



Investor Presentation

Q3 2014

November 13, 2014

NEXON Co., Ltd.

Owen Mahoney

President and Chief Executive Officer

Another Quarter of Consistent Execution

- Korea: solid financial performance with particular success in mobile; accelerated growth
- China: third consecutive quarter of stabilized MAU in *Dungeon&Fighter*
- Strong pipeline worldwide in PC and mobile for 2015 and beyond

Shiro Uemura

Chief Financial Officer

Q3 2014 Results

Q3 Highlights

- Revenues were ¥45.6 billion, up 14% year-over-year on an as-reported basis, up 3% on a constant currency basis; operating income was ¥15.1 billion, down 7% year-over-year
- Revenues and operating income exceeded the high end of our forecast
 - Revenue outperformance was primarily driven by better-than-expected results from Korea in late August and September
 - Operating income outperformance was driven primarily by
 - Strong results from Korea
 - Delayed marketing spending due to title launch schedule
 - Lower HR costs due to slower-than-planned increase in headcount
- Net income¹ was ¥13.6 billion, up 69% year-over-year, primarily due to increase in FX gain
- *EA SPORTS™ FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M* benefited from continued interest spurred by FIFA World Cup, strong marketing and live game operations
- Consistent and continuous growth in mobile revenues
 - Mobile revenues of ¥9.7 billion exceeded the high end of our forecast
 - Native game revenues continued to grow, up 50% quarter-over-quarter; native games represented nearly 50% of Q3 mobile revenues

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

Q3 Financial Results

(Unit: ¥ millions, except per share data)

	Q3 2013	Q3 2014 Outlook		Q3 2014	YoY %
		Low end	High end		
Revenues	¥39,883	¥39,975	¥42,834	¥45,613	14%
PC	32,995	31,746	33,864	35,931	9%
Mobile	6,887	8,229	8,970	9,682	41%
<i>Japan</i>	6,482			5,570	(14%)
<i>ex-Japan</i>	405			4,112	915%
Operating income	16,237	10,748	13,043	15,124	(7%)
Net income ¹	8,054	7,337	9,055	13,585	69%
Earnings per share	18.35	16.98	20.95	31.49	72%
Cash and cash equivalents	103,820			114,155	
Exchange rates					
100 KRW/JPY	8.94	9.95	9.95	10.15	
CNY/JPY	16.06	16.54	16.54	16.87	
USD/JPY	98.95	102.16	102.16	103.92	

¹ 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)

	Q3 2013	Q3 2014		YoY % Change	
		(As-Reported)	(Constant Currency)	(As-Reported)	(Constant Currency)
Revenue by Region¹					
China	¥15,962	¥15,685	¥13,889	(2%)	(13%)
Korea	12,151	19,976	17,594	64%	45%
Japan	8,755	7,232	7,232	(17%)	(17%)
North America	1,364	1,420	1,351	4%	(1%)
Europe and Others ²	1,651	1,300	1,187	(21%)	(28%)
Nexon Total	39,883	45,613	41,253	14%	3%
Revenue by Platform					
PC	32,995	35,931	32,060	9%	(3%)
Mobile	6,887	9,682	9,193	41%	33%
Japan	6,482	5,570	5,570	(14%)	(14%)
ex-Japan	405	4,112	3,623	915%	794%
Nexon Total	39,883	45,613	41,253	14%	3%
FX Rate					
100 KRW/JPY	8.94	10.15	8.94		
CNY/JPY	16.06	16.87	16.06		
USD/JPY	98.95	103.92	98.95		

Selected Performance Data (Excluding Mobile)³	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
	MAU (millions)	62.6	53.9	55.9	51.9
Pay Rate	10.4%	10.0%	11.0%	10.2%	9.7%
ARPPU ⁴	2,447	2,617	3,639	2,781	3,476
ARPPU (constant currency) ⁵	2,447	n/a	n/a	n/a	3,270

¹ Based on the regions in which revenues originate; not a representation of revenues according to Nexon entities.

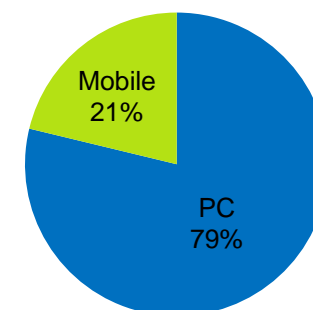
² Europe and Others includes other Asian countries and South American countries.

³ Selected Performance Data is not dependent on accounting methods. The selected performance above excludes the mobile business.

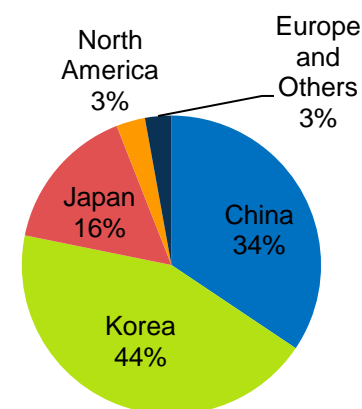
⁴ ARPPU (Average Revenue Per Paying User) is the average of monthly ARPPUs for the quarter.

⁵ On a constant currency basis (using Q3 2013 currency exchange rates).

Q3 2014 Revenue by Platform



Q3 2014 Revenue by Region¹



China – Highlights

- *Dungeon&Fighter*

- Q3 user metrics stable on a sequential basis
- Sequentially stable MAUs for third consecutive quarter
- Summer Update (July) and National Holiday Update (September) introduced in Q3



Dungeon&Fighter
“National Holiday Update”

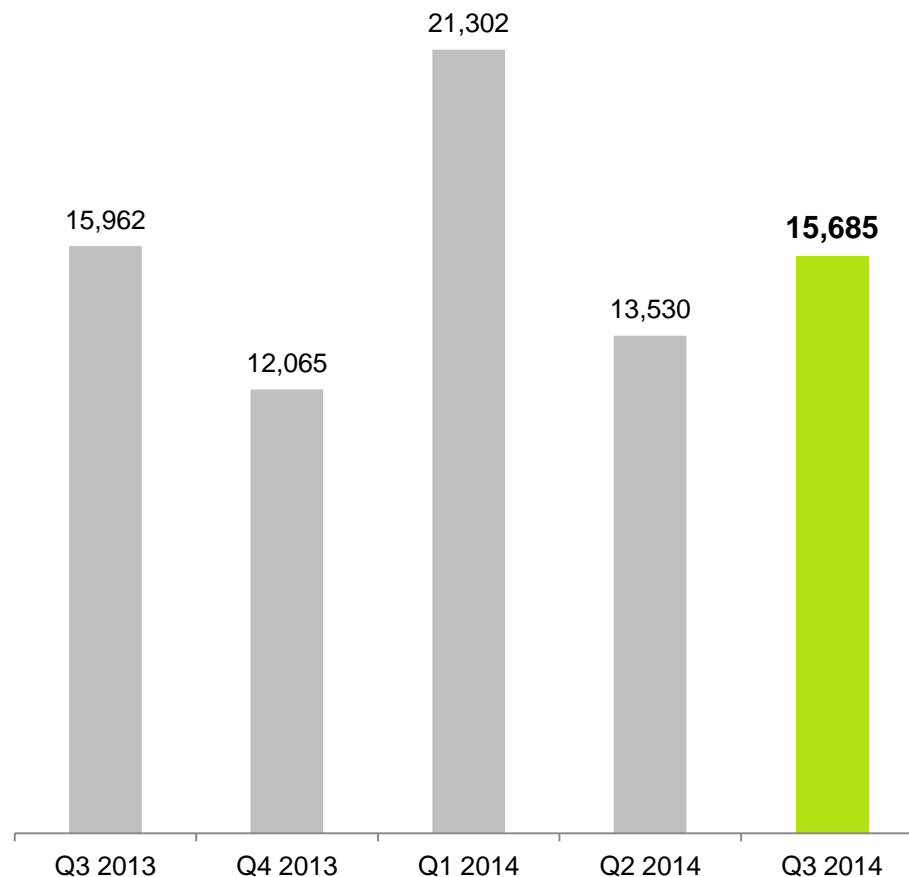


Dungeon&Fighter
Game Play

(Unit: ¥ millions)

YoY% change:

As Reported: **-2%**
Constant Currency: **-13%**



Korea – Highlights

- **Mobile games**
 - Launched *Legion of Heroes for Kakao* (7/29) in addition to the version directly distributed to GooglePlay
 - Over 4 million cumulative downloads year-to-date
 - Launched *Three Sword Heroes* (7/8), which consistently ranks near top 30 in GooglePlay Top Grossing

- **FIFA Online 3 (PC) / FIFA Online 3 M (mobile)**
 - Increased user traffic due to continued tailwind from FIFA World Cup
 - Record-high sales in September supported by ChuSeok holiday (Korean Thanksgiving)
 - *FIFA Online 3 M* consistently ranking in top 10 of GooglePlay Top Grossing

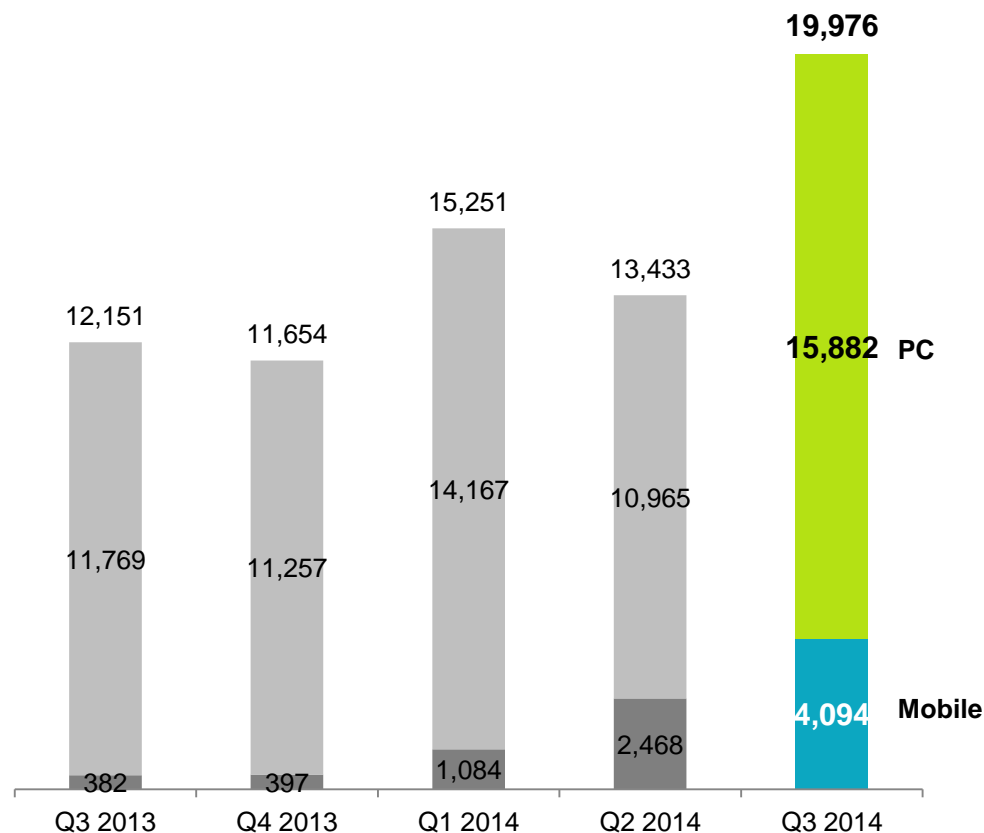
- **Year-over-year growth from key PC titles:**
 - Solid performance from *Dungeon&Fighter*, *MapleStory* and *Mabinogi Heroes*
 - Content updates and promotions well-received

(Unit: ¥ millions)

YoY% change:

As Reported: **+64%**

Constant Currency: **+45%**



Japan – Highlights

- Mobile revenue was ¥5.6 billion, down 7% quarter-over-quarter due to declining browser game revenues
- PC revenue was down slightly quarter-over-quarter
- Mobile native title *Euro Club Team Soccer Best Eleven+* was up 9% quarter-over-quarter, driven by tailwind from FIFA World Cup



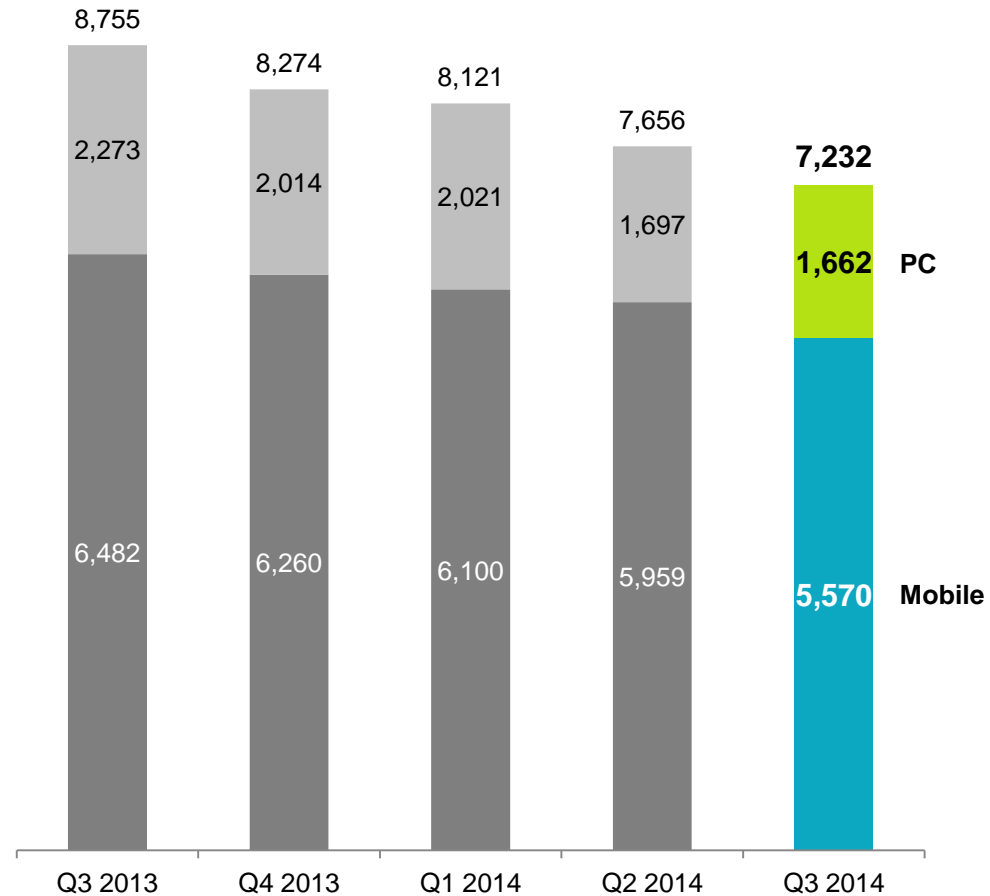
Euro Club Team Soccer Best Eleven+ Game Play

(Unit: ¥ millions)

YoY% change:

As Reported: **-17%**

Constant Currency: **-17%**



North America, Europe and Others – Highlights

- Green shoots in North America
 - Year-over-year revenue growth on a constant currency basis in August and September
 - Efforts to improve user experience in existing PC titles resulted in strong performance from *Mabinogi* and *Vindictus*

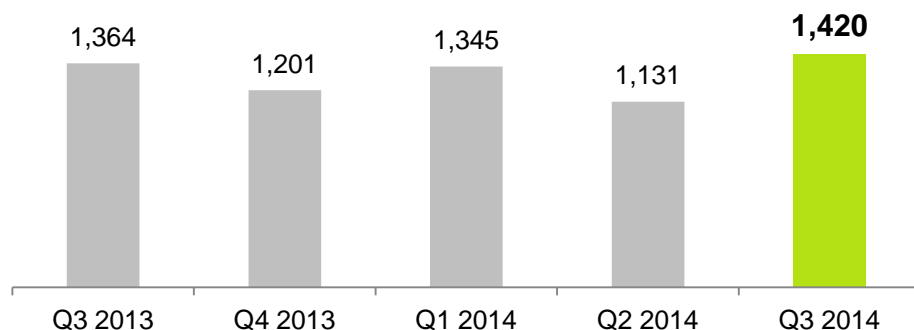
(Unit: ¥ millions)

YoY% change:

As Reported: **+4%**

Constant Currency: **-1%**

North America



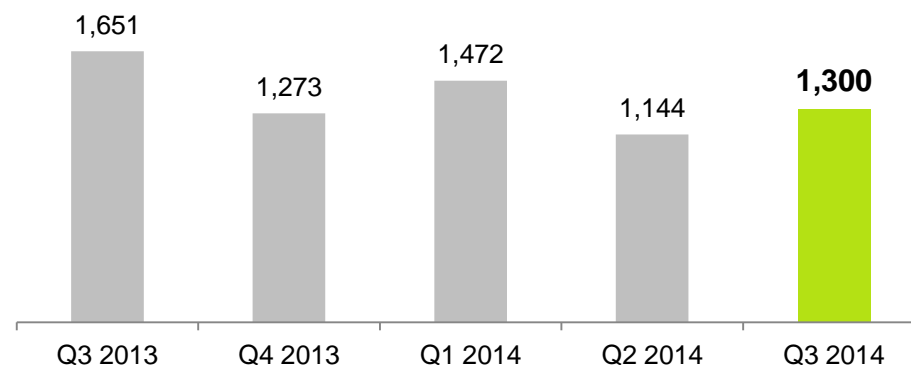
(Unit: ¥ millions)

YoY% change:

As Reported: **-21%**

Constant Currency: **-28%**

Europe and Others



Q4 2014 Outlook

Q4 2014 Business Outlook

(Unit: ¥ millions, except per share data)

- Expect revenues to be up 14% to 22% year-over-year on an as-reported basis

	Q4 2013	Q4 2014 Outlook		YoY	
Revenues	¥34,467	¥39,145	~	¥42,129	14% ~ 22%
PC	27,750	30,424	~	32,198	10% ~ 16%
Mobile	6,717	8,721	~	9,931	30% ~ 48%
Operating income	327	8,531	~	10,891	2509% ~ 3231%
Net income / (loss)¹	-4,437	6,422	~	8,138	n/a ~ n/a
Earnings / (loss) per share	-10.10	14.93	~	18.92	n/a ~ n/a
FX Rate Assumptions					
100 KRW/JPY	9.48	10.15		10.15	
CNY/JPY	16.40	16.87		16.87	
USD/JPY	100.46	103.92		103.92	

- Forex sensitivity: every one Japanese yen move against the U.S. dollar would have the following impact on our financials for the fourth quarter of 2014²

Revenue	0.33 billion yen
Operating Income	0.11 billion yen

¹ Net income / (loss) refers to net income / (loss) attributable to owners of the parent, as stated in Nexon's consolidated financial results.

² In most situations, the exchange rates of both the South Korean won and the Chinese yuan are linked to the U.S. dollar.

2014 Q4 Regional Outlook



China

- Expect low teens to 20+% YoY increase on an as-reported basis
- *Dungeon&Fighter*: high quality tier 1 content update (Kunoichi update) scheduled in Q4



Japan

- Expect 20+ to high teens % YoY decrease on an as-reported basis
- On 10/9, LINE announced the launch of *LINE Legion of Heroes* at LINE Conference Tokyo 2014
- On 10/14 gloops announced plan to launch 6 native titles in Q4
 - *Skylock* launched on 10/28. TV commercial starts on 11/14
 - Pre-registration progressing on other titles, including *Toys Drive* and *Summon Soul Battle*
- Nexon Japan published *Soul Slash SAGA* (native title) on 10/29 exceeding 200 thousand downloads to date



Korea

- Expect 30+ to 50+% YoY increase on an as-reported basis
- High-quality mobile lineup to be launched in Q4, including *Sudden Attack M: Duel League*, *Super Fantasy War* and *Pocket MapleStory*
- Scheduled to launch existing mobile titles on Kakao which are currently only distributed on GooglePlay: *Perfect Line-up for Kakao*
- Presenting new PC / mobile titles at G-Star in November

North America, Europe and Others

North America

- Expect 20+ to 30+% YoY increase on an as-reported basis
- *Legion of Heroes* launched in the West on 10/23

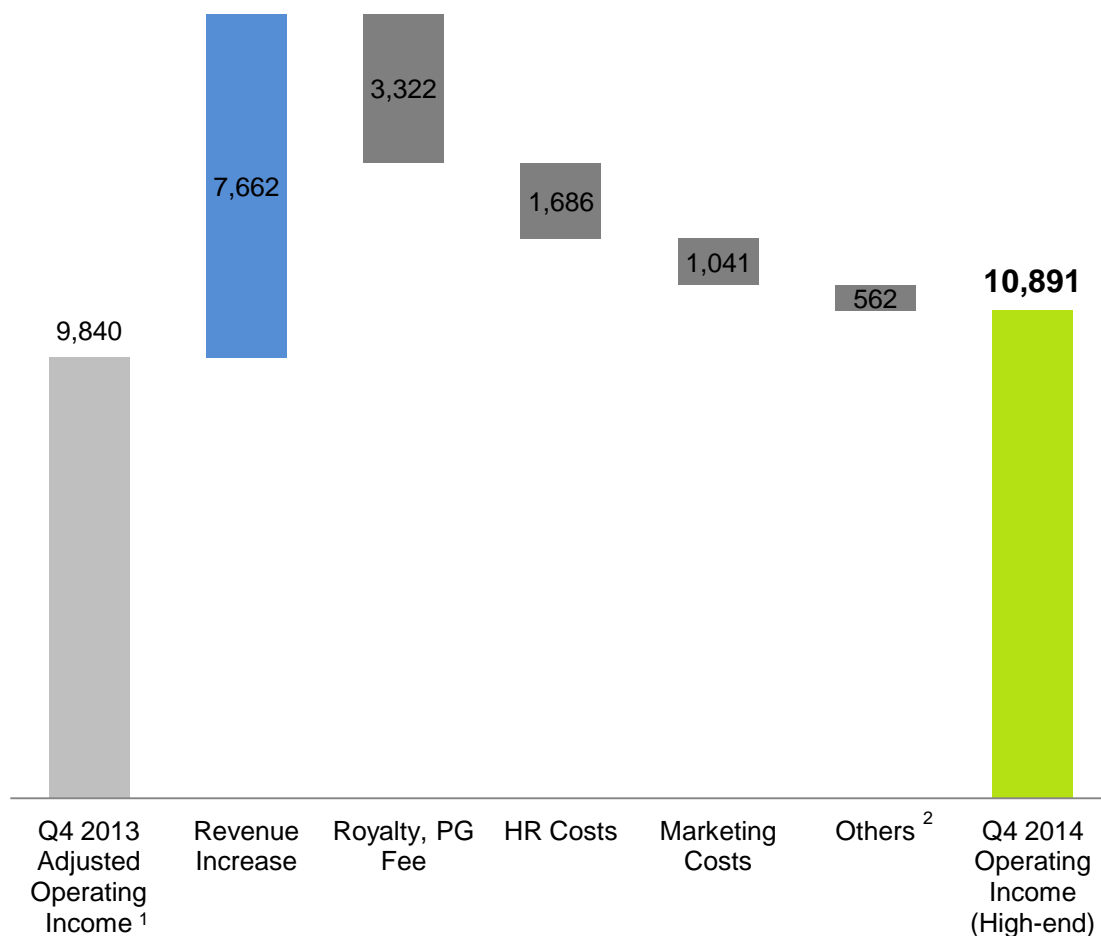
Europe and Others

- Expect single digit % YoY decrease on as-reported basis

Q4 2014 Operating Income Outlook

YoY Operating Income Comparison

(Unit: ¥ millions)



Expect high-end of Q4 2014 operating income to increase 11%³ primarily due to revenue growth

Anticipate year-over-year operating expense increases due to:

- Variable costs, including royalty costs associated with third-party licensed games, such as *FIFA Online 3* and *FIFA Online 3 M*, and PG fee related to mobile games
- HR costs, including salaries and grant of stock options
- Marketing costs related to new title releases in Japan and North America

Expect Q4 Operating Margin in the range of 22% to 26%

¹ Q4 2013 Adjusted Operating Income JPY 9,840 million = Operating income JPY 327 million + impairment loss JPY 9,513 million

² Others include other costs and other income / expenses above operating income

³ Excludes impact of Q4 2013 JPY 9,513 million impairment loss

Two Potential Risks in Q4 2014

- **Possible impairment loss on gloops' goodwill**

- Growth of native games and decline of browser games have been more rapid than initially expected
- gloops will launch 6 native games in Q4 2014; their subsequent performance will play an important role in our determination of whether to record an impairment loss
- As a result, goodwill impairment charge may be necessary
- Detailed estimates of financial impact in the event of an impairment loss would be premature
- For reference, balance of gloops' goodwill as of September end was ¥31 billion; Nexon acquired 100% of gloops for ¥36.5 billion in 2012







- **Possible resulting cancellation of ¥5 per share year-end dividend**

- In the event an impairment loss is recorded for gloops' goodwill, accounting rules dictate that we would have to recognize the impairment loss in the Nexon Japan corporate entity, as well as Nexon Group
- The dividend is paid from the retained earnings of the Nexon Japan corporate entity, so an impairment loss may cause us to have to cancel dividend scheduled for year-end
- We will provide more information to shareholders as soon as possible

Unmatched Pipeline¹



2014 Tier 1 Content Update Schedule

Game Title		Q1-2 2014	Q3 2014	Q4 2014
China	 <i>Dungeon&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	New Zombie Mode Update
Korea	 <i>EA SPORTS™ FIFA Online 3</i>	Q2: FIFA World Cup Mode Update	Summer Season Update	Roster Update TBA
	 <i>MapleStory</i>	Q1: "You & I" Update Q2: 11 th Anniversary Update	Summer Update: Touch of the Mediator	Black Heaven Update
	 <i>Dungeon&Fighter</i>	Q1: "Knight" Update Q2: "Reload" Update	Summer Update: Kunoichi Update	Rare Avatar & Christmas Package
	 <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	Q3 2014	YoY%
<i>(By Region)</i>								
China	¥20,409	¥15,477	¥15,962	¥12,065	¥21,302	¥13,530	¥15,685	(2%)
Korea	10,589	8,605	12,151	11,654	15,251	13,433	19,976	64%
Japan	9,927	9,398	8,755	8,274	8,121	7,656	7,232	(17%)
North America	1,418	1,446	1,364	1,201	1,345	1,131	1,420	4%
Europe and Others	2,021	1,698	1,651	1,273	1,472	1,144	1,300	(21%)
<i>(By Business)</i>								
PC online	36,877	29,333	32,995	27,750	40,297	28,459	35,931	9%
Mobile	7,487	7,291	6,887	6,717	7,194	8,435	9,682	41%
<i>Japan</i>	7,217	7,054	6,482	6,260	6,100	5,959	5,570	(14%)
<i>ex-Japan</i>	270	237	405	457	1,094	2,476	4,112	915%
Revenue	44,364	36,624	39,883	34,467	47,491	36,894	45,613	14%
Operating income	20,716	13,425	16,237	327	21,171	9,962	15,124	(7%)
Net income/(loss)¹	15,150	11,365	8,054	(4,437)	16,144	4,085	13,585	69%
Earnings per share	34.77	25.98	18.35	(10.10)	36.74	9.33	31.49	72%
Cash and deposits	110,510	112,235	103,820	138,843	149,040	140,157	114,155	
FX rate								
100 KRW/JPY	8.53	8.81	8.94	9.48	9.63	9.95	10.15	
CNY/JPY	14.73	15.94	16.06	16.40	16.83	16.54	16.87	
USD/JPY	92.42	98.76	98.95	100.46	102.78	102.16	103.92	
Key Performance (Excluding Mobile)								
MAU (millions)	71.5	71.0	62.6	53.9	55.9	51.9	52.7	
Pay Rate	11.5%	10.2%	10.4%	10.0%	11.0%	10.2%	9.7%	
ARPPU (as-reported)	2,532	2,181	2,447	2,617	3,639	2,781	3,476	
ARPPU (constant currency) ²	n/a	n/a	2,447	n/a	n/a	n/a	3,270	

¹ Net income/(loss) refers to net income / (loss) attributable to owners of the parent, as stated in Nexon's consolidated financial results.

² Using the currency rates of Q3 2013.

COGS and SG&A

(Unit: ¥ millions)

	FY2013				FY2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total Cost of Revenue ¹	¥7,831	¥7,734	¥9,229	¥9,358	¥10,249	¥9,839	¥12,731
Royalty ²	2,673	2,180	3,539	3,046	4,055	3,317	6,606
HR cost (COGS) ³	2,875	3,193	3,014	3,219	3,461	3,580	3,372
Other(COGS) ⁴	2,283	2,361	2,676	3,093	2,733	2,942	2,753
Total SG&A ¹	15,343	13,945	14,313	15,973	14,855	16,788	17,401
HR cost	3,004	3,241	2,814	3,063	3,602	4,758	4,025
PG fee ⁵	2,259	2,037	2,322	2,202	2,661	2,649	3,645
R&D	659	860	1,035	1,263	1,120	1,533	1,645
Marketing / advertising expenses	1,878	3,202	2,211	2,409	1,382	2,069	2,051
Depreciation and amortization	2,488	2,552	2,556	2,753	2,802	2,792	2,914
Other ⁶	5,055	2,052	3,375	4,283	3,288	2,987	3,121
Other Income ⁷	164	102	225	1,147	208	209	180
Other Expense ⁸	638	1,622	329	9,956	1,424	514	537

¹ Breakdown of COGS and SG&As are unaudited.

² Royalty costs include royalties paid to third-party developers for the right to publish their games.

³ HR cost includes salaries, bonuses and benefits for our live game developers, who support post launch servicing, updating and support for our games.

⁴ 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.

⁵ 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 and commissions we pay to Apple / Google regarding our native games globally.

⁶ Other in SG&A includes platform commission fees related to mobile browser games.

⁷ Other Income includes other non-operating income, reversal of deferred revenue, gain on sale of properties, and gain on change in equity.

⁸ 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, Q1 2014, Q2 2014, and Q3 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	Q3
Operating Income	¥20,716	¥13,425	¥16,237	¥327	¥21,171	¥9,962	¥15,124
Finance Income ¹	2,336	2,342	739	1,244	1,014	1,024	5,122
Finance Costs ²	196	1,471	3,138	3,819	385	3,655	360
Equity income/(losses) of affiliates, equity method companies	(268)	(99)	15	258	(32)	(73)	(93)
Income/(Loss) before Income Tax	22,588	14,197	13,853	(1,990)	21,768	7,258	19,793
Tax expense	(7,238)	(2,875)	(5,712)	(2,519)	(5,446)	(3,089)	(6,132)
Net Income/(loss) ³	15,150	11,365	8,054	(4,437)	16,144	4,085	13,585

¹ 2013 Q1, Q2 and 2014 Q3 Financial Income are mainly caused by FX. 2014 Q3 Finance Income is primarily due to the US dollar to Japanese yen and Korean won FX conversion gain related to foreign currency deposits & A/R in Japan and Korea.

² 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.

³ 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)

	9 months ended September 30, 2013	9 months ended September 30, 2014
Cash flows from operating activities	¥38,457	¥41,930
Cash flows from investing activities	(12,974)	(43,376)
Cash flows from financing activities	(14,995)	(26,147)
Net increase / (decrease) in cash and cash equivalents	10,488	(27,593)
Cash and cash equivalents at beginning of fiscal year	84,736	138,843
Effect of exchange rate change on cash and cash equivalents	8,596	2,905
Cash and cash equivalents at end of fiscal year	103,820	114,155

Balance Sheet

(Unit: ¥ millions)

	December 31, 2013	September 30, 2014
Asset		
Current Assets		
Cash and cash equivalents	¥138,843	¥114,155
Other current assets	78,956	125,380
Total current assets	217,799	239,535
Noncurrent assets		
Tangible assets	22,080	21,740
Goodwill	45,802	45,866
Intangible assets	26,653	18,700
Others	106,517	74,987
Total noncurrent assets	201,052	161,293
Total assets	418,851	400,828
Liability		
Current liabilities		
Current tax liabilities, current	8,502	3,654
Current borrowings	13,408	13,575
Others	28,543	29,043
Total current liabilities	50,453	46,272
Noncurrent liabilities		
Non-current borrowings	34,605	22,691
Others	20,734	8,420
Total noncurrent liabilities	55,339	31,111
Total liabilities	105,792	77,383
Equity		
Issued capital	51,952	52,226
Share premium	50,688	40,576
Treasury shares	(0)	-
Other equity interest	74,468	64,763
Retained earnings	131,374	160,815
Non-controlling interests	4,577	5,065
Total equity	313,059	323,445
Total liabilities and total equity	418,851	400,828

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.

Disclaimer

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This presentation includes forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “anticipate”, “assume”, “believe”, “estimate”, “expect”, “forecast”, “may”, “plan”, “potential”, “predict”, “seek”, “should”, or “will”, or by other similar terminology. These statements discuss expectations, identify strategies, contain projections of Nexon’s financial condition or results of operations or state other forward-looking information. The forward-looking statements in this presentation are subject to various risks, uncertainties and assumptions about Nexon’s business and results of operations. The expectations expressed in these forward-looking statements may not be achieved, and actual results could differ materially from and be worse than expectations. Potential risks and uncertainties that could cause actual results to differ materially from expectations include, without limitation:

- 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.

Nexon does not intend, and disclaims any duty, to update or revise any forward-looking statements contained in this presentation to reflect new information, future events or otherwise. We caution you not to place undue reliance on the forward-looking statements contained in this presentation.



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