

# Second Quarter FY18 Earnings Results

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Aug 10, 2018



# Disclaimer

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This document contains information and financial data that have not been reviewed by an independent auditor.

The reason for our earnings release announcement prior to an independent auditor's review is to communicate our financial results to the market and investors in a timely manner.

Also, the information and projections contained in this document are based on our internal analysis of the market and industry environment. Please note that these estimates are subject to change according to the changes in the management environment and industry conditions.

# Table of Contents

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1. Earnings Summary
2. Sales
3. Expenses
4. Incomes
5. Japan Business

## Appendix

1. Employees
2. Financial Statements (Parent/Consolidated)

# 1. Earnings Summary

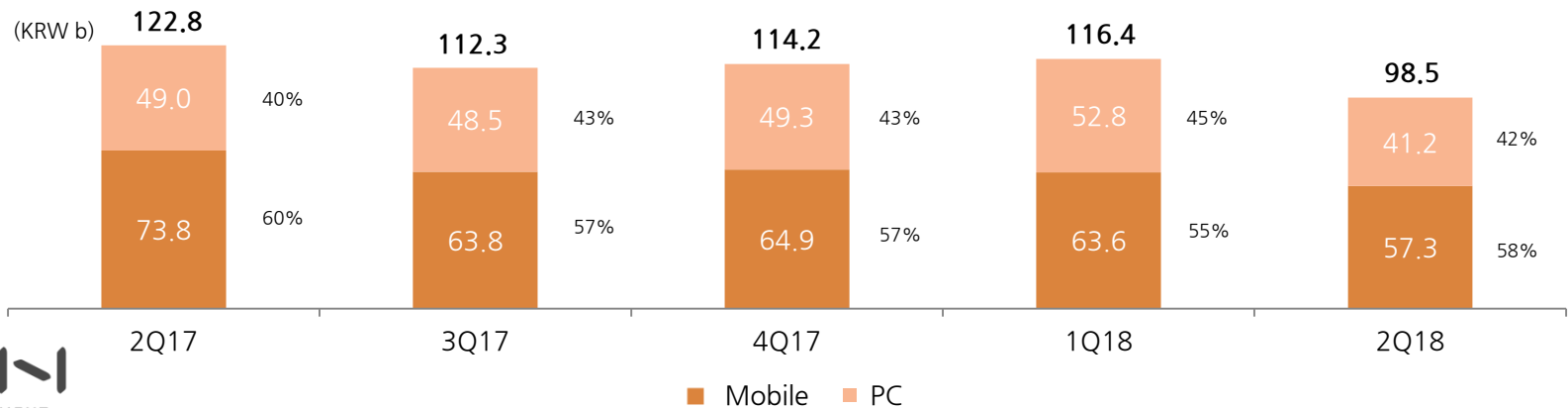
- Sales KRW 325.2b : Increased 44.6% Y/Y, 40.1% Q/Q
- Operating Income KRW 14.9b : Increased 50.3% Y/Y, Decreased 3.2% Q/Q
- Net Income KRW 25.6b : Increased 340.4% Y/Y, Decreased 59.5% Q/Q

(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Sales</b>	325,213	44.6%	40.1%	224,944	232,165
Games	98,468	-19.8%	-15.4%	122,821	116,429
Others	226,745	122.0%	95.9%	102,124	115,736
<b>Operating Expenses</b>	310,319	44.3%	43.1%	215,033	216,785
<b>Operating Income</b>	14,894	50.3%	-3.2%	9,911	15,380
<i>OPM</i>	4.6%	0.2%p	-2.0%p	4.4%	6.6%
<b>Pre-tax Income</b>	42,953	123.9%	-44.9%	19,185	77,988
<b>Income Tax</b>	17,318	29.6%	17.5%	13,365	14,735
<b>Net Income</b>	25,635	340.4%	-59.5%	5,821	63,254
<i>NPM</i>	7.9%	5.3%p	-19.4%p	2.6%	27.2%

## 2. Sales : Games

- Sales KRW 98.5b : Decreased 19.8% Y/Y, 15.4% Q/Q
- Mobile Game KRW 57.3b : Decreased 22.4% Y/Y, 10.0% Q/Q  
due to absence of new games & natural attrition
- PC Game KRW 41.2b : Decreased 15.9% Y/Y, 22.0% Q/Q  
due to web-board games seasonality & continued weakness in online games

(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Game Sales</b>	<b>98,468</b>	<b>-19.8%</b>	<b>-15.4%</b>	122,821	116,429
<b>Mobile Game</b>	<b>57,268</b>	<b>-22.4%</b>	<b>-10.0%</b>	73,824	63,629
Domestic	21,501	-28.6%	-6.1%	30,103	22,906
Overseas	35,768	-18.2%	-12.2%	43,721	40,723
<b>PC Game</b>	<b>41,200</b>	<b>-15.9%</b>	<b>-22.0%</b>	48,996	52,800
Domestic	34,043	-13.6%	-24.1%	39,423	44,876
Overseas	7,157	-25.2%	-9.7%	9,574	7,924

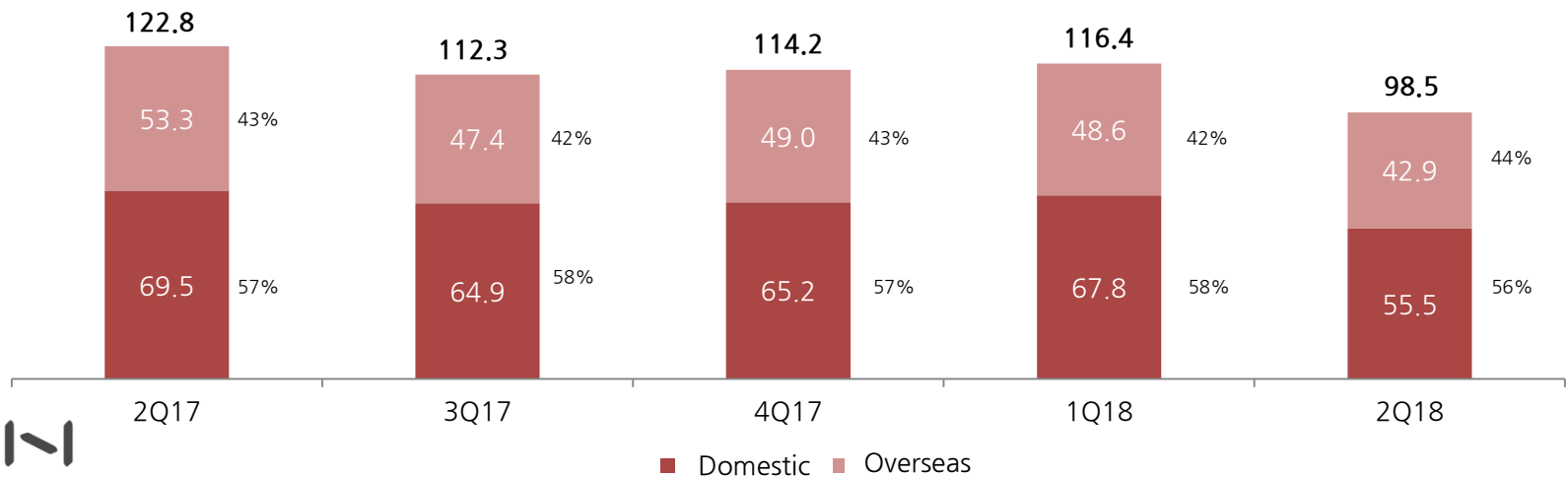


## 2. Sales : Game by Region

- Domestic KRW 55.5b : Decreased 20.1% Y/Y, 18.1% Q/Q
- Overseas KRW 42.9b : Decreased 19.5% Y/Y, 11.8% Q/Q

(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
Games Sales	98,468	-19.8%	-15.4%	122,821	116,429
Domestic	55,544	-20.1%	-18.1%	69,526	67,782
Overseas	42,924	-19.5%	-11.8%	53,295	48,647

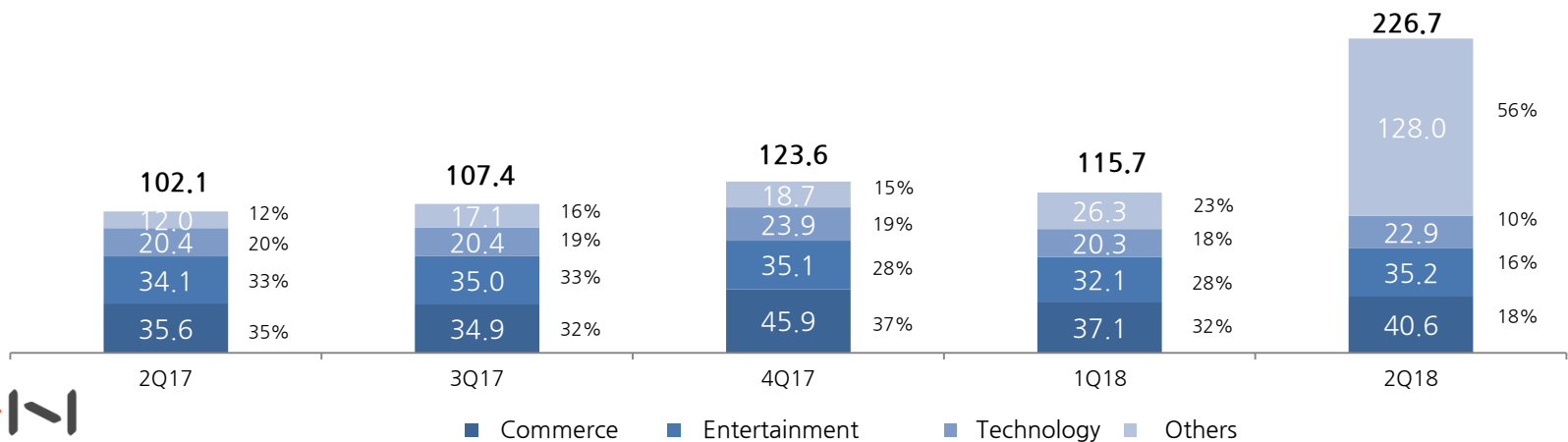
(KRW b)



## 2. Sales : Others

- Other sales KRW 226.7b : Increased 122% Y/Y, 95.9% Q/Q (KRW 98.9b from NHN KCP)
- Commerce KRW 40.6b : Increased 14.2% Y/Y, 9.5% Q/Q thanks to Accommate & NHN Global
- Entertainment KRW 35.2b : Increased 3.3% Y/Y, 9.8% Q/Q thanks to NHN Ticketlink & NHN Bugs
- Technology KRW 22.9b : Increased 12.2% Y/Y, 13.1% Q/Q thanks to PNP Secure
- Others KRW 128.0b : Increased 964.7% Y/Y, 386.5% Q/Q thanks to NHN KCP, AD business & increased PAYCO transaction volume

(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Others</b>	<b>226,745</b>	<b>122.0%</b>	<b>95.9%</b>	102,124	115,736
Commerce	40,645	14.2%	9.5%	35,601	37,105
Entertainment	35,209	3.3%	9.8%	34,073	32,066
Technology	22,930	12.2%	13.1%	20,430	20,265
Others (Payco, Ad)	127,962	964.7%	386.5%	12,019	26,300



## 3. Expenses

- **Operating Expenses KRW 310.3b** : Increased 44.3% Y/Y, 43.1% Q/Q
- **Commission KRW 181.2b** : Increased 93.3% Y/Y, 98.0% Q/Q due to impact from NHN KCP despite of decrease of game sales
- **Labor KRW 80.2b** : Increased 15.3% Y/Y, 7.2% Q/Q due to increased headcount including NHN KCP
- **Marketing KRW 14.2b** : Decreased 31.9% Y/Y, 10.7% Q/Q due to reduced game marketing activities & better marketing efficiency of PAYCO
- **Depreciation KRW 10.2b** : Increased 18.1% Y/Y, 22.0% Q/Q
- **Communications KRW 6.2b** : Increased 4.8% Y/Y, 5.8% Q/Q
- **Others KRW 18.3b** : Increased 12.4% Y/Y, Decreased 9.9% Q/Q

(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Operating Expenses</b>	310,319	<b>44.3%</b>	<b>43.1%</b>	215,033	216,785
Commission	181,208	93.3%	98.0%	93,764	91,535
Labor	80,176	15.3%	7.2%	69,549	74,778
Marketing	14,223	-31.9%	-10.7%	20,879	15,934
Depreciation	10,230	18.1%	22.0%	8,665	8,389
Communications	6,204	4.8%	5.8%	5,921	5,863
Others	18,277	12.4%	-9.9%	16,255	20,286



## 4. Income

- **Operating Income KRW 14.9b** : Increased 50.3% Y/Y, Decreased 3.2% Q/Q
- **Net Income KRW 25.6b** :

Decreased 59.5% Q/Q due to base effect against gains on disposal of investment in related company in 1Q  
 Increased 340.4% Y/Y due to gains on disposition of tangible assets of related company

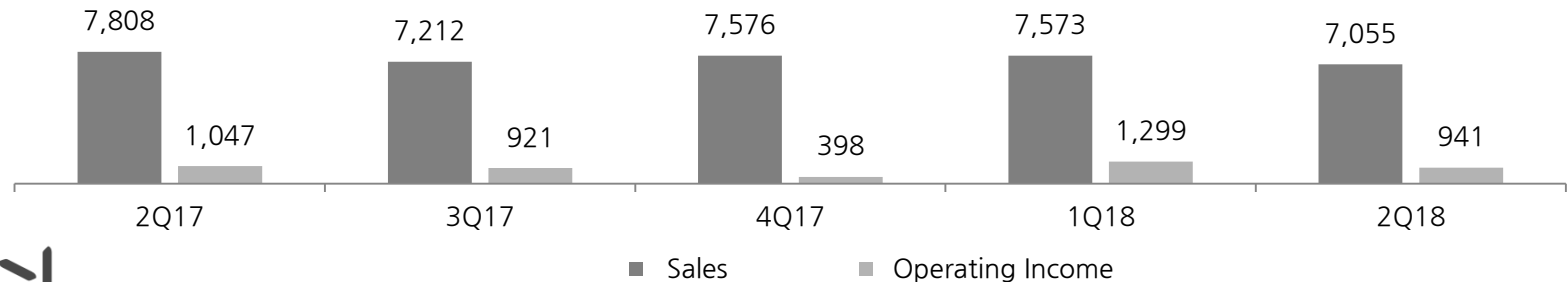
(KRW m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Operating Income</b>	<b>14,894</b>	<b>50.3%</b>	<b>-3.2%</b>	9,911	15,380
<i>OPM</i>	<i>4.6%</i>	<i>0.2%p</i>	<i>-2.0%p</i>	<i>4.4%</i>	<i>6.6%</i>
Non-operating Income	<b>41,616</b>	<b>111.8%</b>	<b>-45.2%</b>	19,646	75,991
Financial Income	11,493	<b>-32.5%</b>	<b>-83.4%</b>	17,023	69,161
Equity Method Income	358	<b>-73.0%</b>	<b>-90.9%</b>	1,327	3,937
Others	29,765	<b>2196.8%</b>	<b>929.0%</b>	1,296	2,893
Non-operating Expense	<b>13,557</b>	<b>30.7%</b>	<b>1.3%</b>	10,372	13,382
Financial Expense	5,592	<b>1007.1%</b>	<b>321.8%</b>	505	1,326
Equity Method Loss	3,543	<b>3.9%</b>	<b>-54.6%</b>	3,408	7,805
Others	4,422	<b>-31.5%</b>	<b>4.0%</b>	6,458	4,251
<b>Pre-tax Income</b>	<b>42,953</b>	<b>123.9%</b>	<b>-44.9%</b>	19,185	77,988
<b>Income Tax</b>	<b>17,318</b>	<b>29.6%</b>	<b>17.5%</b>	13,365	14,735
<b>Net Income</b>	<b>25,635</b>	<b>340.4%</b>	<b>-59.5%</b>	5,821	63,254
<i>NPM</i>	<i>7.9%</i>	<i>5.3%p</i>	<i>-19.4%p</i>	<i>2.6%</i>	<i>27.2%</i>

## 5. Japan Business

- **Sales JPY 7.06b** : Decreased 9.6% Y/Y, 6.8% Q/Q
  - Mobile game : Decreased 15.9% Y/Y, 11.0% Q/Q due to absence of new games & natural attrition
  - PC game : Decreased 22.8% Y/Y, 11.2% Q/Q due to continued weakness in online games
  - Others : Increased 7.1% Y/Y, 1.3% Q/Q thanks to increased sales from technology business
- **Operating Income JPY 0.94b** : Decreased 10.1% Y/Y, 27.5% Q/Q

(JPY m)	2Q18	Change		2Q17	1Q18
		Y/Y	Q/Q		
<b>Sales</b>	7,055	-9.6%	-6.8%	7,808	7,573
Mobile Games	3,641	-15.9%	-11.0%	4,332	4,092
PC Games	798	-22.8%	-11.2%	1,034	899
Others	2,616	7.1%	1.3%	2,442	2,581
<b>Operating Expenses</b>	6,114	-9.6%	-2.6%	6,761	6,274
<b>Operating Income</b>	941	-10.1%	-27.5%	1,047	1,299
<i>OPM</i>	13.3%	-0.1%p	-3.8%p	13.4%	17.2%

(JPY m)



# Appendix

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# 1. Employees

- NHN Entertainment standalone: 836 employees (Increased by 58 employees Q/Q)
- Global Consolidated: 4,639 employees (Increased by 322 employees Q/Q *(NHN KCP +298)*)

		2Q18	Q/Q	1Q18
KOREA	NHN Entertainment	836	+58	778
	NHN PAYCO	219	+4	215
	NHN KCP	298	+298	0
	NHN PixelCube	153	-7	160
	NHN Bigfoot	47	-21	68
	NHN Starfish	23	-13	36
	NHN Godo	217	+6	211
	NHN WeToo	102	-4	106
	NHN Bugs	128	-7	135
	Others	1,000	+19	981
JAPAN	NHN JAPAN	253	+60	193
	NHN PlayArt	188	-13	201
	NHN Hangame	80	+5	75
	NHN Comico	58	-14	72
	NHN Techorus	127	-52	179
	NHN SAVAWAY	73	+5	68
US	NHN Global & Others	189	-4	193
CHINA	Accommate & Others	378	-21	399
	NHN ST	178	+1	177
OTHERS	NHN Vietnam & Others	92	+22	70
	<b>Total (employees)</b>	<b>4,639</b>	<b>+322</b>	<b>4,317</b>

## 2-1. Financial Statement (Parent)

### Income Statement

(KRW m)	2Q17	3Q17	4Q17	1Q18	2Q18
<b>Sales</b>	<b>65,021</b>	<b>60,082</b>	<b>63,679</b>	<b>67,208</b>	<b>56,610</b>
Game	55,383	49,185	52,154	54,453	43,755
Others	9,638	10,897	11,525	12,755	12,855
<b>Operating Expenses</b>	<b>47,425</b>	<b>48,038</b>	<b>48,072</b>	<b>50,309</b>	<b>48,872</b>
Commission	24,131	21,150	22,726	22,168	20,408
Labor	15,198	15,867	15,418	18,744	18,842
Marketing	2,245	3,096	3,362	2,216	1,800
Depreciation	3,056	3,103	3,332	3,632	3,881
Others	2,795	4,822	3,234	3,549	3,941
<b>Operating Income</b>	<b>17,596</b>	<b>12,044</b>	<b>15,607</b>	<b>16,899</b>	<b>7,739</b>
<i>Operating Margin</i>	<i>27.1%</i>	<i>20.0%</i>	<i>24.5%</i>	<i>25.14%</i>	<i>13.67%</i>
Financial Income	1,766	1,799	1,794	2,779	2,648
Equity Method Income	0	0	0	13	0
Other Income	1,093	5,452	1,250	6,346	3,564
Financial Expense	366	498	2,857	509	-166
Equity Method Loss	300	0	32,079	0	2,926
Other Expense	-305	482	12,323	572	341
<b>Pre-tax Income</b>	<b>20,094</b>	<b>18,315</b>	<b>-28,608</b>	<b>24,956</b>	<b>10,849</b>
Income Tax	5,128	5,620	352	3,568	2,497
<b>Net Income</b>	<b>14,966</b>	<b>12,695</b>	<b>-28,960</b>	<b>21,388</b>	<b>8,352</b>
<i>Net Income Margin</i>	<i>23.0%</i>	<i>21.1%</i>	<i>-45.5%</i>	<i>31.82%</i>	<i>14.75%</i>

### Balance Sheet

(KRW m)	2Q17	3Q17	4Q17	1Q18	2Q18
<b>Current Assets</b>	<b>182,091</b>	<b>174,922</b>	<b>201,420</b>	<b>179,944</b>	<b>189,198</b>
Cash and Cash Equivalent	51,574	38,068	62,588	39,348	18,967
Accounts Receivables	118,472	125,067	132,777	134,343	164,910
Others	12,045	11,787	6,055	6,253	5,321
<b>Non-current Assets</b>	<b>1,451,729</b>	<b>1,470,993</b>	<b>1,514,881</b>	<b>1,513,497</b>	<b>1,468,399</b>
Tangible Assets	71,034	73,525	74,869	78,143	78,428
Intangible Assets	17,823	17,385	17,173	16,883	16,379
Investment Assets	1,259,160	1,272,570	1,314,651	1,310,896	1,267,940
Others	103,712	107,513	108,188	107,574	105,652
<b>Total Assets</b>	<b>1,633,820</b>	<b>1,645,915</b>	<b>1,716,301</b>	<b>1,693,441</b>	<b>1,657,597</b>
<b>Current Liabilities</b>	<b>53,133</b>	<b>57,282</b>	<b>141,945</b>	<b>97,975</b>	<b>53,289</b>
Accounts Payables	21,178	21,186	21,878	20,049	17,258
Short-term Borrowings	2,800	2,800	78,885	28,885	8,800
Accrued Income Taxes	14,491	18,473	24,635	32,814	18,627
Others	14,664	14,823	16,547	16,227	8,604
<b>Non-current Liabilities</b>	<b>18,549</b>	<b>19,135</b>	<b>19,693</b>	<b>19,504</b>	<b>19,223</b>
Long-term Accounts Payables	5,032	4,988	4,983	4,038	3,849
Allowance for Severance Pay	12,542	13,134	13,597	14,144	14,966
Others	975	1,013	1,113	1,322	408
<b>Total Liabilities</b>	<b>71,682</b>	<b>76,417</b>	<b>161,638</b>	<b>117,480</b>	<b>72,512</b>
Shareholders' Equity	1,562,138	1,569,498	1,554,662	1,575,961	1,585,086
Paid-in Capital	9,783	9,783	9,783	9,783	9,783
Capital Surplus	1,273,667	1,273,667	1,273,667	1,273,667	1,273,667
Capital Adjustment	-22,997	-22,882	-24,826	-24,601	-30,904
Other Comprehensive Income	13,667	8,217	24,479	13,220	15,296
Retained Earnings	288,018	300,713	271,559	303,893	317,243
<b>Total Equity</b>	<b>1,562,138</b>	<b>1,569,498</b>	<b>1,554,662</b>	<b>1,575,961</b>	<b>1,585,086</b>

## 2-2. Financial Statement (Consolidated)

### Income Statement

(KRW m)	2Q17	3Q17	4Q17	1Q18	2Q18
<b>Sales</b>	<b>224,944</b>	<b>219,738</b>	<b>237,751</b>	<b>232,165</b>	<b>325,213</b>
Game	122,821	112,337	114,164	116,429	98,468
Others	102,124	107,401	123,587	115,736	226,745
<b>Operating Expenses</b>	<b>215,033</b>	<b>214,215</b>	<b>227,683</b>	<b>216,785</b>	<b>310,319</b>
Commission	93,764	92,908	102,846	91,535	181,208
Labor	69,549	68,721	70,579	74,778	80,176
Marketing	20,879	20,690	21,761	15,934	14,223
Depreciation	8,665	7,728	8,879	8,389	10,230
Communications	5,921	5,849	5,682	5,863	6,204
Others	16,255	18,318	17,936	20,286	18,278
<b>Operating Income</b>	<b>9,911</b>	<b>5,523</b>	<b>10,068</b>	<b>15,380</b>	<b>14,894</b>
<i>Operating Margin</i>	<i>4.4%</i>	<i>2.5%</i>	<i>4.2%</i>	<i>6.62%</i>	<i>4.58%</i>
Financial Income	17,023	18,965	42,742	69,161	11,493
Equity Method Income	1,327	2,061	21	3,937	358
Other Income	1,296	2,963	2,371	2,893	29,765
Financial Expense	505	9,242	11,415	1,326	5,592
Equity Method Loss	3,408	4,424	1,847	7,805	3,543
Other Expense	6,458	1,613	41,888	4,251	4,422
<b>Pre-tax Income</b>	<b>19,185</b>	<b>14,234</b>	<b>51</b>	<b>77,989</b>	<b>42,953</b>
Income Tax	13,365	12,932	10,483	14,735	17,318
<b>Net Income</b>	<b>5,821</b>	<b>1,302</b>	<b>-10,432</b>	<b>63,254</b>	<b>25,635</b>
<i>Net Income Margin</i>	<i>2.6%</i>	<i>0.6%</i>	<i>-4.4%</i>	<i>27.25%</i>	<i>7.88%</i>

### Balance Sheet

(KRW m)	2Q17	3Q17	4Q17	1Q18	2Q18
<b>Current Assets</b>	<b>626,401</b>	<b>614,402</b>	<b>945,668</b>	<b>1,034,175</b>	<b>941,523</b>
Cash and Cash Equivalent	345,070	347,099	540,126	596,178	549,797
Accounts Receivables	216,739	197,968	294,847	296,117	281,738
Others	64,592	69,335	110,695	141,880	109,987
<b>Non-current Assets</b>	<b>1,178,518</b>	<b>1,187,610</b>	<b>1,169,932</b>	<b>1,288,875</b>	<b>1,356,140</b>
Tangible Assets	155,887	167,701	118,007	176,573	174,746
Intangible Assets	323,116	334,173	351,766	468,069	509,019
Investment Assets	541,722	522,111	535,273	474,151	501,362
Accounts Receivable	115,039	116,078	116,798	122,949	124,063
Others	42,754	47,546	48,088	47,133	46,950
<b>Total Assets</b>	<b>1,804,919</b>	<b>1,802,012</b>	<b>2,115,600</b>	<b>2,323,050</b>	<b>2,297,663</b>
<b>Current Liabilities</b>	<b>207,229</b>	<b>202,567</b>	<b>394,375</b>	<b>422,240</b>	<b>373,190</b>
Accounts Payables	120,249	120,488	203,840	250,751	237,424
Short-term Borrowings	19,692	11,266	90,485	40,850	16,785
Accrued Income Taxes	17,866	19,724	36,783	55,573	48,548
Others	49,423	51,089	63,268	75,066	70,433
<b>Non-current Liabilities</b>	<b>57,956</b>	<b>65,468</b>	<b>63,328</b>	<b>84,894</b>	<b>80,745</b>
Long-term Accounts Payables	6,795	6,737	6,677	8,499	3,482
Long-term Borrowings	1,640	7,730	7,308	19,620	19,757
Allowance for Severance Pay	25,607	26,636	27,859	31,252	31,232
Deferred Income Tax Credits	3,865	4,491	4,133	6,563	7,065
Others	20,049	19,874	17,350	18,960	19,209
<b>Total Liabilities</b>	<b>265,186</b>	<b>268,035</b>	<b>457,703</b>	<b>507,134</b>	<b>453,935</b>
Shareholders' Equity	1,484,005	1,476,657	1,506,617	1,581,258	1,614,914
Paid-in Capital	9,783	9,783	9,783	9,783	9,783
Capital Surplus	1,237,639	1,237,639	1,237,639	1,237,639	1,237,639
Capital Adjustment	-58,459	-58,186	-10,391	-10,568	-11,849
Other Comprehensive Income	10,346	45	-8,789	-4,329	2,139
Retained Earnings	284,696	287,377	278,376	348,733	377,202
Non-controlling Interests	55,729	57,320	151,280	234,658	228,814
<b>Total Equity</b>	<b>1,539,733</b>	<b>1,533,977</b>	<b>1,657,897</b>	<b>1,815,916</b>	<b>1,843,728</b>

# Thank You

