

# 1Q 2019 Earnings Release

**NCSOFT IR** May 10, 2019

## Disclaimer

The financial results for 1Q 2019 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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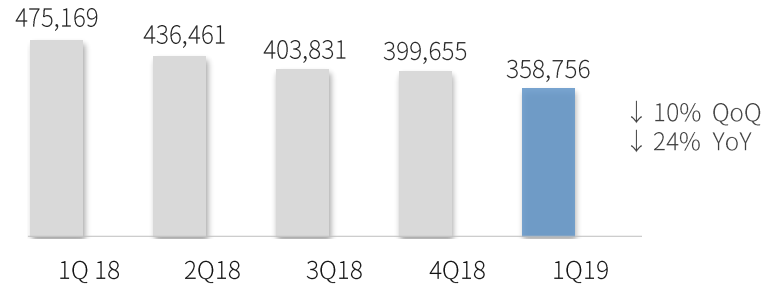
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# 1. Financial Highlights (Quarterly)

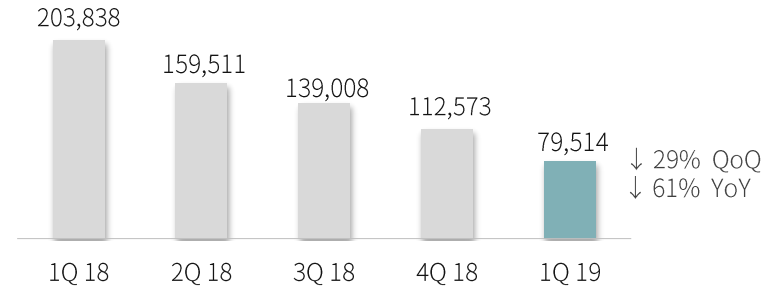
- Sales totaled KRW 358.8 billion, a decrease of 10% qoq and 24% yoy, due to less in-game item promotions by key IPs
- Operating profit was KRW 79.5 billion, down 29% qoq and 61% yoy

(Unit : KRW mn)

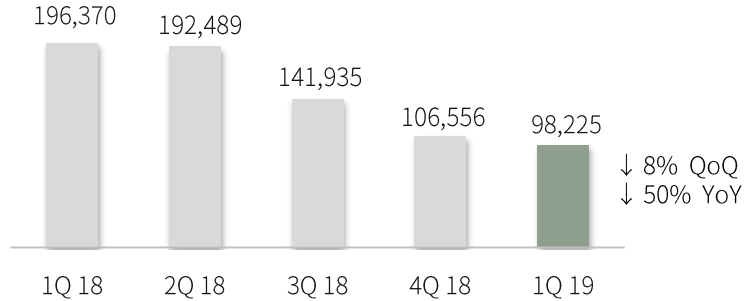
### Sales



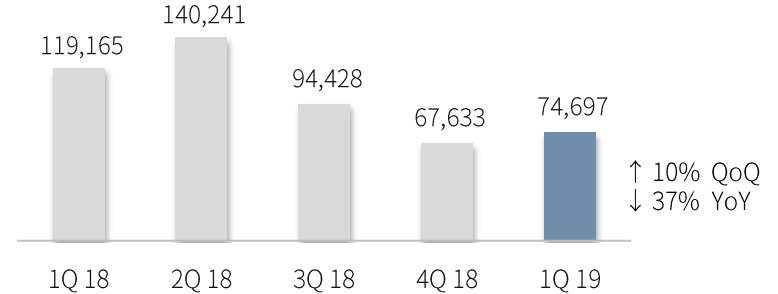
### Operating Profit



### Pre-tax Income



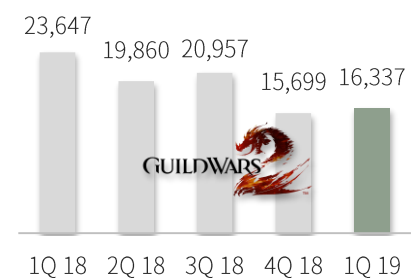
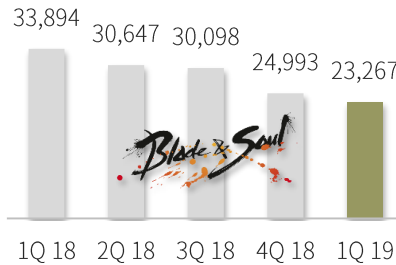
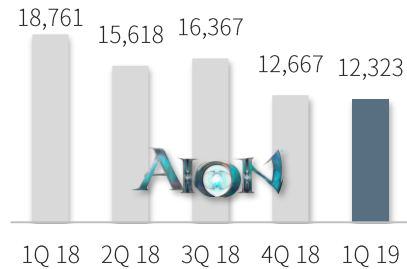
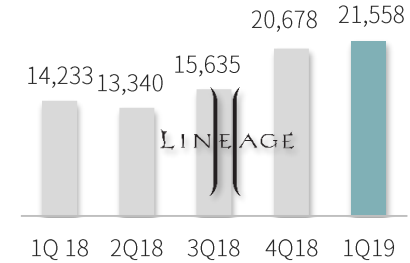
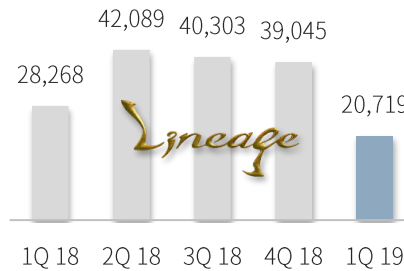
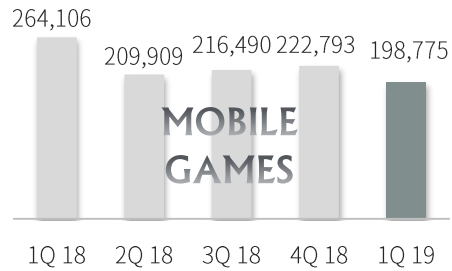
### Net Income



## 2. Sales Breakdown (Quarterly by Game)

- Mobile games declined 11% qoq, due to lighter item promotions leading up to the large-scale update of Lineage M
- Lineage 1 weakened 47% qoq, as item promotions were reduced in preparation for Lineage Remaster service
- Lineage 2 sales grew for the third consecutive quarter, driven by free server openings and continuous contents updates

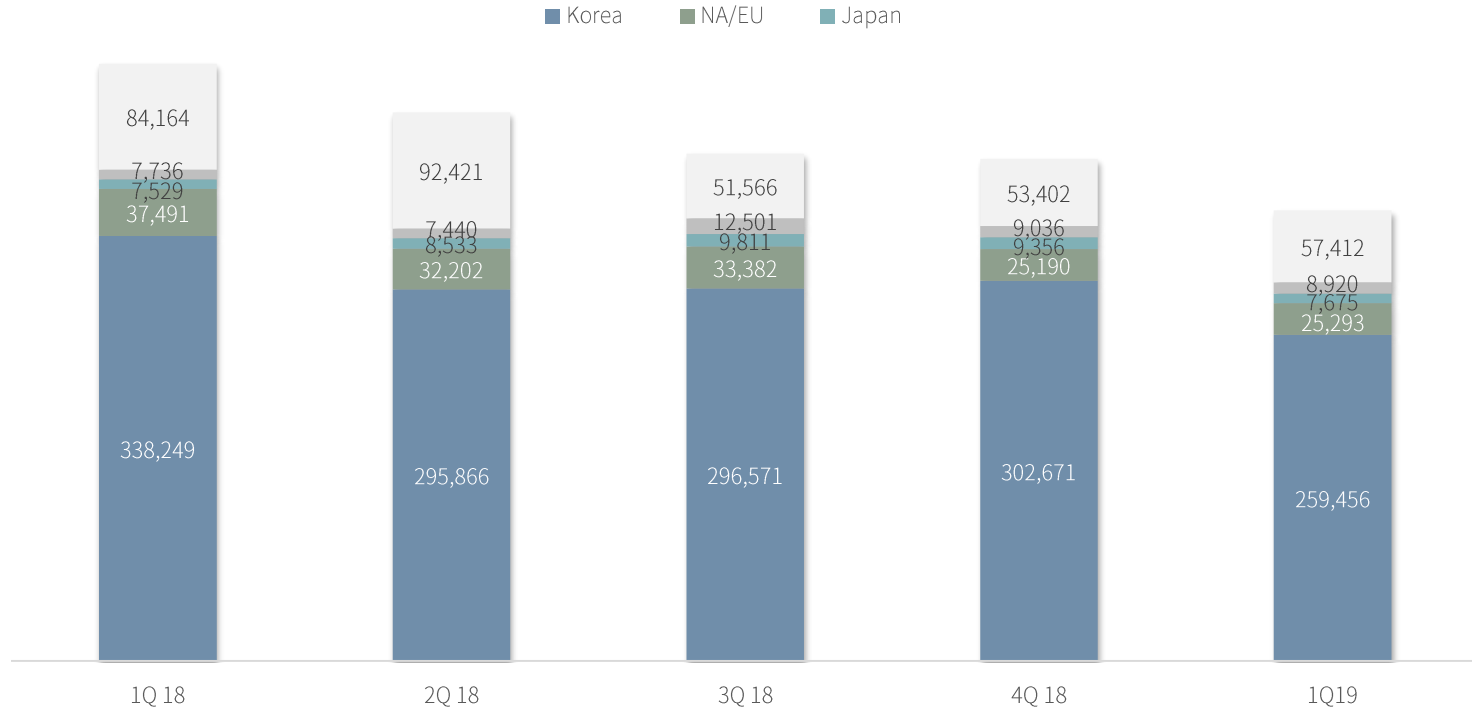
(Unit: KRW mn)



## 2. Sales Breakdown (by Region)

- Royalty increased 8% qoq, because of full-quarter recognition of B&S IP-based new game revenue and Lineage M Taiwan update momentum

(Unit: KRW mn)



### 3. Costs Breakdown

- Labor cost increased 6% qoq from severance for overseas subsidiaries undergoing revamps and employee bonuses
- Variable cost dropped 15% qoq, as mobile game distribution fees decreased
- Marketing increased 19% qoq, because of advertising related to new game launches overseas
- Other costs declined 23% qoq, due to absence of one-off expenses, such as signing bonus for baseball players

(Unit: KRW mn)

	1Q 18	2Q 18	3Q 18	4Q 18	1Q 19	QoQ	YoY
<b>Labor cost</b>	125,044	146,853	128,881	135,651	143,194	6%	15%
<b>Variable cost</b>	86,869	70,553	72,577	76,851	65,336	-15%	-25%
Payment processing fees	5,652	5,923	5,972	6,002	5,000	-17%	-12%
Distribution fees	79,465	63,192	65,175	67,107	59,658	-11%	-25%
Royalty	1,166	784	986	839	921	10%	-21%
Box & merchandise production fees	216	117	191	2,381	182	-92%	-16%
Others	370	538	253	522	-424	-181%	-215%
<b>Marketing</b>	10,771	14,973	16,513	15,894	18,987	19%	76%
<b>D&amp;A</b>	6,545	6,608	7,635	6,863	11,982	75%	83%
<b>Others (*)</b>	42,102	37,963	39,216	51,823	39,743	-23%	-6%
<b>Total</b>	<b>271,331</b>	<b>276,950</b>	<b>264,822</b>	<b>287,083</b>	<b>279,242</b>	<b>-3%</b>	<b>3%</b>

\* 1Q19 Others include Bandwidth costs(3,304), Rent(241), Wage for outsourced staff(3,849), Outsourced R&D(1,553) etc.

## 4. Consolidated Financial Statements

### Statement of Financial Position

(Unit: KRW mn)

	31 DEC 2018	31 MAR 2019
<b>Assets</b>		
<b>I. Current Assets</b>	<b>1,576,409</b>	<b>1,764,101</b>
Cash & cash equivalents	185,593	249,827
ST financial instruments	232,653	256,343
Account receivables	148,500	172,038
Other receivables	30,452	21,036
ST Investment assets	948,114	1,028,587
Others	31,098	36,271
<b>II. Non-Current Assets</b>	<b>1,364,870</b>	<b>1,526,639</b>
LT loans	56	122
Other receivables	10,930	10,851
LT Investment assets	895,022	988,177
Investments in affiliated companies	56,380	55,173
Investment property	95,006	94,675
Tangible assets	233,877	306,451
Intangible assets	54,377	54,756
Others	19,222	16,433
<b>Total Asset</b>	<b>2,941,279</b>	<b>3,290,740</b>

	31 DEC 2018	31 MAR 2019
<b>Liabilities</b>		
<b>I. Current Liabilities</b>	<b>473,074</b>	<b>468,344</b>
Bonds	155,051	5,141
Account payables	33,307	250,100
Current tax liabilities	71,150	14,883
Other provisions	2	2
Others	213,566	198,218
<b>II. Non-Current Liabilities</b>	<b>89,233</b>	<b>434,320</b>
Bonds	-	249,187
Defined benefit obligations	4,101	5,620
LT employee benefits	7,121	7,291
Others	78,011	172,222
<b>Total Liabilities</b>	<b>562,307</b>	<b>902,664</b>
<b>Stockholders Equity</b>		
<b>I. Capital stock</b>	<b>10,970</b>	<b>10,970</b>
<b>II. Other paid-up capital</b>	<b>4,454</b>	<b>4,456</b>
<b>III. Other components of equity</b>	<b>188,477</b>	<b>247,385</b>
<b>IV. Retained earnings</b>	<b>2,163,816</b>	<b>2,113,303</b>
<b>V. Non-controlling interests</b>	<b>11,254</b>	<b>11,963</b>
<b>Total Stockholders Equity</b>	<b>2,378,971</b>	<b>2,388,076</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>2,941,279</b>	<b>3,290,740</b>



## 4. Consolidated Financial Statements

### Comprehensive Income Statement

(Unit : KRW MN)

	1Q 18	2Q 18	3Q 18	4Q 18	1Q 19
Sales	475,169	436,461	403,831	399,655	358,756
Operating Expenses	271,331	276,950	264,822	287,083	279,242
Operating Income	203,838	159,511	139,008	112,573	79,514
Non-operating Income	(7,468)	32,978	2,927	(6,016)	18,711
Income Before Income Tax Expense	196,370	192,489	141,935	106,556	98,225
Income Tax Expense	77,205	52,247	47,507	38,923	23,528
Net Income	119,165	140,241	94,428	67,633	74,697
Non-controlling Interest	409	298	1,559	1,017	508
Equity Attribution to the Owners of the Parent Company	118,757	139,944	92,869	66,616	74,189