

Dear Fellow Shareholders:

Today we are pleased to report another solid quarter. Once again, we exceeded our expectations for revenues, operating income and net income, driven by the strong performance of new and existing titles. China and Korea both performed better than anticipated, with Korea returning to a growth trajectory. Our existing mobile titles performed well, and we extended our mobile business through the launch of new titles both in Japan and abroad. We also continued to benefit from the weakening of the Japanese yen.

This quarter we intend to pay a semi-annual dividend of 5 yen per share. Our large cash position and strong cash flow allow us not only to reward shareholders, but also to take advantage of strategic opportunities as they arise.

## Second Quarter Fiscal 2013 Results

Our second quarter results exceeded the high end of the outlook we provided last quarter. The table below summarizes these results, along with the previous year's second quarter for comparison:

### Selected Consolidated Financial Data (IFRS) <sup>1</sup> (Millions of yen, except per share data)

	Q2 2012	Q2 2013 Outlook		Q2 2013 Actual	YoY%
<b>Revenues</b>	<b>¥22,877</b>	<b>¥34,021</b>	<b>~ ¥35,991</b>	<b>¥36,624</b>	<b>60%</b>
PC	22,697	27,246	~ 28,448	29,333	29%
Mobile	180	6,775	~ 7,543	7,291	40.5x
<b>Operating income</b>	<b>11,112</b>	<b>11,356</b>	<b>~ 12,324</b>	<b>13,425</b>	<b>21%</b>
Net income <sup>2</sup>	7,383	8,393	~ 8,890	11,365	54%
<b>Earnings per share:</b>	<b>17.05</b>	<b>19.22</b>	<b>~ 20.36</b>	<b>25.98</b>	<b>52%</b>
Cash and cash equivalents	105,941			112,235	6%
<b>FX Rate</b>					
100 KRW/JPY	7.00	8.53	8.53	8.81	
CNY/JPY	12.63	14.73	14.73	15.94	
USD/JPY	79.74	92.42	92.42	98.76	

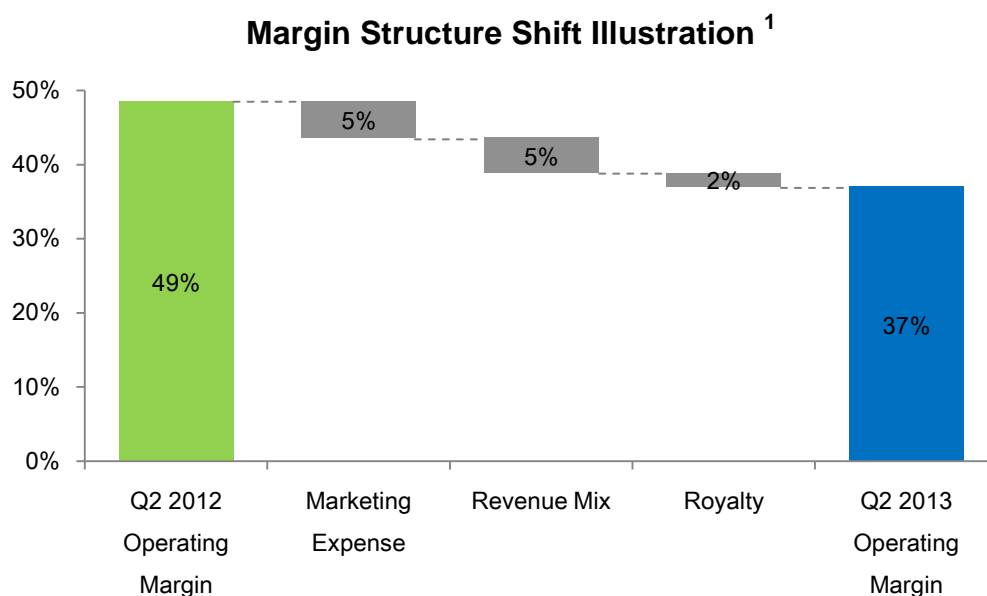
Footnotes:

<sup>1</sup> Nexon voluntarily adopted IFRS beginning in the first quarter of the current fiscal year.

<sup>2</sup> Net income refers to net income attributable to owners of the parent, as stated in Nexon's consolidated financial results.

Total revenues for the quarter were ¥36.6 billion, an increase of 60% versus the second quarter of the previous year. Revenue outperformance was primarily due to existing and new titles exceeding our expectations in China and Korea. In China, *Dungeon&Fighter* performed very well and continues to show strong user engagement. *FIFA Online 3* continued to gain popularity in Korea, becoming a major revenue contributor in the second quarter since its launch. Our reported results were once again aided by foreign currency translation from the weakening Japanese yen, which recorded a quarter average of ¥98.76 per US\$1 and ¥8.81 per 100 KRW versus our initial assumption of ¥92.42 per US\$1 and ¥8.53 per 100 KRW.

Our operating margin of 37% also exceeded the high end of our guidance. The decrease in margin, from 49% in Q2 of last year, was expected due to an increase in marketing investment primarily for mobile games; a change in the revenue mix, as our lower margin mobile business represents a larger portion of our overall business due to the consolidation of gloops; and an increase in royalty costs associated with third-party IP such as *FIFA Online 3*. The following chart illustrates the year-over-year changes in our operating margin:



Footnotes:

<sup>1</sup> Chart is an approximation.

Net income in Q2 was ¥11.4 billion, a 54% increase year-over-year.

The following table summarizes our key operational data for the quarter:

### Selected Performance Metrics <sup>1</sup>

	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
MAU (Millions)	77.4	78.8	68.3	71.5	71.0
Pay Rate	10.3%	9.6%	10.5%	11.5%	10.2%
ARPPU <sup>2</sup> (as-reported)	¥1,521	¥1,729	¥1,683	¥2,532	¥2,181
ARPPU (constant currency) <sup>3</sup>	¥1,521	¥1,722	¥1,548	¥2,134	¥1,762

Footnotes:

<sup>1</sup> The selected performance data above exclude the mobile business.

<sup>2</sup> ARPPU (Average Revenue per Paying User) is the average of monthly ARPPUs for the quarter.

<sup>3</sup> On a constant currency basis (using Q2 2012 currency exchange rates).

Monthly Active User (MAU) count decreased year-over-year to 71.0 million, primarily due to a decrease in users playing our more casual games in China. This change does not significantly impact our revenues, since casual users have shorter retention periods and tend to monetize less than immersive gamers. Pay rate was essentially flat year-over-year at 10.2%. Average Revenue per Paying User (ARPPU) was up year-over-year largely due to successful content updates with an additional boost from currency exchange rates.

The quarter-over-quarter decline in MAUs was in line with historical seasonality following the holiday season in Q1. Despite the seasonal impact, *Dungeon&Fighter* China MAUs were up slightly quarter-over-quarter due to successful summer content updates. ARPPU was at its seasonal peak in Q1 due to tier one content updates targeting the Lunar New Year.

The following table presents our revenue results by region on a constant currency basis (applying the average currency exchange rate from Q2 2012) and on an as-reported basis, showing year-over-year growth rates for both.

### Revenue Breakdown (IFRS)

(Millions of yen)

Revenues by Region <sup>1</sup>	Q2 2012	Q2 2013 (As- Reported)	Q2 2013 (Constant Currency) <sup>3</sup>	YoY % Change	
				As- Reported	Constant Currency <sup>3</sup>
China	¥10,738	¥15,477	¥12,294	44%	15%
Korea	6,251	8,605	6,839	38%	9%
Japan	2,826	9,398	9,398	233%	233%
North America	1,516	1,446	1,167	-5%	-23%
Europe and Others <sup>2</sup>	1,546	1,698	1,356	10%	-12%
<b>Nexon Total</b>	<b>22,877</b>	<b>36,624</b>	<b>31,054</b>	<b>60%</b>	<b>36%</b>

## Revenues by Platform

PC	22,697	29,333	23,811	29%	5%
Mobile	180	7,291	7,242	40.5x	40.3x

## FX Rate

100 KRW/JPY	7.00	8.81	7.00
CNY/JPY	12.63	15.94	12.63
USD/JPY	79.74	98.76	79.74

## Footnotes:

<sup>1</sup> Based on the region in which revenues originate; not a representation of our revenues according to Nexon entities.

<sup>2</sup> Others: United Kingdom, other Asian countries, and South American countries.

<sup>3</sup> On a constant currency basis (using Q2 2012 currency exchange rates).

## China

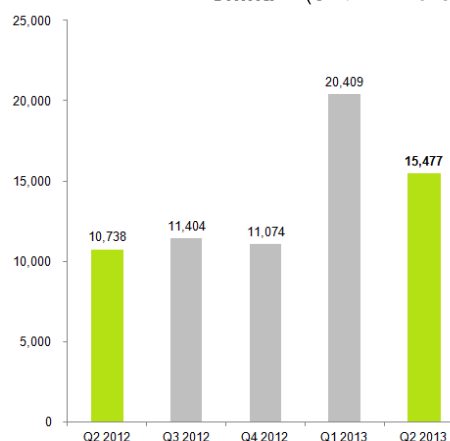
Our revenues in China for the quarter were ¥15.5 billion, an increase of 44% versus a year ago, or 15% on a constant currency basis. *Dungeon&Fighter* continues to perform above our expectations, and *Counter-Strike Online* remains our number two title in China.

This year marks the fifth year anniversary for *Dungeon&Fighter* in China, and we introduced special summer content updates to celebrate the occasion. These updates, particularly those timed for Chinese Labor Day in May, proved popular, and user metrics continue to be very strong.

At the same time, our newest title, *Mabinogi Heroes*, which is now in its sixth quarter of live operation, continued to grow and performed well during the quarter. While still small, the title is showing consistent growth and we plan to continue to invest in building out the game's depth and story over time, as we have done with our other successful titles.

The mobile market in China is growing rapidly, and although revenue contribution is small today, we expect this market to be meaningful over time. We entered this market with the launch of *KartRider Rush Plus*, which has already topped 10 million downloads.

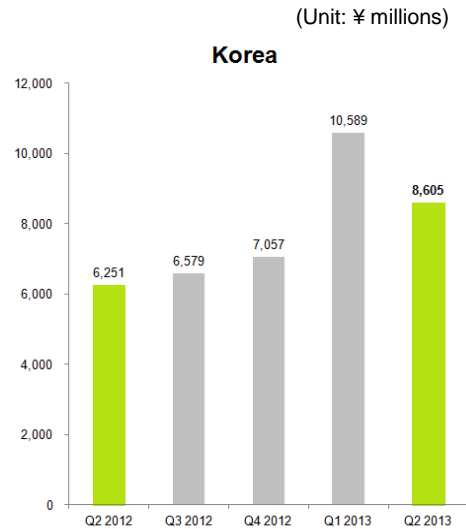
China (Unit: ¥ millions)



Mabinogi Heroes

## Korea

Revenues in Korea for the quarter were ¥8.6 billion, an increase of 38% versus a year ago or an increase of 9% on a constant currency basis. The momentum from the strong launch of *FIFA Online 3* in the first quarter continues with solid MAU growth, making it one of the top contributors to our revenues in Korea. The game now holds the number two ranking in PC cafés, and the relationship with Electronic Arts, Inc. (“EA”) is very strong. While *Sudden Attack*, *Dungeon&Fighter* and *Mabinogi* also performed well, *MapleStory* declined compared to a year ago despite the 10<sup>th</sup> anniversary update. The development team has been conducting a thorough review of the game, and has identified several key areas for improvement for future content updates.



During the quarter we also launched *Warface* and *Pro Baseball 2K*. While revenue contribution is small at this stage, our focus is on building up the user base in the coming quarters.

*FIFA Online 3* is already enjoying great success, and is now the number two ranked game overall in Korea, and the number one sports game according to PC café rankings. *Sudden Attack* is ranked number three in PC cafés, and is the number one FPS. In total, we have four of the top 10 games in Korean PC café rankings according to Gametrics.



*FIFA Online 3*

We continue to expand our mobile business in Korea through internal development as well as publishing arrangements, and currently have titles in the top 10 of both Apple's App Store and Google Play. *Fantasy Runners for Kakao* is currently ranked number one in Kakao Game Center, and has ranked number two in both the Apple App Store and Google Play top grossing charts. Additionally, gloops has started in-house development in Korea, and plans to launch a new mobile title there by the end of this year.

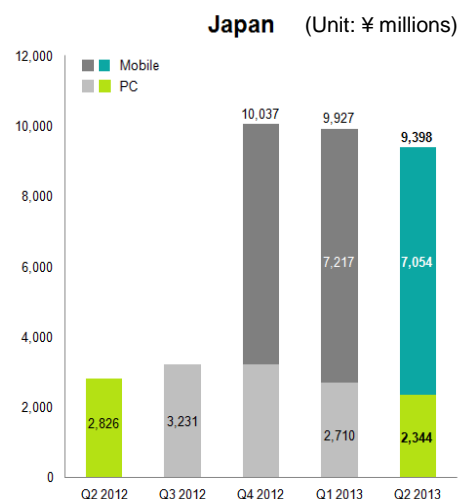


*Fantasy Runners for Kakao*

## Japan

Revenues in Japan were ¥9.4 billion, an increase of 233% year-over-year, due to the consolidation of gloops. Excluding the mobile business, our PC online revenues continued to decrease year-over-year.

In the mobile business, *Three Kingdoms Guild Battle* (launched in May 2012) continues to show solid performance, recording peak revenues in May 2013, one year after its launch. Both *Odin Battle* and *Three Kingdoms Guild Battle* prove the potential for long average user lifetimes on mobile when games are truly immersive and supported by strong live game development and operation.



We have focused our development not only on the huge browser app market (approximately 60% to 70% of total mobile games in Japan), but also the rapidly growing native app market on iOS and Android. We launched several new mobile titles during the quarter, including gloops' first exclusively native app, *Euro Club Team Soccer BEST ELEVEN+*, which ranked in the top 10 of Apple's App Store top grossing apps in Japan in July. In addition, *Barbarossa*, one of our more popular titles on browser, has now surpassed one million downloads on native, demonstrating our ability to successfully launch browser titles on multiple platforms.



*Euro Club Team Soccer  
BEST ELEVEN+*

As we mentioned in last quarter's letter, we increased our TV and other promotional activities to extend the lifetime of games that are demonstrating strong user retention characteristics, such as *Three Kingdoms Guild Battle*. While increasing marketing expenditure impacts near-term margins, we believe this is a worthwhile investment when a game demonstrates strong customer retention metrics.

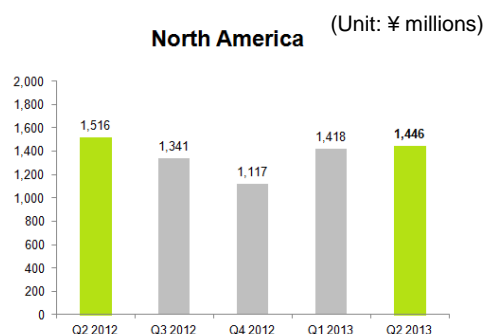


*Three Kingdoms Guild Battle*

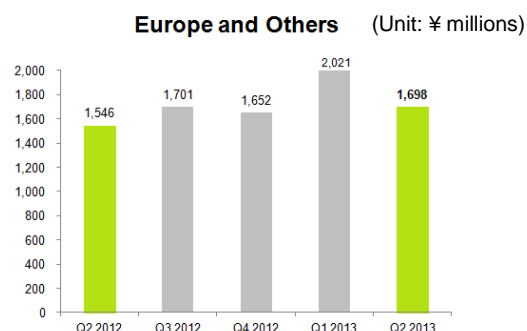


## North America, Europe, and Others

Revenues in North America were ¥1.4 billion, a decrease of 5% year-over-year, or a decrease of 23% on a constant currency basis. *Mabinogi Heroes (Vindictus)* has been stable since its introduction in the US market in 2011. *Mabinogi* and *Dragon Nest* grew, offset by the disappointing performance of *Combat Arms*. With our server stability issues largely behind us and a strong team in place, our focus is now on bringing new, high-quality content to our customers in North America, both from our Korean studios and our business development pipeline among Western game developers, as we describe below.



Revenues in Europe and other regions were ¥1.7 billion, an increase of 10% year-over-year, or a decrease of 12% on a constant-currency basis. *Mabinogi* performed well in Taiwan, showing double-digit revenue growth year-over-year. In May, we launched *Navy Field 2* throughout Europe, and *Counter-Strike Online* in Turkey.



## New Initiatives

We are always on the lookout for new opportunities to grow our business. As the pioneers of free-to-play, we see potential growth opportunities through partnerships and M&A around the world. In July, we announced two important strategic investments and publishing agreements. The first is with SecretNewCo, a Maryland-based social and strategy game developer headed by Brian Reynolds. Brian was the lead developer of some of the industry's biggest titles including *Civilization II* and *Rise of Nations*, and former chief game designer at Zynga. Our second is with Rumble Entertainment, a California-based developer led by Greg Richardson, former CEO of Bioware/Pandemic and executive at EA, with a veteran team from critically-acclaimed titles across all platforms. These exciting new relationships will enable us to combine our expertise in free-to-play with talented teams that have proven records of success in developing hit titles for Western markets.

## Business Outlook

Q3 is traditionally one of our stronger quarters due to the release of content updates timed for the summer vacation season. The following table presents

our business outlook for the third quarter of fiscal year 2013.

(Millions of yen)	Q3 2012 (IFRS)	Q3 2013 (IFRS)		
<b>Revenues</b>	¥24,257	¥37.153	~	¥39,816
PC	23,567	30,578	~	32,655
Mobile	690	6,575	~	7,161
<b>Operating income</b>	10,602	12,246	~	14,534
<b>Net income</b>	7,352	8,889	~	10,426
 <b>Earnings per share</b>	 16.94	 20.36	 ~	 23.88
 <b>FX Rate Assumptions</b>				
100KRW/JPY	6.98	8.67		8.67
CNY/JPY	12.55	15.31		15.31
USD/JPY	79.37	95.59		95.59

## PC Revenue Outlook

We expect PC revenues of ¥30.6 billion to ¥32.7 billion in Q3, representing 30% to 39% year-over-year growth on an as-reported basis and 7% to 14% growth on a constant currency basis. We expect double-digit growth in China and Korea, enabled by content updates in Q3 and contributions from newer titles such as *FIFA Online 3*. We expect PC business growth to be lower outside of China and Korea. We also expect a weaker Japanese yen to continue contributing year-over-year growth based on our ¥95.59 per US\$1 and ¥8.67 per 100 KRW currency exchange rate assumptions compared to ¥79.37 per US\$1 and ¥6.98 per 100 KRW quarterly average rates last year.

In China, we expect growth to come from the introduction of tier one updates for *Dungeon&Fighter* focused on user engagement, and summer promotions for *Counter-Strike Online*. Large-scale promotions for *Cyphers* will begin in the third quarter, leading up to the expected open beta launch in Q4.



*Cyphers*

In Korea, we expect growth to come from strong performance by *FIFA Online 3*, and existing titles such as *Sudden Attack* and *Dungeon&Fighter*.

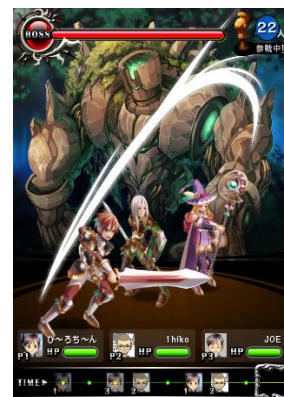
## Mobile Revenue Outlook

In mobile, we anticipate revenues of ¥6.6 billion to ¥7.2 billion for Q3 compared to ¥0.7 billion in the same quarter last year. *Dragon Eclipse*, the first title jointly developed by gloops and DeNA started a successful pre-registration in June,



and we expect to launch the game in Q3. We also expect to launch both browser and native apps from gloops during Q3.

We anticipate existing titles such as *Three Kingdoms Guild Battle* and *Odin Battle* in Japan and *Fantasy Runners for Kakao* in Korea to continue to perform well.

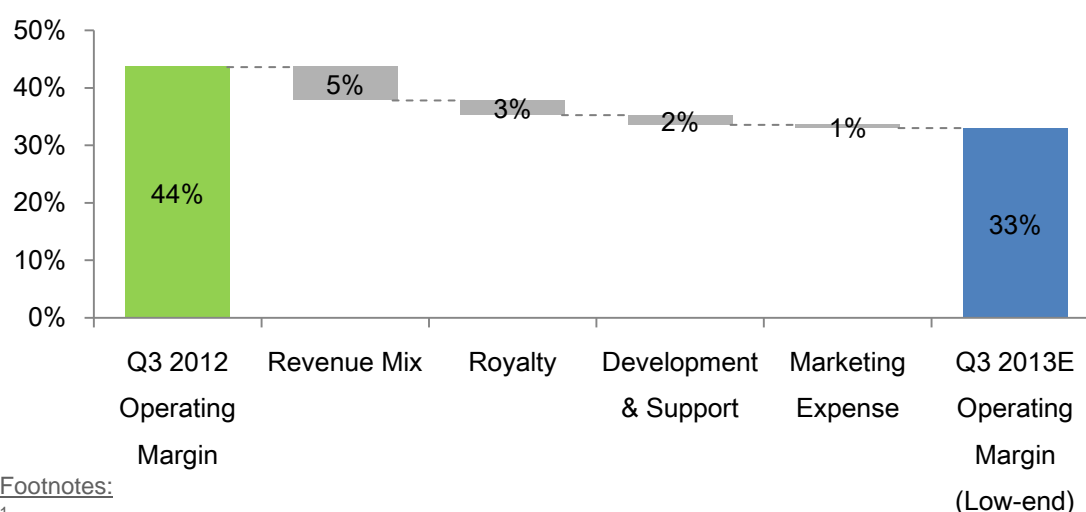


*Dragon Eclipse*, jointly developed by gloops and DeNA

## Operating Income Outlook

In the third quarter, we expect operating income to be in the range of ¥12.2 billion to ¥14.5 billion, representing an operating margin range of 33% to 37%. As in Q2, this operating margin decline year-over-year is primarily due to a change in the revenue mix, as our lower margin mobile business represents a larger portion of our overall business; an increase in royalty costs associated with third-party IP such as *FIFA Online 3*; and an increase in development and support costs for new title launches. The following chart illustrates the expected year-over-year changes in operating profit margin based on the low-end of our guidance.

**Margin Structure Shift Illustration <sup>1</sup>**



### Footnotes:

<sup>1</sup> Chart is an approximation.

We expect our operating margin to decline quarter-over-quarter from 37% in Q2 to between 33% and 37% in Q3 due to an increase in royalty payments associated with the strong performance of *FIFA Online 3* in Korea.

## Currency Sensitivity

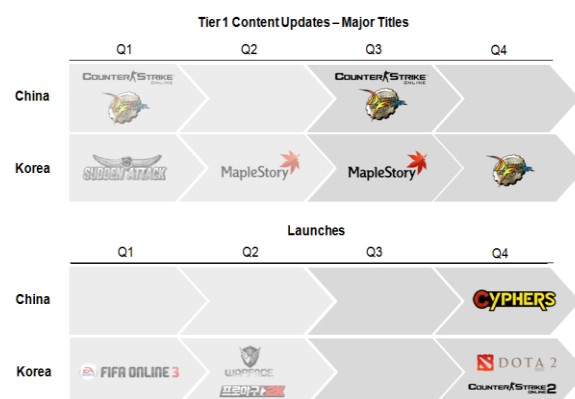
Our currency assumptions for Q3 are ¥95.59 per US\$1 and ¥8.67 per 100 KRW. We assume that every one Japanese yen move against the U.S. dollar would

have an approximate impact of 0.31 billion yen on revenue and 0.12 billion yen on consolidated operating income for the three months ending September 30, 2013. In most situations, the exchange rates of both the South Korean won and the Chinese yuan are linked to the U.S. dollar.

## Game Pipeline

Looking forward to the rest of the year, in addition to products we have launched earlier in 2013 that are already contributing revenue, we will be launching several new titles on both PC and mobile platforms.

In the PC business, we will be launching two titles in Korea and one title in China in Q4. In Korea, we will launch *Dota 2*, a highly anticipated title which has already had a strong start in the U.S. We will also launch *Counter-Strike Online 2*, the second installment of the popular *Counter-Strike Online* franchise. In China, we are planning for the open beta launch of *Cyphers* in Q4, following promotional activities in Q3.



*Dota 2*

In mobile, we plan to launch more than five titles per quarter. In addition to *Dragon Eclipse* mentioned above, gloops will continue to launch both browser and native applications in Japan. We are also developing European Club Team Soccer BEST ELEVEN+ for Android, which we believe will resonate with younger users. We will continue to expand our mobile business in Korea by launching titles on popular platforms such as Kakao and through direct placement on Apple's App Store and Google Play, in addition to joint development with gloops.

## Conclusion

The games market is undergoing a massive change and the free-to-play business model is getting more attention than ever, particularly as the devices on which people play games continue to converge. We feel that we are well positioned for this shift as the pioneers of the free-to-play model. Our games continue to change how people play on both PCs and mobile devices, presenting us with tremendous opportunities to enhance our leading role in the industry through internal development, acquisitions and alliances with strategic

partners.

Our goal is simple and remains unchanged: to be the leader in free-to-play online games. As we look out over the next few years, we believe our revenue growth will come from several key levers: first, innovative new content updates to our existing titles; second, our healthy pipeline of upcoming new game launches; third, the growth of our mobile business as we continue to introduce new games globally and on multiple platforms; fourth, through international expansion as we continue to leverage our free-to-play expertise and form new partnerships with industry-leading companies that want to bring their games to the free-to-play market.

Sincerely,



A handwritten signature in black ink, appearing to read "Seungwoo Choi".

Seungwoo Choi, CEO



A handwritten signature in black ink, appearing to read "Owen Mahoney".

Owen Mahoney, CFO

Tokyo, Japan  
August 9, 2013

## 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.

Term / Abbreviation	Meaning
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.

### **Cautionary Statement regarding Forecast of Business Results**

The forecast of business results is based on information available as of the date these data are released and, due to various risks, uncertainties and other factors arising in the future, actual results in the future may differ largely from the estimates set out in this document.

These risks, uncertainties and other factors include, without limitation: the continued growth and popularity of our key titles; our ability to maintain favorable relationships with key licensing partners; our continued ability to offer games in China, through local partners or otherwise; our ability to compete effectively in the online games industry; our ability to address hacking, viruses, security breaches and other technical challenges; fluctuations in currency exchange rates; our ability to maintain and further develop our brand name; our 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; our ability to adapt to new technologies; our ability to enter into licensing arrangements for third-party titles on terms favorable to us; effective defense of our intellectual property; legislative, regulatory, accounting and taxation changes in the countries in which we operate; and any risk or uncertainty as listed from time to time in our press releases, earnings reports or annual reports.