



# **Investor Presentation**

## **Q2 2014**

August 14, 2014

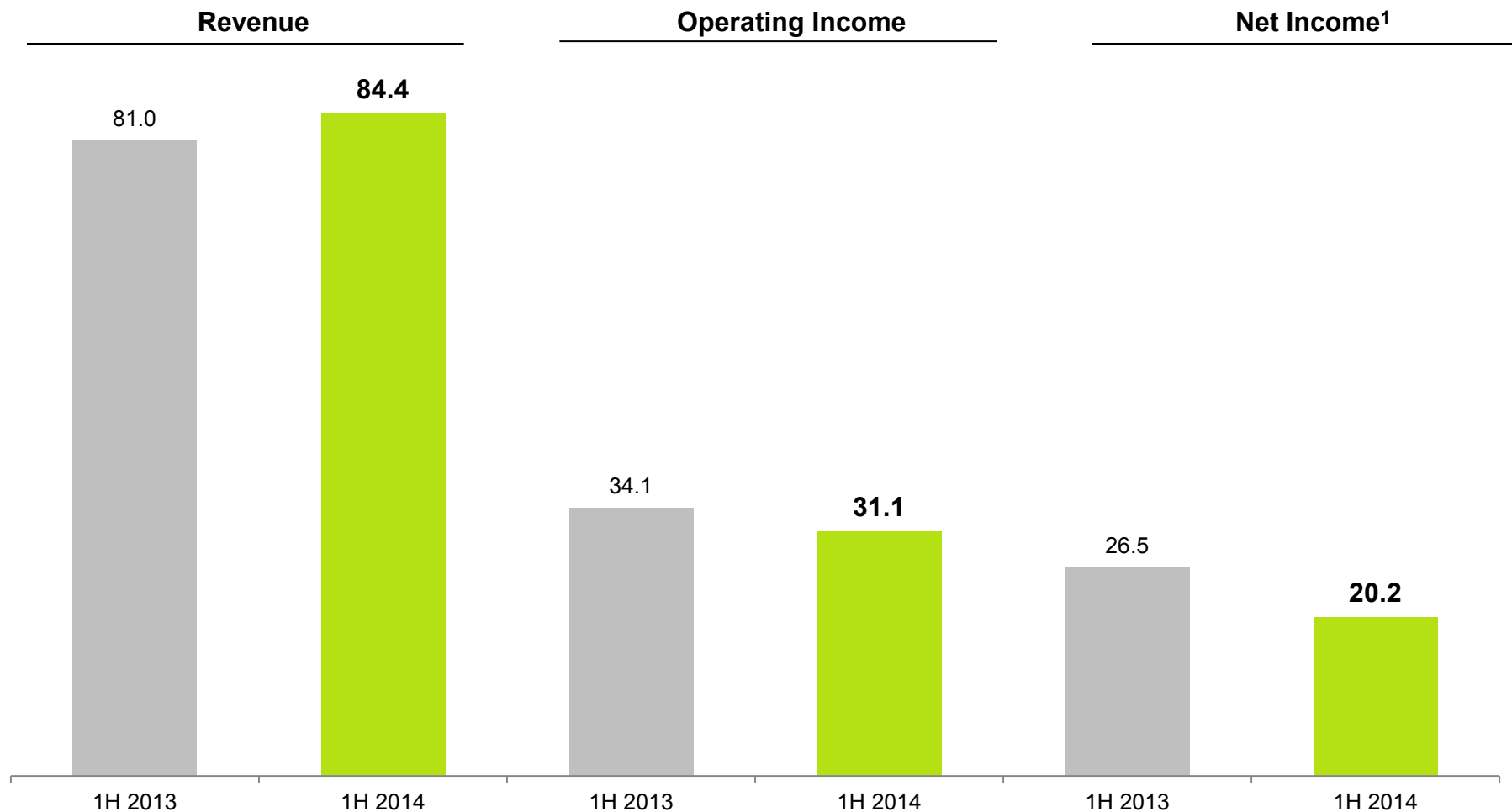
**NEXON Co., Ltd.**

# Owen Mahoney

President and Chief Executive Officer

# 1H 2014 Financial Results

(Unit: ¥ billions)



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

# Core Strategic Theme: *Focus*

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## Products:

- **New games:** Laser-like focus on quality. Pare down development and pipeline to games that really matter – those that are fun and differentiated
- **Live games:** Focus on long-term growth and player retention

## People:

- Demand a commitment to highest standard of game development and operations. Set and adhere to a clear mission and goals

## Partners:

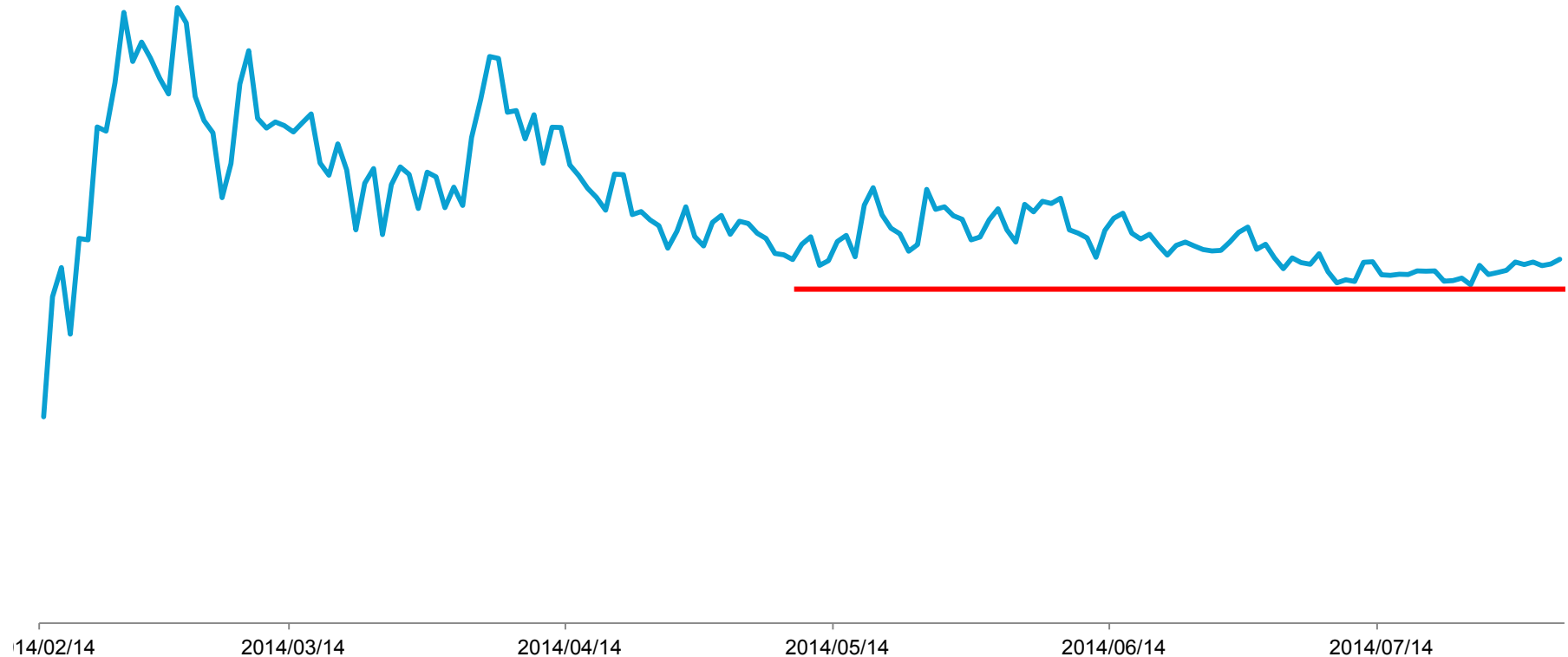
- Be highly selective and work only with the best. Partner with developers who are as dedicated to online game quality as we are

# Legion of Heroes: Trailer



# Legion of Heroes: Strong and Consistent Metrics

## DAU Trend Since Launch



<sup>1</sup> Above graph illustrates DAU trend excluding impact from Kakao version launched at the end of July

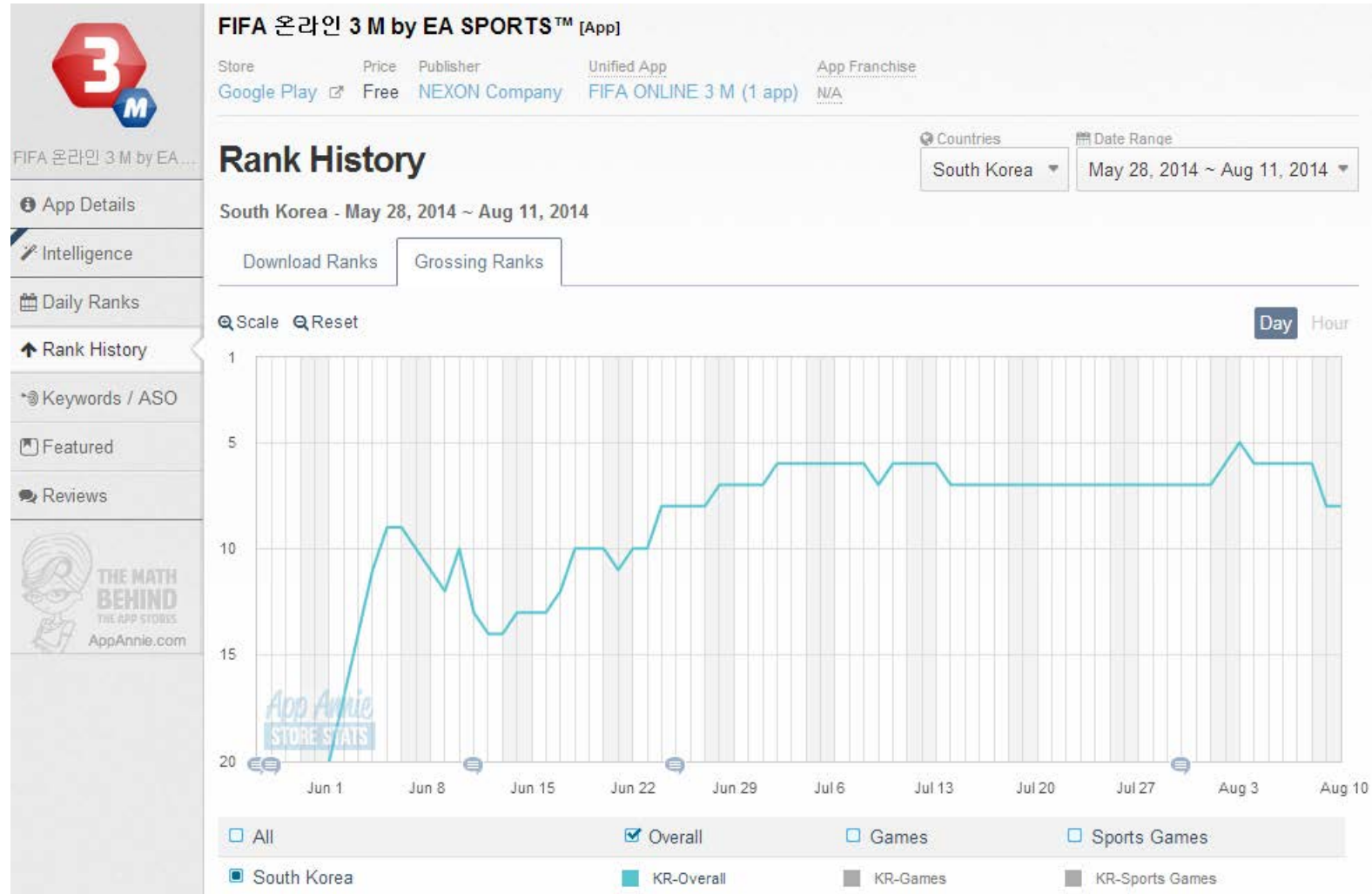


# EA SPORTS™ FIFA Online 3: Trailer



# EA SPORTS™ FIFA Online 3 M: Consistent Top Ten

Consistently in top 10 of Korean Google Play Top Grossing<sup>1</sup> since launch (5/29)





# Unparalleled Partnerships



Boss Key Productions

- Led by videogame legend Cliff Bleszinski, creator of *Unreal Tournament* and *Gears of War* franchises at Epic Games
- Currently developing F2P FPS *Blue Streak*



Shiver Entertainment

- Led by John Shappert, former COO of EA & Corporate VP of Microsoft's Interactive Entertainment Business
- Founded Tiburon Entertainment, developed *Madden NFL Football* franchise



Robotoki

- Led by Robert Bowling, former Creative Strategist of Infinity Ward, Creative Strategist of *Call of Duty* franchise
- *Human Element*, slated for release in Q4 2015



SecretNewCo

- Led by Brian Reynolds, co-founder of Firaxis Games and Big Huge Games
- Creative Director of hit games, including *Civilization II* and *Rise of Nations*
- Chief Designer for Zynga, including *FrontierVille*, which achieved \$500+ million in revenue
- Currently developing debut mobile/tablet title



Rumble Entertainment

- Develops and publishes premium multi-player experiences across web and mobile, including action RPG *KingsRoad* and FPS *Ballistic*
- Led by all-star group of industry veterans with deep social gaming and publishing expertise



United Front Games

- Founded by alumni of several leading studios, including Electronic Arts, Rockstar Vancouver and Radical Entertainment
- Successful titles *iModNation™ Racers*, *Sleeping Dogs* and *Tomb Raider: Definitive Edition*



Socialspiel Entertainment

- Highly original mobile and tablet online games with high production value and engaging characters
- Headquartered in Vienna, Austria
- Founded by industry veterans from Rockstar Games and Deep Silver



TURBO Studios







- Dream team of veterans from Nintendo, Sony, CCP, Zynga, Riot and Rockstar, devoted to quality
- Bringing platform-defining experiences to mobile



Splash Damage

- Independently-owned developer of AAA multiplayer experiences based in London
- *RAD Soldiers®*, *BRINK™*, *Enemy Territory* franchise for id Software, *Wolfenstein: Enemy Territory™*, *Enemy Territory: QUAKE Wars™*, *Batman: Arkham Origins™*
- Currently developing team-based free-to-play *Dirty Bomb*

# World-Class Creators

Key Person	Partner Name	Biography / Introduction to Studios
	 <i>Boss Key Productions</i>	<ul style="list-style-type: none"> <li>▪ <b>Track Record:</b> <i>Unreal Tournament</i>, <i>Gears of War</i> franchise</li> <li>▪ <b>Biography:</b> Created <i>Unreal Tournament</i>, <i>Gears of War</i> at Epic Games. Left Epic Games in 2012 to create a “proper” first-person shooter</li> <li>▪ <b>About Boss Key Productions:</b> Bringing AAA product to the free-to-play market. Founded in 2014, Boss Key is working on its debut title, a free-to-play First Person Shooter code-named <i>Blue Streak</i></li> </ul>
	 <i>Shiver Entertainment</i>	<ul style="list-style-type: none"> <li>▪ <b>Track Record:</b> <i>Madden NFL Football</i> franchise</li> <li>▪ <b>Biography:</b> Previously served as COO of Electronic Arts and as Corporate Vice President of Microsoft’s Interactive Entertainment Business after founding Tiburon Entertainment, the studio responsible for <i>Madden NFL Football</i> franchise</li> <li>▪ <b>About Shiver Entertainment:</b> PC and mobile/tablet developer focused on creating the world’s best free-to-play games. The Company is headquartered in sunny, shark friendly, Miami, Florida</li> </ul>
	 <i>Robotoki</i>	<ul style="list-style-type: none"> <li>▪ <b>Track Record:</b> <i>Call of Duty</i> franchise</li> <li>▪ <b>Biography:</b> Former leader of Infinity Ward and Creative Strategist of the <i>Call of Duty</i> franchise</li> <li>▪ <b>About Robotoki:</b> Founded by Robert Bowling. Robotoki is comprised of industry veterans is a game development studio located in Los Angeles. The studio is developing its first title, <i>Human Element</i>, slated for release in Q4 2015</li> </ul>

# Why Partner with Nexon?

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- Deep F2P insight and know-how
- Global market presence with particular depth in Asia
- Reputation as great partner: track record and expertise

# In Their Own Words



Cliff Bleszinski from  
Boss Key Productions

*"...I spoke with all of these Western devs who are working with them. They all had glowing things to say about working with Nexon...When your friends vouch for a publishing partner like that, you trust them."*

Source: July 9, 2014 Reddit AMA<sup>1</sup>



John Schappert from  
Shiver Entertainment

*"Consoles are still very strong in the Western market, but the future is free-to-play...on PC, mobile and tablets. Nexon is focused only on free-to-play. They are interested in the Western markets. That is what I have done for 20 years, so it's a perfect marriage."*

Source: September 9, 2013 GamesBeat Interview<sup>2</sup>



Yohei Ishii from  
TURBO Studios

*"Nexon is dedicated to bringing high quality mobile content to gamers... Since we're gamers ourselves, it's important for us to not only develop titles that get the community excited, but games that we actually want to play as well."*

Source: June 4, 2014 gamesindustry.biz Interview<sup>3</sup>

<sup>1</sup> [http://www.reddit.com/r/IAmA/comments/2a9ylr/iama\\_i\\_am\\_cliff\\_bleszinski\\_video\\_game\\_designer/](http://www.reddit.com/r/IAmA/comments/2a9ylr/iama_i_am_cliff_bleszinski_video_game_designer/)

<sup>2</sup> <http://venturebeat.com/2013/09/09/ex-zynga-exec-john-schappert-starts-new-game-startup-with-investment-from-nexon/>

<sup>3</sup> <http://www.gamesindustry.biz/articles/2014-06-04-mobile-is-the-true-next-generation-gaming-platform-turbo>


















# Investment Objectives

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- Build our business in Western markets
- Publish high-quality Western titles in Asia
- Expand our mobile pipeline
- Pipeline to M&A



# Unmatched Pipeline<sup>1</sup>

		1H 2014	Q3 2014	Q4 2014 and Onward (2015~)		
PC Online				 MapleStory2 (In-house, Korea)	 Ghost in the Shell by Neople (In-house, Korea)	
				 Sudden Attack 2 by Nexon GT (In-house, Korea)	 Human Element by Robotoki (Publishing, Global)	
Mobile		 EA SPORTS™ FIFA Online 3 M (Publishing, Korea)	 Three Sword Heroes (Publishing, Korea)	 Pocket MapleStory for Kakao (In-house, Korea)	 Durango (In-house, Korea)	 TBA by Shiver Entertainment (Publishing, US)
		 Legion of Heroes (In-house, Korea)	 Hero Sky (Publishing, Korea)	 GwangGaeto the Great (In-house, Korea)	 Legion of Heroes (In-house, China, US and Japan)	 TBA by SecretNewCo (Publishing, US)
		 Mabinogi Duel (In-house, Korea)		 Native Games by gloops (In-house, Japan)		
					 Native Games by gloops (In-house, Japan)	

# Shiro Uemura

## Chief Financial Officer

# Q2 2014 Results

# Q2 Highlights

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- Revenues and operating income exceeded the high end of our forecast
  - Revenues were ¥36.9 billion, up 1% year-over-year on an as-reported basis, down 8% on a constant currency basis. Revenue outperformance was driven by strong results from Korea
  - Operating income was ¥10.0 billion, down 26% year-over-year, primarily due to increase in royalty payments, HR costs, and changes in the revenue mix
  - Net income<sup>1</sup> was ¥4.1 billion, down 64% year-over-year due to foreign exchange loss
- Mobile revenues of ¥8.4 billion exceeded the high end of our forecast
  - Strong performance of *Legion of Heroes* and *EA SPORTS™ FIFA Online 3 M*
  - Native game revenues of ¥3.2 billion nearly doubled quarter-over-quarter
- Consolidated MAUs decreased quarter-over-quarter in line with normal seasonality from Lunar New Year in Q1
- MAUs of *Dungeon&Fighter* in China were steady quarter-over-quarter despite seasonality

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

# Q2 Financial Results

(Unit: ¥ millions, except per share data)

	Q2 2013	Q2 2014 Outlook		Q2 2014	YoY %
		Low end	High end		
<b>Revenues</b>	<b>¥36,624</b>	<b>¥33,481</b>	<b>¥35,610</b>	<b>¥36,894</b>	<b>1%</b>
PC	29,333	26,068	27,562	28,459	(3%)
Mobile	7,291	7,413	8,047	8,435	16%
<b>Operating income</b>	<b>13,425</b>	<b>6,303</b>	<b>7,966</b>	<b>9,962</b>	<b>(26%)</b>
Net income <sup>1</sup>	11,365	4,305	5,549	4,085	(64%)
Earnings per share (Unit: ¥)	25.98	9.79	12.62	9.33	(64%)
Cash and cash equivalents	112,235			140,157	
<b>Exchange rates</b>					
100 KRW/JPY	8.81	9.63	9.63	9.95	
CNY/JPY	15.94	16.83	16.83	16.54	
USD/JPY	98.76	102.78	102.78	102.16	

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



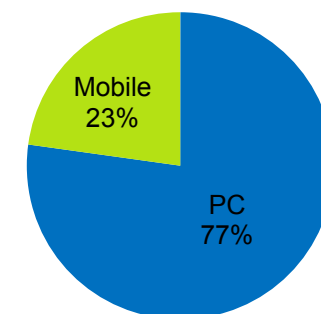
# Regional Revenues and Selected Performance Metrics

(Unit: ¥ millions)

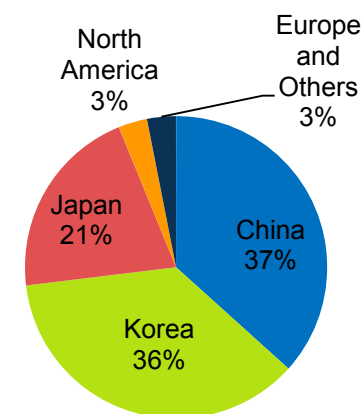
	Q2 2013	Q2 2014		YoY % Change	
		(As-Reported)	(Constant Currency)	(As-Reported)	(Constant Currency)
<b>Revenue by Region<sup>1</sup></b>					
China	¥15,477	¥13,530	¥12,056	(13%)	(22%)
Korea	8,605	13,433	11,895	56%	38%
Japan	9,398	7,656	7,654	(19%)	(19%)
North America	1,446	1,131	1,086	(22%)	(25%)
Europe and Others <sup>2</sup>	1,698	1,144	1,037	(33%)	(39%)
<b>Nexon Total</b>	<b>36,624</b>	<b>36,894</b>	<b>33,728</b>	<b>1%</b>	<b>(8%)</b>
<b>Revenue by Platform</b>					
PC	29,333	28,459	25,576	(3%)	(13%)
Mobile	7,291	8,435	8,152	16%	12%
<b>Nexon Total</b>	<b>36,624</b>	<b>36,894</b>	<b>33,728</b>	<b>1%</b>	<b>(8%)</b>
<b>FX Rate</b>					
100 KRW/JPY	8.81	9.95	8.81		
CNY/JPY	15.94	16.54	15.94		
USD/JPY	98.76	102.16	98.76		

<b>Selected Performance Data (Excluding Mobile)<sup>3</sup></b>	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
MAU (millions)	71.0	62.6	53.9	55.9	51.9
Pay Rate	10.2%	10.4%	10.0%	11.0%	10.2%
ARPPU <sup>4</sup>	2,181	2,447	2,617	3,639	2,781
ARPPU (constant currency) <sup>5</sup>	2,181	2,645	2,461	3,272	2,658

Q2 2014 Revenue by Platform



Q2 2014 Revenue by Region<sup>1</sup>



<sup>1</sup> Based on the regions in which revenues originate; not a representation of 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.

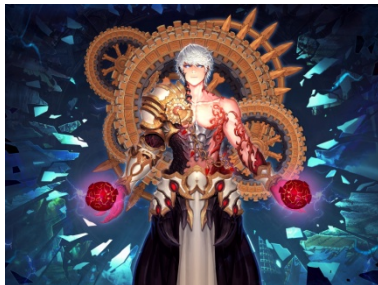
<sup>4</sup> ARPPU (Average Revenue Per Paying User) is the average of monthly ARPPUs for the quarter.

<sup>5</sup> On a constant currency basis (using Q2 2013 currency exchange rates).

# China – Highlights

## ▪ *Dungeon&Fighter*

- Tier 1 “Grand Genesis” content update introduced on June 17
- Despite strong seasonality in Q1, MAUs in Q2 were stable quarter-over-quarter



*Dungeon&Fighter*  
“Grand Genesis” update



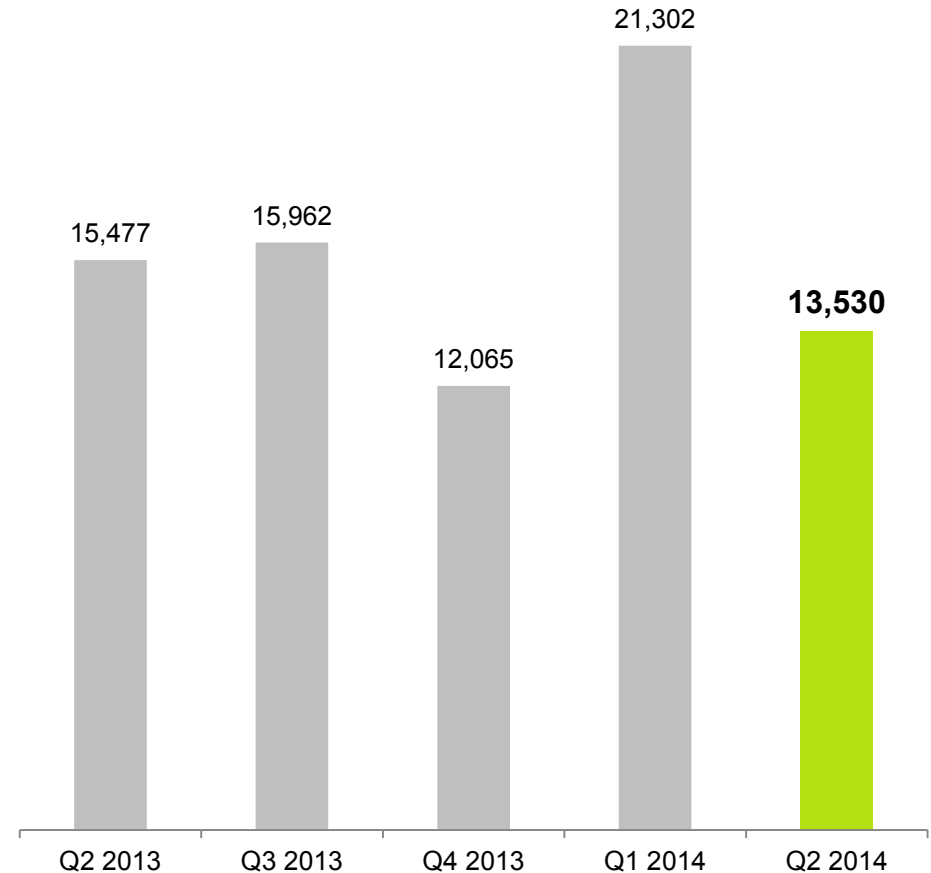
*Dungeon&Fighter*  
Game Play

(Unit: ¥ millions)

YoY% change:

As Reported: **-13%**

Constant Currency: **-22%**



# Korea – Highlights

- **EA SPORTS™ FIFA Online 3 (PC) / EA SPORTS™ FIFA Online 3 M (mobile)**
  - Users scaled up during World Cup season & continued even afterward
  - *EA SPORTS™ FIFA Online 3 M* : Launched on GooglePlay (5/28) Exceeded 3 million downloads (6/17)
- **Legion of Heroes**
  - Exceeded 2 million downloads (6/4), showing strong and stable user trend
  - Consistently ranking around top 10 of GooglePlay Top Grossing
  - Generates revenue near ¥300 million/month

**영웅의군단**  
LEGION OF HEROES

*Legion of Heroes*



**FIFA ONLINE 3M**



*EA SPORTS™ FIFA Online 3 M*

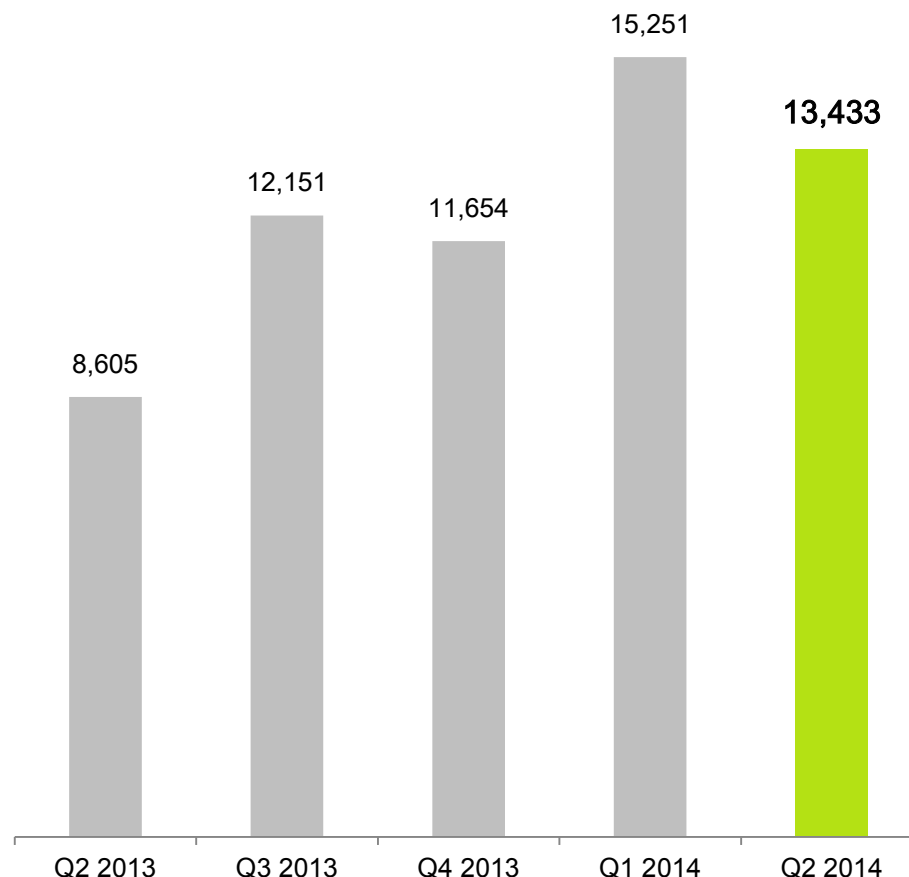
- Year-over-Year growth from key PC titles:  
*Dungeon&Fighter, Sudden Attack, and MapleStory*

(Unit: ¥ millions)

YoY% change:

As Reported: **+56%**

Constant Currency: **+38%**



# Japan – Highlights

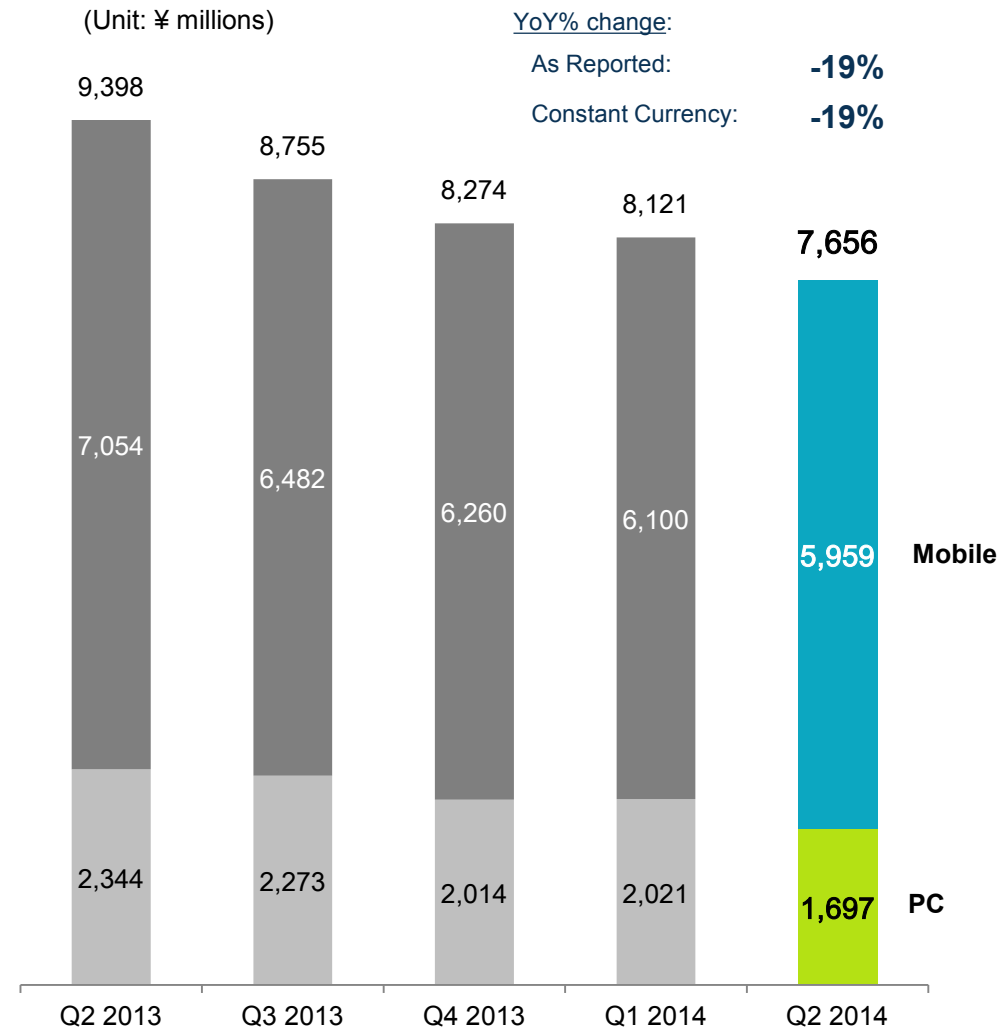
- Q2 mobile revenue was ¥5.9 billion, down 2% quarter-over-quarter
- Existing browser titles were stable despite declining browser market, evidencing strong execution by gloops
- June *Skylock* revenue nearly doubled month-over-month with successful mass promotion
- 3+ new native titles from gloops launch in 2H 2014



Skylock by gloops



Skylock TV mass-promotion



# North America, Europe and Others – Highlights

- Continue to enter into strong partnerships with top Western studios
- New products launch in 2H 2014 with *Legion of Heroes* (mobile) and *Dirty Bomb* (PC). Continuous launches thereafter

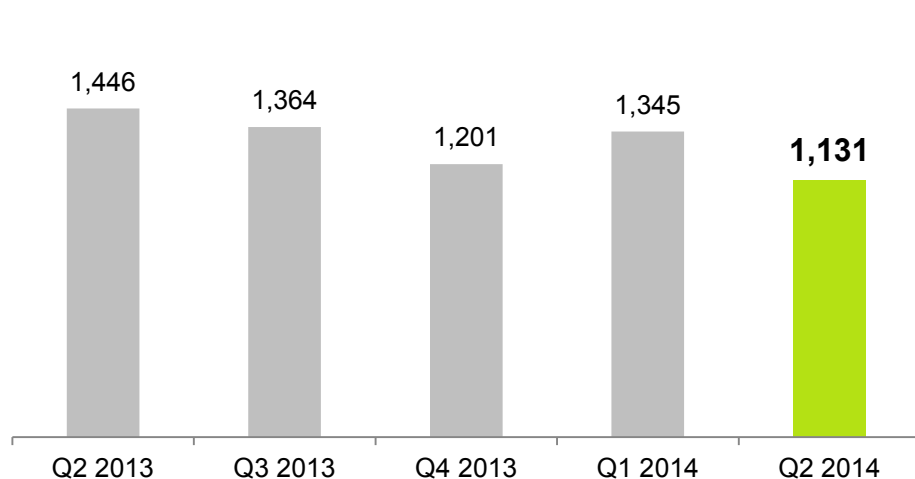
(Unit: ¥ millions)

YoY% change:

As Reported: **-22%**

Constant Currency: **-25%**

## North America



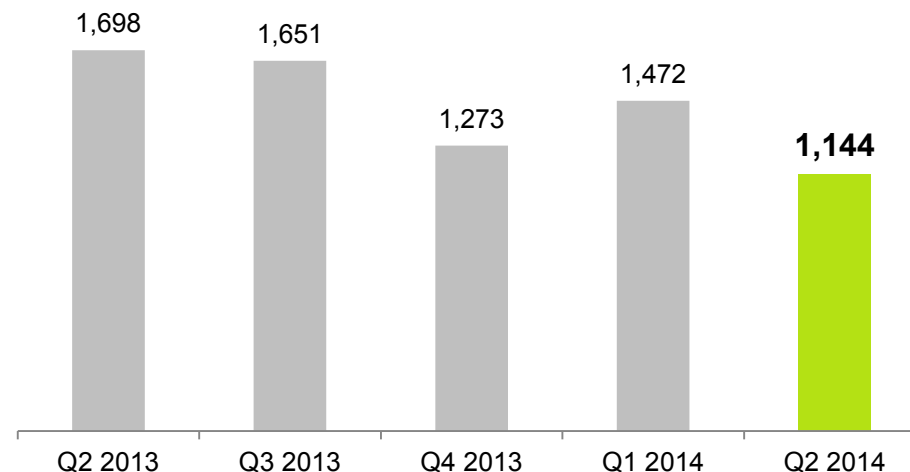
(Unit: ¥ millions)

YoY% change:

As Reported: **-33%**

Constant Currency: **-39%**

## Europe and Others





# Q3 2014 Outlook

# Q3 2014 Business Outlook

(Unit: ¥ millions, except per share data)

- Expect revenues to be up 0% to 7% year-over-year on an as-reported basis

	Q3 2013	Q3 2014 Outlook		YoY	
<b>Revenues</b>	<b>¥39,883</b>	<b>¥39,975</b>	<b>~ ¥42,834</b>	<b>0%</b>	<b>~ 7%</b>
PC	32,995	31,746	~ 33,864	(4%)	~ 3%
Mobile	6,887	8,229	~ 8,970	19%	~ 30%
<b>Operating income</b>	<b>16,237</b>	<b>10,748</b>	<b>~ 13,043</b>	<b>(34%)</b>	<b>~ (20%)</b>
<b>Net income<sup>1</sup></b>	<b>8,054</b>	<b>7,337</b>	<b>~ 9,055</b>	<b>(9%)</b>	<b>~ 12%</b>
<b>Earnings per share</b>	(Unit: ¥)				
	18.35	16.98	~ 20.95	(8%)	~ 14%
<b>FX Rate Assumptions</b>					
100 KRW/JPY	8.94	9.95	9.95		
CNY/JPY	16.06	16.54	16.54		
USD/JPY	98.95	102.16	102.16		

- Every one Japanese yen move against the U.S. dollar would have the following impact on our financials for the third quarter of 2014<sup>2</sup>

<b>Revenue</b>	0.35 billion yen
<b>Operating Income</b>	0.13 billion yen

<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> In most situations, the exchange rates of both the South Korean won and the Chinese yuan are linked to the U.S. dollar.

# 2014 Q3 and Full-Year Regional Outlook



## China

### Q3

- Expect YoY mid to high single digit decrease on an as-reported basis
- *Dungeon&Fighter*: High quality and frequency of content updates scheduled throughout Q3

### Full-Year

- Launch of *Legion of Heroes* announced on July 30<sup>th</sup> at China Joy. Publisher will be ChuKong



## Japan

### Q3

- Expect YoY high teen to double digit decrease on an as-reported basis

### Full-Year

- gloops to launch 3+ high-quality native games during 2H 2014
- Nexon Japan to publish 1 high-quality native game imported from Korea during 2H 2014



## Korea

### Q3

- Expect YoY double digit increase on an as-reported basis
- Expect *EA SPORTS™ FIFA Online 3* user base to stay at increased level following World Cup

### Full-Year

- Announced quality mobile titles to be launched during 2H 2014 at Media conference “Nexon Smart On!” held on July 8,

## North America, Europe and Others

### Q3

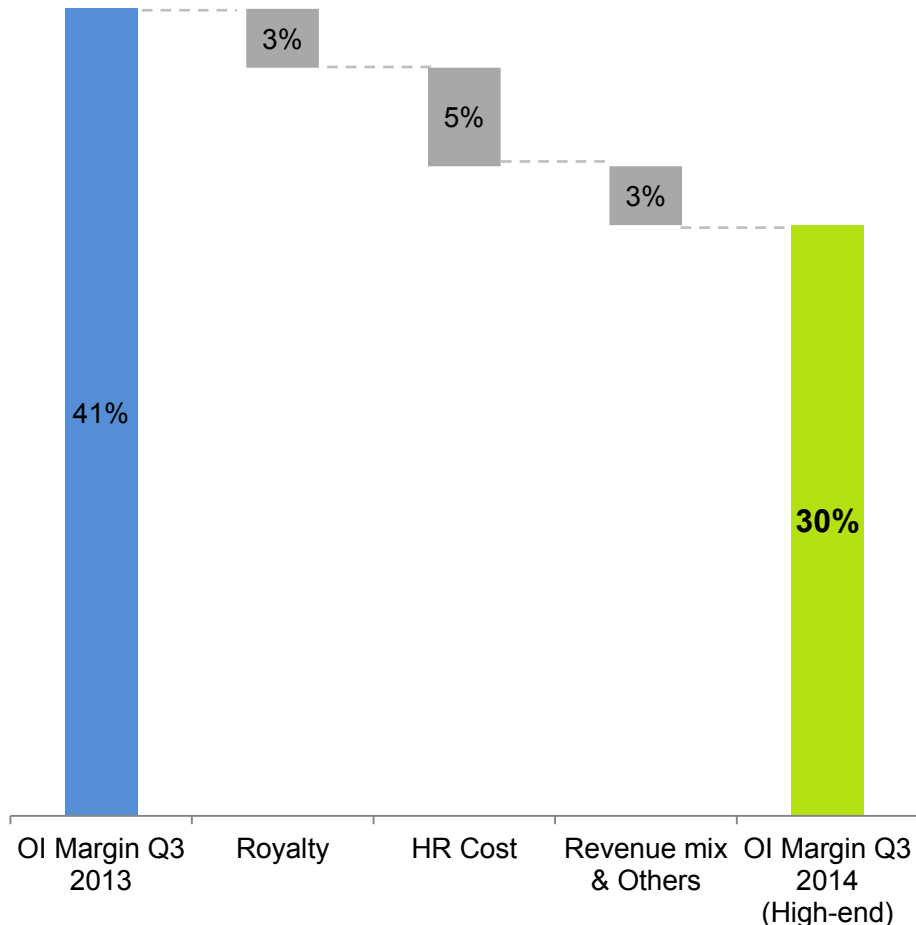
- Expect YoY single digit to mid teen decrease on an as-reported basis

### Full-Year

- Expect 5+ mobile titles to be launched in North America
  - *Legion of Heroes* ready for launch (CBT completed)
  - AAA class titles coming from strategic partners
- *Counter-Strike Nexon: Zombies* (PC) to be launched on STEAM targeting North America, Europe and Russia

# Q3 2014 Operating Income Margin Outlook

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









Expect Q3 2014 operating margin of 27% to 30% due to:

- Royalty costs associated with third-party licensed games, including *EA SPORTS™ FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M*
- HR costs including salary and headcount increase and grant of stock options
- Revenue mix and Others
  - Increased revenue contribution from Korea, which has lower margin than China
- Increased marketing costs related to new title releases in Korea, North America and Europe

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

# 2014 Tier 1 Content Update Schedule

	Game Title	1H 2014	Q3 2014	Q4 2014
China	 <i>Dungeon&amp;Fighter</i>	Q1: Lunar New Year Update Q2: Grand Genesis Update	Summer Update National Holiday Update	Kunoichi Update
	 <i>Counter-Strike Online</i>	Q1: Lunar New Year Update	Summer Update	TBA
	 <i>EA SPORTS™ FIFA Online 3</i>	Q2: FIFA World Cup Mode Update	Summer Season Update	Roster Update
Korea	 <i>MapleStory</i>	Q1: "You & I" Update Q2: 11 <sup>th</sup> Anniversary Update	Summer Update: Touch of the Mediator	TBA
	 <i>Dungeon&amp;Fighter</i>	Q1: "Knight" Update Q2: "Reload" Update	Summer Update: Kunoichi Update	TBA
	 <i>Sudden Attack</i>	Q1: Winter update (continued from Q4 2013)	Summer Update	Winter Update (~Q1 2015)



# Appendix

# Summary of Results and Key Operational Metrics

(Unit: ¥ millions except per share data)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	YoY%
<i>(By Region)</i>							
China	¥20,409	¥15,477	¥15,962	¥12,065	¥21,302	¥13,530	(13%)
Korea	10,589	8,605	12,151	11,654	15,251	13,433	56%
Japan	9,927	9,398	8,755	8,274	8,121	7,656	(19%)
North America	1,418	1,446	1,364	1,201	1,345	1,131	(22%)
Europe and Others	2,021	1,698	1,651	1,273	1,472	1,144	(33%)
<i>(By Business)</i>							
PC online	36,877	29,333	32,995	27,750	40,297	28,459	(3%)
Mobile	7,487	7,291	6,887	6,717	7,194	8,435	16%
<b>Revenue</b>	<b>44,364</b>	<b>36,624</b>	<b>39,883</b>	<b>34,467</b>	<b>47,491</b>	<b>36,894</b>	1%
<b>Operating income</b>	<b>20,716</b>	<b>13,425</b>	<b>16,237</b>	<b>327</b>	<b>21,171</b>	<b>9,962</b>	(26%)
<b>Net income/(loss)<sup>1</sup></b>	<b>15,150</b>	<b>11,365</b>	<b>8,054</b>	<b>(4,437)</b>	<b>16,144</b>	<b>4,085</b>	(64%)
<b>Earnings per share (Unit: ¥)</b>	<b>34.77</b>	<b>25.98</b>	<b>18.35</b>	<b>(10.10)</b>	<b>36.74</b>	<b>9.33</b>	(64%)
<b>Cash and deposits</b>	<b>110,510</b>	<b>112,235</b>	<b>103,820</b>	<b>138,843</b>	<b>149,040</b>	<b>140,157</b>	
<b>FX rate</b>							
100 KRW/JPY	8.53	8.81	8.94	9.48	9.63	9.95	
CNY/JPY	14.73	15.94	16.06	16.40	16.83	16.54	
USD/JPY	92.42	98.76	98.95	100.46	102.78	102.16	
<b>Key Performance (Excluding Mobile)</b>							
MAU (millions)	71.5	71.0	62.6	53.9	55.9	51.9	
Pay Rate	11.5%	10.2%	10.4%	10.0%	11.0%	10.2%	
ARPPU (as-reported)	2,532	2,181	2,447	2,617	3,639	2,781	
ARPPU (constant currency) <sup>2</sup>	n/a	2,181	2,645	2,461	3,272	2,658	

<sup>1</sup> Net income/(loss) 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 Q2 2013.

# COGS and SG&A

(Unit: ¥ millions)

	FY2013				FY2014	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Total Cost of Revenue <sup>1</sup></b>	<b>¥7,831</b>	<b>¥7,734</b>	<b>¥9,229</b>	<b>¥9,358</b>	<b>¥10,249</b>	<b>¥9,839</b>
Royalty <sup>2</sup>	2,673	2,180	3,539	3,046	4,055	3,317
HR cost (COGS) <sup>3</sup>	2,875	3,193	3,014	3,219	3,461	3,580
Other(COGS) <sup>4</sup>	2,283	2,361	2,676	3,093	2,733	2,942
<b>Total SG&amp;A <sup>1</sup></b>	<b>15,343</b>	<b>13,945</b>	<b>14,313</b>	<b>15,973</b>	<b>14,855</b>	<b>16,788</b>
HR cost	3,004	3,241	2,814	3,063	3,602	4,758
PG fee <sup>5</sup>	2,259	2,037	2,322	2,202	2,661	2,649
R&D	659	860	1,035	1,263	1,120	1,533
Marketing / advertising expenses	1,878	3,202	2,211	2,409	1,382	2,069
Depreciation and amortization	2,488	2,552	2,556	2,753	2,802	2,792
Other <sup>6</sup>	5,055	2,052	3,375	4,283	3,288	2,987
Other Income <sup>7</sup>	164	102	225	1,147	208	209
Other Expense <sup>8</sup>	638	1,622	329	9,956	1,424	514

<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 in SG&A include commissions made to external payment gateway companies when users purchase in-game items in PC Online games that we service. It also includes mobile carrier-related commissions we pay regarding our Japanese browser games.

<sup>6</sup> Other in SG&A includes mobile platform commission fees.

<sup>7</sup> Other Income includes other non-operating income, reversal of deferred revenue, 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, Q4 2013, and Q1 2014 Other Expense includes impairment of game IP and impairment of goodwill.

# P&L Below Operating Income

(Unit: ¥ millions)

	FY2013				FY2014	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Operating Income</b>	<b>¥20,716</b>	<b>¥13,425</b>	<b>¥16,237</b>	<b>¥327</b>	<b>¥21,171</b>	<b>¥9,962</b>
Finance Income <sup>1</sup>	2,336	2,342	739	1,244	1,014	1,024
Finance Costs <sup>2</sup>	196	1,471	3,137	3,819	385	3,655
<b>Equity income/(losses) of affiliates, equity method companies</b>	<b>(268)</b>	<b>(99)</b>	<b>15</b>	<b>258</b>	<b>(32)</b>	<b>(73)</b>
<b>Income/(Loss) before Income Tax</b>	<b>22,588</b>	<b>14,197</b>	<b>13,854</b>	<b>(1,990)</b>	<b>21,768</b>	<b>7,258</b>
Tax expense	(7,238)	(2,875)	(5,714)	(2,519)	(5,446)	(3,089)
<b>Net Income/(loss) <sup>3</sup></b>	<b>15,150</b>	<b>11,365</b>	<b>8,054</b>	<b>(4,437)</b>	<b>16,144</b>	<b>4,085</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. Finance cost for Q4 2013 includes impairment loss of equity method affiliates, mainly from 6waves. Impairment losses in equity method affiliates are recorded in finance costs under IFRS. 2014 Q2 Finance Costs are primarily due to the US dollar to Korean won FX conversion loss related to foreign currency deposits & A/R in Korea.

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

# Key Cash Flow Statement

(Unit: ¥ millions)

	6 months ended June 30, 2013	6 months ended June 30, 2014
Cash flows from operating activities	¥12,402	¥12,541
Cash flows from investing activities	16,801	3,315
Cash flows from financing activities	(7,753)	(13,221)
Net increase in cash and cash equivalents	21,450	2,635
Cash and cash equivalents at beginning of fiscal year	84,736	138,843
Effect of exchange rate change on cash and cash equivalents	6,049	(1,321)
Cash and cash equivalents at end of fiscal year	112,235	140,157

# Balance Sheet

(Unit: ¥ millions)

	December 31, 2013	June 30, 2014
<b>Asset</b>		
Current Assets		
Cash and cash equivalents	¥138,843	¥140,157
Other current assets	78,956	86,681
<b>Total current assets</b>	<b>217,799</b>	<b>226,838</b>
Noncurrent assets		
Tangible assets	22,080	21,149
Goodwill	45,802	45,547
Intangible assets	26,653	20,591
Others	106,517	83,904
<b>Total noncurrent assets</b>	<b>201,052</b>	<b>171,191</b>
<b>Total assets</b>	<b>418,851</b>	<b>398,029</b>
<b>Liability</b>		
Current liabilities		
Current tax liabilities, current	8,502	5,671
Current borrowings	13,408	13,257
Others	28,543	23,965
<b>Total current liabilities</b>	<b>50,453</b>	<b>42,893</b>
Noncurrent liabilities		
Non-current borrowings	34,605	27,482
Others	20,734	10,798
<b>Total noncurrent liabilities</b>	<b>55,339</b>	<b>38,280</b>
<b>Total liabilities</b>	<b>105,792</b>	<b>81,173</b>
<b>Equity</b>		
Issued capital	51,952	52,101
Share premium	50,688	50,491
Treasury shares	(0)	(4,253)
Other equity interest	74,468	64,284
Retained earnings	131,374	149,406
Non-controlling interests	4,577	4,827
<b>Total equity</b>	<b>313,059</b>	<b>316,856</b>
<b>Total liabilities and total equity</b>	<b>418,851</b>	<b>398,029</b>

# Glossary of Terms

Term / Abbreviation	Meaning
AOS	AOS is a sub-genre of the real-time strategy genre, in which two teams of players compete with each other in discrete games, with each player controlling a single character through an RTS-style interface.
FPS (first person shooter)	A game in which the player plays from the point of view of the game character in three-dimensional graphics.
RTS (real-time strategy)	A game that is usually played from a third-person perspective, in which the player controls vast numbers of in-game characters in a tactical scenario.
MMORPG (massively multiplayer online role playing game)	An online role-playing game that has a “massive” number (usually several hundred or more) of players who play concurrently.
MAU (monthly active user)	The total number of accounts of users who log in and play a particular game in a given month.
ARPPU (average revenue per paying user)	Online game net revenues for any given period divided by the average number of paying players of such games during the period.
Pay Rate	The number of paying users divided by monthly active users for any given period of time.
MCCU (maximum concurrent users)	The maximum number of users concurrently accessing a game at a particular moment. MCCU is generally used to measure the popularity of a game.
Closed Beta	A trial period during which a trial model (beta version) of a game is tested by a limited number of users or groups.
Open Beta	A trial period during which a trial model (beta version) of a game is tested without restrictions on participation.
Tier One Update	Large scale updates to existing PC games typically launched in Q1 or Q3 around peak season.
Tier Two Update	Smaller updates to existing PC games released throughout the year.
Immersive Games	Games that are designed to be played continuously for hours and enable thousands of concurrent users to interact with each other in real time. Our games are architected to evolve over years, in contrast to packaged goods games, which often have finite story lines and comparatively less open-ended player engagement.



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- 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.

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