

■ PARTICIPANTS

Corporate Participants

Seungwoo Choi – Chief Executive Officer and President

Owen Mahoney – Chief Financial and Administrative Officer and Director

Noriaki Hirakata – IR Section Manager

Other Participants

Mark Moore – Managing Director, Brookside Capital Investors L.P.

Alicia Yap – Analyst, Barclays Capital

Ben Lu – Vice President, Seligman (Columbia Management Investment Advisers, LLC)

John Taylor – President, Director of Research, Arcadia Investment Corporation

Atul Bagga – Analyst, Lazard Capital Markets

Yuichi Chiguchi – Portfolio Manager, DIAM Co., Ltd.

Mia Nagasaka – Vice President, Morgan Stanley MUFG Securities Co., Ltd.

■ MANAGEMENT DISCUSSION SECTION

Noriaki Hirakata:

Welcome to the Nexon first quarter fiscal 2012 Q&A session. With me today are Seungwoo Choi, CEO and President of Nexon, and Owen Mahoney, CFO.

Before we get started I'd like to remind you that today's call will contain forward looking statements, including statements about results of operations and financial conditions such as revenues attributable to our key titles, growth prospects, including with respect to the online games industry, ability to compete effectively, adapt to technologies, and address new technical challenges, use of intellectual property, and other statements that are not historic facts. These statements represent our predictions and expectations as to future events, which we believe are reasonable or based on reasonable assumptions. However, numerous risks and uncertainties could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Information on some of these risks and uncertainties can be found in our earnings release, we assume no obligation to revise or update any forward looking statements.

Our financial results for Q1 as well as our quarterly letter to shareholders from Seungwoo Choi and Owen are available on the company's investor relations website at <http://ir.nexon.co.jp>. A transcript of this Q&A session will be available following this call.

I'd now like to turn the call over to Seungwoo and Owen for a brief introduction, and then we will begin our Q&A session.

Seungwoo Choi:

Thank you Mr. Hirakata. Welcome everyone to our first quarter 2012 earnings call. As most of you know our quarterly reporting process consists of a shareholder letter from Owen and me posted on our website along with the financial results. The letter is followed by this hosted call on which we will answer the questions you submit to us via email.

The intent of the shareholder letter is to give investors detail on the company's performance and outlook and commentary from the management team that you can read at your convenience. The Q&A call will then offer you the opportunity to ask questions and hear from us directly. Prior to starting the Q&A session let me give a few comments on our first quarter results.

Today we're very excited to report very strong first quarter results showing robust growth in revenue, operating income, and net income, supported by growth across our key customer metrics. Our revenues of ¥30.3 billion represent growth of 46% over the first quarter of 2011, and net income grew 63% to ¥12.3 billion. During this call we'll frequently discuss our results on a constant currency basis, to adjust for the effects of changing foreign exchange rates between comparable periods. On this constant currency basis our first quarter revenue increased by 52% year-over-year, and net income grew by 71%.

Our results reflected our particularly strong position in Asian markets where our existing titles such as *Dungeon&Fighter*, *Counter-Strike Online*, and *MapleStory* continue to perform extremely well, and our new titles such as *Mabinogi Heroes* and *Cyphers* are growing too. Importantly we're growing faster than the market in those territories and worldwide, which we think reflects the disruptive nature of our free-to-play business model and the strong appeal of our franchises in markets around the world. Based on this strong outperformance we achieved in the first quarter, we are also raising our outlook for the full year 2012, as Owen will discuss in a moment.

The strong returns in the business continue to provide us with the resources to invest in new IPs. We are encouraged by the initial reception of the games we launched in 2011, and Nexon will be committing of the live development and marketing resources required to support these new games and propel them to the next level of scale and growth, just as we did with the major franchises in the portfolio that have been growing for many years.

Overall we believe our performance during the first quarter reflects the sharp focus of our game development and operation teams on delivering a compelling user experience, leveraging an immersive free-to-play business model that is clearly working.

More broadly we think our focused business model is supported by a broad and very fundamental shift in our industry from off line to online business models. As online connectivity becomes fast and ubiquitous around the world, well designed free to play

online games are a compelling value proposition to customers worldwide, and therefore a powerful mechanism for growth for Nexon.

Before I turn the call over to Owen, I would like to take a moment to thank the over 3,400 Nexon employees around the world for their hard work and dedication in making this a great quarter. I will now ask our CFO, Owen Mahoney, to provide some additional details.

Owen Mahoney:

Thanks, Seungwoo. Let me provide some additional detail on the quarter before we take your questions. First, revenue, operating income, and net income all showed robust growth during the quarter. As Seungwoo mentioned, revenue was up 46% from ¥20.8 billion to ¥30.3 billion. On a constant currency basis, that is, taking out the effects of currency changes, our growth was 52%. Operating income was ¥17.3 billion, an increase of 86% on an as reported basis, and 94% on a constant currency basis, and net income was ¥12.3 billion, or an increase of 63% on an as reported basis. During the quarter we generated ¥18.9 billion of cash on an unaudited basis. So these are substantial growth rates at scale.

Second, the growth really represented a strong performance in our Asia business. China was very strong growing 89% year-over-year, but Korea was also very solid, growing 34% year-over-year. It's worth noting that growth in Korea does not come from growth of broadband penetration, the Korean market has had the effect of full penetration broadband for several years. So we think this bodes well for our other markets around the world. That is our model and our execution enables us to grow even after an individual territory has ubiquitous broadband.

As you saw in the letter to shareholders, North America was the sole weak spot, but we feel optimistic that the issues from the hacking incident at the end of Q4 are largely behind us, and our team is focused on getting back into a good growth trajectory in that region.

Third, we've raised our guidance. Our guidance for the full year is now ¥108.3 billion, representing a 24% increase over 2011. On a constant currency basis, again if the currencies do not fluctuate, that would be a revenue increase of 28%.

As Seungwoo mentioned we're very happy with our results in Q1, and we believe the company and our model are in great shape, well positioned for what we think will be a very exciting period of growth in our industry, and for our company.

With that we'd like to open up the Q&A session. Some of you have sent us questions, so we'll start by going down that list, and then we'll open it up to live Q&A after that. With that, let's begin with the first question.

■ PRE-SUBMITTED QUESTION AND ANSWER SECTION**Noriaki Hirakata:**

Sure. Our first one is actual Q1 result is much better than revised guidance. Operating income exceeded that more than ¥2 billion. What was the driver for this?

Owen Mahoney:

Sure, it is Owen, I want to take that. Our performance in Q1 was ¥7 billion better than our original guidance and ¥2 billion better than our revised guidance. By way of background, when we updated the guidance we hadn't yet finished the quarter, of course, so we were watching the trends closely, but what we found was that we finished the quarter really strong. The performance for the quarter was driven by several titles around Asia, but the standouts were *Dungeon&Fighter*, *Counter-Strike Online*, and *KartRider*.

Noriaki Hirakata:

So second one is would you share major metrics on each region?

Owen Mahoney:

Sure. So we don't break out the metrics by region, as you know, our MAU count worldwide was 82.8 million MAU, which was down slightly from a year ago, but up from the previous quarter, Q4. The paying user rate reached 10.9%, up from 8.3% in Q1 2011. So our total number of paying users reached 9.1 million paying users, up from 7.1 million a year ago.

Our average revenue per paying user was ¥1,761, up from ¥1,427 a year ago. So those were our worldwide numbers. They were basically reflected in each of the regions, the big exception being North America. The other exception was Japan, where we saw a fairly rapid rise in MAU during the quarter, which caused our pay rate to decline, as often happens. As you get more MAUs, the pay rate declines until those new monthly users turn into paying users over time. But we also saw a healthy growth in ARPPU in Japan, so we think the overall metrics there felt really good.

Noriaki Hirakata:

Right. So next one is how was the FOREX contribution to Q1 result?

Owen Mahoney:

So we were negatively impacted by FX in Q1, both in the revenue and operating income lines. On a year-over-year basis the negative impact from currency to revenue was ¥1.3 billion compared to Q1 2011. We reported ¥30.37 billion on an as reported basis, but had the negative affect not happened we would have reported ¥31.67 billion.

Said another way, we reported 46% growth, but had the currency not moved against us year-over-year we would have reported 52% growth.

On an operating income basis the impact was roughly half of the revenue impact, or ¥750 million. As reported, we saw 86% growth in the operating income line, but on a constant currency basis we would have seen 94% growth in the operating income line.

Noriaki Hirakata:

I want to know what exactly contributed to the strong performance in China. Each of the three games, *Dungeon&Fighter*, *KartRider*, and *Counter-Strike Online* increased at the same rate of 89% year-over-year? Or if not, which game increased more, by how much?

Owen Mahoney:

Sure. So we don't break out revenues by game, by territories, but we can say that *Dungeon&Fighter* and *MapleStory* accounted for 59% of our revenue for the quarter worldwide. As you'll recall *Dungeon&Fighter* and *MapleStory* accounted for 58.4% in 2011, so they're basically the same size as a percentage of the total as they were in 2011 even though we had this large over performance during the quarter. What that means was our growth was made up not just of *Dungeon&Fighter* and *MapleStory*, but several other titles as well. And that was true in China, and it was true around the world.

In China we were really happy with *Dungeon&Fighter*, *Counter-Strike Online*, *Sudden Attack*, and *KartRider*. We're also watching *Mabinogi Heroes* come up in that country as well.

Noriaki Hirakata:

Is China growing just from ARPPU inflation?

Owen Mahoney:

So the answer to that question is no. As everybody knows, we watch ARPPU really closely, as do our partners. First it wasn't just ARPPU, our pay rate was also higher. That is our conversion of MAUs to paying users. And as we've said many times in the past, we have three metrics that we track very, very closely; MAUs, pay rates, and average revenue per paying user, and among those, the first among equals is pay rate. So it's an important one if we had to choose between the three, but it wasn't just ARPPU, it was pay rate as well.

Second thing to remember is that we had, you know, content updates and promotions in China for *Dungeon&Fighter* and *Counter-Strike Online*, and people just responded really well to those. And we think that that's just a general sign of very good health of our games. They were of course – the quality of the content updates was helped, or that affect was magnified because it was also during the Chinese New Year period in the first quarter, so that magnified the effects of just really solid content updates.

The third thing I'd say is that interestingly we're starting to see the signs that purchasing power among users in China might be higher than we expected, and we've seen this trend over the past few quarters and we're watching it closely. We haven't changed our internal expectations based off of that yet, but we have been noticing that this has been going on in a general trending up in ARPPU, so we're watching that closely.

Finally I'd say that as people have heard us say before, we choose our partners very carefully, we continue to monitor the monetization very closely, as do our partners, and none of us, either us or our partners, feel that there's an over monetization problem. We feel that these are signs of health, but we watch it very closely.

Noriaki Hirakata:

Would you share the information of how much percentage of two big titles of total revenue in the first quarter again, and update on other game title performance?

Owen Mahoney:

Sure. So our two biggest titles are *Dungeon&Fighter* and *MapleStory*. They were 59% again in Q1 2012, which was just over what they were in 2011, for the year 2011, which was 58.4% of worldwide revenue. And again that means our other titles grew during the quarter as well, so we feel that that's solid.

Noriaki Hirakata:

Are you talking Japanese authorities about Comp-Gacha issue?

Seungwoo Choi

No, we have not been called or contacted by the authorities.

Noriaki Hirakata:

Then I believe Nexon have very different business model from Japanese mobile games companies, still need to confirm, are you concerned with Comp-Gacha regulation, will it impact Nexon growth in Japan substantially?

Owen Mahoney:

Based on what we know now, we don't think that we'll have a material impact; this issue of Comp-Gacha will have any material impact on our business at all. Now we're waiting for more specific guidelines from the Consumer Affairs Agency, and we're also reviewing all our games in Japan. But just to bring everybody up to speed for a moment on what Gachapon and Comp-Gacha issue is all about. Gachapon, itself, is an item system you see in many online games in which a user can buy a mystery item, in which they don't know what's inside the item when they buy the item. It may be a rare item that has particular value in the game world.

Some of the other gaming companies, especially the SNS game companies have a very sophisticated form of what they call Complete Gachapon, or Comp-Gacha, in which they attempt to incentivize users to buy many Gachapon in a row to complete a set of rare items, and by assembling that particular set they can get an even more rare item.

It appears that the regulators believe that this could run afoul of a law designed to protect consumers from being excessively incentivized for giveaways. In our case, our items systems incorporate the very well accepted standard Gachapon system in some of our games as basically a very ancillary feature of the games in which users don't necessarily have to rely on combinations of the items available in order to play. We

believe that our systems are very different and therefore won't be defined as Comp-Gacha.

The other concern has to do with payments, and this is the big difference between the mobile companies and us. In mobile the user is charged through their mobile phone bill, and what that means is that they can pay after they've incurred the cost of the Comp-Gacha item. So it's possible, and it's been reported that it's possible for mobile users to rack up a very, very large phone bill and not realize it until they've received the bill.

In our games users have to put money into the system prior to spending the money in the game by buying Nexon points at retail or online. So it's a very different system. So our revenues don't depend on Comp-Gacha, and we think that we're protected from the regulation affecting our business.

Again, we're waiting for more specific guidelines from the CAA, the Consumer Affairs Agency, and we're also reviewing all our games in Japan, and we certainly support the regulators efforts to protect consumers this way.

That's in Japan. Outside of Japan we don't have any sort of more sophisticated Gachapon system that might be construed as Comp-Gacha, so we don't have any concerns about that outside of Japan at this time.

Noriaki Hirakata:

So next question is North America region looks tough, any thoughts?

Seungwoo Choi:

Well the unfortunate hacking incidence that we experienced at the end of Q4 continued into Q1 and caused challenges in North America. However, the servers are much more stable now, and we're starting to turn marketing back on.

Having said that, it takes time to get the marketing funnel ramped back up to driving growth again. We feel optimistic though that the worst is behind us and our team is very focused on getting back onto a growth trajectory in North America. Next question, please.

Noriaki Hirakata:

Even Southeast Asia doing fine, Europe is also showing slow growth, is this right? And if so, how would you improve this situation?

Seungwoo Choi:

Well Europe may seem to be growing slower than expected, but what's important is that our business in Europe is still growing, and we like what we're seeing there. But we only have a few games out there, although we have a lot more to take out to the market, so we'll see a lot more bumpiness in that area in the future.

But what's really important is that we just set up an office in Luxembourg this year, and we don't have all the resources ready. In order for the Luxembourg office to function as

a full game publisher, we believe it will take more time. But we're very excited about all the new emerging markets, such as Poland, Russia, Israel, as well as the existing markets. So we do see a lot of opportunities coming from Europe, and with this new office we will be ready to take advantage of all those new opportunities in the future. Next question, please.

Noriaki Hirakata:

Why was Korea so strong? Can you say if *Sudden Attack* is doing extremely well there?

Owen Mahoney:

So from a metrics perspective the same trends that we reported for worldwide were reflected in the Korean numbers. MAU is slightly down year-over-year, and pay rate and ARPPU are both up. By product *Sudden Attack*, *Dungeon&Fighter*, and *MapleStory* were all standouts. But interestingly two newer titles have been doing well there as well; *Cyphers* and *Mabinogi Heroes* both grew nicely during the quarter and are starting to provide meaningful revenue. So we continue to like what we're seeing with those two titles.

Noriaki Hirakata:

Is the performance in Q1 '12 sustainable? What if your expectation for Q2 '12 were based on the trend in early May, what should we expect for the performance for Q2 '12 from China revenues?

Owen Mahoney:

So we're not planning for the same growth rate in Q2 as we had in Q1. First recognize that there is seasonality in there, so Q1 and Q3 are traditionally our strongest seasons. Q1, that's a reflection of the Chinese New Year period, or the Lunar New Year period, and Q3 is the summer holiday around the world. So typically Q2 and Q4 are less robust than Q1 and Q3.

Second, our guidance for the first half of 2012 is for ¥53 billion on the revenue line. So that implies ¥22.6 billion in the second quarter. So again those numbers, ¥53 billion for the first half, which would imply ¥22.6 billion in the second quarter.

We're comfortable with our guidance for Q2 and for the year. And for the year, as you know, our guidance is for ¥108 billion in revenue, and ¥52.23 billion in operating income. So we feel comfortable with that guidance for Q2 through Q4, and then we'll of course watch it as we go along through the year.

Noriaki Hirakata:

Again, your Q2 guidance looks very conservative. Just confirming, is there any specific reason?

Owen Mahoney:

I wouldn't say there's any specific reason other than we're just watching it, and we feel at this point it's prudent to keep with the guidance that we have for Q2 through Q4. You know, we work in a dynamic industry, and the over performance that we saw in Q1

was driven in large part by China and Korea, so we want to make sure that we don't get ahead of our skis or too much over our skis when we're looking at the rest of the year. Again, we're watching it very closely and we will update if we need to.

Noriaki Hirakata:

How would you handle RMT issue in Japan?

Seungwoo Choi:

The RMT, real money trading, itself is not illegal, though we do recognise problems such as fraud, that may be caused by this RMT. So therefore under the terms of service in our games we do not allow RMT in our games. And we do take strict actions in case we find violations of these terms.

And we provide our users with an in game trading system where people can exchange items for Nexon points and not cash. They exchange items for Nexon points within the game, so that's how we handle RMT.

Owen Mahoney:

Is that the last of the questions?

Noriaki Hirakata:

Yes, that's the last of the questions.

Owen Mahoney:

So with that, operator, that's the list of questions that have been sent into us. With that we would like to open up the call to anybody who would like to ask us live.

■ **LIVE QUESTION AND ANSWER SECTION**

Mark Moore, Brookside Capital:

I have two quick questions for you. The first one is around guidance and how 2012 is going to unfold here. You know, as you look at it, the only change to your full year guidance is what you are already seeing in terms of outperformance in the first half. So effectively no alteration in the second half, which would mean one of a couple of things - Either you just can't see that far down the track, number one, or number two, you have been doing something here in terms of the games that has driven out performance in terms of paying penetration that maybe you don't expect will continue throughout the year. And so I want to understand how from your own levers that you pull in terms of monetization in the business, how and whether the guidance for the full year is indicating a change in terms of strategy. That's the first thing.

And the second thing is specifically on Japan. So Japan starting to do a lot better, I know its an area of focus for you guys, can you just talk about what's going on there either in terms of game releases, or marketing, or sort of gamer activity. What's happening there, and whether you see that continuing? Thanks guys.

Owen Mahoney:

So Mark, if it's okay with you, I'll take your second question first on Japan. You know, as we've mentioned before, we feel like we've got a very solid team on the ground here in Japan, and they've been just doing the nuts and bolts of execution in operating our games here. On top of that, we've got a pretty aggressive plan in terms of introducing new games, especially around mobile, as we've talked about before, so I'd say though that the bulk of what we're seeing though is execution.

Also just so you know, remember last year at this time, literally a year ago at the very end of the quarter we had the earthquake, which slowed us down the last couple of weeks in Q1. So that helped us a little bit on a comps basis, but overall we just feel that the team is just very solid. And it's nothing more strategic than just execution by the teams.

Mark Moore, Brookside Capital:

I do want to get on the guidance issue and what you're sort of trying to communicate, but just really quick: Mobile, are you guys now in the market with sort of robust mobile games at this point, or is that still kind of on the come for later in the year?

Owen Mahoney:

It's mostly the letter, Mark. We have put together a team in Korea that we've basically centralized all our mobile development around one of our most senior developers, and that team has got several products under development. And we did that around the end of last year, and so a lot of the products that you see are going to come out in the second half of this year.

Our plan for Q2 is to put out several new games; we've got five planned for Q2 in Korea, and four planned for Q2 in Japan. So you're starting to see those come out, but really the bulk of those you'll see in the latter half of the year.

And as far as guidance goes, there's nothing really tricky about that. As you know, we were happily surprised by the outperformance that we saw in Q1. And so we felt really good about that, and it was driven by game updates, in large part, to some of our biggest franchises in some of our biggest countries. And we don't think it's smart to bank on that happening every quarter. And so we felt good about our guidance for Q2 through Q4, we still feel good about our guidance for Q2 through Q4. There's nothing extra special about it, but we did over perform in Q1, but that doesn't necessarily mean that we'll over perform in Q2 through Q4.

As far as – I think one of the questions you might be asking is does that mean that we sort of pushed Q1 performance at the expense of Q2 through Q4? The answer is absolutely not. We play a very long game on this, and we care very much about the health of the franchises overall. And in China where we work through partners, or work with our partners, they're working with us in exactly the same way. So we feel that the games are healthy overall, we liked what we saw in Q1, we believe that those – our franchises there, and the territories in general are in very healthy shape, but we don't want to count our chickens before they're hatched in Q2 through Q4.

Mark Moore, Brookside Capital:

Okay great, thanks Owen.

Owen Mahoney:

Thank you, next question, please.

Alicia Yap, Barclays Capital:

Hi and good evening. I have a question on the China revenue, I'm a still a little curious on the sequential increase. So if we are reading the numbers correctly, it looks like the Q-over-Q increase of 83%. So can you remind us what was the Q-over-Q increase for first quarter 2011? Meaning from 4Q '10 to 1Q '11, what was the sequential increase?

Owen Mahoney:

The sequential increase from Q4 2011 to Q1 2012?

Alicia Yap, Barclays Capital:

That was about 83%, right?

Owen Mahoney:

Yeah. So your question is what was it?

Alicia Yap, Barclays Capital:

What was the sequential the year before. That means from 4Q 2010 to 1Q 2011.

Owen Mahoney:

Okay, give us a minute here and we'll get the number for you. So the number for Q4 2010 to Q1 2011 for China, the delta was 40%.

Alicia Yap, Barclays Capital:

So what makes exactly this quarter, 2012, to be so much out performance?

Owen Mahoney:

Over the history that we had in 2011?

Alicia Yap, Barclays Capital:

Yeah. Over like historical seasonality trend.

Owen Mahoney:

Sure. So as you know, we did not forecast this much of an outperformance. It performed better for us than even we expected given the seasonality.

First of all, it's driven by some very strong franchises that appear to be really resonating with the market. In addition, we had several content updates during the quarter, timed for the season, and those content updates just did really well with our customers. So they were very popular, and they drove ARPPUs higher than we expected, and they drove conversion to pay higher than we expected.

So that was the key thing. The other thing, as I mentioned before, was we think we may be seeing gradually increased purchasing power amongst Chinese consumers. We're not sure about it yet, but we've been noticing a trend. So we're watching that every closely. We haven't forecasted that increased purchasing power into our internal models, but we are watching it closely, and certainly that seemed to be in effect in Q1 this year.

Alicia Yap, Barclays Capital:

I see. So lastly just one quick question on your full year guidance. So if we wanted to kind of get a sense of how much China could grow for this year, would that be significantly outperformance for your overall total revenue growth for the entire 2012?

Owen Mahoney:

So as a percentage of our total, we expect China for Q2 through Q4 to be roughly where it is today. So it's a little over 30% as of today. So we don't think that China is going to drive outsized growth relative to the other markets, but we do expect it to be our largest market through the balance of this year.

Alicia Yap, Barclays Capital:

Great, thank you.

Owen Mahoney:

Thank you very much. Next question please.

Ben Lu, Seligman:

Hi guys, thank you for this call and congratulation during the great quarter.

Owen Mahoney:

Thank you.

Ben Lu, Seligman:

I guess my first question is really just on the magnitude of the Q1 beat; you obviously beat your guidance by over 70%. I was just curious on how much visibility do you guys have into your forecast in terms of modelling what you guys are seeing, and what the actual results are, or was the outsized Q1 beat mainly because you guys were conservative given that it was your first quarter as a publically listed company?

Owen Mahoney:

So no. Again, we gave our guidance, and we're actually very careful with our guidance. Our guidance that we give is our internal plan. So quite frankly our internal plan did not call for this sort of beat, and we had to raise our guidance for the quarter because we were surprised by it as well. And what we really saw was that, just by way of context, China is a very dynamic market. It's growing quickly, there are more gamers, and they're more engaged in games, that's clearly going on.

The second thing is when you run the second largest game, or near the first largest game in China, or you have it and you run it with your partner, and you do a content update that's very well designed, and resonates well with users, and you've got a lot of users, then it can do really, really well. And that's what we think that we saw there, we just put out a content update for several of our games, those games did really well, and the content updates did really well. And so that drove a lot of great performance.

The second thing that happened is Korea continued to do very well. So Korea grew 34% year-over-year, that's good, robust, solid growth. And so we think we're taking some market share from our partners, again that's driven by really taking care of well designed games and making them better all the time. And when you do that really well and it really resonates with customers, you know you're going to have some great performance.

That doesn't mean that we're going to do that every quarter, and so we can't say today that we feel like we're going to repeat this in every quarter going forward, so again our guidance to the street is our internal plan. And we have done a lot of analysis from the bottoms up, and so we feel confident in our internal plan, but we don't feel that it's appropriate for us to be, again, counting our chickens before they're hatched.

Ben Lu, Seligman:

And now you mentioned that you're beginning to see a rise in purchasing power ARPPU amongst the Chinese consumers, have you seen any changes in terms of the stickiness or retention of the Chinese gamers?

Owen Mahoney:

Not that has become particularly noticeable, but again these go in very long cycles. First of all, as far as the rising, the comment about rising purchasing power, we think we may be seeing a trend there, we're not sure of that trend yet. So we're not baking it into any models at this time.

It's something that we've noticed and we've discussed internally, and we're sharing it, but we're not certain about it yet, but we're watching it closely.

As far as the stickiness or the longevity of customers, of course those trends tend to play out over a period of months, and when you're got games that are designed to be played for years on end, those trends will play out rather slowly. So there's not anything that's really at the top of our radar right now. Of course we like to design our games that they last for a long time, and we notice these things over a period of time.

Ben Lu, Seligman:

And then the last question I want is regarding the content updates. Historically how often do you release content updates, and have you seen any patterns with pay ratio and ARPPU in the three to six months after you release new content update?

Owen Mahoney:

So the answer is it depends on the content update. We tend to do major content updates, like very large content updates, around very year or 18 months, those are major new additions to the game. Within those, however, we do what we would consider sort of seasonal content updates somewhere around twice a year, or three times a year, and we typically like to time those according to major holidays. Again things like Chinese New Year.

And those content updates typically drive new users and they often times bring users back, and they drive a lot more activity. So we find MCCU numbers, maximum concurrent user numbers, which is a measure of activity within the game, and number of players who are playing at the same time, it drives those up. As to how long that spills over, it really depends on the content update, but all those things get added to the game over time, so typically you'll see a game just get bigger over time because you're adding those content updates over time.

Ben Lu, Seligman:

Great, thank you.

Owen Mahoney:

Thank you. Next question please.

John Taylor, Arcadia Investments:

I'm curious about North America and Europe a little bit. You're talking about the server or the hacking problems hurting the business last year, and I'm wondering if you could talk about how you get back your positive trajectory there, what the implications are for your marketing spend to get the word out and to rebuild the customer base, that's part of it. And I guess a larger question, and that is how confident are you that the game portfolio now is really super relevant for western users such that you can start to build market share and attract people who are already playing on Facebook, or doing what ever it is they're doing? Thank you.

Owen Mahoney:

Sure John. This is Owen. So just to recap a little bit about what happened in Q4. In North America we were having a very strong year of growth in North America, and then in literally the last few weeks of the year, at the Christmas quarter or during the Christmas time, we got hit with a pretty significant hacking attack, it took down our servers intermittently, and we lost customers. Our team there has been working very, very hard and very aggressively in getting our situation stabilised there, and we're coming through that. As we mentioned, they've worked through the worst of it, and we're in a much better place, and we're beginning to turn on the marketing funnel now that we're through that area, we'll turn that on very aggressively.

As to how we get back, we do that through those marketing activities that we've done in North America.

As for the broader question of what that means for North America and Europe, we actually think that our content is very relevant for the North American market. Again, we're in a very different position from a Facebook game provider, or a social game provider, we make immersive free-to-play games. Those are games that are designed to be played for months or years on end, they're synchronous, so you're playing in a live environment with typically hundreds or thousands of other players at the same time, they're designed to be very easy to get into, easy to learn and hard to master, so they keep people coming back for a long time. And they've really resonated in those markets. And in North America *MapleStory* has been a great title; *Combat Arms* has been a great title for some time. So we think that those really resonate, and when we are now in a position to turn back the marketing funnel we're going to be able to – and introduce new products as well, we're going to be in a good position. And we really like the North America and European markets, so we think that those are great opportunities.

John Taylor, Arcadia Investments:

May I ask a follow up on that? What do you expect, or what are you seeing in terms of the cost of customer acquisition to get the attention, and the time of those harder core gamers that your portfolio is designed to attract? What's going on with that, with the cost of customer acquisition I guess?

Owen Mahoney:

Yeah John, so that fluctuates a lot. One of the things is we don't have to go to one single place to acquire customers, it's not like we're in a situation like we have to only advertise or acquire customers on Facebook. In North America the primary way that we do acquire customers is through web advertisements, and those advertisements, it's a market that fluctuates up and down. Of course there's a ton of seasonality in there. But we're not finding a massive general trend upwards over time, because the market or the supply of those display ads is pretty dynamic. So we're not seeing a tough trend in one direction.

Next question, please.

Atul Bagga, Lazard Capital:

Thank you for taking my call and congratulation this great quarter.

I have two questions. Owen, just to follow on this North America and Europe market, can you talk about outside of the hacking incident, are you seeing any trend either upward or downward in terms of the overall free to play market in these markets?

And my second question is around your mobile strategy. You talked about that your games are more designed for the slightly more hardcore gamers, and I was wondering if you could share some of your news on mobile, and how should we think about your mobile games? Are these mobile games again designed for these hardcore users, and should we expect to see a similar kind of game play immersion on mobile games as we see for your client-based games? Thank you.

Owen Mahoney:

Thanks, Atul. So I'll take your first question first. In terms of North America, we're very interested in and very focused on the US and European markets because we think that they're great growth markets. You know, they're sort of expansion markets for online games. The penetration of broadband in both those markets is just reaching the breadth and also the speed that really supports our business model. So our model of immersive free-to-play games is really supported by fast broadband in which a lot of people have it. In both North America and Europe, that have been a little slower to adopt broadband, especially at fast speeds, they're just sort of getting to what we think is critical mass. We think that that supports our business model a lot. And we certainly see that anecdotally as we watch our user base.

The second thing that supports our business model in those markets is free-to-play is a business model that was not well known in North America and Europe even 18 months ago. And Japan, and especially Korea and China by contrast, it's been a very well known and completely accepted, in fact really the primary accepted business model for games for the last five to eight years. So North America and Europe are just sort of coming into the free to play model. Certainly what's been going on in social has helped train tens of millions of people in how to buy a virtual good. Spend a little bit of money from a micro transaction for a virtual good within a game. We think that that helps us a lot because often times our hardest marketing challenge is to invite someone to buy their first virtual good.

So we think the trends really help us a lot. We were also noticing that a lot more Western developers are starting to look to business models in the East, particularly in Korea, as inspiration for how they're going to build their next game. So we like how the industry is going, we think it's going right into our direction, and that supports us a lot. So we want to be ready for that.

As for our mobile strategy, in terms of the kinds of mobile games that you'll see us make, you'll see us put together essentially two types. One is a very casual type of mobile game along the lines of what you see very commonly, and the second is a more immersive type of game. We don't think of our games as hardcore because almost across the board our games are designed to be very friendly to a new user, but difficult to master. But they are designed to be played for a long period of time, and that's different to the casual games market.

We like the immersive free to play games, including on the mobile market, because once you've acquired a customer, in an immersive game you tend to keep that customer for longer. And in our case our customer lifetimes in our core market are measured in, again months or years. So that helps with our marketing ROI obviously because you don't have to keep acquiring a customer over and over again to keep them coming back to a game, they just come back by themselves. So we think that that frame works really well.

So you'll see us in mobile thinking of those two markets as distinct, or those two types of games as distinct, and we are developing for both types of mobile games.

Thank you. I think we have time for two more questions, operator?

Yuichi Chiguchi, DIAM

My question is very simple to the CEO. Could I have rational reason why you will not hold earnings announcement meeting in Tokyo, or the conference call to the Japanese clients in Tokyo time?

Seungwoo Choi:

Well we did that three months ago, but the last time we didn't have a chance to talk to our investors in Asia, so this time we plan to visit our investors in Asia. And we'll probably come back to our domestic investors in August.

Yuichi Chiguchi, DIAM

I think that you deliver the marvellous earnings in this quarter, so maybe you have more chance to appeal to the Japanese client, and I'm just wondering that where did you raise money when you have IPO, or where is your home country, or home market?

Seungwoo Choi:

Oh yes, of course. We do think the domestic investor is very, very important, and we will be in touch as much as we can at all times. So it doesn't mean that we're neglecting our domestic investors here. We always remember where we are, and where the money comes from.

Yuichi Chiguchi, DIAM

Right. So let's see you the next time. Thank you.

Seungwoo Choi:

Okay. Looking forward to it. Thank you.

Mia Nagasaka, Morgan Stanley:

I think we have very limited time, so my question will be only one. I think about a month ago the media was reporting that Nexon is in talks with EA for acquisition. In my view this is very unlikely, I was very surprised to see the article. However, some intellectual properties such as soccer games or sport games might be very attractive to your product pipeline, are you interested in broadening your product pipeline by working with other companies? And especially if you can comment and help us to understand about this article, that would be much appreciated. Thank you.

Owen Mahoney:

Sure, thanks for your question, Mia. So as you know we just don't comment on rumours and speculation, so we're not in a position to ever comment about any articles that end up getting written about us.

Relative to your other question about whether we would be interested in working with other companies for IP. Certainly we have done that in the past and will likely do that again in the future. Two great examples are *Counter-Strike Online*, which is a game

that we developed with Valve, a developer in Seattle in the US, for *Counter-Strike*. We turned that into a free to play game and delivered it around Asia, and as we were talking before, it's been very successful in China and Korea. It's also successful in Japan.

Another example of a game that's coming up is a game called *WarFace*, which we've got slated for the end of this year from a developer in Germany called Crytek, which is one of the premier first person shooter developers in the world. And they're putting together *WarFace* in conjunction with us, which we'll be publishing in Korea. So it's a first person shooter with microtransactions, and a free-to-play business model. So we're very excited about that.

So yes is the answer to your question. We have done that in the past, and we're always on the hunt for a great intellectual property that we can make into strong free-to-play games.

Thank you. And I think we're out of time. So with that we'd like to thank everybody for their questions and for their time tonight, and we look forward to answering your questions more, and talking to you next quarter at this time.

Seungwoo Choi:

Thank you very much.

- END OF TRANSCRIPT -