

FY2015 Q4 Earnings Presentation (February 10, 2016)

Summary of Q&As

【Q】 P.24 of the Investor Presentation shows your pipeline for 2016 and onwards.

Would you be able to provide us with details on time when you expect to see an impact on your financial performance? For instance, either in the 1H or 2H 2016.

【A】 We expect titles placed on the left side to launch earlier than those on the right side. However, since game development does not always proceed as planned, it is difficult to provide specific timeframe for launch or when each of those games would start contributing to our financial performance. In Korea for Q1 2016, we do not have any major mobile title scheduled for launch.

【Q】 The announcement of capital reclassification you made in Q4 earnings including capital stock to other capital surplus is a measure taken in anticipation of what kind of a situation?

【A】 The resource of shareholder return is the retained earnings and other capital surplus of Nexon Japan Corporate entity. The transfer will allow us to have flexibility in capital usage including shareholder returns in the long-term.

【Q】 You recorded about 4 billion yen expense in the “other expenses” in Q4. Could you give us more details on what they were? Please also share us your thought on the expectation for the potential impairment loss on gloops’ goodwill in the future quarters.

【A】 We recorded impairment losses on some of the game IPs and goodwill related to subsidiaries. These impairment losses tend to incur to some extent every year, and for this fourth quarter, impairment losses account for about half of the amount recorded as “other expenses”. However, it is the accumulation of the small amount of impairment loss and the respective amount of impairment loss on game IPs and subsidiaries’ goodwill is relatively small.

【Q】 The fourth quarter mobile revenues in Korea increased by about 3 billion yen quarter-over-quarter. Can we consider that most of this increase is coming from the 1.5 month’s contribution of *HIT*?

【A】 This is mostly due to 1.5 month’s contribution of *HIT* and full 3 months’ contribution of *DomiNations* in this fourth quarter.

【Q】 Please tell us about your growth strategy in China, as well as your strategy for the China service of the new PC online game *MapleStory2*.

【A】 We have been able to stably operate our key title *Dungeon&Fighter* in China. On top of that, we would like to grow further by releasing new titles. *MapleStory2* is a very high-quality title and we would like to service it with Tencent, a leading publisher in China, in a way that would be well-received by the China market.

【Q】 Since Owen assumed the role of CEO, you've focused on the improvement of operations and continued to seek for great opportunities for publishing agreements. Those initiatives started to see good results in regions including Korea and the U.S. Please let us know what your major challenges are in 2016, including issue around your Japan business, and how you are trying to address those.

【A】 Our strategy is very simple though powerful. We believe game business is an art form, and we are working very hard to build great games that are fun and very different from other games. If we do that well, we have an opportunity to find a broad audience and we bring those good games to people around the world, leveraging our operating capability. Then comes the other part of our strategy, which is live operations and live development so that we can make those games successful over time. We found this strategy very sound and we've been working to be able to execute against the strategy. But we weren't able to execute this strategy in Japan quickly as we wanted compared to in other regions. We think improving operating team and then filling the game pipeline is very effective and so, we are going to do this in Japan just like we did in other regions.

【Q】 The business outlook for China in the first quarter 2016 is low teens to low single digit % year-over-year decrease on an as-reported basis. Can we think that the decrease is entirely due to the foreign exchange rate that is expected to impact your financials negatively? The plan looks somewhat cautious since the Lunar New Year update for *Dungeon&Fighter* seems to have trended well. If possible, could you also give us your outlook on a constant currency basis?

【A】 We think that the impact expected to be received by foreign exchange rate largely giving negative effect on the Q1 China business. On a constant currency basis, we expect revenue in China to see a slight decrease to a slight increase year-over-year. Since the Lunar New Year update, *Dungeon&Fighter* has been performing stably, which includes user traffic. However, since our focus is on stable operations, and our strategy is to aim for flattish year-over-year revenue rather than strongly pushing monetization.

【Q】 Please tell us your outlook on the full-year tax rate in 2016.

【A】 The tax rate might fluctuate depending on the quarter as we recognize tax expense on estimated basis every quarter, which sometimes includes one-time tax expense. However, we expect the full-year tax rate to be around 20% which remains the same from 2015.