

2Q 2018 Earnings Release

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NCSOFT

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The financial results for 2Q 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.

※ Key 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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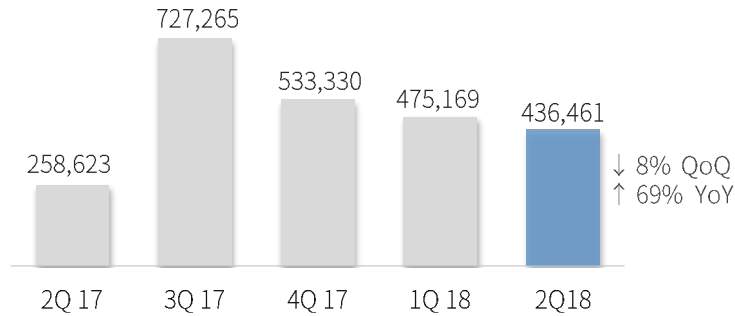
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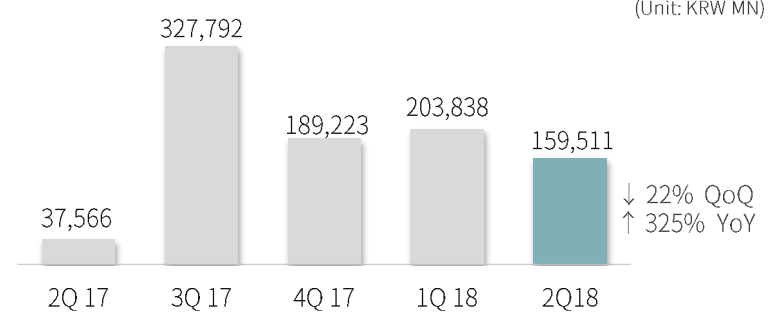
1. Financial Highlights

- Sales totaled KRW 436.5 billion, up 69% yoy, but down 8% qoq, due to revenue stabilization of Lineage M
- Operating profit posted KRW 159.5 billion, a decline of 22% qoq, but a jump of 325% yoy

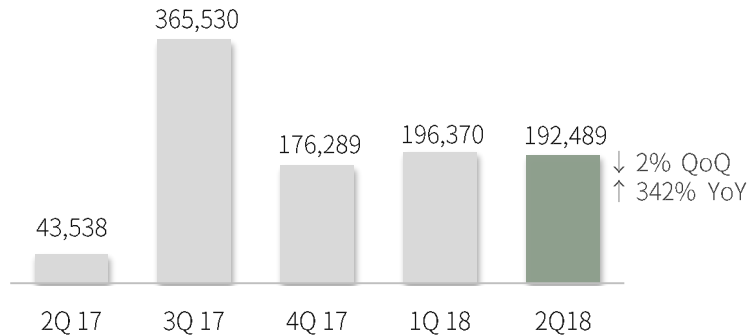
Sales



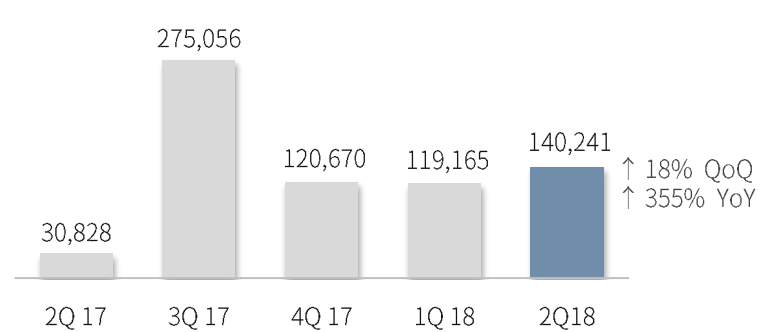
Operating Profit



Pre-tax Income

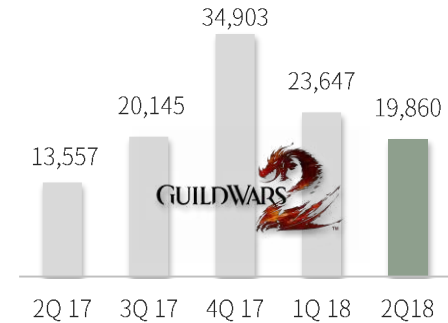
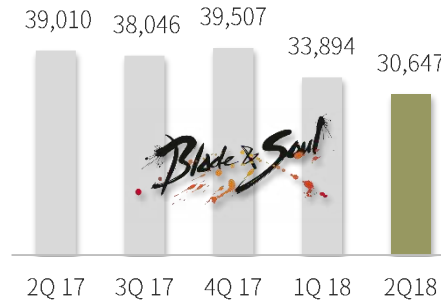
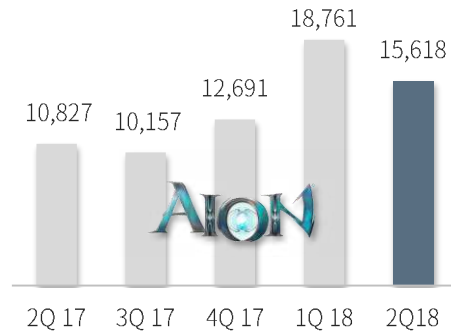
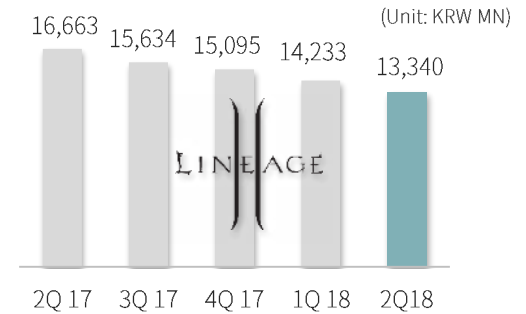
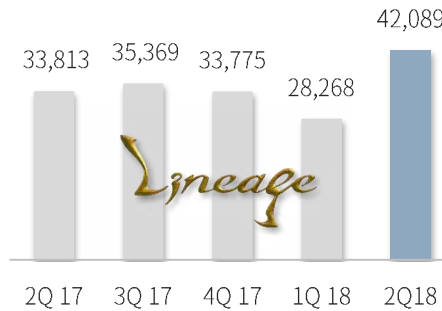
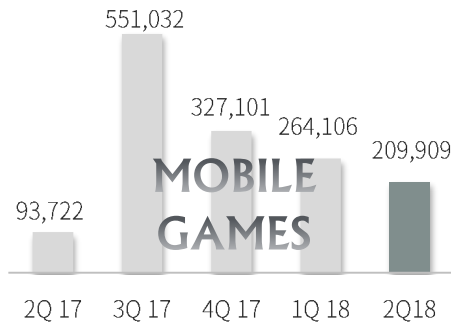


Net Income



2. Sales Breakdown (by Game)

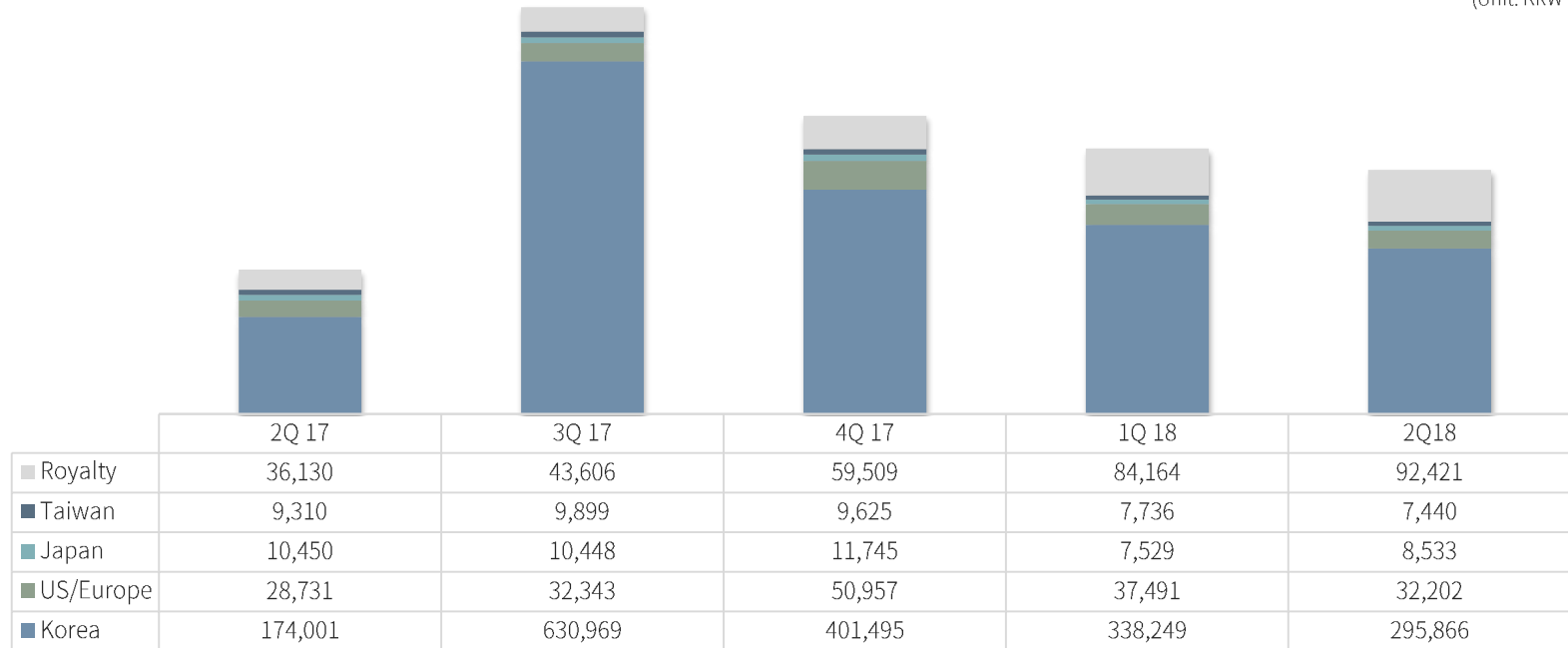
- Mobile game sales dropped 21% qoq to KRW 209.9 billion
- Lineage 1 sales increased 49% qoq, driven by users returning because of the opening of the specialized server and in-game item promotions. Highest quarter revenue since the launch of Lineage M



2. Sales Breakdown (by Region)

- Royalty sales jumped 10% qoq and 156% yoy to KRW 92.4 billion driven by increased Lineage M Taiwan sales

(Unit: KRW MN)



3. Cost Breakdown

- Labor cost increased 17% qoq, due to incentives paid to management and employees
- Variable costs declined 19% qoq driven by less mobile game distribution fees
- Marketing spend increased 39% qoq, because of advertising for the first anniversary update of Lineage M

(Unit : KRW MN)

	2Q 17	3Q 17	4Q 17	1Q 18	2Q 18	QoQ	YoY
Labor cost	113,490	155,470	161,015	125,044	146,853	17%	29%
Variable cost	38,310	176,413	108,205	86,869	70,553	-19%	84%
Payment processing fees	6,612	7,088	6,236	5,652	5,923	5%	-10%
Distribution fees	28,691	166,706	98,985	79,465	63,192	-20%	120%
Royalty	2,267	1,612	1,206	1,166	784	-33%	-65%
Box & merchandise production fees	450	525	438	216	117	-46%	-74%
Other	290	483	1,340	370	538	45%	85%
Marketing	24,115	22,043	24,151	10,771	14,973	39%	-38%
D&A	7,216	7,120	6,905	6,545	6,608	1%	-8%
Others (*)	37,926	38,427	43,831	42,102	37,963	-10%	0%
Total	221,057	399,474	344,107	271,331	276,950	2%	25%

* 2Q18 Others includes bandwidth cost (4,539), rent (2,861), wages for outsource staff (4,857), and outsourced R&D (1,643)

4. Consolidated Financial Statements

Statement of Financial Position

(Unit: KRW mn)

	31 DEC 2017	30 JUN 2018
Assets		
I. Current Assets	1,772,727	1,709,082
Cash & cash equivalents	187,256	189,925
ST financial instruments	92,695	281,397
Account receivables	193,018	156,162
Other receivables	10,436	19,674
AFS financial assets	702,778	-
FVPL financial assets	558,162	-
FVOCI financial assets	-	892,622
AC financial assets	-	140,000
Others	28,382	29,301
II. Non-Current Assets	1,753,840	1,592,610
LT loans	43	88
AFS financial assets	1,301,572	-
FVPL financial assets	-	237,305
FVOCI financial assets	-	898,468
AC financial assets	-	32
Derivatives	1,584	-
Investments in affiliated companies	33,824	56,621
Investment property	96,333	95,667
Tangible assets	229,063	228,489
Intangible assets	52,406	52,252
Others	39,015	23,688
Total Asset	3,526,567	3,301,693

	31 DEC 2017	30 JUN 2018
Liabilities		
I. Current Liabilities	455,798	485,968
Bonds	-	149,891
Payables	48,395	29,767
Current tax liabilities	142,594	76,258
Other provisions	2	2
Others	264,807	230,050
II. Non-Current Liabilities	341,530	142,617
Bonds	149,819	-
Defined benefit obligations	3,314	5,377
LT employee benefits	7,047	7,465
Others	181,350	129,775
Total Liabilities	797,328	628,585
Stockholders Equity		
I. Capital stock	10,970	10,970
II. Other paid-up capital	279,057	279,071
III. Other components of equity	525,307	368,219
IV. Retained earnings	1,905,908	2,006,034
V. Non-controlling interests	7,997	8,814
Total Stockholders Equity	2,729,239	2,673,108
Total Liabilities and Stockholders Equity	3,526,567	3,301,693

4. Consolidated Financial Statements

Comprehensive Income Statement

(Unit : KRW MN)

	1H 2017	1H 2018
Sales	498,126	911,630
Operating Expenses	430,122	548,281
Operating Income	68,004	363,348
Non-operating Income	(395)	25,510
Income Before Income Tax Expense	67,610	388,859
Income Tax Expense	19,388	129,452
Net Income	48,222	259,407
Non-controlling Interest	(10)	706
Equity Attribution to the Owners of the Parent Company	48,232	258,700