

4Q 2016 Earnings Release

NCSOFT IR February 7, 2017

NCSOFT

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※ Major Consolidated Subsidiaries (K-IFRS based):

NC West Holdings(100%, USA), NC Europe(100%, GBR), NC Japan(100%, JPN),

NC Taiwan(85%, TWN), NCSOFT Corporation(HQ, KOR),

NCSOFT Service(100%, KOR), NC Dinos (100%, KOR),

NC ITS(100%, KOR), Ntreev Soft(87%, KOR), This Game Studio(40%, CAN)

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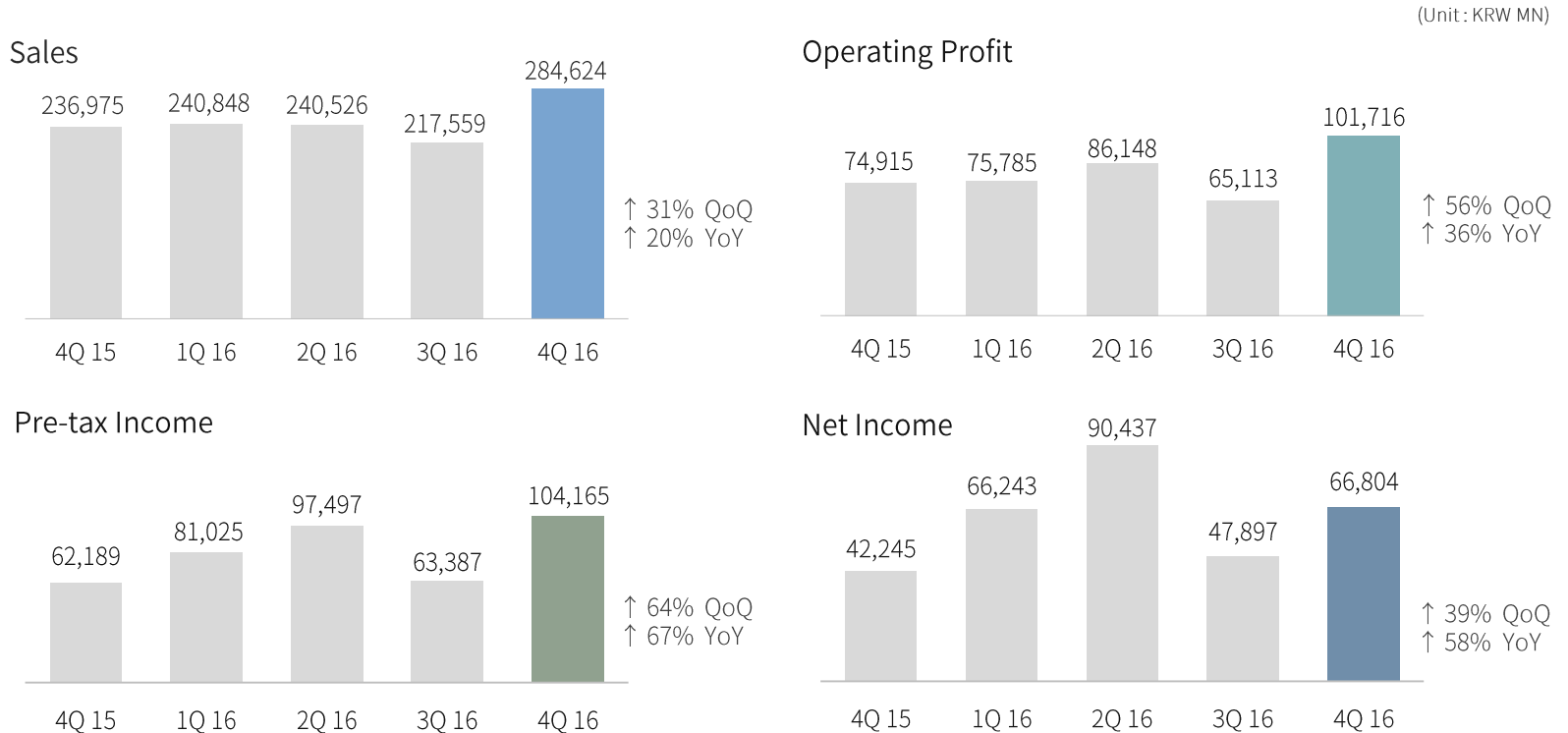
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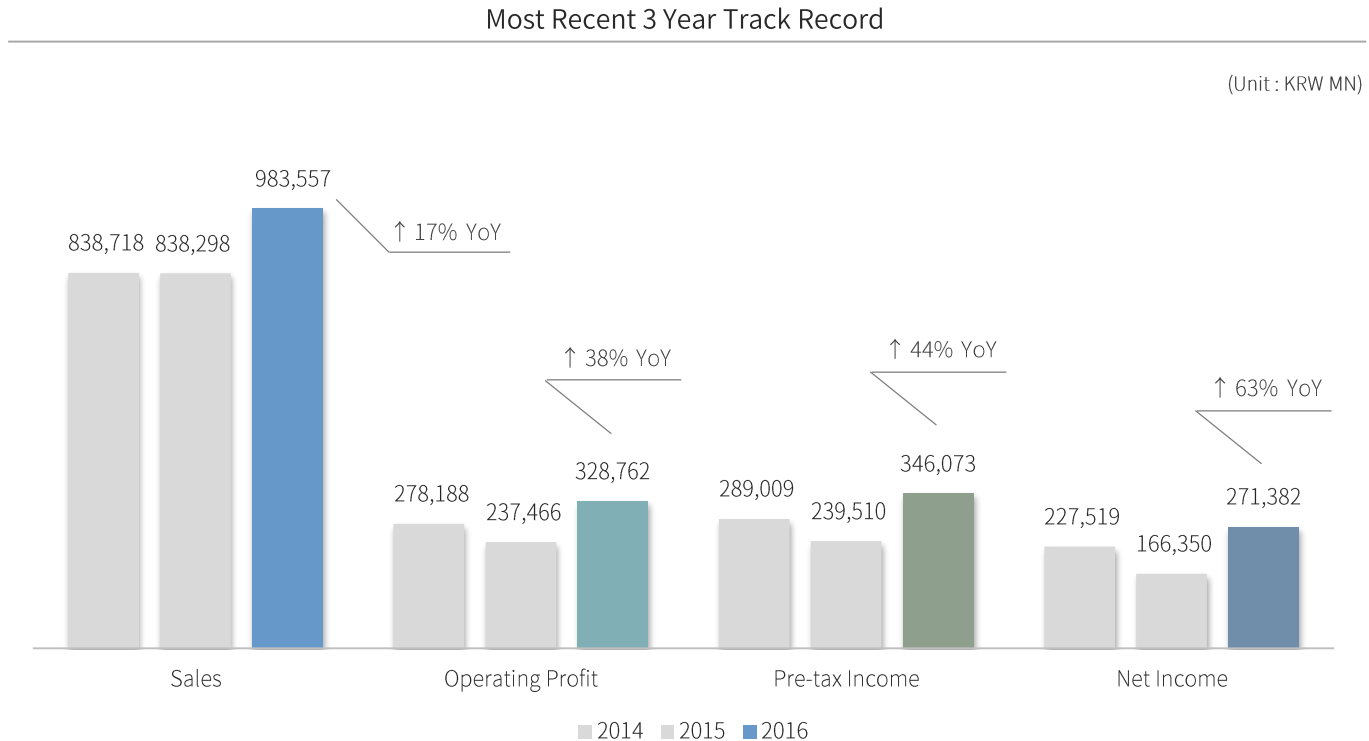
1. Financial Highlights (Quarterly)

- Sales and operating profit grew 20% and 36% YoY respectively on the back of strong performance from major IPs and successful launch of new mobile games



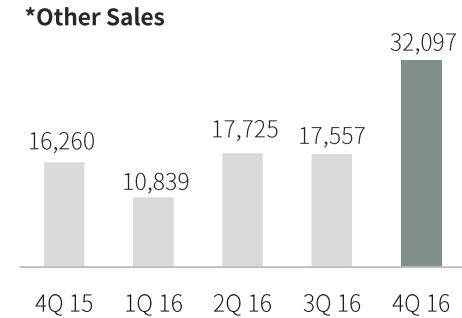
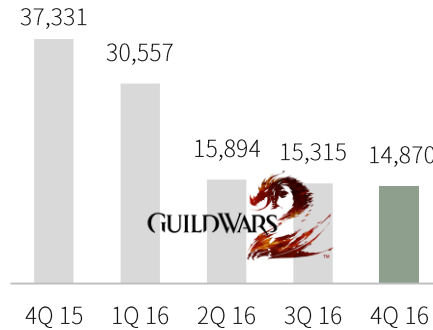
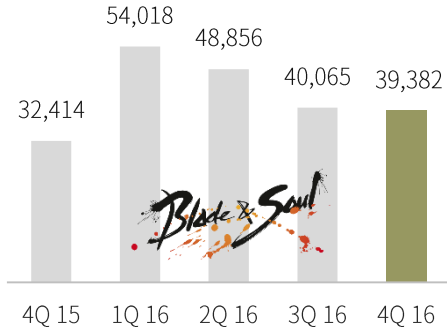
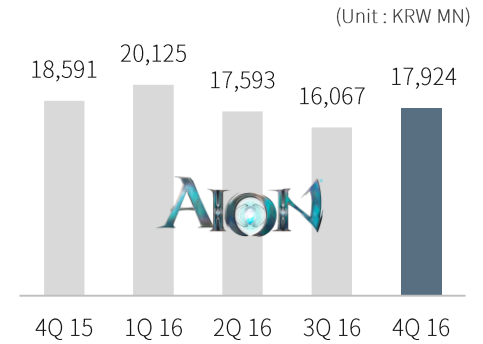
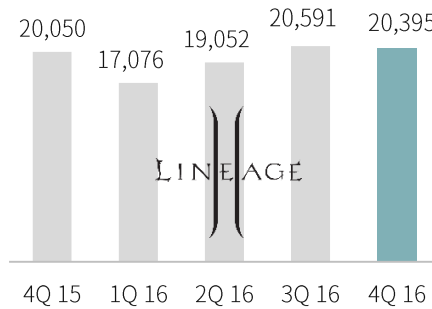
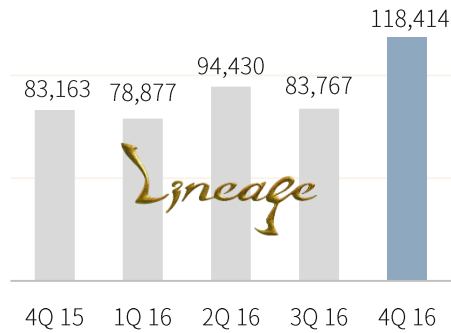
1. Financial Highlights (Yearly)

- Sales reached a historic-high of 983.6 billion Won, due to geographical expansion and new business models
- Operating profit also hit a record-high of 328.8 billion Won, representing an increase of 38% YoY



2. Sales Breakdown (Quarterly by IP)

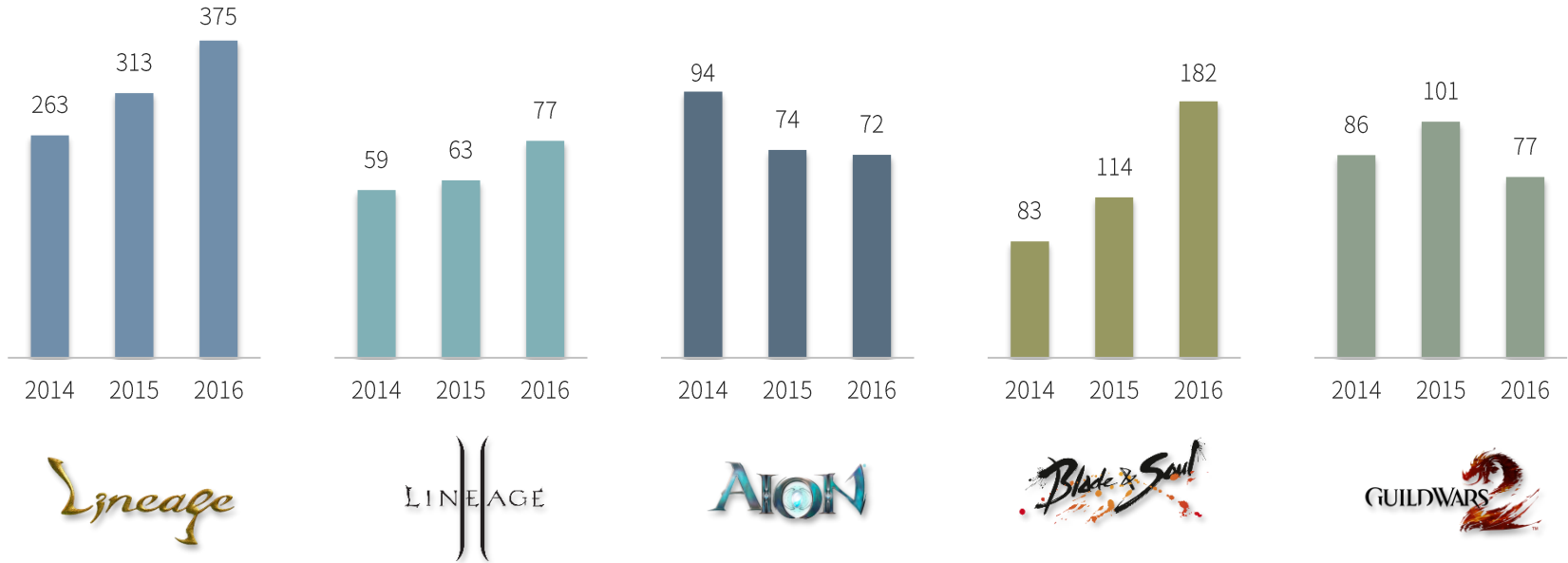
- Lineage 1 sales jumped 41% QoQ and 42% YoY due to large-scale updates and upfront recognition in 4Q 2016 of Dragon Treasure Chest promotion sales to take place in 1Q 2017
- Other sales surged 83% QoQ and 97% YoY, fueled by the success of Lineage Red Knights



2. Sales Breakdown (Yearly by IP)

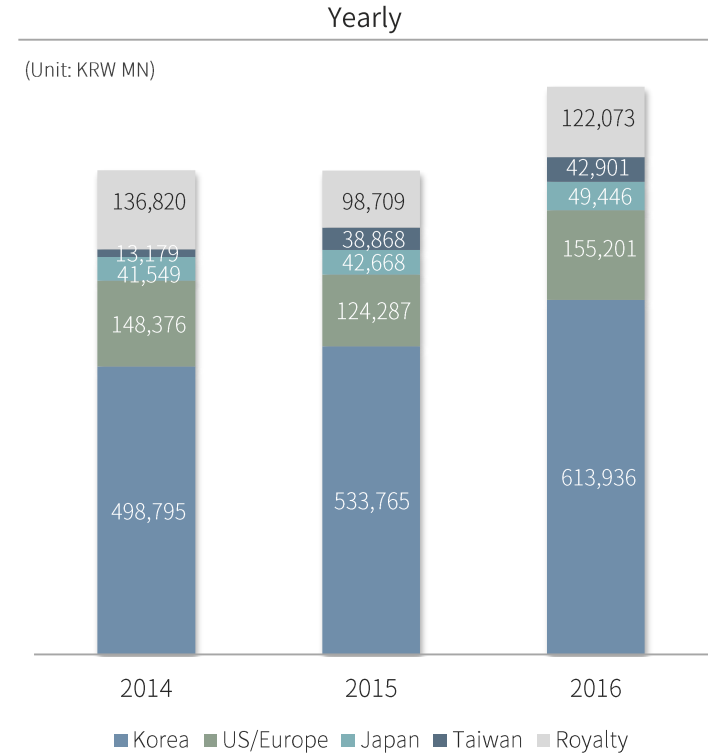
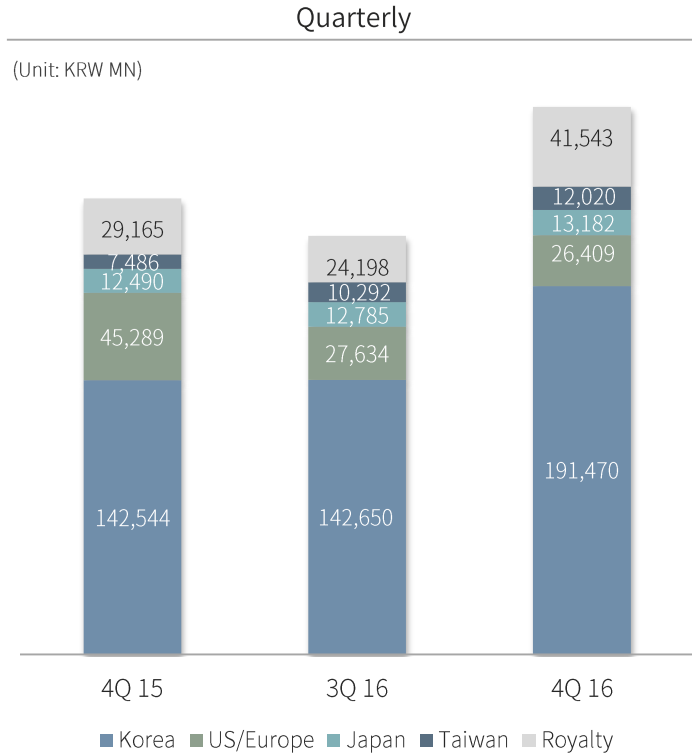
- Lineage 1 recorded solid growth with sales ending at 375.5 billion Won, up 20% YoY
- B&S sales increased 60% YoY on the back of the successful launch in US/Europe

(Unit: KRW BN)



2. Sales Breakdown (by Region)

- In 4Q 2016, Korea sales was robust, due to strong performance by Lineage 1 and the other main IPs, while royalty sales grew significantly from the success of Lineage 2: Revolution
- For full-year 2016, all regions have experienced growth, but US/Europe grew the most due to the B&S launch



3. Costs Breakdown

- Labor cost increased both QoQ and YoY, due to personnel added for mobile projects
- Variable cost increased due to i) a significant increase in box and merchandise production fees related to the production of Lineage action figures and Dragon Treasure Chest playing cards and ii) an increase in other variable cost that include the platform fees for Lineage Red Knights
- Marketing was up due to advertising for new game launches and other events

(Unit : KRW MN)

| | 4Q 15 | 1Q 16 | 2Q 16 | 3Q 16 | 4Q 16 | QoQ | YoY | FY15 | FY16 | YoY |
|-----------------------------------|---------|---------|---------|---------|---------|------|------|---------|---------|------|
| Labor cost | 76,658 | 99,291 | 91,386 | 93,459 | 99,184 | 6% | 29% | 324,851 | 383,320 | 18% |
| Variable cost | 14,473 | 13,683 | 13,408 | 13,163 | 24,638 | 87% | 70% | 54,665 | 64,893 | 19% |
| Payment processing fees | 9,447 | 10,136 | 9,923 | 9,611 | 9,505 | -1% | 1% | 36,105 | 39,175 | 9% |
| Royalty | 1,853 | 788 | 659 | 643 | 568 | -12% | -69% | 9,072 | 2,659 | -71% |
| Box & merchandise production fees | 1,378 | 1,677 | 696 | 1,487 | 6,238 | 319% | 353% | 2,173 | 10,099 | 365% |
| Others | 1,795 | 1,082 | 2,130 | 1,422 | 8,326 | 485% | 364% | 7,314 | 12,960 | 77% |
| Marketing | 13,526 | 8,815 | 5,136 | 6,820 | 14,261 | 109% | 5% | 34,218 | 35,032 | 2% |
| D&A | 7,850 | 8,202 | 7,880 | 7,584 | 7,751 | 2% | -1% | 34,222 | 31,416 | -8% |
| Others (*) | 49,554 | 35,072 | 36,568 | 31,420 | 37,074 | 18% | -25% | 152,876 | 140,133 | -8% |
| Total | 162,060 | 165,063 | 154,378 | 152,445 | 182,908 | 20% | 13% | 600,831 | 654,794 | 9% |

* 4Q16 Others include Bandwidth costs (3,516), Rent (1,382), Wage for outsourced staff (7,847), and Outsourced R&D (2,056)

4. Consolidated Financial Statements

Statement of Financial Position

(Unit: KRW MN)

| | 31 DEC 2015 | 31 DEC 2016 | | 31 DEC 2015 | 31 DEC 2016 |
|---|-------------|-------------|--|-------------|-------------|
| Assets | | | Liabilities | | |
| I. Current Assets | 1,082,774 | 1,191,629 | I. Current Liabilities | 337,541 | 284,356 |
| Cash & cash equivalents | 248,092 | 144,829 | Payables | 31,338 | 39,465 |
| Short-term financial instruments | 306,198 | 144,971 | Current tax liabilities | 105,851 | 39,912 |
| Account receivables | 88,963 | 158,457 | Other provisions | 490 | 2 |
| Other receivables | 9,751 | 8,120 | Others | 199,862 | 204,977 |
| Available-for-sale financial assets | 390,332 | 681,980 | II. Non-Current Liabilities | 92,721 | 180,939 |
| Others | 39,437 | 53,272 | Defined benefit obligations | 64,247 | 13,790 |
| II. Non-Current Assets | 1,136,423 | 1,169,174 | Long-term employee benefits | 5,058 | 4,887 |
| Long-term loans | 138 | 116 | Long-term borrowings | - | 149,656 |
| Available-for-sale financial assets | 507,274 | 530,249 | Others | 23,416 | 12,606 |
| Held-to-maturity financial assets | 31 | - | Total Liabilities | 430,262 | 465,295 |
| Derivatives | 14,451 | 7,485 | Stockholders Equity | | |
| Investment stocks in associated companies | 35,368 | 71,223 | I. Capital stock | 10,965 | 10,965 |
| Investment property | 240,082 | 238,091 | II. Other paid-up capital | 431,516 | 278,611 |
| Tangible assets | 233,822 | 224,655 | III. Other components of equity | (3,312) | 52,160 |
| Intangible assets | 64,226 | 53,345 | IV. Retained earnings | 1,330,351 | 1,543,827 |
| Others | 41,033 | 44,010 | V. Non-controlling interests | 19,416 | 9,945 |
| Total Assets | 2,219,197 | 2,360,803 | Total Stockholders Equity | 1,788,935 | 1,895,508 |
| | | | Total Liabilities and Stockholders Equity | 2,219,197 | 2,360,803 |

4. Consolidated Financial Statements

Comprehensive Income Statement

(Unit : KRW MN)

| | 2015 | 2016 |
|---|---------|---------|
| Sales | 838,298 | 983,557 |
| Cost of Sales | 202,683 | 187,580 |
| Gross Profit | 635,614 | 795,977 |
| Selling & Administrative Expense | 398,148 | 467,214 |
| Operating Profit | 237,466 | 328,762 |
| Other Income | 40,020 | 54,924 |
| Other Expense | 37,977 | 37,614 |
| Income before Income Tax Expense | 239,510 | 346,073 |
| Income Tax Expense | 73,159 | 74,691 |
| Net Income | 166,350 | 271,382 |
| Non-Controlling Interests | 957 | (887) |
| Equity Attribution to the owners of the Parent Company | 165,393 | 272,269 |