

FY2017 Q1 Earnings Conference Call (Held on May 12, 2017)

Q&A Summary

【Q】 You mentioned that you will suspend dividend for a while. When will you be able to pay dividends? Could you also let me know the conditions that enable you to resume dividends? Also, you mentioned that you will invest in new IPs. Would these investments have any impacts on your P&L?

【A】 It has been our policy to balance both shareholder returns and investments. However, the listed Japanese entity does not have enough retained earnings to keep the dividends. Therefore, we have decided to focus on growth investments. We believe various shareholder returns will be possible as the investments succeed and sufficient retained earnings for dividends are secured. Regarding the impacts on our P&L, if any of the investments are required to take impairment, the loss will be recognized as impairment loss.

【Q】 You mentioned that the mobile business in Korea was impacted by the negative rebound of *HIT*. It seems that there are no titles making into top rankings on the app store except for *EA SPORTS™ FIFA Online 3 M*. Could you tell me how you view the competitiveness of your mobile games in Korea?

【A】 *HIT* which was very successful last year is decelerating after more than one year from launch. Mobile games are hard to achieve longevity compared to PC online games. Currently we do not have many major mobile titles in Korea, however, we continue to enrich our pipeline and launch multiple games.

【Q】 Regarding *Dungeon&Fighter* in China, which KPIs contributed specifically to the year-on-year growth on a constant currency basis? Also, what are your expectations for the 2nd quarter compared to the 1st quarter? Considering your long-term operation, was the 1st quarter said to be the healthy growth?

【A】 The strong performance in the 1st quarter was mainly driven by the good performances of Lunar New Year update and the Level Cap update. All KPIs were strong and lead to good results.

If the strong momentum from the 1st quarter continues, we may have better-than-expected result in the 2nd quarter. In the meantime, our focus is on stability and it is unlikely that it will show a significant year-over-year growth like we had in the 1st quarter.

【Q】 After launching a few titles based on Koei Tecmo Games' IPs such as *Sangokushi Sousouden Online* and *Dynasty Warriors Unleashed*, did you find any difficulties in monetization or advantages in user acquisition by using IPs of console games? Please let us know your view on servicing games based on Japanese IPs.

【A】 These titles are showing good starts in Korea, Taiwan, and Southeast Asia. We have just started serving these games and will need further analysis, however, we feel that Japanese IPs resonate well with overseas users, especially in Asia.

【Q】 NCsoft's *Lineage II : Revolution* seems to compete against core RPGs such as *HIT*. Can you comment on the positive or negative impact it may give on Nexon's games?

【A】 *Lineage II : Revolution* is a blockbuster title in Korea and we expect certain impact from it on our games. We aim to achieve a hit by delivering more fun and differentiated games even within the same genre.

【Q】 You mentioned that KPIs for *Dungeon&Fighter* in April and May are good. Would you tell us what the trend is like?

【A】 All KPIs increased year-over-year in Q1 driven by the Lunar New Year update and Level Cap update. The good trend continued into April, however, it may slow down in May and June.

【Q】 Chinese game market is trending toward MMORPG. Looking at the pipeline of Nexon, I would classify most games as MORPG. How should I understand your pipeline against this trend?

【A】 A trend can suddenly change when a new product launches. It is easy to observe the trend, but is hard to predict what the trend is going to be. We have many games in our pipeline, especially for mobile. One of them is *Durango* which provides a deep and rich multiplayer experience coming this year. This is one of the good examples of our multiplayer games.

【Q】 You mentioned that you aim to develop more made-in-Japan games, however I do not see any of those titles in your pipeline. Should I assume these to launch in the end of this year or in 2018? How is your development in Japan progressing?

【A】 We have not yet made any announcement on titles being developed in Japan. We have made small development studios with talented developers in Japan. We will share more information as it becomes available.

【Q】 I noticed that *Need for Speed™ Edge* and *Durango* in your pipeline on page 18 of your presentation moved a bit to the right. Can you tell me why there has been some delays and what are causing them?

【A】 *Need for Speed™ Edge* is developed by EA therefore we cannot comment on the details. *Durango* is a massive multiplayer online game and we need to do multiple tests. Sometimes it causes delays because of things we did not realize during developing the live world environment with its economy, sociology, and interactions between thousands of players. We would like to make sure that we can provide great game experience when the game is open to large group of people.

【Q】 Could you tell us more about the factors driving the growth of *Dungeon&Fighter* in China? There was a time when MAUs dropped significantly a few years ago. How many users increased since then? Please also tell us what is happening in the Chinese market and how Nexon is affected.

【A】 MAUs dropped a few years ago because of the bot sanction. We have been able to operate the game stably since then. We believe providing the high quality contents has been one of the reasons for our success. In the 1st quarter, the content updates contributed to the good result. In additions, the Level Cap update enabled users at the highest level to challenge their upper levels and it revitalized the entire game. The sales of the Lunar New Year package which matches the theme of Lunar New Year (dragon) sold well and the KPIs remained strong throughout the quarter.

As for Chinese market, PC online game seems to be hitting the ceiling. It was not because the Chinese PC online market is growing that *Dungeon&Fighter* did well, but was its individual factors that contributed to the strong performance.

【Q】 Did increase in MAUs drive revenue growth of *Dungeon&Fighter* in China?

【A】 We do not disclose KPIs by title. We can say that increase in paying users and ARPPU led to increase in revenues.

【Q】 You mentioned that the favorable trend continued into April. Has this been reflected to your 2nd quarter outlook?

【A】 We reflected what we have seen, including the latest trend of Labor Day update. The good trend of the 1st quarter is continuing to April, however it is expected to slowdown in May and June.