

## Q1 2016 Earnings Conference Call (Japanese) (May 12, 2016)

### Summary of Q&As

- 【Q】** In Q1 2016, MAUs for *Dungeon&Fighter* in China has increased both year-over-year and quarter-over-quarter. This situation is different from what we have been seeing recently where only ARPPU rose (not MAUs) even when game events went well. With regards to the MAUs having increased in Q1, is it correct to think that *Dungeon&Fighter* in China has bottomed out?
- 【A】** To be precise, the Q1 MAUs for *Dungeon&Fighter* in China was flattish (slight decrease) year-over-year and ARPPU likewise was flattish (slight decrease) year-over-year. The change was seen on the number of paying users, which significantly increased year-over-year. Related to this, the pay rate also increased. With regards to *Dungeon&Fighter* in China, we have said for the past two years that we do not expect the game to grow significantly nor decline in the immediate term from this point and we believe we have actually been able to operate the game in such a way. The important thing is that our policy is to try to maintain this stable trend as long as possible rather than discussing whether the game has bottomed out or we can expect significant growth going forward.
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**【Q】** You recently had progress on longer-term initiative including an acquisition of a game studio and strengthening of strategic partnership. On the other hand, you recorded an impairment loss on gloops' goodwill which is related to your past acquisition. Would you please remind us of your future M&A strategy? Going forward, would it be your policy to acquire comparatively small-scale game studios that developed high-quality hit titles?

**【A】** Our strategy relative to M&A has not changed at all. We are looking for intellectual properties (i.e. game titles) and teams that we think are very high quality and we can grow over time. In recent years, we have not made any major acquisition, but we have made several equity investments and small acquisitions of companies that we think that fit our criteria. However, as you know, we have a large cash balance and should the right opportunity to come along, we are prepared to be able to move very quickly for that right opportunity.

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**【Q】** As for mobile games, when looking only at Q1 and Q2 2016, it seems that the pace of game releases have slowed down compared to before. Going forward, would you be trying to release games more constantly? Or rather, would you be more focused on game quality instead and not focus so much on the pace of game releases?

**【A】** We do not have any major launches scheduled for Q2 2016. However, fact remains that our pipeline is rich. We do not have a strategy of standardizing the pace of our launches. Rather, we are focused on game quality and will launch our games when they are ready to meet market expectation. Therefore, we may not be launching games in an even pace going forward either.

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**【Q】** What were the acquisition price and amount of goodwill recorded related to Big Huge Games?

**【A】** Big Huge Games' acquisition was not subject to timely disclosure rules as the amount was immaterial. The acquisition price being small, the amount of goodwill related to Big Huge Games recorded is also immaterial, unlike the large amount of goodwill we recorded related to gloops.

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**【Q】** Please give us the progress and update on *Dungeon&Fighter* mobile in China.

**【A】** As for *Dungeon&Fighter* mobile in China, there is no major update from the previous quarter. We are continuing to focus on the game development in cooperation with Tencent. We will share information should we have any update.

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**【Q】** We believe that the financial impact is limited for *TERA™*, a PC online game which you succeeded the service in Korea from another publisher since January. Please share us your view on its current traffic, as well as its performance against your expectation.

**【A】** While its impact on our financials is limited relative to our key titles, it is performing in line with or above our expectation. *TERA™* is a major title that has been around for a long time and we believe we have successfully succeeded the operations. Going forward, we intend to operate it as a title that continues to generate profit than to grow significantly from the current scale.

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**【Q】** With regards to *MapleStoryM*, we expect its launch to be sometime in or after Q2 2016. Please share us your expectation on the game including the possibility of regaining sleeping users of the PC online game *MapleStory*.

**【A】** We are still in the testing phase for *MapleStoryM*, therefore, there are no details we will be able to share at this point. However, we do have certain expectations on it as *MapleStory* IP is very popular in Korea and the mobile game is using the exact original IP.

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**【Q】** As for measures to turn around your Japan business, we believe that the mobile business would be the driver which will gradually raise the growth rate. Going forward, you have multiple titles scheduled for launch, but when exactly can we expect to see the turnaround in your mobile business in Japan?

**【A】** We plan to continue to develop high-quality games in Japan and also leverage our Nexon Group and partnership network to launch titles suitable for Japan. In addition to this, we are currently strengthening our publishing capability, adjusting personnel distribution and etc. We cannot clearly say when exactly Japan business will see a turnaround, however, we are preparing to launch one or more title per month starting from the second half of 2016.