, in Japan, South Korea, China, the United States and other countries. Major exchange rates for Q2 2020 are assumed to be 1 U.S. dollar = ¥107.53, 100 South Korean Won = ¥8.83 and 1 Chinese Yuan = ¥15.24. 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 ¥568 million on revenues and approximately ¥237 million on operating income for the three months ending June 30, 2020.

In Korea and China, the second quarter is in general a seasonably weaker period in wake of the strong

performance in the first quarter due to Lunar New Year.

As for revenue by customer location for the three months ending June 30, 2020, in Korea, we expect our major PC online title *MapleStory* to maintain its momentum from Q1 and its revenue to grow triple-digits year-over-year. We also expect revenues from *FIFA ONLINE 4*, *Sudden Attack* and *Dungeon&Fighter* to increase year-over-year. For mobile, we expect to benefit primarily from *V4* launched in Q4 2019 and *KartRider Rush+* launched on May 12th, as well as year-over-year growth from *FIFA ONLINE 4 M* and triple-digit growth from *MapleStory M* as with its PC version. As a result, we expect overall revenue in Korea to increase year-over-year.

In China, we launched a large-scale content update for our key PC title *Dungeon&Fighter* in April in time for the Labor Day holidays, and we are scheduled to introduce its 12th Anniversary update in June. We have seen better engagement of existing users since the key update in March. As a result, we expect *Dungeon&Fighter* revenue to be roughly flat on a local currency basis even in comparison with the strong performance in Q2 2019. In Q2, an adjustment was made to increase a portion of royalty income from *Dungeon&Fighter*. Due to the impact of this adjustment, we expect revenue in China to increase year-over-year.

In Japan, we expect revenue to decrease year-over-year due to contributions from the mobile MMORPG *TRAHA*, which launched on April 23rd, to be more than offset by a decrease in revenue from *MapleStory M* due to comparison with Q2 2019 right after its launch, as well as a decrease in revenue due to the disposition of our consolidated subsidiary gloops' business.

In North America and Europe, we expect revenue to decrease year-over-year, primarily due to contributions from *KartRider Rush+* launched on May 12th being more than offset by decreases in *OVERHIT*, *AxE* and *Darkness Rises*.

In the rest of the world, we expect revenue to be roughly flat year-over-year, due to contributions from *V4* and *World of Dragon Next*, which launched in Q1 2020, and *KartRider Rush+* launched on May 12th being more than offset by decreases in *Moonlight Blade*, *MapleStory M*, *AxE* and *OVERHIT*.

As for costs for Q2 2020, we expect decreased marketing costs and greater variable costs including royalty costs in relation to an increase in contributions from publishing titles such as *FIFA ONLINE 4*. Moreover, we expect a year-over-year decrease in the costs for Q2 2020 since our outlook does not expect the impairment loss recorded in Q2 2019 to be repeated in Q2 2020.

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

(Reference)

Consolidated financial results forecast for the three months ending June 30, 2020 (from April 1, 2020 to June 30, 2020)

(% 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	%	Yen	%	Yen	%	Yen	%	Yen	%	Yen
2nd Quarter	59,044	9.6%	21,911	68.7%	25,024	13.3%	19,974	8.0%	20,291	6.0%	22.98
	~	~	~	~	~	~	~	~	~	~	~
	64,008	18.8%	26,212	101.8%	29,325	32.8%	23,443	26.8%	23,708	23.8%	26.85

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

During the three months ended March 31, 2020, Nexon Group invested in the investment funds VIP Global Super Growth Hedge Fund, Mirae Asset Global Innovation Growth Focus Equity Privately Placed Investment Trust and Samsung Digital Innovation Equity Fund Private Investment Trust 1, and we have included these funds in the scope of our consolidation. The respective amounts of investment received by these funds correspond to ten-one hundredth (10/100) or more of Nexon's capital stock. Consequently, they are also deemed to be our specified subsidiaries.

(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, 2019 unless otherwise noted, except for the new standards applied as listed below. Nexon Group calculated income taxes for the three months ended March 31, 2020, based on the estimated average annual effective tax rate.

Nexon Group has applied the following standards since Q1 2020, but the application of these standards did not have material impacts on the three months ended March 31, 2020.

Standards	Title	Overview of New or Revised Standard
IFRS 3	Business Combinations	Improved the definition of "business"
IAS 1	Presentation of Financial Statements	Clarified the definition of "material"
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	
IFRS 9 IAS 39	Financial Instruments: Recognition and	Revised the requirements for certain hedge accounting to mitigate the potential impact of uncertainties caused by the IBOR reform
IFRS 7	Measurement Financial Instruments: Disclosures	

3. Condensed Consolidated Financial Statements and Major Notes

(1) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and cash equivalents	253,636	275,144
Trade and other receivables	28,643	51,865
Other deposits	257,331	242,479
Other financial assets	8,418	14,311
Other current assets	5,468	3,828
Total current assets	553,496	587,627
Non-current assets		
Property, plant and equipment	23,481	21,977
Goodwill	42,480	36,694
Intangible assets	21,519	16,597
Right-of-use assets	6,612	5,983
Investments accounted for using equity method	2,515	2,597
Other financial assets	47,256	46,279
Other non-current assets	243	182
Deferred tax assets	21,486	20,192
Total non-current assets	165,592	150,501
Total assets	719,088	738,128

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	7,753	9,567
Deferred income	10,250	9,819
Borrowings	2,223	1,962
Income taxes payable	7,403	16,247
Lease liabilities	2,129	1,951
Provisions	4,099	4,039
Other current liabilities	7,311	9,030
Total current liabilities	41,168	52,615
Non-current liabilities		
Deferred income	15,950	14,878
Lease liabilities	8,507	6,900
Other financial liabilities	826	781
Provisions	260	240
Other non-current liabilities	4,472	4,110
Deferred tax liabilities	16,774	15,686
Total non-current liabilities	46,789	42,595
Total liabilities	87,957	95,210
Equity		
Capital stock	17,967	19,003
Capital surplus	35,688	13,762
Treasury stock	(27,219)	(0)
Other equity interest	38,511	4,055
Retained earnings	555,038	595,718
Total equity attributable to owners of the parent company	619,985	632,538
Non-controlling interests	11,146	10,380
Total equity	631,131	642,918
Total liabilities and equity	719,088	738,128

(2) Condensed Consolidated Income Statement

(Millions of yen)

	Three months ended March 31	
	2019	2020
	(From January 1, 2019 to March 31, 2019)	(From January 1, 2020 to March 31, 2020)
Revenue	93,077	82,762
Cost of sales	(15,900)	(15,343)
Gross profit	77,177	67,419
Selling, general and administrative expenses	(22,055)	(20,614)
Other income	429	1,197
Other expenses	(2,950)	(6,459)
Operating income	52,601	41,543
Finance income	9,810	21,918
Finance costs	(265)	(1,585)
Equity in profit (loss) of affiliates	(334)	113
Income before income taxes	61,812	61,989
Income taxes expense	(9,005)	(12,235)
Net income	52,807	49,754
Attributable to:		
Owners of the parent company	53,400	49,911
Non-controlling interests	(593)	(157)
Net income	52,807	49,754
Earnings per share		
(attributable to owners of the parent company)	(Yen)	(Yen)
Basic earnings per share	59.67	56.57
Diluted earnings per share	59.18	56.11

(3) Condensed Consolidated Statement of Comprehensive Income
For the three months ended March 31, 2019 and 2020

	(Millions of yen)	
	Three months ended March 31	
	2019	2020
	(From January 1, 2019 to March 31, 2019)	(From January 1, 2020 to March 31, 2020)
Net income	52,807	49,754
Other comprehensive income		
Items that will not be reclassified to net income		
Financial assets measured at fair value through other comprehensive income	130	256
Re-measurement of defined benefit pension plans	(49)	27
Income taxes	(73)	(81)
Total items that will not be reclassified to net income	8	202
Items that may be reclassified subsequently to net income		
Exchange differences on translating foreign operations	(7,019)	(35,076)
Other comprehensive income under equity method	1	(1)
Total items that may be reclassified subsequently to net income	(7,018)	(35,077)
Total other comprehensive income	(7,010)	(34,875)
Total comprehensive income	45,797	14,879
Attributable to:		
Owners of the parent company	46,559	15,696
Non-controlling interests	(762)	(817)
Total comprehensive income	45,797	14,879

(4) Condensed Consolidated Statement of Changes in Equity

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

(Millions of yen)

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

For the three months ended March 31, 2020 (From January 1, 2020 to March 31, 2020)

(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, 2020	17,967	35,688	(27,219)	38,511	555,038	619,985	11,146	631,131
Net income for the period	—	—	—	—	49,911	49,911	(157)	49,754
Other comprehensive income	—	—	—	(34,215)	—	(34,215)	(660)	(34,875)
Total comprehensive income	—	—	—	(34,215)	49,911	15,696	(817)	14,879
Issue of shares	1,036	1,036	—	—	—	2,072	—	2,072
Stock issue cost	—	(8)	—	—	—	(8)	—	(8)
Payment of dividends	—	—	—	—	(2,206)	(2,206)	—	(2,206)
Share-based compensation	—	—	—	(238)	—	(238)	—	(238)
Changes in interests in subsidiaries	—	20	—	—	—	20	51	71
Purchase of treasury stock	—	(2)	(2,781)	—	—	(2,783)	—	(2,783)
Cancellation of treasury stock	—	(22,972)	30,000	—	(7,028)	—	—	—
Reclassification from other equity interest to retained earnings	—	—	—	(3)	3	—	—	—
Total transactions with the owners	1,036	(21,926)	27,219	(241)	(9,231)	(3,143)	51	(3,092)
Balance at March 31, 2020	19,003	13,762	(0)	4,055	595,718	632,538	10,380	642,918

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended March 31	
	2019	2020
	(From January 1, 2019 to March 31, 2019)	(From January 1, 2020 to March 31, 2020)
Cash flows from operating activities		
Income before income taxes	61,812	61,989
Depreciation and amortization	1,753	2,147
Share-based compensation expenses	808	372
Interest and dividend income	(3,286)	(3,030)
Interest expense	62	84
Impairment loss	2,890	6,063
Equity in (profit) loss of affiliates	334	(113)
Exchange (gain) loss	(5,458)	(17,077)
(Increase) decrease in trade and other receivables	(39,807)	(25,347)
(Increase) decrease in other current assets	(2,666)	1,213
(Decrease) increase in trade and other payables	(80)	609
(Decrease) increase in deferred income	8	(119)
(Decrease) increase in provisions	707	151
Other	(806)	1,905
Subtotal	16,271	28,847
Interest and dividends received	2,996	3,651
Interest paid	(53)	(135)
Income taxes paid	(3,973)	(2,815)
Net cash provided by operating activities	15,241	29,548
Cash flows from investing activities		
Decrease (increase) in other deposits	(671)	10,189
Purchases of property, plant and equipment	(314)	(371)
Proceeds from sales of property, plant and equipment	4	4
Purchases of intangible assets	(175)	(323)
Payments associated with increase in long-term prepaid expenses	(5)	(0)
Purchases of investment securities	—	(9,879)
Proceeds from sale and redemption of investment securities	279	1,709
Other	(112)	(295)
Net cash provided by (used in) investing activities	(994)	1,034
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(137)
Proceeds from exercise of stock options	1,090	1,554
Purchases of treasury stock	—	(2,783)
Cash dividends paid	(0)	(2,203)
Repayment of lease liability	(359)	(608)
Net cash provided by (used in) financing activities	731	(4,177)
Net (decrease) increase in cash and cash equivalents	14,978	26,405
Cash and cash equivalents at the beginning of the period	205,292	253,636
Effects of exchange rate changes on cash and cash equivalents	(99)	(4,897)
Cash and cash equivalents at the end of the period	220,171	275,144

(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

(a) Amount of dividends paid

For the three months ended March 31, 2020 (From January 1, 2020 through March 31, 2020)

	Class of stock	Total dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Resolution of the Board of Directors on February 20, 2020	Common stock	2,206	2.5	December 31, 2019	March 26, 2020

(b) Purchases of treasury stock

Nexon's treasury stock increased by ¥2,781 million as a result of the purchase of 1,862,000 shares of treasury stock during the three months ended March 31, 2020 based on a resolution of the Board of Directors on September 9, 2019.

(c) Retirement of treasury stock

In the three months ended March 31, 2020, Nexon retired 20,971,021 shares of its treasury stock based on a resolution of the Board of Directors' meeting held on February 13, 2020. As a result, treasury stock and other capital surplus each decreased by ¥30,000 million. Due to the retirement of such treasury stock, the balance of other capital surplus of Nexon as of March 31, 2020 was negative ¥7,028 million and other retained earnings were reduced by this amount.

(8) Segment Information

(a) Outline of reportable segments

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

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

Furthermore, IFRS 15 is applied by Nexon Group. We have therefore presented the revenue arising from our contracts with customers by breaking it down into PC online, mobile and other revenues based on such contracts with customers.

(b) Revenue, profit or loss by reportable segment

Information on the segments of Nexon Group is as follows:

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

(Millions of yen)

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

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

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

3. Adjustments in segment profit or loss of ¥2 million represent elimination of intersegment transactions.

4. A major component of finance income is foreign exchange gain of ¥6,335 million.

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

For the three months ended March 31, 2020 (From January 1, 2020 to March 31, 2020)

(Millions of yen)

	Reportable Segments					Total	Adjustments (Note 3)	Consolidated
	Japan	Korea	China	North America	Other			
Revenue								
Revenue from external customers								
PC online	717	62,237	903	984	432	65,273	—	65,273
Mobile	161	13,666	—	2,728	482	17,037	—	17,037
Other	17	433	—	2	—	452	—	452
Total revenue from external customers	895	76,336	903	3,714	914	82,762	—	82,762
Intersegment revenue	224	511	—	144	90	969	(969)	—
Total	1,119	76,847	903	3,858	1,004	83,731	(969)	82,762
Segment profit or loss (Note 1)	(655)	47,724	653	(461)	(461)	46,800	5	46,805
Other income (expense), net								(5,262)
Operating income								41,543
Finance income (costs), net (Note 4)								20,333
Equity in profit of affiliates								113
Income before income taxes								61,989

(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 ¥5 million represent elimination of intersegment transactions.

4. A major component of finance income is foreign exchange gain of ¥18,663 million.

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

(c) Information on each region

Revenue from external customers are as follows:

Nexon Group has made a change to a part of its regional segmentation of revenue from external customers from the three months ended March 31, 2020. The numbers for the three months ended March 31, 2019 have also been adjusted accordingly.

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

	Revenue by major business			(Millions of yen)
	PC online	Mobile	Other	Total
Main regional market				
Japan	1,013	2,818	2	3,833
Korea	16,365	5,559	433	22,357
China	57,477	44	29	57,550
North America and Europe	860	4,664	27	5,551
Rest of World	1,415	2,353	18	3,786
Total	77,130	15,438	509	93,077

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

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

3. Main countries or regions in each category:

(1) North America and Europe: USA, Canada and Europe

(2) Rest of World: Central and South America and Asian countries

For the three months ended March 31, 2020 (From January 1, 2020 to March 31, 2020)

	Revenue by major business			(Millions of yen)
	PC online	Mobile	Other	Total
Main regional market				
Japan	717	836	14	1,567
Korea	28,857	10,504	383	39,744
China	33,047	452	—	33,499
North America and Europe	893	3,236	39	4,168
Rest of World	1,759	2,009	16	3,784
Total	65,273	17,037	452	82,762

(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 and Europe: USA, Canada and Europe

(2) Rest of World: Central and South America and Asian countries

(Change in presentation method)

From the three months ended March 31, 2020, the revenue from Europe, which was previously included in "Other [Rest of World]" is included along with "North America" under the category of "North America and Europe." This is due to increasing similarity between these regions attributable to the same service being provided by Nexon Group in North America and Europe.

As a result, ¥1,385 million which was presented in "Other [Rest of World]" in the three months ended March 31, 2019 has been reclassified into "North America and Europe."

(9) Subsequent Events

(Issuance of stock options (stock acquisition rights))

At Nexon's Board of Directors' meetings on April 2, 2020 and May 13, 2020, it was resolved to issue stock acquisition rights as stock options without consideration to the directors and employees of Nexon's subsidiary, pursuant to the provisions of Articles 236, 238 and 239 of the Companies Act, as well as a resolution of the Annual General Meeting of Shareholders held on March 25, 2020, to be allotted, respectively, on April 3, 2020 and May 14, 2020. The details are as follows.

Date of resolution	April 2, 2020
Category and number of eligible persons (persons)	Director of Nexon's subsidiary: 1
Number of stock acquisition rights (units) *	250 (Note) 1
Class, description and number of underlying shares (shares)	Common stock: 500,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	1,787 (Note) 3
Exercise period of stock acquisition rights *	From April 3, 2020 to April 2, 2026
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	Issue price: 1,787 Amount of capital stock to be increased: 894
Conditions for exercise of stock acquisition rights*	<ul style="list-style-type: none"> • One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. • In principle, holders of stock acquisition rights must continue to be director or employee of Nexon or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. • Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with organizational restructuring *	Not applicable

* The information above is as at the issuance of the stock acquisition right certificates (April 3, 2020).

(Notes) 1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of Nexon's common stock.

2. In the event that Nexon carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\text{Number of shares after adjustment} = \frac{\text{Number of shares before adjustment}}{\text{Ratio of split or consolidation}}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. In the event that Nexon carries out a stock split (including gratis allocation) or a consolidation of its common stock after the allotment date, the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen resulting from such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \frac{\text{Exercise price before adjustment}}{\text{Ratio of split or consolidation}} \times 1$$

In the event that Nexon issues new shares or sells treasury stock at below market price (except for exercise of stock

acquisition rights), the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of outstanding shares} + \frac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Market price per share}}}{\text{Number of outstanding shares} + \text{Number of newly issued shares}}$$

For the purpose of the calculation above, “Number of outstanding shares” shall be the total number of shares of Nexon’s common stock issued and outstanding less the total number of treasury shares of Nexon’s common stock, and in case of disposition of treasury stock, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed.”

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

Date of resolution	May 13, 2020
Category and number of eligible persons (persons)	Directors and employees of Nexon’s subsidiary: 5
Number of stock acquisition rights (units) *	740 (Note) 1
Class, description and number of underlying shares (shares)	Common stock: 1,480,000 (Note) 2
Amount to be paid upon exercise of stock acquisition rights (yen) *	(Note) 3, 4
Exercise period of stock acquisition rights *	From May 14, 2020 to May 13, 2026
Issue price and the amount of capital stock to be increased by issuance of shares upon exercise of stock acquisition rights (yen) *	<p>i) The amount of capital stock to be increased by the issuance of shares upon exercise of stock acquisition rights shall be one-half (1/2) of the maximum limit on the increase in capital stock as calculated pursuant to Article 17, Paragraph 1 of the Ordinance on Accounting of Companies. Any fraction of less than one yen shall be rounded up.</p> <p>ii) The amount of capital reserve to be increased by the issuance of shares upon exercise of stock acquisition rights shall be the maximum limit on the increase in capital stock provided in i) above less the amount of increased capital stock stipulated in i) above.</p>
Conditions for exercise of stock acquisition rights*	<ul style="list-style-type: none"> • One third (1/3) of the units granted shall vest on the day on which one year has elapsed from the allotment date. Thereafter, one twelfth (1/12) of the units granted shall vest every three months until the day on which three years have elapsed from the allotment date. The vested stock acquisition rights may be exercised during the exercise period only if terms and conditions for the issuance and other conditions for exercise set forth in the Stock Acquisition Rights Allotment Agreement are satisfied. • In principle, holders of stock acquisition rights must continue to be director or employee of Nexon or its subsidiary from the allotment date up to the date of exercise to be eligible to exercise the right. • Partial exercise of stock acquisition rights is not allowed.
Assignment of stock acquisition rights *	Stock acquisition rights cannot be assigned or pledged as collateral.
Issuance of stock acquisition rights associated with organizational restructuring *	Not applicable

* The information above is as at the approval of the stock acquisition right certificates by Nexon’s Board of Directors (May 13, 2020).

- (Notes)
1. The number of underlying shares per unit of stock acquisition right is 2,000 shares of Nexon’s common stock.
 2. In the event that Nexon carries out a stock split (including gratis allocation) or stock consolidation, the number of underlying shares shall be adjusted according to the formula outlined below. However, such adjustment shall be made only to those subject to stock acquisition rights unexercised at the time of such adjustment, and any fraction less than one share resulting from such adjustment shall be rounded down.

$$\frac{\text{Number of shares after adjustment}}{\text{Number of shares before adjustment}} = \text{Ratio of split or consolidation}$$

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the number of shares to be adjusted, the number of shares shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.

3. “Amount to be paid upon exercise of stock acquisition rights” shall be the closing price of ordinary transactions of Nexon’s common stock on the Tokyo Stock Exchange on the allotment date of stock acquisition right.
4. In the event that Nexon carries out a stock split (including gratis allocation) or a consolidation of its common stock after the allotment date, the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen resulting from such adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

In the event that Nexon issues new shares or sells treasury stock at below market price (except for exercise of stock acquisition rights), the exercise price shall be adjusted according to the following formula. Any fraction of less than one yen shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\frac{\text{Number of outstanding shares}}{\text{Number of outstanding shares}} + \frac{\text{Number of newly issued shares} \times \text{Amount paid per share}}{\text{Market price per share}}}{\text{Number of outstanding shares} + \text{Number of newly issued shares}}$$

For the purpose of the calculation above, “Number of outstanding shares” shall be the total number of shares of Nexon’s common stock issued and outstanding less the total number of treasury shares of Nexon’s common stock, and in case of disposition of treasury stock, “Number of newly issued shares” shall be read as “Number of treasury shares to be disposed.”

In addition, in case of merger, company split, share exchange, share transfer or other events that compel the exercise price to be adjusted, the exercise price shall be adjusted to the extent reasonable taking into consideration the terms and conditions of such merger, company split, share exchange or share transfer.