

4Q 2018 Earnings Release

NCSOFT IR February 12, 2019

Disclaimer

The financial results for 4Q 2018 have been prepared on an unaudited basis, and may be subject to change during independent auditing process.

Please note that NCSOFT will not be responsible for individual investment decisions based on this material.

※ 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(98%, KOR), This Game Studio(40%, CAN)

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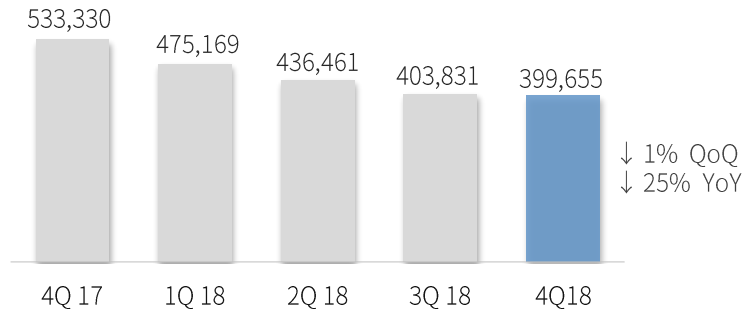
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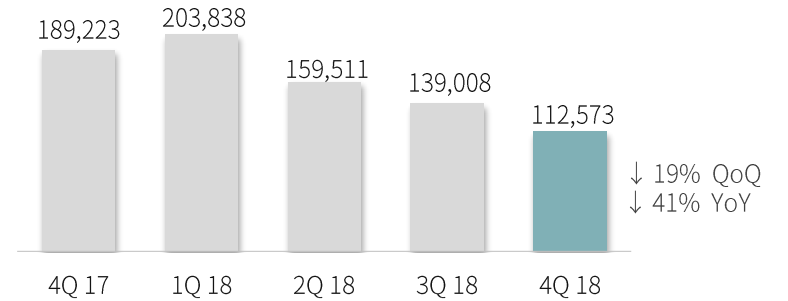
1. Financial Highlights (Quarterly)

- Sales was KRW 399.7 billion, representing a decline of 1% qoq and 25% yoy
- Operating profit was KRW 112.6 billion a decrease of 19% qoq and 41% yoy

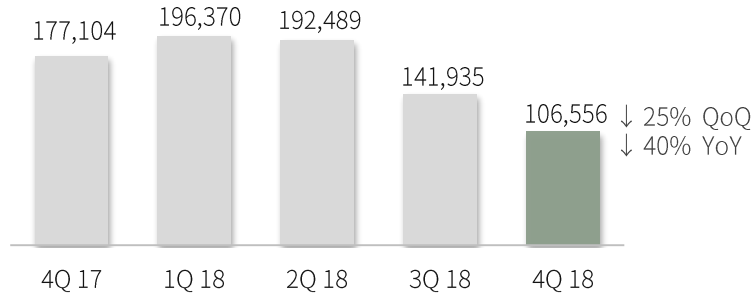
Sales



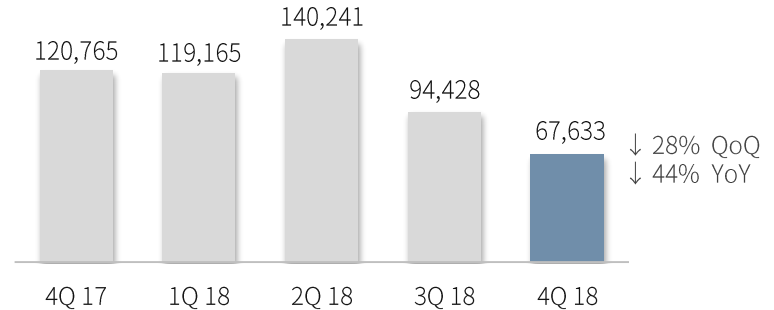
Operating Profit



Pre-tax Income

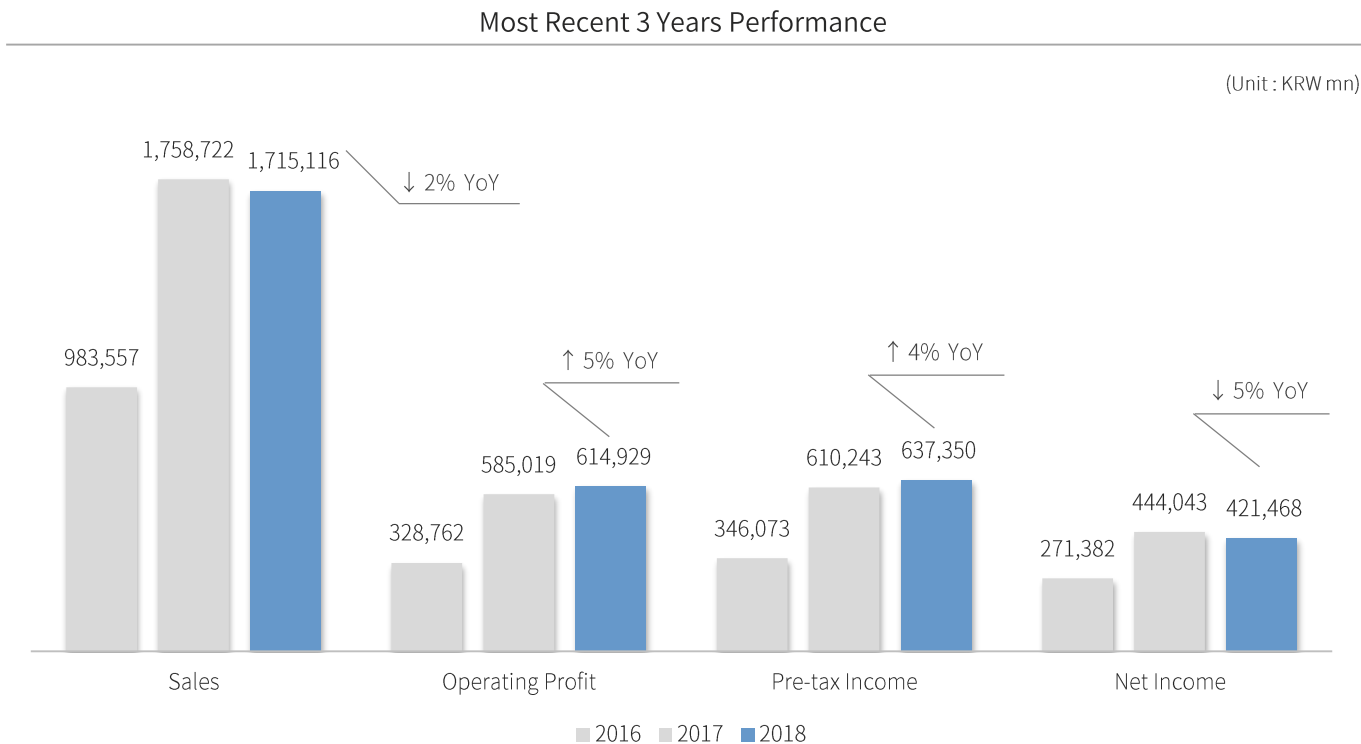


Net Income



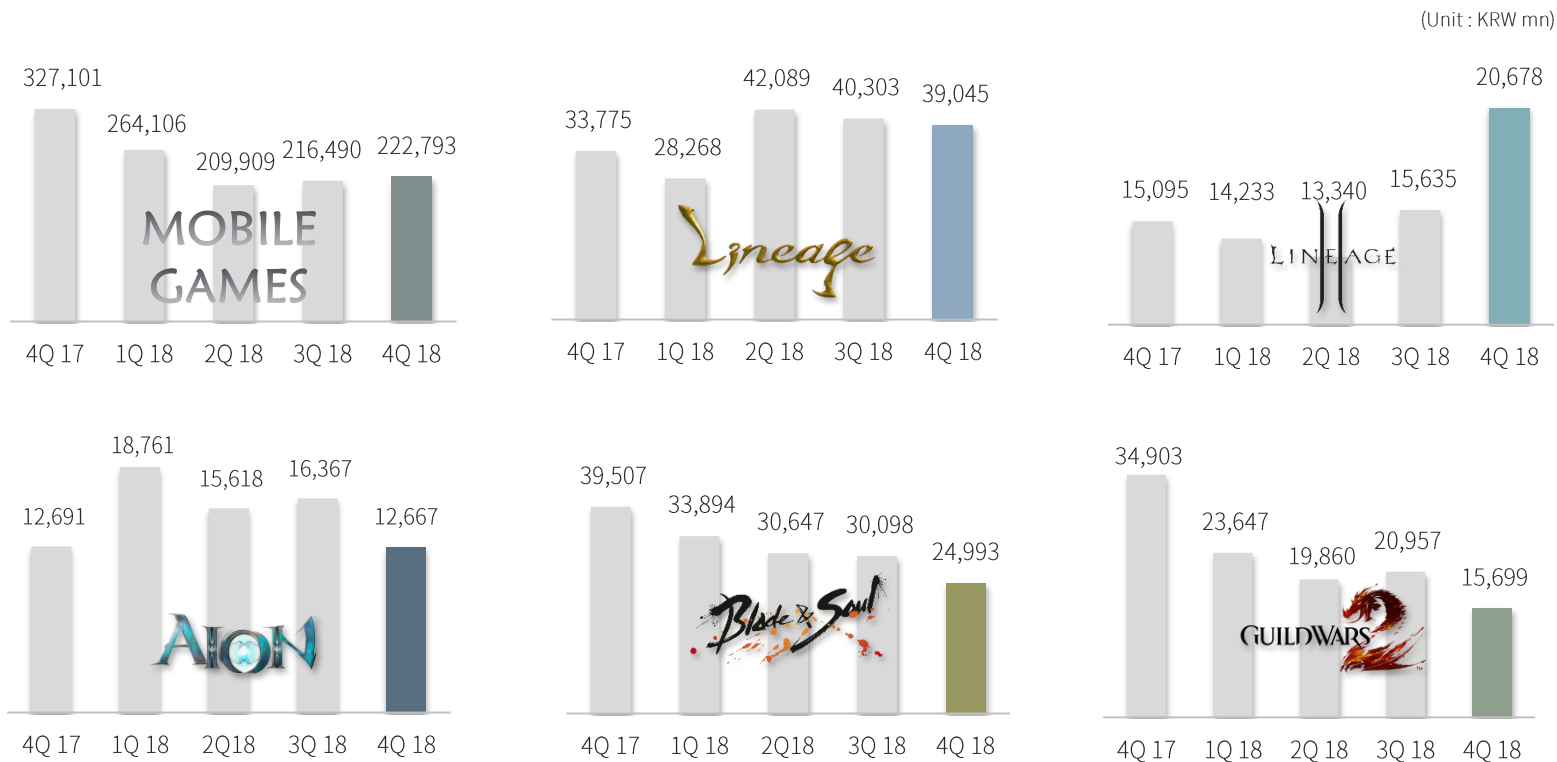
1. Financial Highlights (Yearly)

- 2018 total sales was KRW 1.71 trillion (YoY -2%), and operating profit KRW 614.9 billion (YoY +5%)



2. Sales Breakdown (Quarterly by Game)

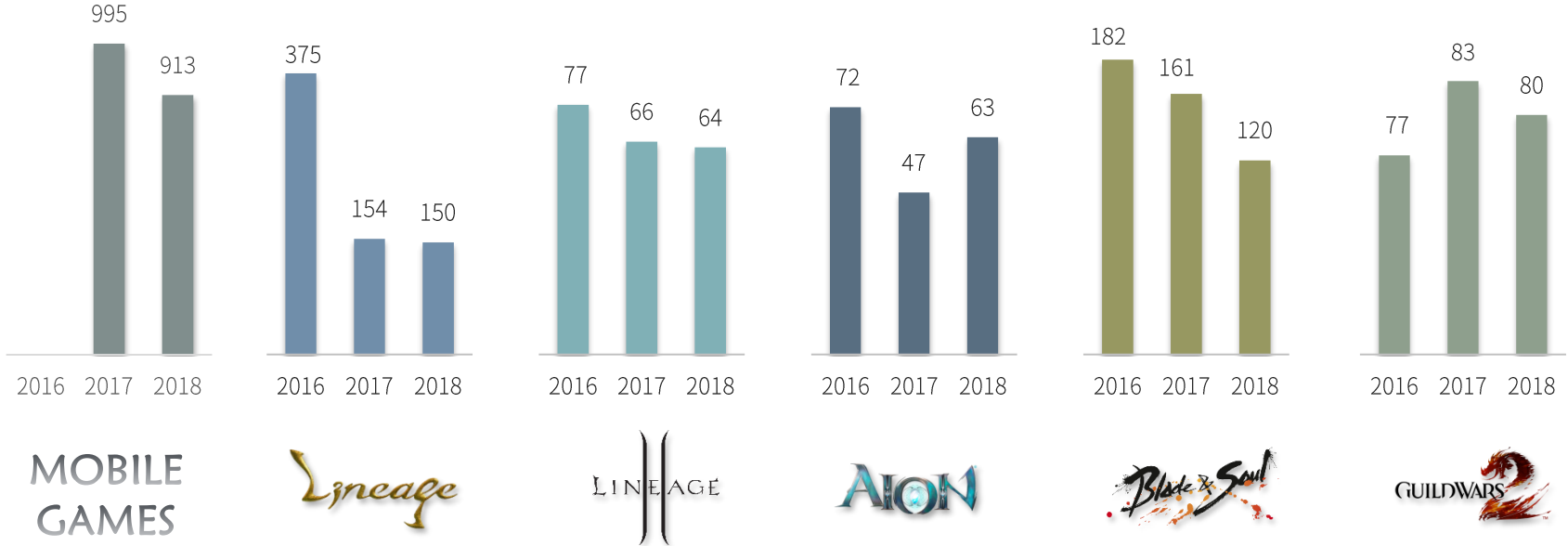
- Mobile game sales was KRW 222.8 billion, up 3% qoq, due to continued growth from Lineage M
- The five PC online game sales totaled KRW 113.1 billion, a drop of 8% qoq



2. Sales Breakdown (Yearly by Game)

- Mobile games totaled KRW 913.3 billion, representing 53% of total sales
- Lineage posted a solid KRW 149.7 billion, driven by the update engaging loyal users
- AION was KRW 63.4 billion, an increase of 35% yoy, resulting from the monetization scheme change in Korea

(Unit : KRW bn)

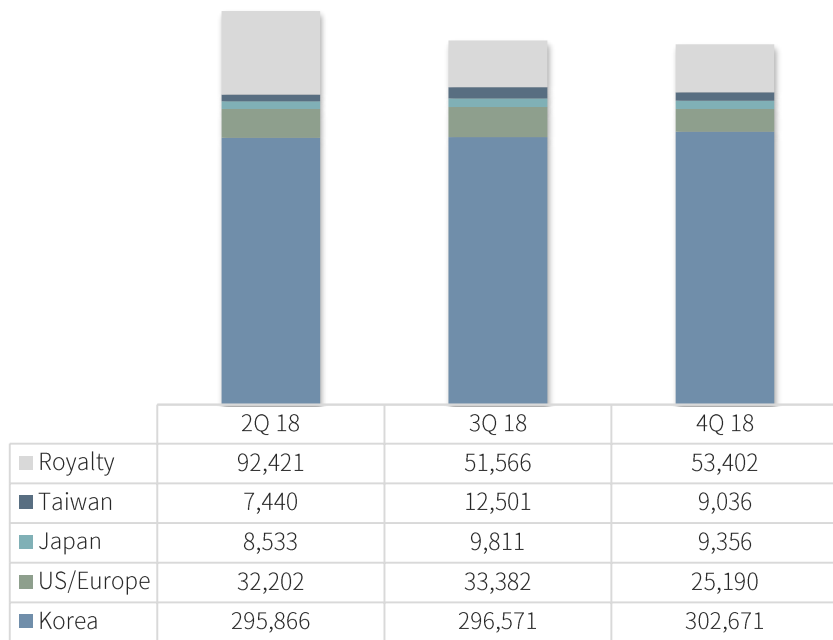


2. Sales Breakdown (by Region)

- 2018 royalty totaled KRW 281.6 billion, up 39% yoy, due to the successful launch of Lineage M Taiwan

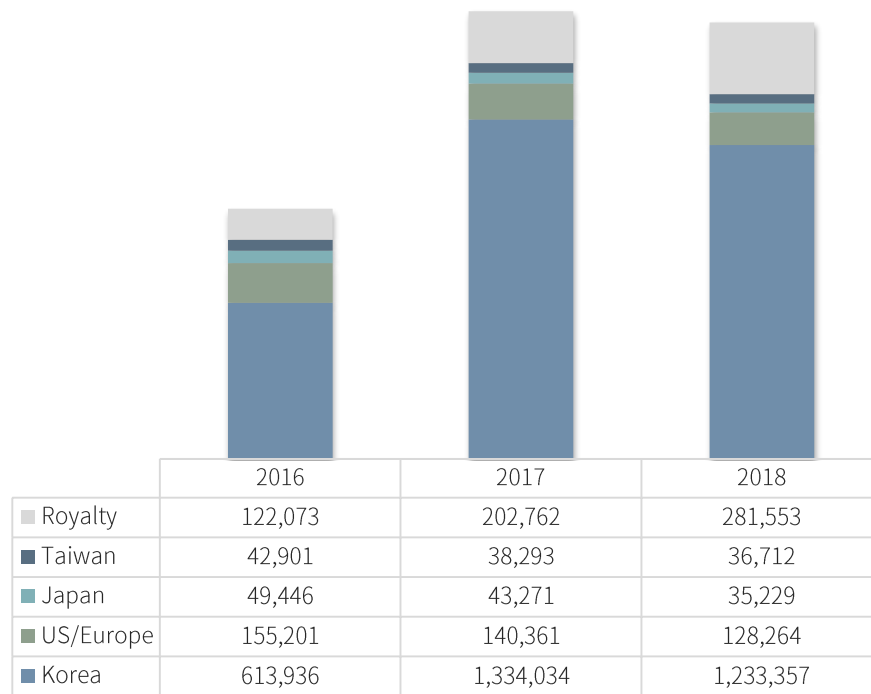
Quarterly

(Unit : KRW mn)



Yearly

(Unit : KRW mn)



3. Costs Breakdown

- Labor cost was up 5% qoq, but down 16% yoy in 4Q, due to recognition of incentives; 2018 declined by 5% yoy
- Variable cost for both 4Q and full 2018 declined yoy, because of lower distribution fees as mobile game sales stabilized
- Marketing for both 4Q and full 2018 decreased yoy, due to less new title advertising
- Others for both 4Q and full 2018 increased, driven by signing bonus for baseball player

(Unit : KRW mn)

	4Q 17	1Q 18	2Q 18	3Q 18	4Q 18	QoQ	YoY	2017	2018	YoY
Labor cost	161,015	125,044	146,853	128,881	135,651	5%	-16%	562,334	536,429	-5%
Variable cost	108,205	86,869	70,553	72,577	76,851	6%	-29%	341,678	306,850	-10%
Payment processing fees	6,236	5,652	5,923	5,972	6,002	1%	-4%	27,888	23,549	-16%
Distribution fees	98,985	79,465	63,192	65,175	67,107	3%	-32%	301,676	274,938	-9%
Royalty	1,206	1,166	784	986	839	-15%	-30%	7,913	3,775	-52%
Box & merchandise production fees	438	216	117	191	2,381	1148%	443%	1,754	2,905	66%
Others	1,340	370	538	253	522	106%	-61%	2,447	1,683	-31%
Marketing	24,151	10,771	14,973	16,513	15,894	-4%	-34%	83,011	58,152	-30%
D&A	6,905	6,545	6,608	7,635	6,863	-10%	-1%	28,729	27,651	-4%
Others (*)	43,831	42,102	37,963	39,216	51,823	32%	18%	157,951	171,104	8%
Total	344,107	271,331	276,950	264,822	287,083	8%	-17%	1,173,703	1,100,187	-6%

* 4Q18 Others include Bandwidth costs(3,979), Rent(4,155), Wage for outsourced staff(14,298), Outsourced R&D(1,568)

4. Consolidated Financial Statements

Statement of Financial Position

(Unit : KRW mn)

	31 DEC 2017	31 DEC 2018
Assets		
I. Current Assets	1,772,727	1,576,409
Cash & cash equivalents	187,256	185,593
ST financial instruments	92,695	248,286
Account receivables	193,018	148,500
Other receivables	10,436	30,452
AFS financial assets	702,778	-
FVPL financial assets	558,162	-
FVOCI financial assets	-	812,481
AC financial assets	-	120,000
Others	28,382	31,098
II. Non-Current Assets	1,753,840	1,364,870
LT loans	43	56
Other receivables	22,248	10,930
AFS financial assets	1,301,572	-
FVPL financial assets	-	236,399
FVOCI financial assets	-	657,041
AC financial assets	-	67
Derivatives	1,584	1,515
Investments in affiliated companies	33,824	56,380
Investment property	96,333	95,006
Tangible assets	229,063	233,877
Intangible assets	52,406	54,377
Others	16,767	19,222
Total Asset	3,526,567	2,941,279

	31 DEC 2017	31 DEC 2018
Liabilities		
I. Current Liabilities	455,798	466,339
Bonds	-	155,051
Account payables	48,395	33,307
Current tax liabilities	142,594	71,150
Other provisions	2	2
Others	264,807	206,830
II. Non-Current Liabilities	341,530	95,968
Bonds	149,819	-
Defined benefit obligations	3,314	4,101
LT employee benefits	7,047	7,121
Others	181,350	84,747
Total Liabilities	797,328	562,307
Stockholders Equity		
I. Capital stock	10,970	10,970
II. Other paid-up capital	279,057	4,454
III. Other components of equity	525,307	188,477
IV. Retained earnings	1,905,908	2,163,816
V. Non-controlling interests	7,997	11,254
Total Stockholders Equity	2,729,239	2,378,971
Total Liabilities and Stockholders Equity	3,526,567	2,941,279

4. Consolidated Financial Statements

Comprehensive Income Statement

(Unit : KRW MN)

	2017	2018
Sales	1,758,722	1,715,116
Operating Expenses	1,173,703	1,100,186
Operating Income	585,019	614,929
Non-operating Income	25,224	22,421
Income Before Income Tax Expense	610,243	637,350
Income Tax Expense	166,200	215,882
Net Income	444,043	421,468
Non-controlling Interest	3,076	3,282
Equity Attribution to the Owners of the Parent Company	440,967	418,185