



# **Investor Presentation**

## **Q3 2013**

**NEXON Co., Ltd.**

# Q3 2013 Results

# Highlights

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- **Third quarter results above the high end of guidance**
  - ¥39.9 bn revenues, up 64% year-over-year, up 36% on a constant currency basis
  - ¥16.2 bn operating income, up 53% year-over-year; 40.7% operating margin
- **China: Continued stable performance**
  - Primary revenue drivers *Dungeon&Fighter* and *Counter-Strike Online*
  - *Dungeon&Fighter* continued to deliver stable performance supported by National Holiday updates released September 24
  - Higher pay rate and ARPPU offset MAU declines
- **Korea: Accelerated growth trajectory driven by new and existing titles**
  - *FIFA Online 3* and *Sudden Attack* were strong performers, growing market share
  - Solid quarter for other existing titles including *Dungeon&Fighter* and *Mabinogi*
  - Mobile: *Fantasy Runners for Kakao* contributed to revenue growth
- **Japan: Focused on existing title operations and new title development**
  - Stable performance in existing mobile titles including *Three Kingdoms Guild Battle*
  - Released *Dragon Eclipse*, the first co-development title with DeNA
- **Significant steps taken towards expanding footprint in the Western market**
  - Investment in Shiver Entertainment Studio, led by John Schappert, former Zynga Chief Operating Officer
  - Publishing agreement for *Extraction* by Nexon America
- **Weaker Japanese yen provided a tailwind**

# Q3 Financial Results

(Unit: ¥ millions, except per share data)

## Select Consolidated Financial Data (IFRS)

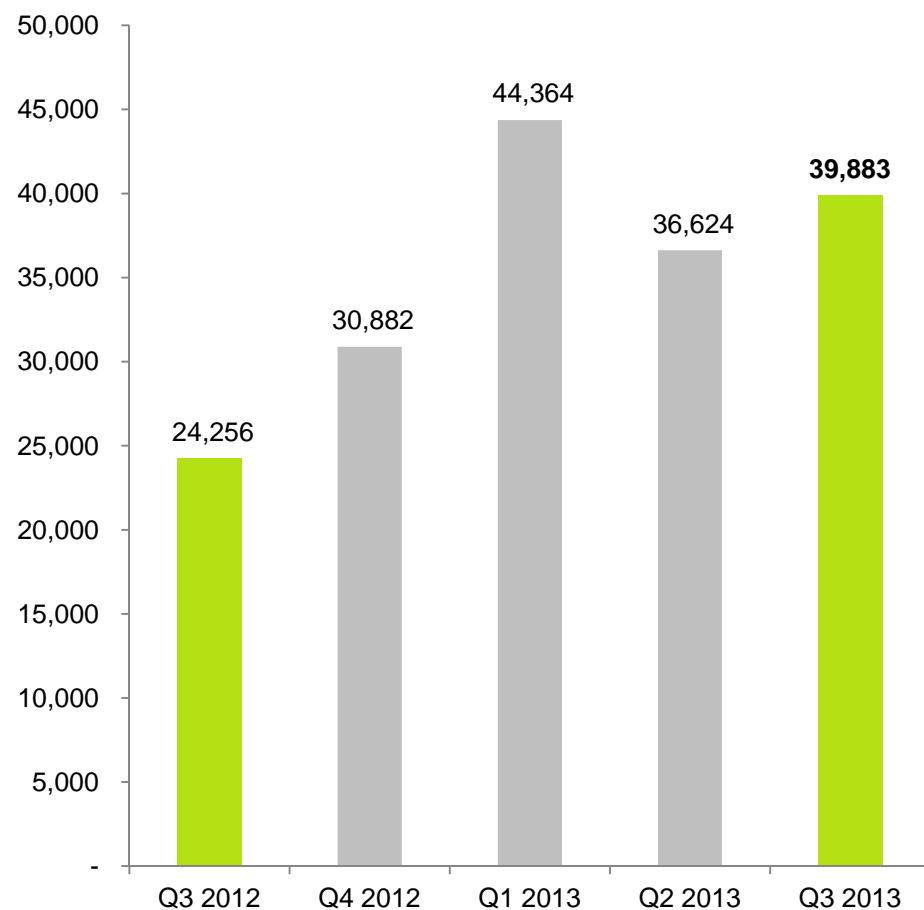
	Q3 2012	Q3 2013 Outlook		Q3 2013	YoY %
<b>Revenues</b>	¥24,256	¥37,153	~	¥39,816	¥39,883 64%
PC	23,567	30,578	~	32,655	32,995 40%
Mobile	690	6,575	~	7,161	6,887 10.0x
<b>Operating income</b>	10,602	12,246	~	14,534	16,237 53%
<b>Net income <sup>1</sup></b>	7,352	8,889	~	10,426	8,054 10%
Earnings per share	16.94	20.36	~	23.88	18.35 8%
Cash and cash equivalents	116,362			103,820	
<b>Exchange rates</b>					
100 KRW/JPY	6.98	8.67		8.67	8.94
CNY/JPY	12.55	15.31		15.31	16.06
USD/JPY	79.37	95.59		95.59	98.95

<sup>1</sup> Net income refers to net income attributable to owners of the parent, as stated in Nexon's consolidated financial results.

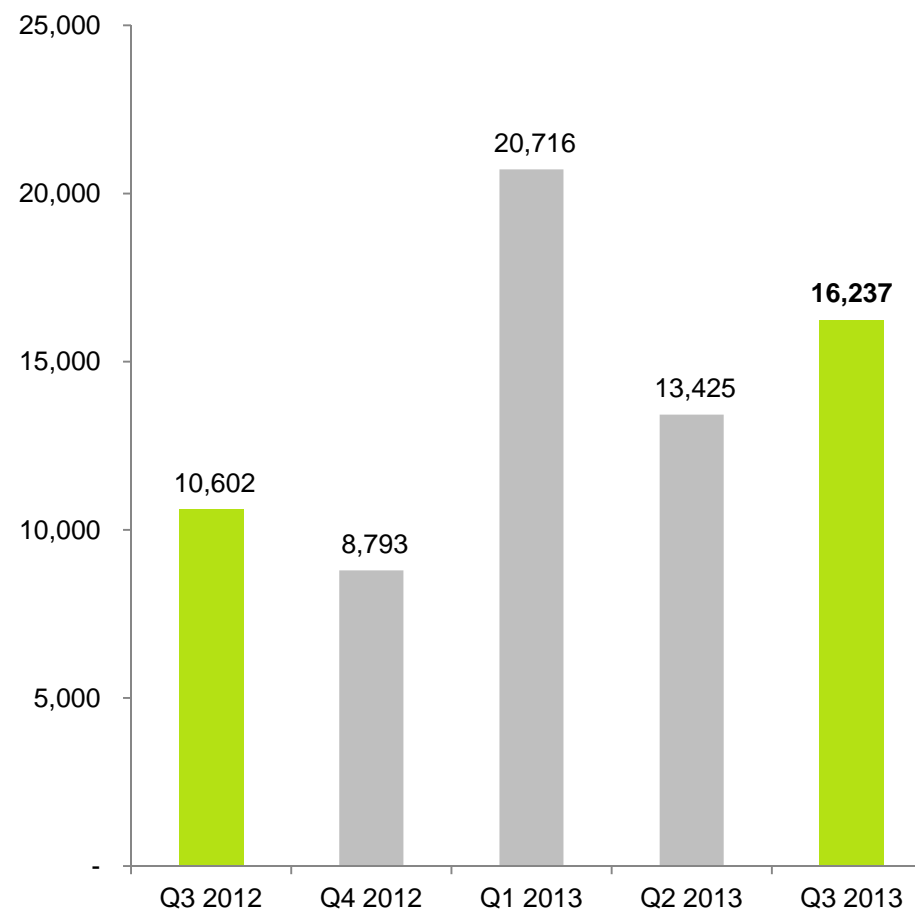
# Revenues and Operating Income

(Unit: ¥ millions)

## Revenues



## Operating Income



# Regional Revenues and Selected Performance Metrics

(Unit: ¥ millions)

	Q3 2012	Q3 2013		YoY % Change	
		(As-Reported)	(Constant Currency)	(As-Reported)	(Constant Currency)
<b>Revenue by Region<sup>1</sup></b>					
China	¥11,404	¥15,962	¥12,464	40%	9%
Korea	6,579	12,151	9,488	85%	44%
Japan	3,232	8,755	8,754	171%	171%
North America	1,341	1,364	1,093	2%	-18%
Europe and Others <sup>2</sup>	1,701	1,651	1,290	-3%	-24%
<b>Nexon Total</b>	<b>24,256</b>	<b>39,883</b>	<b>33,089</b>	<b>64%</b>	<b>36%</b>
<b>Revenue by Platform</b>					
PC	23,567	32,995	26,290	40%	12%
Mobile	690	6,887	6,799	10.0x	9.9x
<b>Nexon Total</b>	<b>24,256</b>	<b>39,883</b>	<b>33,089</b>		
<b>FX Rate</b>					
100 KRW/JPY	6.98	8.94	6.98		
CNY/JPY	12.55	16.06	12.55		
USD/JPY	79.37	98.95	79.37		
<b>Selected Performance (Excluding Mobile)<sup>3</sup></b>	<b>Q3 2012</b>	<b>Q4 2012</b>	<b>Q1 2013</b>	<b>Q2 2012</b>	<b>Q3 2013</b>
MAU (millions)	78.8	68.3	71.5	71.0	62.6
Pay Rate	9.6%	10.5%	11.5%	10.2%	10.4%
ARPPU <sup>4</sup> (as-reported)	¥1,729	¥1,683	¥2,532	¥2,181	¥2,447
ARPPU (constant currency) <sup>5</sup>	1,729	1,608	2,144	1,722	2,109

<sup>1</sup> Based on the regions in which revenues originate; not a representation of our revenues according to Nexon entities.

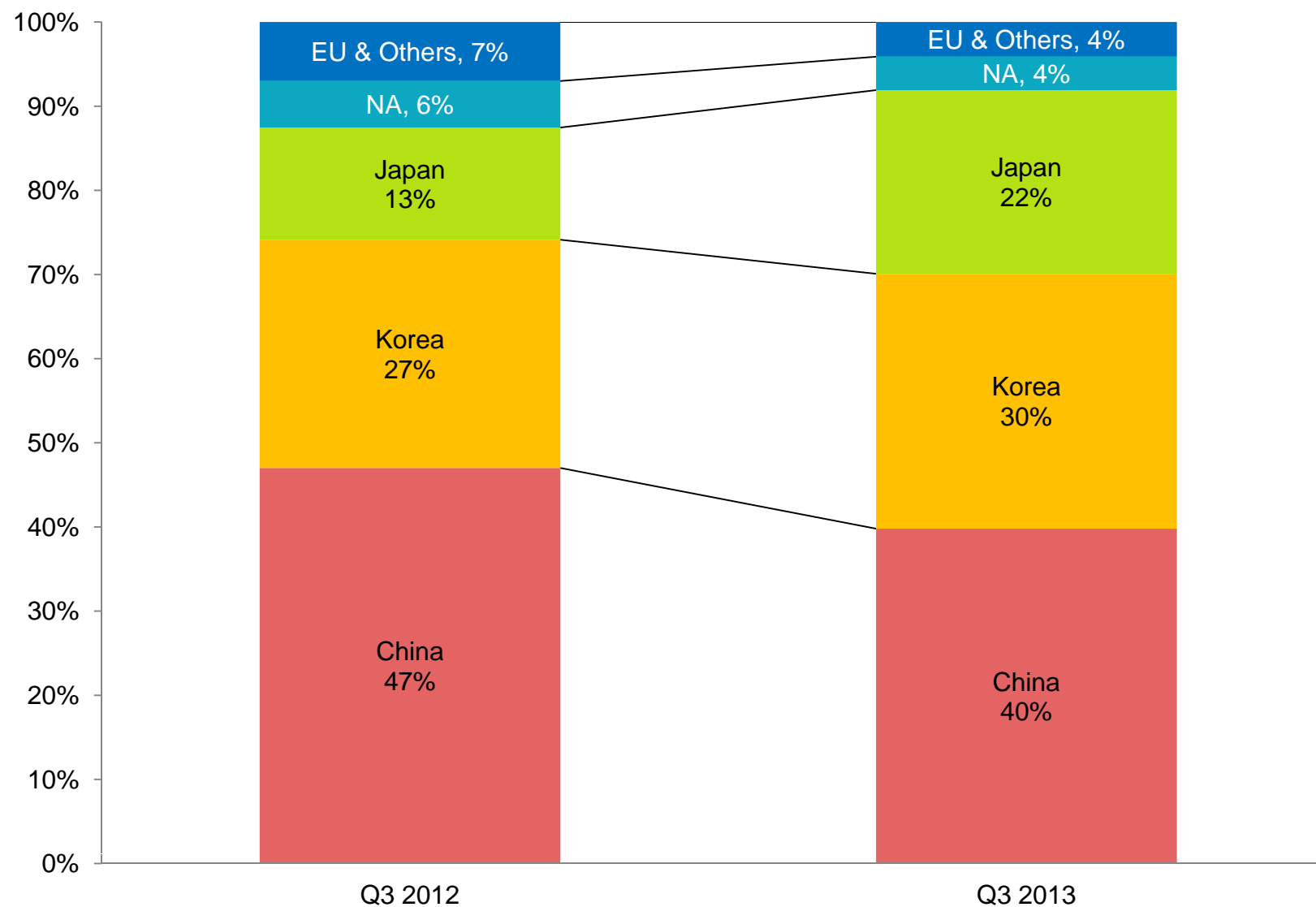
<sup>2</sup> Europe and Others includes other Asian countries and South American countries.

<sup>3</sup> Selected Performance data is not dependent on accounting methods. The selected performance above excludes the mobile business.

<sup>4</sup> ARPPU (Average Revenue per Paying User) is the average of monthly ARPPUs for the quarter.

<sup>5</sup> On a constant currency basis (using Q3 2012 currency exchange rates).

# Regional Revenue Composition



# Regional Highlights



# China – Highlights

- Revenues were ¥16.0 billion, up 40% year-over-year or up 9% using constant currency
- Dungeon&Fighter* in-line with expectations; tier one content updates introduced September 24 were well-received
- Counter-Strike Online* also continued to show year-over-year growth
- Mobile game, *KartRider Rush Plus*, maintained strong user metrics

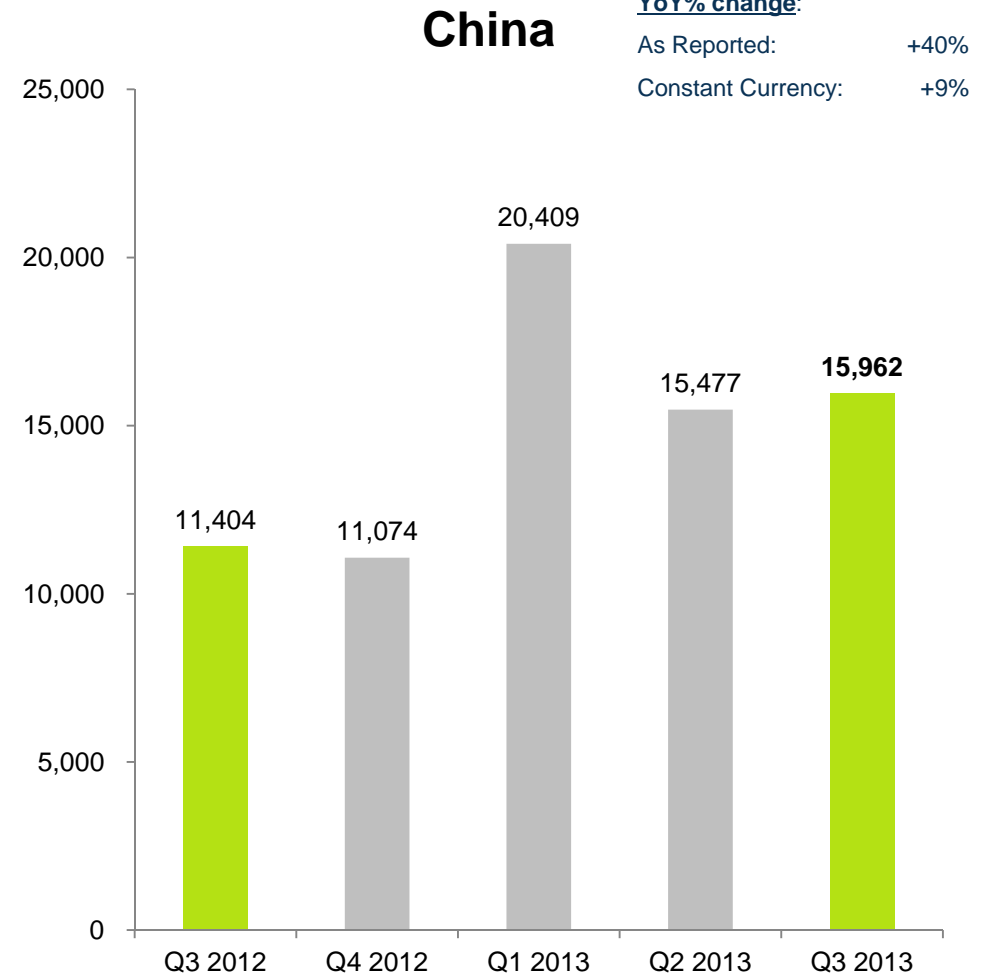


Dungeon&Fighter



KartRider Rush Plus

(Unit: ¥ millions)



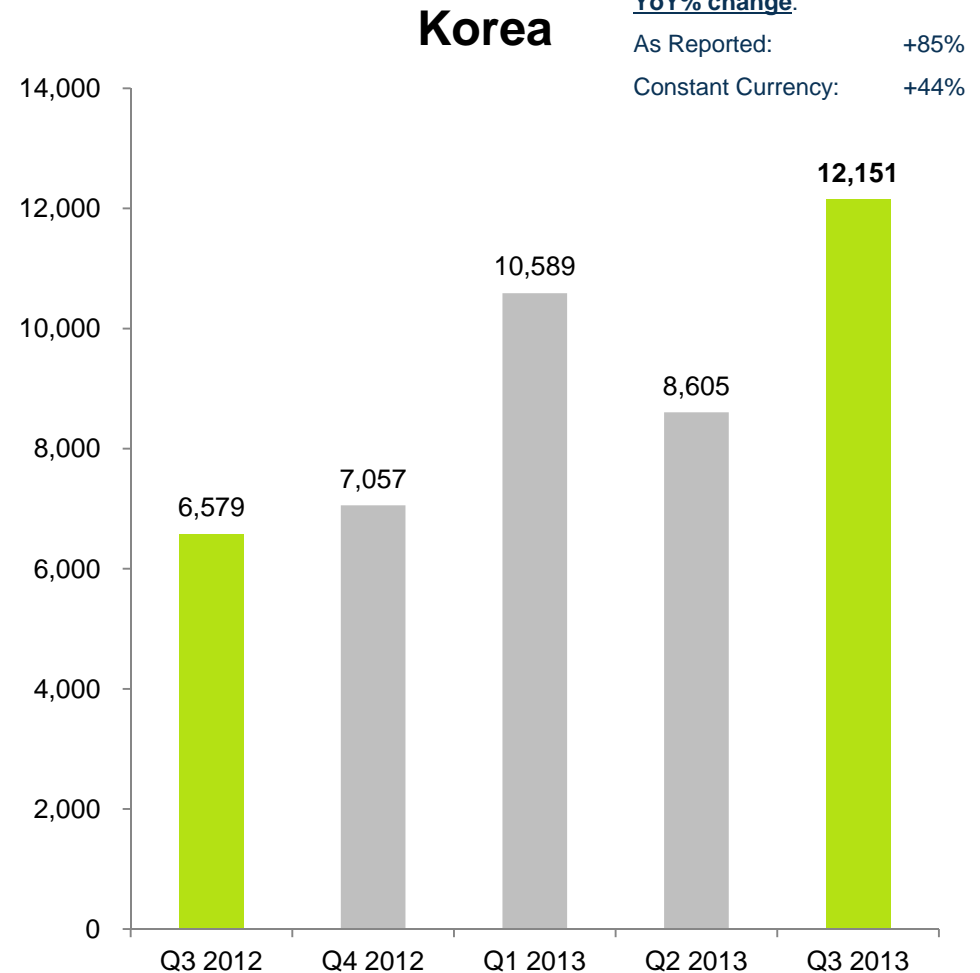
# Korea – Highlights

- Revenues were ¥12.2 billion, up 85% year-over-year or up 44% on a constant currency basis
- FIFA Online 3* and *Sudden Attack* were strong performers, maintaining the #1 positions in their respective genres



- Strong quarter for existing titles such as *Dungeon&Fighter* and *Mabinogi*
- Mobile game *Fantasy Runners for Kakao* performed well, further supported by successful promotions
- Acquired THINGSOFT, a leading PC online game development studio

(Unit: ¥ millions)



# Japan – Highlights

- Revenues were ¥8.8 billion, an increase of 171% year-over-year due to mobile acquisitions
- Stable performance of existing mobile titles including *Three Kingdoms Guild Battle*



*Three Kingdoms Guild Battle*



*Dragon Eclipse*

- gloops launched *Dragon Eclipse*, the first co-development title with DeNA
  - Released a native version in October
- Continued to invest aggressively to expand capabilities in native development

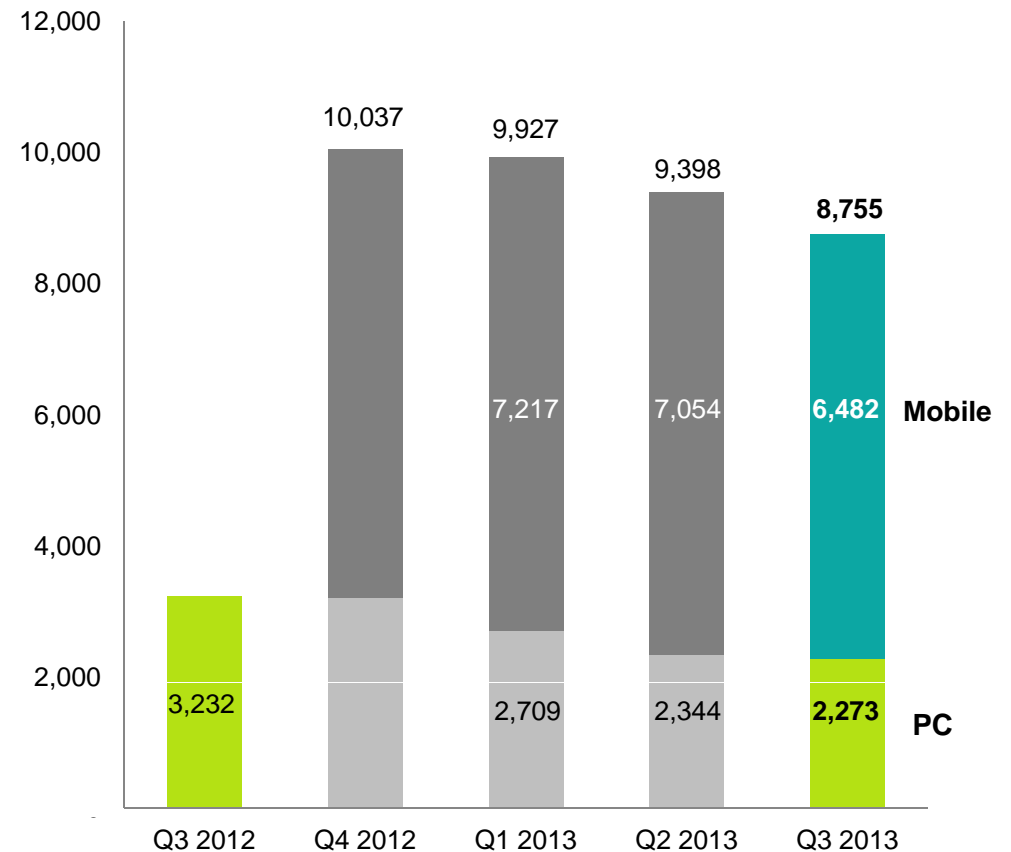
(Unit: ¥ millions)

## Japan

YoY% change:

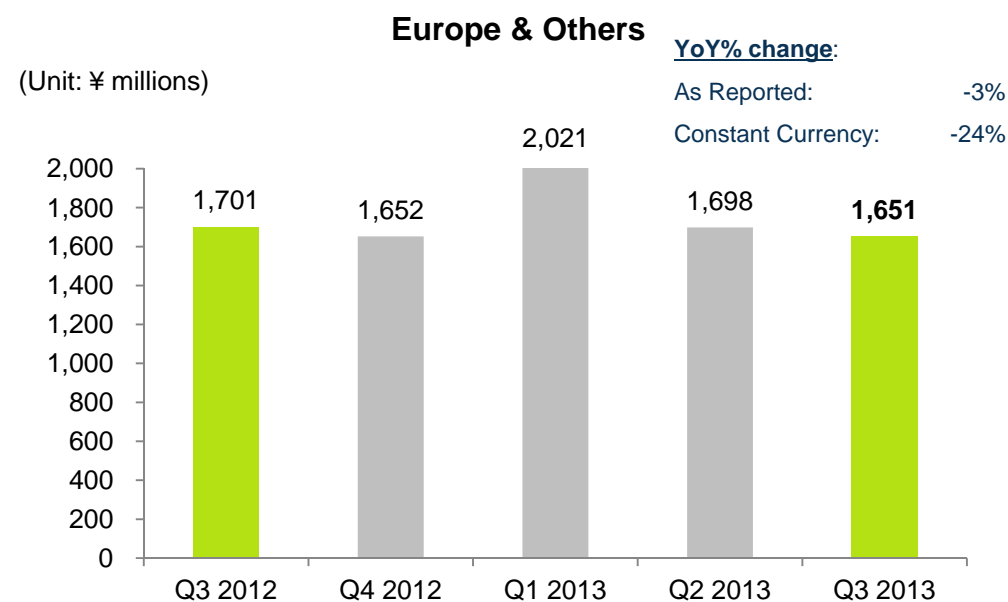
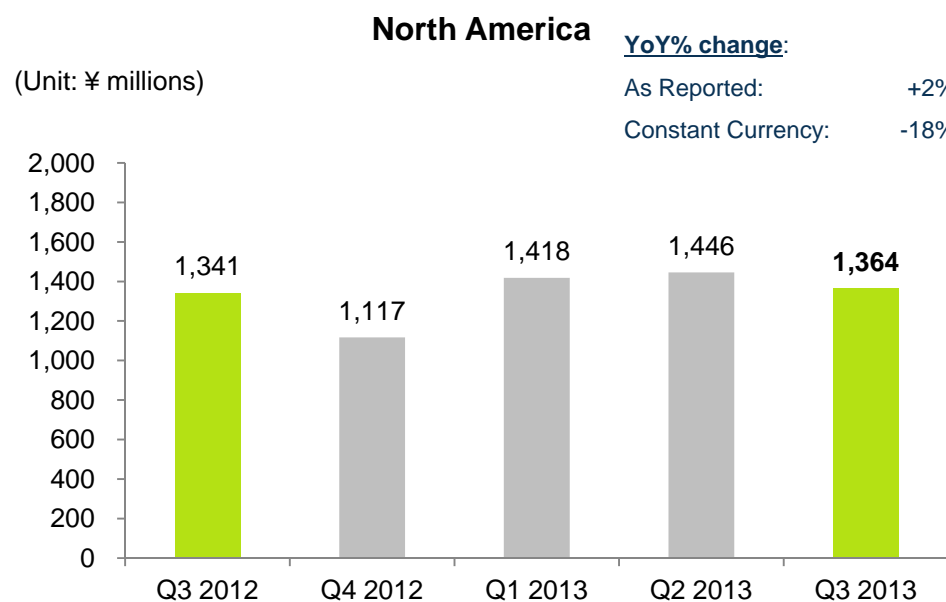
As Reported: +171%

Constant Currency: +171%



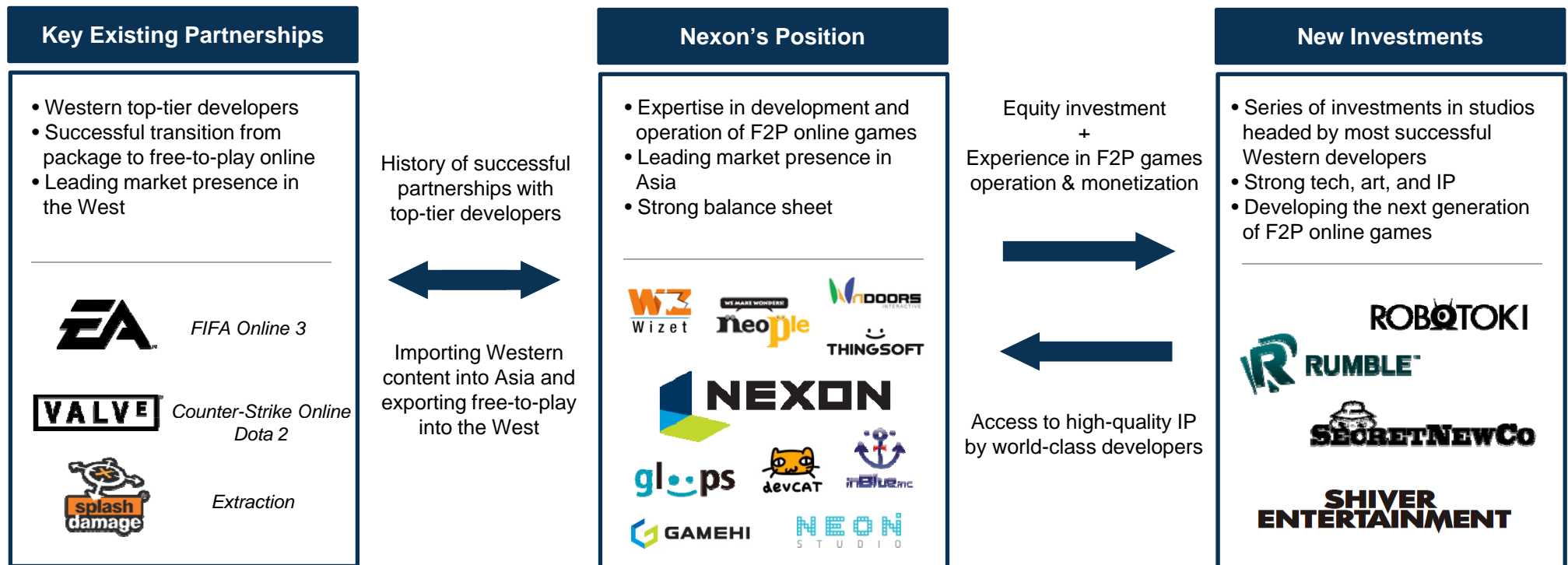
# North America / Europe and Others – Highlights

- Revenues in North America were ¥1.4 billion, an increase of 2% year-over-year, or a decrease of 18% on a constant currency basis
- Revenues in Europe and other regions were ¥1.7 billion, a decrease of 3% year-over-year or a decrease of 24% on a constant currency basis
- Investment in Shiver Entertainment, headed by former Zynga COO, John Schappert
  - Continuing trend of investing in leading developers for Western audiences across platforms
- Nexon America announced a publishing agreement for *Extraction* with UK developer Splash Damage



# New Strategic Initiatives

- Series of investments in next-generation online F2P game developers around the world with strong track records
- Partners are seeking to leverage Nexon's leading global platform and expertise in F2P, multiplayer, online games
- Targeting expansion in the Western market, securing relevant content for that market
- History of successful partnerships with top-tier developers



# Q4 2013 Business Outlook

# Q4 2013 Business Outlook

(Unit: ¥ millions, except per share data)

	Q4 2012	Q4 2013		
<b>Revenues</b>	¥30,882	¥31,775	~	¥33,606
PC	23,813	25,916	~	27,198
Mobile	7,070	5,860	~	6,408
<b>Operating income</b>	8,793	6,748	~	7,921
<b>Net income <sup>1</sup></b>	552	4,814	~	5,730
 <b>Earnings per share</b>	 1.27	 10.96	 ~	 13.05
 <b>FX Rate Assumptions</b>				
100 KRW/JPY	7.10	8.94		8.94
CNY/JPY	12.64	16.06		16.06
USD/JPY	79.82	98.95		98.95

<sup>1</sup> Net income refers to net income attributable to owners of the parent, as stated in Nexon's consolidated financial results.

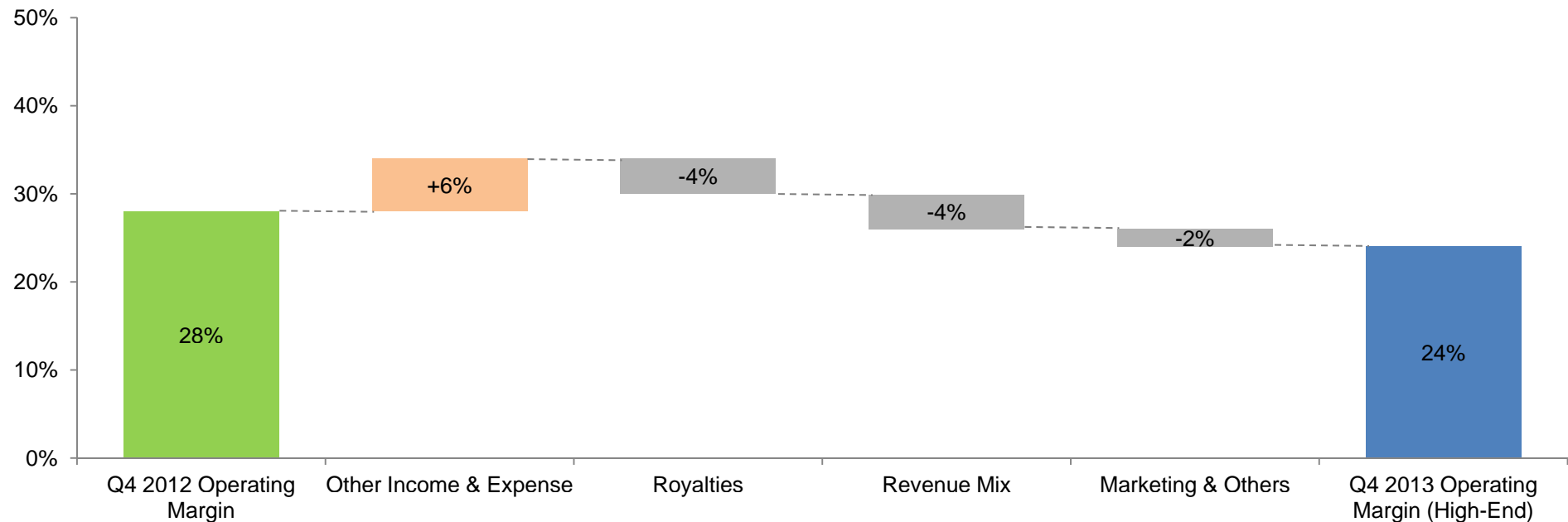
**Currency sensitivity:** Based on the assumptions above, every one Japanese yen move against the U.S. dollar would have an impact of 0.25 billion yen on revenue and 0.08 billion yen on operating income for the fourth quarter of 2013. In most situations, the exchange rates of both the South Korean won and the Chinese yuan are linked to the U.S. dollar.

# Q4 2013 Operating Margin Outlook

Expect operating margin of 21% to 24% due to:

- Other Income and Expense: In Q4 2012 we recorded impairment loss for goodwill and game IP.
- Royalties: Costs associated with third-party licensed games, including *FIFA Online 3* and *Dota 2*
- Revenue Mix: Change in the geographical revenue composition given the balance of China to Korea relative last year
- Marketing & Others: Includes support and marketing costs for new title launches

Margin Structure Shift Illustration <sup>1</sup>



<sup>1</sup> Chart is an approximation.



# Q4 2013 PC Online Revenue Outlook

- Expect revenues to be up 9% to 14% year-over-year; decline of 12% to 7% on a constant currency basis
- New launches start small but will build as we monitor and grow games over time
- Q4 seasonally slower for PC online games as we prepare for next year's updates

## China

- *Dungeon&Fighter* and *Counter-Strike Online* expected to maintain positions as top titles in China
- Focus on user retention and preparation for Q1 2014 updates
- Q4 launch: *Cyphers* (October 24)



 *Dungeon&Fighter*



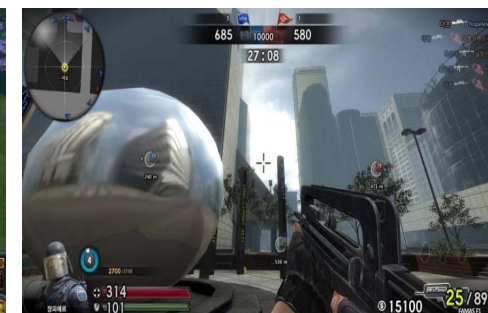


## Korea

- Continue double-digit year-over-year growth led by new and existing titles
  - Expect *FIFA Online 3* and *Sudden Attack* to maintain the top positions in their respective genres
- Q4 launch: *Dota 2* (October 25), *Counter-Strike Online 2* (TBA)









# Q4 2013 Mobile Revenue Outlook

- Expect revenues to decline 17% to 9% year-over-year and decline 15% to 7% quarter-over-quarter
- Focus on development of new browser and native titles and the operation of existing titles

## Japan

- Revenue contribution from *Dragon Eclipse* and *Skylock*
- Continued effort to release at least five new native titles in Q4 while maintaining the browser titles
  - Run promotions for good performers
- Continued push to native games
  - Developing the Android version of *Euro Club Team Soccer BEST\*ELEVEN+*, currently only available for iOS
  - Contribution from *MapleStory Village* on *LINE* (launched in Q3), and other new titles

## Korea

- Revenue contribution from *Fantasy Runners for Kakao*
- Active Q4 lineup with five launches expected, including *Legion of Heroes* and *Puzzle Three Kingdoms for Kakao*



*Skylock*



*Dragon Eclipse*



*Legion of Heroes*

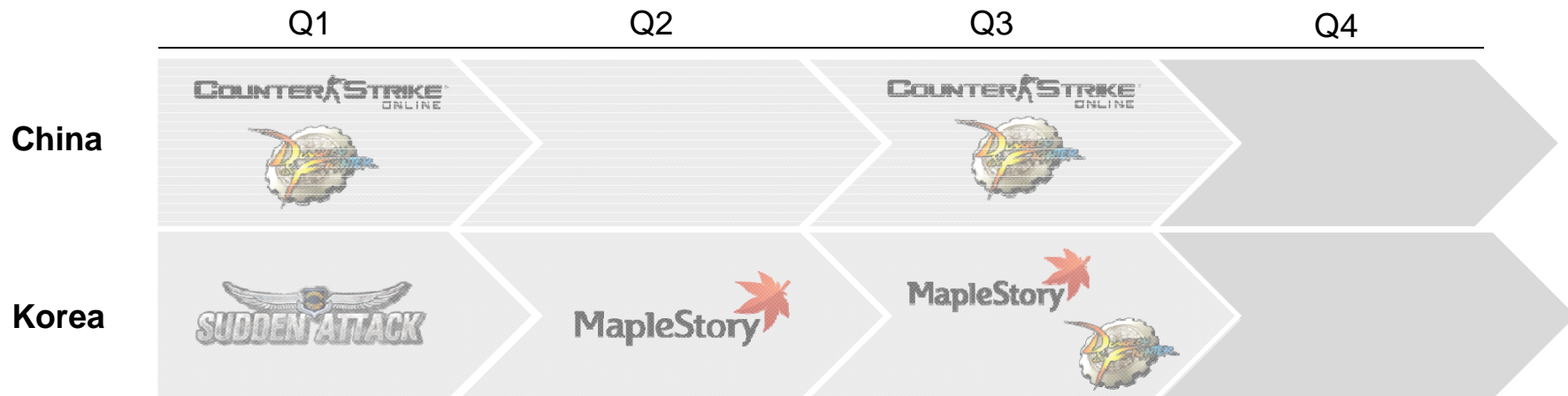


*Fantasy Runners for Kakao*

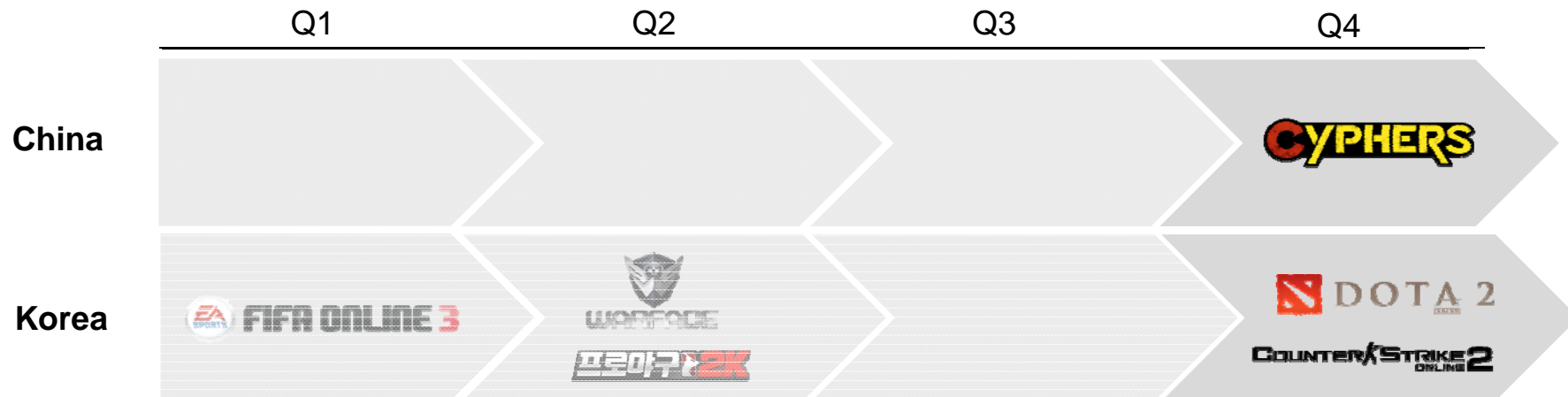


# 2013 Tier 1 Content Updates and Launches

## Tier 1 Content Updates – Major Titles



## Launches



# Appendix

# Summary of Results and Key Operational Metrics

(Unit: ¥ millions except per share data)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	YoY%
<i>(By Region)</i>								
China	¥15,175	¥10,738	¥11,404	¥11,074	¥20,409	¥15,477	¥15,962	40%
Korea	8,857	6,251	6,579	7,057	10,589	8,605	12,151	85%
Japan	3,097	2,826	3,232	10,037	9,927	9,398	8,755	171%
North America	1,398	1,516	1,341	1,117	1,418	1,446	1,364	2%
Europe and Others	1,850	1,546	1,701	1,652	2,021	1,698	1,651	-3%
<i>(By Business)</i>								
PC online	30,151	22,697	23,567	23,813	36,877	29,333	32,995	40%
Mobile	226	180	690	7,070	7,487	7,291	6,887	10.0x
<b>Revenue</b>	<b>30,377</b>	<b>22,877</b>	<b>24,256</b>	<b>30,882</b>	<b>44,364</b>	<b>36,624</b>	<b>39,883</b>	<b>64%</b>
<b>Operating income</b>	<b>16,760</b>	<b>11,112</b>	<b>10,602</b>	<b>8,793</b>	<b>20,716</b>	<b>13,425</b>	<b>16,237</b>	<b>53%</b>
<b>Net income<sup>1</sup></b>	<b>12,996</b>	<b>7,383</b>	<b>7,352</b>	<b>552</b>	<b>15,150</b>	<b>11,365</b>	<b>8,054</b>	<b>10%</b>
<b>Earnings per share</b>	<b>30.26</b>	<b>17.05</b>	<b>16.94</b>	<b>1.27</b>	<b>34.77</b>	<b>25.98</b>	<b>18.35</b>	<b>8%</b>
<b>Cash and deposits</b>	<b>111,786</b>	<b>105,941</b>	<b>116,362</b>	<b>84,736</b>	<b>110,510</b>	<b>112,235</b>	<b>103,820</b>	
<b>FX rate</b>								
100 KRW/JPY	7.03	7.00	6.98	7.10	8.53	8.81	8.94	
CNY/JPY	12.55	12.63	12.55	12.64	14.73	15.94	16.06	
USD/JPY	79.28	79.74	79.37	79.82	92.42	98.76	98.95	
<b>Key Performance (Excluding Mobile)</b>								
MAU (millions)	82.8	77.4	78.8	68.3	71.5	71.0	62.6	
Pay Rate	10.9%	10.3%	9.6%	10.5%	11.5%	10.2%	10.4%	
ARPPU (as-reported)	1,761	1,521	1,729	1,683	2,532	2,181	2,447	
ARPPU (constant currency) <sup>2</sup>	n/a	n/a	1,729	1,608	2,144	1,722	2,109	

<sup>1</sup> Net income refers to net income attributable to owners of the parent, as stated in Nexon's consolidated financial results.

<sup>2</sup> Using the currency rates of Q3 2012. Q1 and Q2 2012 ARPPU on a constant currency base are not available.

# COGS and SG&A

(Unit: ¥ millions)

	FY2012				FY2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Total Cost of Revenue <sup>1</sup></b>	<b>¥4,405</b>	<b>¥3,786</b>	<b>¥4,490</b>	<b>¥5,921</b>	<b>¥7,831</b>	<b>¥7,734</b>	<b>¥9,229</b>
Royalty <sup>2</sup>	1,569	934	1,434	1,548	2,673	2,180	3,539
HR cost (COGS) <sup>3</sup>	1,624	1,650	1,691	2,405	2,875	3,193	3,014
Other(COGS) <sup>4</sup>	1,212	1,201	1,365	1,968	2,283	2,361	2,676
<b>Total SG&amp;A</b>	<b>8,031</b>	<b>7,805</b>	<b>9,038</b>	<b>14,200</b>	<b>15,343</b>	<b>13,945</b>	<b>14,313</b>
HR cost	1,912	2,017	2,055	2,802	3,004	3,241	2,814
PG fee <sup>5</sup>	1,260	1,026	765	1,993	2,259	2,037	2,322
R&D	587	766	644	558	659	860	1,035
Marketing / advertising expenses	1,023	870	1,857	2,461	1,878	3,202	2,211
Depreciation and amortization	1,903	1,917	1,885	2,190	2,488	2,552	2,556
Other <sup>6</sup>	1,346	1,210	1,833	4,195	5,055	2,052	3,375
Other Income <sup>7</sup>	78	126	63	1,077	164	102	225
Other Expense <sup>8</sup>	1,259	300	189	3,047	638	1,622	329

<sup>1</sup> Breakdown of COGS and SG&As are unaudited.

<sup>2</sup> Royalty costs include royalties paid to third-party developers for the right to publish their games.

<sup>3</sup> HR cost includes salaries, bonuses and benefits for our live game developers, who support post launch servicing, updating and support for our games.

<sup>4</sup> Other (COGS) primarily consists of depreciation and amortization of assets related to existing games, connection fees (mainly comprised of co-location and datacenter fees, Internet bandwidth and access fees), and the costs of purchasing and maintaining our servers and computer equipment.

<sup>5</sup> PG fees increased in Q4 2012 due to the consolidation of gloops, which resulted in increased carrier payment commission.

<sup>6</sup> Other includes mobile platform commission fees.

<sup>7</sup> Other Income includes rent income, other non-operating income, reversal of deferred revenues, gain on sale of properties, and gain on change in equity.

<sup>8</sup> Other Expense includes other non-operating expenses, loss on sale/disposal of properties, loss on impairment of tangible fixed assets, loss on impairment of intangible assets, loss on impairment of other fixed assets, loss on change in equity, and loss on liquidation of subsidiaries. Q2 2013 Other Expense impairment of game IP and impairment of goodwill.

# P&L Below Operating Income

(Unit: ¥ millions)

	FY2012				FY2013		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Operating Income</b>	<b>¥16,760</b>	<b>¥11,112</b>	<b>¥10,602</b>	<b>¥8,793</b>	<b>¥20,716</b>	<b>¥13,425</b>	<b>¥16,237</b>
Finance Income <sup>1</sup>	1,501	394	576	1,408	2,336	2,342	739
Finance Costs <sup>2</sup>	164	1,502	1,125	254	196	1,471	3,138
<b>Equity in net losses of affiliates, equity method companies</b>	<b>959</b>	<b>159</b>	<b>189</b>	<b>3,470</b>	<b>268</b>	<b>99</b>	<b>(15)</b>
<b>Income before Income Tax</b>	<b>17,138</b>	<b>9,845</b>	<b>9,864</b>	<b>6,477</b>	<b>22,588</b>	<b>14,197</b>	<b>13,853</b>
Taxes	(4,245)	(2,342)	(2,474)	(6,104)	(7,238)	(2,875)	(5,712)
<b>Net Income <sup>3</sup></b>	<b>12,996</b>	<b>7,383</b>	<b>7,352</b>	<b>552</b>	<b>15,150</b>	<b>11,365</b>	<b>8,054</b>

<sup>1</sup> 2013 Q1 and Q2 Financial Income are mainly caused by FX

<sup>2</sup> 2013 Q2 Finance Costs are primarily due to a loss recorded from the disposal of JCE shares. 2013 Q3 Finance Costs are primarily due to the U.S. dollar to Korean won exchange rate impact chiefly associated with *Dungeon&Fighter* royalties from China.

<sup>3</sup> Net income refers to net income attributable to owners of the parent, as stated in Nexon's consolidated financial results.



# Balance Sheet

(Unit: ¥ millions)

	Year-end 2012	Q3 2013
<b>Asset</b>		
Current Assets		
Cash and cash equivalents	¥84,736	¥103,820
Other current assets	70,428	85,943
<b>Total current assets</b>	<b>155,164</b>	<b>189,763</b>
Noncurrent assets		
Tangible assets	10,527	17,049
Intangible assets	30,800	28,650
Goodwill	46,475	48,982
Others	77,222	90,125
<b>Total noncurrent assets</b>	<b>165,024</b>	<b>184,806</b>
<b>Total assets</b>	<b>320,188</b>	<b>374,569</b>
<b>Liability</b>		
Current liabilities		
Current tax liabilities, current	9,491	7,359
Current borrowings	11,505	11,640
Others	23,324	25,013
<b>Total current liabilities</b>	<b>44,320</b>	<b>44,012</b>
Noncurrent liabilities		
Non-current borrowings	42,670	33,192
Others <sup>1</sup>	10,953	12,159
<b>Total noncurrent liabilities</b>	<b>53,623</b>	<b>45,351</b>
<b>Total liabilities</b>	<b>97,943</b>	<b>89,363</b>
<b>Equity</b>		
Issued capital	51,342	51,912
Share premium	50,188	50,651
Other equity interest	11,905	42,600
Retained earnings	105,293	135,807
Non-controlling interests	3,517	4,236
<b>Total equity</b>	<b>222,245</b>	<b>285,206</b>
<b>Total liabilities and total equity</b>	<b>320,188</b>	<b>374,569</b>



# Key Cash Flow Statement

(Unit: ¥ millions)

	Nine months ending September 30, 2012	Nine months ending September 30, 2013
Cash flows from operating activities	¥29,560	¥38,457
Cash flows from investing activities	(64,571)	(12,974)
Cash flows from financing activities	33,249	(14,995)
Effect of exchange rate change on cash and cash equivalents	(1,762)	10,488
Net increase in cash and cash equivalents	525	8,596
Cash and cash equivalents at beginning of fiscal year	117,599	84,736
Cash and cash equivalents at end of fiscal year	116,362	103,820

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This presentation includes forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "anticipate", "assume", "believe", "estimate", "expect", "forecast", "may", "plan", "potential", "predict", "seek", "should", or "will", or by other similar terminology. These statements discuss expectations, identify strategies, contain projections of Nexon's financial condition or results of operations or state other forward-looking information. The forward-looking statements in this presentation are subject to various risks, uncertainties and assumptions about Nexon's business and results of operations. The expectations expressed in these forward-looking statements may not be achieved, and actual results could differ materially from and be worse than expectations. Potential risks and uncertainties that could cause actual results to differ materially from expectations include, without limitation:

- Continued growth and popularity of Nexon's key titles;
- Nexon's ability to maintain favorable relationships with key licensing partners;
- Nexon's continued ability to offer games in China, through local partners or otherwise;
- Nexon's ability to compete effectively in the online games industry;
- Nexon's ability to address hacking, viruses, security breaches and other technical challenges;
- Fluctuations in currency exchange rates;
- Nexon's ability to maintain and further develop its brand name;
- Effective acquisition of new companies, businesses, technologies and games from third parties and the possibility of recognizing impairment losses;
- Continued growth of the online games market, including the underlying infrastructure, and free-to-play/item-based revenue generation model;
- Nexon's ability to adapt to new technologies;
- Nexon's ability to enter into licensing arrangements for third-party titles on terms favorable to it;
- Effective defense of Nexon's intellectual property; and
- Legislative, regulatory, accounting and taxation changes in the countries in which Nexon operates.

Nexon does not intend, and disclaims any duty, to update or revise any forward-looking statements contained in this presentation to reflect new information, future events or otherwise. We caution you not to place undue reliance on the forward-looking statements contained in this presentation.



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