

## FY2016 Q2 Earnings Presentation (August 10, 2016)

### Summary of Q&As

【Q】 Please provide both external and internal factors which lead you to decide terminating the service of *Sudden Attack 2* shortly after the launch. How should we think about this result given that you've been focusing on quality in developing games?

【A】 *Sudden Attack 2* was, in many ways, an extension of the original *Sudden Attack*. On the other hand, we promoted *Sudden Attack 2* as a new different game. As a result, there were some gaps between the game and what users had expected for, and we were not able to meet users' expectations. There was also an external factor, the launch of a competitor's title, *Overwatch*.  
It is indeed extremely difficult to execute quality focus approach, however, our overall strategy to focus on game quality remains unchanged.

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【Q】 Is there any impact from *Overwatch* on your China business?

【A】 We need to continuously pay close attention to the potential impact, however, at the moment, we do not see any impact on our China business from *Overwatch*.

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【Q】 Please remind us of service regions and launch timing for *Dungeon&Fighter 2D* mobile and *Dungeon&Fighter 3D* mobile respectively. For China, is it correct to think that the main revenue contributor would be *Dungeon&Fighter 2D* mobile?

【A】 *Dungeon&Fighter 2D* mobile is for China and will be published by Tencent. We are scheduled to conduct CBT within 2016, however, launch timing is not determined.

We are scheduled to launch *Dungeon&Fighter 3D* mobile in Korea within 2016. Following the launch in Korea, we also intend to launch the game in other regions.

We may also launch *Dungeon&Fighter 3D* mobile in China, however, at this point, *Dungeon&Fighter 2D* mobile will be the main service for China.

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【Q】 The planned timing of this year's National Day update for *Dungeon&Fighter* is later than last year's in the 3<sup>rd</sup> quarter. How much of financial impact should we expect from this difference?

【A】 The exact date for this year's National Day update has not been announced yet, however, it is scheduled to be a few days later than last year's in the 3<sup>rd</sup> quarter (September 22<sup>nd</sup>). We expect this difference to give positive impact on the 4<sup>th</sup> quarter financials, however, we cannot give specific outlook for our 4<sup>th</sup> quarter China business at this point. This is because we always decide the way to operate the game by monitoring daily KPIs and therefore, have not set up specific strategy for the 4<sup>th</sup> quarter's operation yet.

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【Q】 Compared to last year, it seems that you are slowing down the pace of new title launches. Are you having difficulties keeping the pace of launches or are there any external factors that are making you difficult to launch new titles?

【A】 We are prioritizing game quality over quantity. Therefore, how often we launch new titles differ depending on the situation of each title's development progress. However our pipeline remains extremely rich. From our historical experience, we believe that in game business, success can be achieved not by launching many games, but by delivering fun and differentiated games.

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【Q】 Please remind us of your strategy in how to be successful in PC online game business in the light of recent trend where console games are also moving into online, hence competition is becoming even more intensified. Please also explain how *LawBreakers* is differentiated from *Overwatch*.

【A】 Whenever there are blockbuster titles from competitors, it is frequently seen as they are further intensifying an already competitive environment. However, in many cases, these could lead to growth in the overall gaming market as well as increase gaming population in the mid-long term. Therefore we see these rather as opportunities.

Relative to *Overwatch*, *LawBreakers* is made more to meet preferences of hardcore gamers in terms of graphics and game designs.

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**【Q】** Would there be any accounting losses recognized in relation to service termination of *Sudden Attack 2*?

**【A】** We do not need to recognize any financial losses. R&D cost for *Sudden Attack 2* has already expensed and there is no cost which we capitalized in relation to the title.

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**【Q】** Is it correct to understand that the reason for you to expect 3<sup>rd</sup> quarter China revenue to decrease year-over-year even on a constant currency basis is simply because the planned timing of *Dungeon&Fighter*'s National Day update being later than last year's in the 3<sup>rd</sup> quarter? Please let us know if it involves some other factors.

**【A】** We expect 3<sup>rd</sup> quarter China revenue to decrease year-over-year are simply due to FX headwind from JPY appreciation and the planned timing of *Dungeon&Fighter*'s National Day update being later than last year's in the 3<sup>rd</sup> quarter. *Dungeon&Fighter* in China has been solid including the most recent trend. Its 2<sup>nd</sup> quarter KPIs were also in a very good condition with MAUs (Monthly Active User) being roughly flat and increased paying users versus last year in the same period.

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**【Q】** Would there be any accounting impact related to *Sudden Attack 2*'s service termination including refunds etc.?

**【A】** No impact expected.

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**【Q】** Many of the titles included in your pipeline are titles involving your partners. In many cases, these could increase potential delays in launch schedule as you will not be able to fully control the development. Please let us know how you are managing these risks, including the way to avoid possible delays which can cause opportunity losses?

**【A】** We prioritize game quality over the timing of launches. We put less importance on launch timing than game quality as we believe our business gets more robust by delivering games that are fun and differentiated.

In addition, in our case, there are two types of partnerships: 1) co-development with partners, 2) in-house development based on IP licensed from partners. Especially in the latter case, development can be mostly controlled by us.

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**【Q】** Is there any chance for Nexon to work with tech companies in Silicon Valley like in the case of *Pokémon GO*?

**【A】** Yes. Many tech companies in Silicon Valley are recently becoming more interested in game industry and we would like consider partnering with those companies should we see great opportunities.