

FY2016 Q4 Earnings Presentation (Held on February 10, 2017)

Q&A Summary

- 【Q】** You mentioned that China *Dungeon&Fighter's* active users and paying users in the 4th quarter were up year-over-year, and the 1st quarter 2017's active users and paying users' trend has been solid to date. Please also tell us about the state of your ARPPU.
- 【A】** All KPIs for *Dungeon&Fighter* in China were in a favorable condition in the 4th quarter. ARPPU was up slightly year-over-year and down quarter-over-quarter. ARPPU's quarter-over-quarter decrease was primarily due to the typical seasonality and sales of inexpensive items, which sold well. To summarize, the condition in the 4th quarter was very favorable with increased active users and paying users both year-over-year and quarter-over-quarter and ARPPU being stable year-over-year, and down quarter-over-quarter.

【Q】 We feel that the condition of *Dungeon&Fighter* in China has improved in the past few years. What is the difference from the past few years and now?

【A】 The favorable trend for its KPIs has been continuing from the 4th quarter. Sales of package related to its Lunar New Year update, which we conducted in the 1st quarter 2017, are extremely solid and we are seeing solid growth from the beginning of January to date compared to the same period in 2016. We have not announced our outlook for the second quarter and onwards, so we can only provide qualitative information, but due to its solid user base, if we can keep the current trend, we should be able to have a better result than 2016. However, the growth expected in the 1st quarter 2017 is driven by the Lunar New Year update, which is the most important update of the year, so we think that it would be difficult to sustain year-over-year growth rate of 30%~40% in the rest of the quarters.

【Q】 With regards to shareholder returns, you said that Nexon Japan corporate entity's retained earnings for FY2016 turned negative. So how are you going to fund source for dividends and share buybacks in FY2017?

【A】 Because dividends are closely related to Nexon Japan corporate entity's results, we think one of the ways for us to secure distributable profit is to have Nexon Japan corporate entity to generate profits. Nexon Group's revenues, however, are somewhat reliant on our subsidiaries, so we are planning to generate profits by receiving dividends from our subsidiaries and resume our dividend.

【Q】 How did the launch of *Dungeon & Fighter: Spirit* go?

【A】 We had high expectations for it because it is a strong and extremely popular IP. Our impression is that it is having a softer start than we originally expected in the intensely competitive Korean market. We would like to generate revenues by expanding its service into other regions while also improving its Korea service.

【Q】 Please let us know the launch schedule for *Dungeon&Fighter 2D* mobile.

【A】 We do not have any update to share at the moment. We are continuously developing the game in cooperation with Tencent.

【Q】 As for your Japan business, which has struggled for long, in the 4th quarter revenues have turned positive quarter-over-quarter. We feel that it would have a great impact on your financials if you can increase your share in the Japan market going forward. We also think that with the launch of iPhone8 providing an environment conducive to rich game play, which Nexon is good at, Nexon would come to have competitive superiority. What is your thought on Japan market?

【A】 We feel that the environment in the Japan market has become more welcoming of high quality games, and Nexon's games and the games that the market wants are starting to match. Our mobile strategy in Japan was to have strong live operations and also to bring fun games that match the Japan market through Nexon's network. We saw solid results from these strategies, with games such as *HIDE AND FIRE* and *HIT*, which launched last year, and continues to perform well. However, the Japan market is a very competitive market and we are still not in a situation that allows us to be optimistic. We think it is important for us to regularly increase our publishing titles and make our existing titles long lasting. We also need to strengthen our development capabilities in order to develop games that match the Japan market.

【Q】 What sort of companies would you like to enter into a partnership with going forward?

【A】 We would like to enter into a partnership with companies that see games as art and are trying to create unique games thrive over years. This is something we can say not only for Japanese companies but also companies all over the world. Japan in particular, has a history of creating high quality games, so we would like to enter into more partnerships in Japan.

【Q】 With regards to the impairment loss recognized in the 4th quarter, are you going to make efforts to decrease such amount, or should we think that there would be impairment loss of about the same size every year?

【A】 The impairment loss that we recognized in the 4th quarter did not include any individually large amounts. It came to be JPY 3.7 billion as a result of gathering small amounts. For example, it included an impairment loss on prepaid royalties for publishing titles that were terminated during the game development phase. We consider this to be a type of impairment loss that we recognize every year as long as we are doing game business. That said, large risks such as the impairment loss on gloops' goodwill, which we recognized in the 1st quarter 2016, have been cleaned up on our balance sheet, and we do not expect any significant amount of impairment at present.

【Q】 The popularity of *Lineage 2: Revolution* in Korea is impacting the entire market more than ever. What are your thoughts on that title?

【A】 We think that *Lineage 2: Revolution* is doing well because of its excellent execution. We think that it is an excellent IP with a focus on monetization, which had done well. Also, the Korea market has become intensely competitive since a few years ago and this is not the first time we have faced such a situation. However, we think it is positive for the industry overall to see such an excellent game being released in the market.

【Q】 Looking at the Top Grossing ranking for *Dungeon & Fighter: Spirit*, it seems to be going down a bit. Is this due to the characteristic of mobile games having short lives? Or is it something unique to Nexon's games?

【A】 We think that just looking at Top Grossing ranking gives a wrong impression. You need to look at data that cannot be read from Top Grossing ranking alone. For instance, how much profit is currently generated. There are 3 types of games that rise to the top of Top Grossing ranking: 1) high quality games with excellent game design and high engagement; 2) games that maintain their top spots on the Top Grossing ranking by investing a lot on marketing, but not much profit would remain; and 3) games that focus on monetization to generate revenues as quickly as possible. We do not aim to go to the top of the Top Grossing ranking in the short term, but we rather aim for our games to generate revenues over a long period of time. We are sure that this approach would lead us to source of profits. And we will invest such profits into the development of new games.

【Q】 What has caused the delay in the launch of *2D Dungeon&Fighter Mobile* for China? Is it a technical issue or is there a specific reason such as a problem on the development side or the publisher side?

【A】 For an extremely large IP or market, it is difficult to project when a game would be able to launch, but we, with our partner Tencent, are proceeding preparations to launch a strong mobile game. There is no specific issue with its development and we are going forward with the development with full care so that it would succeed over a long period of time.

【Q】 Is the early performance of *Dungeon & Fighter: Spirit* in Korea impacting the timing of launch of *Dungeon&Fighter 2D* mobile for China?

【A】 There has been no impact on *Dungeon&Fighter 2D* mobile.